

Beyond growth: towards a new economic approach

**Report of the Secretary-General's Advisory Group
on a New Growth Narrative**

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Why we need a new economic approach (1)

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 - Accelerating environmental crisis
 - Rapid technological change
 - New patterns of globalisation
 - Demographic change

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 - 2008 financial crisis exposed flaws in credit-based growth model and financial regulation
 - Growth remains fragile, dependent on emergency macroeconomic policy
 - Productivity growth has stalled, especially diffusion from technological frontier to rest of economy
 - Inequalities have grown, especially between top 1% and rest, and particularly in wealth
 - Unemployment remains high in many countries, and insecure work has grown in most
 - Living standards in some countries have stagnated
 - In some countries the gap between richer regions and the periphery has widened

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 - Living standards in some countries have stagnated
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- **These trends have contributed to a decline in cohesion, empowerment and trust in established politics**

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- **This has led to a widespread questioning of the dominant economic model of the past 40 years**
 - Increasing global trade integration
 - Deregulating financial and labour markets to make them more efficient
 - Central Bank independence and inflation-targeting; constraints on public borrowing
 - Corporation tax reductions
 - Economic growth as the primary goal of economic policy
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 - Over the last decade some aspects of this model have been modified
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- **We can now draw on deeper forms of economic rethinking which have flowered over the last decade**
 - These critiques and explorations can now be brought together into a 'new economic narrative'

The three elements of the new approach

- **A new conception of economic progress**

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- **New approaches to economic policy**

A wider set of policy and institutional reforms, based on the new frameworks and analysis, to achieve the new social and economic goals

Beyond growth (1)

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- **It is the *form* of growth that matters – growth that contributes to wider goals**
 - Going ‘beyond growth’ means neither abandoning growth as an objective nor relying upon it to achieve other goals.
 - It means changing the structure of economic activity to achieve the multiple goals of a more rounded vision of economic and social progress
 - ‘Inclusive growth’, ‘green growth’ and ‘sustainable development’ are ways of expressing the same idea – though they have not always led to sufficiently profound policy change

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- **Falling inequality**

- A reduction in the gap between the incomes and wealth of the richest and poorest groups in society
- A reduction in rates of poverty
- A relative improvement in the wellbeing, incomes and opportunities of those experiencing systematic disadvantage, including women, members of ethnic minorities, disabled people, and those in disadvantaged geographic communities

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- **System resilience**

System resilience – understood as the economy's ability to withstand financial, environmental or other shocks without catastrophic and system-wide effects

New indicators of economic and social progress

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- **But new indicators have to become the accepted measures of the success of economic policymaking**
 - The communication of indicators is critical – by politicians and the media
- **And new indicators have to be attached to policies which can affect them**
 - Understanding the causal factors which determine them
 - Designing policies which can change them

Economics is changing

- **Up to 2008 the dominant policy approach was underpinned by orthodox neoclassical economic theory**
 - 'Rational' economic behaviour; individual utility maximisation; competitive markets give efficiency
 - Market failures justified policy intervention; but governments also failed
 - Macroeconomic theory and models rested on neoclassical microfoundations
 - 'Representative agents'
 - Tendency to equilibrium; exogenous shocks
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- **Since the financial crisis both theory and policy prescriptions have been modified**
 - Markets acknowledged as having imperfections; policy is ‘second best’
 - Macroeconomic models now include financial sector, and various ‘frictions’
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- **Over recent decades economics has been changing in more profound ways**
 - New (and sometimes old) economic theories better explain how modern economies work
 - Some of these insights have begun to be accepted into the mainstream

New frameworks of economic analysis (1)

- **Economic behaviour**

- Behavioural economics : bounded rationality, biases and heuristics
- Ethics, caring and the 'social human being'; social determinants of tastes and preferences
- Insights from social psychology, sociology and anthropology

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- **Markets, institutions and power**

- Institutional economics: markets are brought into being through social and public institutions
- Comparative political economy: markets are coordinated through different mechanisms in different countries – there are 'varieties of capitalism'
- Inescapable role of power in the economy – as tool of analysis and focus of policy
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- **Evolution and complexity**

- Evolutionary economics: economic development as historical process, with central role of innovation
- Complexity economics: economic systems as non-equilibrating, complex, adaptive systems
- Insights from other system sciences including biology and engineering; agent-based modelling

New frameworks of economic analysis (2)

- **Finance and macroeconomics**

- Post-Keynesian economics: the role of the financial sector in generating financial instability
- The critical role of aggregate demand and uncertainty in the business cycle
- New kinds of economic models, with heterogeneous agents, stocks as well as flows, information asymmetries, uncertainty, endogenous shocks

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- **The natural environment**

- Ecological economics: the economic system as a sub-system of the earth's biophysical systems governed by laws of thermodynamics and subject to tipping points into catastrophically changed states
- Bringing economic activity within 'planetary boundaries' where environmental systems can regenerate
- Structural not marginal changes in production and consumption, using range of instruments

New frameworks of economic analysis (3)

- **Inequality**

- Decline of 'labour share' of national income and increase in returns to land and wealth (faster than GDP)
- Relative power of wealthy to take unearned 'rents', and of management over workers
- Impact of inequality on social cohesion, individual wellbeing and a range of social indicators
- Impact of international trade on generates geographic and class inequalities

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▪ Gender

- Feminist economics: gender stratification as central to economic system, importance of gender impacts of economic policy
- Role of colonial history and post-colonial racism in explaining economic position of ethnic minorities
- Expansion of boundaries of economics (and measurement of economic activity) to include caring work and 'social reproduction'

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▪ **Ethics and the role of the state**

- Inescapable role of ethics and consideration of economic justice
- Need to reappraise the role of the state

New frameworks of economic analysis (4)

- **These developments in economics have generated important new understandings**
 - Many recent Nobel Memorial Prizes in Economics have been awarded in these fields
 - Some are beginning to be incorporated into mainstream economics
 - Others require a more fundamental abandonment or revision
 - Economic policymaking can now draw upon a much richer and more empirically-based menu of academic economics and political economy

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- **There is as yet no synthetic theory bringing these new schools of economic thought together**
 - But they are not fundamentally competing – they deal with different aspects of the economy
 - They can and are being combined to explain economic phenomena and design policy
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- **The challenges and problems our economies face can best be addressed through these new frameworks**
 - Taking further the shifts in economic theory and policy over the last decade
 - To explain what is happening in modern economies and help design better policies

New approaches to economic policy (1)

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(1) Deep challenges require profound reform – incremental changes to existing policies are not enough

- Conventional policy approach has been based on supply side reforms and ameliorative social and environmental policy
- The engine of the economy – the core patterns of investment and output – has been left to the private sector to decide
- Now policy needs to improve the engine
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(2) Policy must be made in an integrated way, not in traditional policy silos

- **Economic policy has international impacts and trans-boundary issues require international coordination**
 - We need new mechanisms of multilateral cooperation in eg environment, taxation, labour standards

New approaches to economic policy (2)

- **Sustainability and decarbonisation policy**
 - Giving sustainability and climate targets legal force
 - Sectoral decarbonisation plans

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- **Innovation and industrial strategy**
 - Using industrial policy to steer innovation and investment into meeting major social and environmental challenges (eg decarbonisation, ageing, healthcare)
 - Using state investment banks to provide patient finance
 - Regional policy

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- **Macroeconomic policy**

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- **Financial regulation**

- Stronger macroprudential regulation – especially of shadow banking system
- Penalising high carbon and speculative trading and investment

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- **Corporate governance reform**

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- International trade agreements to regulate labour and environmental standards of multinationals
- Coordinating corporation tax rates and systems on an international basis

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- **Wealth ownership and taxation**

- Worker share ownership funds
- Citizens' wealth funds
- Land and housing reform
- Wealth taxes

New approaches to economic policy (4)

- **Labour market policy to reduce inequality**
 - Higher minimum wages
 - Giving trade unions access to workers and increasing collective bargaining
 - Regulating insecure work and giving insecure workers more rights and security
 - Profit sharing schemes
 - Measures to tackle discrimination against women, ethnic minorities and disabled people
 - Job guarantees
 - Reductions in working time

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- **Welfare and public spending policy and working time**

- Increasing investment in and access to childcare and improving social care provision
- Lifelong education and training policies
- 'Flexicurity' policies
- Universal basic income
- Universal basic services

Conclusion: a paradigm shift

- **The common thread**

- Economic analysis and policy need to recognise the sociality of human life: people have multi-dimensional preferences and ethics and social and political institutions determine outcomes
- A new role for an empowering and entrepreneurial state and a new social contract with citizens

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 - **In the 1980s**, after the Bretton Woods, oil shock and stagflation crises of the 1970s:
 - Free market economics was widely accepted
 - Policy changed to focus on controlling inflation and deregulating financial and labour markets
 - This was broadly accepted across the political spectrum – the ‘Washington consensus’

Conclusion: the OECD's role

- **The OECD has led many of the modifications of orthodox economic analysis and policy in the last decade**

Examples include:

- Inclusive growth
- Better Life indicators
- Productivity-inclusion nexus
- Digital economy
- 'Squeezed middle' income analysis
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- **This work needs to be further developed to support more profound policy solutions and implementation**
- **OECD has a vital role to play in helping the world tackle the deep challenges and problems we face today**

**Secretary-General's Advisory Group on a New Growth Narrative
New Approaches to Economic Challenges initiative**

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