NEW APPROACHES TO ECONOMIC CHALLENGES

MAIN MESSAGES
The New Approaches to Economic Challenges (NAEC) initiative was launched at the OECD in 2012 as an organisation-wide reflection process on the roots and lessons from the economic crisis, as well as long-term, global trends. NAEC was also launched as part of a broader effort to build an inclusive and sustainable agenda for growth and well-being. Over the past three years, NAEC has catalysed an effort to improve the OECD’s analytical frameworks and policy advice. The process has stimulated multi-dimensional approaches, generated new policy-relevant indicators, led to more horizontal programmes and to a review of long-standing analytical approaches across several policy areas.

NAEC is an ambitious policy programme that requires political leadership as well as careful crafting and implementation. NAEC does not claim to have all the answers but points to progress in a number of areas. Challenges remain in enhancing the OECD’s analytical approaches; accessing and assembling new data; developing modelling capacities; and embracing new ideas and new ways of working across the Organisation. These analytical improvements will need to be supported by appropriate changes in the structure of the Organisation to avoid one-size-fits-all and move beyond a silo-approach to policy, to enhance inter-disciplinarity and to safeguard against groupthink. This report draws attention to green shoots of change in many parts of the OECD. NAEC projects have delivered useful analysis, data and policy tools. Emerging results shed light on critical challenges as well as on the strong, resilient, sustainable and inclusive growth agenda needed to address them.

NAEC is proposing and supporting a change in objectives and perspectives.

- NAEC calls for a greater focus on well-being and its distribution to ensure that growth delivers progress for all. This is timely as the gap between rich and poor is at its highest level in 30 years in OECD countries. Policy choices should be informed by an assessment of their impact on different dimensions of well-being as well as their distributional consequences. This will enhance understanding of the unintended consequences of policies and lead to a balanced analysis of the trade-offs and complementarities between different policy options. The OECD has developed an analytical framework that takes these insights into account.

- NAEC also calls for better integration of the financial sector and related risks in the analysis, shedding light on the numerous and complex interactions between finance and the real economy.

- NAEC recognises the increased international economic integration and resulting complexity, and the insights that may be gained by analysing the global economy as a complex adaptive system. This will help to take into account uncertainty, spill-overs, systemic risks and network effects. This analysis, amongst others, will help policymakers get a better grip on rising global interconnectedness.

- NAEC recommends the adoption of a longer-term perspective that considers how economies are embedded in institutions shaped by history, social norms and political choices. This would lead to more tailored policy solutions adaptable to countries’ specific needs, conditions, capacities and institutional settings.

- NAEC recommends informing such a change in perspectives by further developing strategic foresight.

To make these changes in perspectives happen, the OECD needs to develop, where feasible, new instruments and tools, and deepen, generalise and systematise their use.

- These changes require measurement of stocks (of wealth, natural, and social capital, etc.) as well as adequate consideration of both stock and flow concepts in analyses.

- It also requires further developing the use of micro-data to identify the heterogeneity of households and firms, and facilitate analyses to understand and tackle inequality.

- The Organisation also needs to review and improve its modelling approaches, taking a more integrated approach while diversifying the types of models it uses and noting the limitations of the fundamental assumptions upon which they are built.

All these changes in instruments and tools should enrich OECD analysis. They also need to be supplemented further with insights from other disciplines which are relevant to policy, such as sociology, psychology, geography and history.

The aforementioned new approaches promote experimentation and strengthening of OECD analyses to improve its policy advice. They are leading to a series of policy recommendations that would support a stronger, resilient, more inclusive and sustainable growth agenda.

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NEW PERSPECTIVES

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A PUSH FOR USING NEW DATA AND TOOLS

- Measurement of new concepts (e.g. Job Quality, Multi-dimensional living standards)

- Distributions (Tackling inequality)

- Micro-data (Tackling heterogeneity)

- Both stocks and flows (Tackling sustainability)

- Multi-dimensional well-being

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A comprehensive Approach to Inclusive Growth

To fully understand trade-offs, synergies and unintended consequences of policies, it is essential to recognise the importance of the multidimensionality and distributional effects of policies. This requires a comprehensive approach to inclusive growth that takes into account the different dimensions of inequality. There is increasing evidence that large income inequality undermines growth and well-being, by reducing investment in skills by low-income households.

To address these issues:
- Structural policies need to be carefully designed to consider their distributional consequences, looking in particular at the impacts on groups such as the young and the elderly, and to mitigate trade-offs between material and other dimensions of well-being, such as education and health outcomes.
- To ensure equality of opportunity, it is necessary to promote access to high-quality education from early childhood and to a broader range of skills, cognitive as well as social and emotional. In doing so, governments should once again focus on disadvantaged and at-risk groups.
- Taxation systems need to be reformed to ensure that they are progressive enough.
- Labour market policies are another area in which policy makers need to broaden their objectives by pursuing job quality together with job quantity, targeting jointly labour market security, the quality of the working environment, and the level of remuneration.
- Governments should promote gender equity in education, employment and entrepreneurship, as this is a key factor in economic development, growth and well-being.
- Promoting inclusive governance, in particular at the metropolitan level, is also critical for improving well-being and economic growth, as well as for fighting social exclusion. Mainstreaming spatial policies will help in general to ensure more effective design and implementation of policies.
- The political system must work for all the people and not just special interests. Lobbying and political finance thus need to be properly regulated to address conflicts of interest.
- In addition, business and finance must be appropriately regulated and companies must pay their fair share of taxes, while responsible business conduct must also be encouraged.
- Foreign bribery and illicit financial flows should also be more decisively tackled.

A Comprehensive Approach to Environmental Sustainability

NAEC emphasises the need to increase macroeconomic stability and the resilience of the economy by implementing an effective regulatory framework, promoting fiscal soundness and fostering the counter-cyclicality of macroeconomic policies. In order to enhance the resilience of economies, it is crucial to develop a framework to monitor economic vulnerabilities to shocks. NAEC also calls for improving the stability, inclusiveness and sustainability of the financial sector, while ensuring that the financial sector plays its key role of financing the real economy.

- Work under NAEC shows the importance of strengthening the resilience of banks through higher capital and liquidity requirements as well as structural reforms.
- NAEC calls for reforming the corporate tax treatment of debt and equity, as this could positively affect resource allocation and financial stability.
- It calls for more monitoring of system-level risks by financial supervisors, with due attention given to risks rising in the shadow banking sector.
- It is necessary to strengthen equity market infrastructure and to ensure it plays its role as a key channel for financing companies.
- Meanwhile, it is also necessary to broaden the range of financing instruments, particularly for young innovative firms, and to enable non-bank actors to provide long-term finance, while removing regulatory, legal and governance impediments to long-term investment.

Increasing Resilience

What next: A lot remains to be done if the OECD is to deliver on new approaches to economic challenges. Key NAEC findings need to be mainstreamed in the OECD’s core work and flagship publications. Horizontal co-operation among Committees and Directorates should be strengthened through the NAEC seminars and possibly the NAEC Group and internal processes that hinder horizontal work should be reviewed. At the same time, efforts should be made to foster continuous improvement in policy analysis, as well as to anticipate and better respond to emerging priorities. These challenges are a great extent shared by Member and Key Partner governments heightening the need to deepen the dialogue and outreach on NAEC. Therefore, sharing experiences on new approaches at the country level would help in reframing and designing better policies for better lives.
Since 2012, prominent economists have shared their views in the context of the NAEC Seminar Series.
About this Report

The NAEC report is the product of a collaborative effort between OECD Member Countries, relevant Committees, the General Secretariat and Directorates. It has been overseen by the OECD Chief of Staff, G20 Sherpa and Special Counsellor to the OECD Secretary-General Gabriela RAMOS and co-ordinated by Mathilde MESNARD, Senior Advisor to the OECD Secretary-General, with the support of William HYNES, Senior Economist in the NAEC unit. Kiril KOSSEV and Pauline ARBEL, respectively Junior Economist and Research Assistant in the NAEC unit contributed to the Annexes and preparation of the final publication.

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