

## New Approaches to Economic Challenges (NAEC)

Update - June 2018

The OECD launched its [“New Approaches to Economic Challenges” \(NAEC\) initiative](#) in 2012 to reflect on the lessons from the financial crisis, look into the shortcomings of analytical models, and to promote new policy tools and data. Led by the Chief of Staff and Sherpa Gabriela Ramos, NAEC provides a space to question traditional ideas and methods as well as challenge group-think and compartmentalised approaches. The NAEC initiative is instrumental in helping inform a more coherent and interconnected agenda to address global challenges and in anticipate emerging risks.

As noted in the *Secretary General's Strategic Orientations 2018*, the OECD will deliver a new growth narrative that can help guide policy-making, building on the report *Towards a New Narrative*, developed by NAEC, and on the Inclusive Growth, Better Life and Green Growth initiatives, as well as on the new Jobs Strategy. The high-level advisory group on a **New Growth Narrative** established in the context of NAEC will help us advance better solutions to build a more equitable and resilient circular economy, grounding it on solid theoretical bases. The strategic partnerships that NAEC is developing with several leading institutions on **Systems Thinking, Anticipation and Resilience** (e.g. IIASA, EU-JRC and the Santa Fe Institute) puts the OECD in a stronger position to support greater innovation, effectiveness, coherence and consistency of policy efforts to address the critical global issues facing humanity.

The NAEC project on **Intergovernmental Resilience** being developed with several Members will help governments to manage, coordinate and better address threats that are international in scope, from financial contagion and ecological disasters to cyberattacks and disease epidemics. The **NAEC Innovation Lab** will explore tools and approaches that could contribute to better understanding of the complexity and interaction of our economic, financial, social and environmental systems. The importance of these initiatives is heightened as the **10<sup>th</sup> anniversary of the Financial Crisis** approaches. Details of an event to mark this anniversary are provided below.

### [A New Growth Narrative](#)

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With the backlash against globalisation, increased inequalities of income and opportunities, and the negative impact of growth on the environment, it is all the more urgent to advance in the task set out in [21 for 21](#) to develop a “new narrative of growth” that puts people at the centre of economic policy. Our reflections on a [New Growth Narrative](#) have benefitted from the analytical and strategic proposals of eminent thinkers like Nobel laureates Edmund Phelps and Angus Deaton; Mariana Mazucatto, Colin Camerer ([The State of Mind in Economics](#)), Dennis Snower (Limits of the Market and an [Empowering State](#)) and Kate Raworth ([Doughnut Economics](#)) amongst others, through NAEC seminars and contributions to the draft proposal for a new narrative.

A new narrative of growth, and the policies it inspires, should be about how people's lives can be made more fulfilling; how they can fairly share in their nation's prosperity; how they can have more control over their destiny; how they can live with dignity and respect; how everyone has to play by the same rules; how the social contract can be rewritten for the 21<sup>st</sup> century; how economic and technological progress could benefit the majority and not just an elite; and how governments, corporations and finance can serve society's interests, and not the other way around.

Integrating the multiple critiques of existing narratives and proposals into a coherent synthesis ultimately means proposing a new orthodoxy that redefines the nature of well-being to balance economic, social and environmental capabilities. This requires theoretical debate, institutional change, new tools and methodologies, and leadership to mobilise and federate forces for change and present a picture of what that change could be. The Secretary General's Advisory Group on a New Growth Narrative discussed these issues for the first time in April 2018 and can play a significant role through the individual expertise of its members and the collective vision it could develop. Group members are already working on paradigm shifts, the role of the state, measurement and methodologies, and the theoretical frameworks for a new narrative.



## *The Futures of the Knowledge Economy*

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One of these theoretical frameworks is the concept of “Inclusive Vanguardism” developed by Roberto Unger. Unger argues that although the knowledge economy appears in every sector of the economy, it remains a fringe from which the vast majority of workers and firms continue to be excluded. This insular character of the new knowledge-intensive vanguards has become a source of both economic stagnation and economic inequality. We have to tackle three divisions that shape advantage and opportunity: the division between advanced and backward groups, firms and places; between capital and labour; and between finance and the real economy. However, the traditional devices for the moderation of inequality such as compensatory and retrospective redistribution by tax and transfer are insufficient to master the inequalities resulting from these structural divisions in the economy. We must create institutions that correct their practices based on evidence and experience. Such is the nature of a democratised market economy that allows for the deepening and dissemination of the knowledge economy. And such is the character of a high-energy democracy that reduces the need for crisis and trauma to catalyse change. Roberto Unger led a one-day [workshop](#) at the OECD in April on inclusive Vanguardism.

His forthcoming book *The Knowledge Economy* can be downloaded [here](#). The project of the book is to explore the changes that would allow more people and business to participate in the new most advanced productive practices, to the benefit of a shared prosperity. He says that this is “a concern that speaks to the OECD’s central mission and that fails to fit on any familiar spectrum of right and left in politics and policy. Its advancement requires empirical research, theoretical imagination, and magnanimity in the willingness to join conversations that may sometimes be unsettling but that are vital to the futures of our societies.”

## *Systems Thinking, Anticipation and Resilience*

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[Systems thinking, anticipation and resilience](#) are at the heart of this new narrative. There is a clear need for new ideas and approaches to provide a sound basis for better-informed decisions to manage intensifying economic, environmental and social challenges. As these challenges are systemic, interconnected and dynamic, systems thinking, coupled with improved anticipation and strengthened resilience, provides a coherent methodology and the necessary tools to develop the new approaches which are so urgently required to formulate and implement more coherent and effective policies.


A Strategic Partnership between NAEC and the International Institute for Applied Systems Analysis (IIASA) combines the world-renowned scientific expertise of IIASA with OECD’s powerful analytical capacities and unique political access and influence. The Partnership is intended to transform the way we tackle existing and emerging global challenges, to enhance the scientific basis of policy and to better understand the complexity of the economy and its interactions with other complex systems, such as society and the environment, and to build resilience to shocks.

The substantive activities of this [Draft Programme of Work](#) are organised around the following themes: systems-based strategies to address global issues; improved analytical methods; governance and institutional innovation; systems leadership; strengthening and extending existing joint activities; initiating new topics for collaboration; and extension and outreach. This overarching activity will integrate the substantive and methodological insights and results of the joint three-year programme within a coherent framework. It will lay the foundations for the interim results and policy recommendations to be formulated through the Strategic Partnership. It will generate a “flagship” OECD-IIASA publication defining and consolidating new systems approaches to policy. This publication should present major substantive proposals for strategies to contain critical global issues within a coherent systems framework, drawing on innovative methodologies, models and tools for research and policy analysis.

The possibility has been raised of collaboration between OECD and IIASA on National Reviews and Economic Surveys, and on reviews at the regional level, to strengthen the systems approach and integrate different facets of policy, such as ecological, energy and health factors, with the central economic analysis. It is also proposed to organise a workstream on new approaches to growth and well-being involving the re-conception and reorientation of economic growth. This is crucial to contain intensifying global challenges. A joint multidisciplinary working group should be created to guide this work.

The NAEC unit is helping to co-ordinate [resilience activities within the OECD](#) and strengthen inter-governmental [approaches to resilience](#). OECD-NAEC, the EU Joint Research Centre (JRC), the US Army Corps of Engineers and the US National Institute for Standards and Technology (NIST) are collaborating to improve the resilience of societies in their ability to recover from a crisis and to adapt quickly to new threats. The four organisations have extensively worked on resilience concepts and frameworks on the basis of their mandates, and with the leadership of OECD would like to support the development of an all-encompassing intergovernmental approach to resilience. The first aim is the development of a





narrative to be presented in a variety of panels and committees to receive the reactions and endorsement of the groups of interest related to OECD. The shared narrative will then help create a consensus for a strategic approach to resilience among OECD countries.

On April 13<sup>th</sup> NAEC held a workshop on a New Resilience Narrative with [Anna Serra-Llobet](#) of Aix-Marseille University and the University of California, Berkeley and [Igor Linkov](#) from the US Army Corps of Engineers. This was a useful discussion and has helped us refine the resilience dimension of the New Growth Narrative being developed with NAEC. One conclusion from the discussion is that just as researchers studying complex physical systems have found that sometimes when you try to optimise (or "harden") a complex system, you make it even more unstable, in trying to maximise the efficiency of a system, you can make it less resilient. This is a powerful and important conclusion and suggests that resilience should be a much more important objective in public policy.

## ***NAEC Innovation LAB***

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New questions and new approaches to policy challenges often require new tools to fully analyse and understand them. At the same time, digital innovation is leading to new analytical techniques and opening up new sources of evidence, notably big or smart data. The new issues that can be explored in this way include policy interactions, complex systems, non-rational behaviour, multi-dimensional outcomes, network phenomena, non-linear responses, distributional impacts and geospatial effects. Using the new tools should help to provide innovative, accurate and targeted analysis to support providing concrete and targeted policy advice.

OECD is therefore establishing a [NAEC Innovation Lab](#), co-ordinated by the NAEC Unit and the Office of the Chief Economist. This will promote experimentation within the OECD on [agent-based modelling \(ABM\)](#), machine learning, big data applications, and network analysis. The Lab will provide a space for cross-Directorate collaboration and exchange to encourage the adoption of new and innovative data and analytical methods across the Organisation to address new policy questions and bring new policy insights. This will help keep the OECD at the forefront of policy analysis. Bank of England Chief Economist Andy Haldane will officially launch the Lab in October 2018.

## ***10 Years after the Crisis***

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On 13-14 September 2018, NAEC will host a conference on "10 Years After the Crisis" reviewing the causes of the crisis, the evolution of the financial system since, economics after the crisis and the social and political fallout. Speakers will include leading actors in the crisis from financial institutions, central banks and regulatory agencies. This is an important agenda as mounting financial risks are coupled with uncertainty on the regulatory front and authorities will have much less leeway to act aggressively the next time around (a point made by John Vickers at our NAEC event on [new thinking on financial markets](#) at the Committee on Financial Markets (CMF) in October 2017. A background paper prepared for that discussion and can be found [here](#) and a recording of the discussions [here](#). The September event will be informed by a publication in which leading authorities from the financial sector, government and international regulatory bodies, academia and civil society, as well as the OECD, will outline their opinions on lessons learned from the crisis, and lessons ignored.

## ***Engagement with countries***

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NAEC's engagement activities will help change the way policymakers, academics and others think about economic growth and its impacts, prompting decision makers to adopt a more sustainable approach to defining objectives and designing means to implement them. Policymakers have started to come to NAEC to share experiences and test new ideas. Several British and Finnish Members of Parliament who took part in a one-day [NAEC-Nesta workshop](#) and expressed interest in further exploring the ideas presented. The first public discussion of the French government's report on the future of the firm was as part of a NAEC workshop on [Corporate Governance for Sustainable Prosperity](#) with Professor [William Lazonick](#). The New Zealand Social Services Ministry came to NAEC to explain their life cycle approach to social spending. The Indian Finance Ministry has expressed interest in exploring joint activities on Complexity with NAEC. NAEC intends to involve more OECD member countries directly in its work on subjects of mutual interest and expand outreach to non-members.

To find out more about [NAEC](#), please contact:

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[NAEC seminar programme](#)

