

Beyond growth: towards a new economic approach

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

Professor Michael Jacobs
Sheffield Political Economy Research Institute (SPERI)
University of Sheffield

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The Secretary-General's Advisory Group on a New Growth Narrative

Andy Haldane, Chief Economist of the Bank of England

Michael Jacobs, Professorial Research Fellow in the Sheffield Political Economy Research Institute at the University of Sheffield

Alan Kirman, Professor Emeritus of Economics at the Aix-Marseille University and at the Ecole des Hautes Etudes en Sciences Sociales, and senior adviser to the NAEC

Nora Lustig, Samuel Z. Stone Professor of Latin American Economics in the Department of Economics at Tulane University

Mariana Mazzucato, Professor in the Economics of Innovation and Public Value at University College London (UCL), and Founding Director of the UCL Institute for Innovation and Public Purpose

Robert Skidelsky, Emeritus Professor of Political Economy at the University of Warwick

Dennis Snower, Founder and President of the Global Solutions Initiative and the Global Economic Symposium, former Professor of Economics at the Christian-Albrechts-University of Kiel; Senior Research Fellow at the Blavatnik School of Government, University of Oxford

Roberto Unger, Roscoe Pound Professor of Law at Harvard University

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
 - In some countries the gap between richer regions and the periphery has widened
- **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

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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
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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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- **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
- Education, training and active labour market strategies
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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**

william.hynes@oecd.org

Michael Jacobs

m.jacobs@sheffield.ac.uk

@michaelujacobs