

Meeting of the OECD Council at Ministerial Level

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NEW APPROACHES TO ECONOMIC CHALLENGES (NAEC) SUMMARY AND UPDATE

**New Approaches to Economic Challenges
(NAEC)
Summary and Update**



1. Launched at the 2012 Ministerial Council Meeting (MCM), New Approaches to Economic Challenges (NAEC) is an organisation-wide reflection process aimed at continuous improvement in OECD analytical frameworks and policy advice. The global financial and economic crisis is a key motivation for NAEC, but this reflection is also becoming more timely due to emerging trends and policy challenges.

2. Indeed, this reflection is pursued at a time when OECD Member and Partner countries are confronted with several interlinked policy challenges that include: sluggish growth in some advanced economies, and negative growth in some others; persistent joblessness, growing inequality and poverty; and unsustainable public finances. It is necessary to promote new sources of growth to put economies on a strong, inclusive and sustainable growth path that will improve the well-being of populations, and allow for a more inclusive distribution of the benefits of growth across regions, populations and firms. The need to upgrade the institutional and regulatory capacities of governments and to restore confidence in markets, governments and institutions is also part of this complex setting. NAEC seeks to address these and other issues in a horizontal approach to lay the groundwork for inclusive and sustainable growth, in line with the mandate received in the 2012 Ministerial [\[C/MIN\(2012\)2/FINAL\]](#). In doing so, it draws upon the strengths of the OECD (*e.g.* in the area of structural reform), sound data and policy recommendations, as well as the accumulated experience of its Member and Partner countries in various interconnected policy areas.

3. To co-ordinate and drive forward this agenda, a NAEC Group was established, comprising representatives from OECD Member and Partner countries, policy Committees/bodies,* as well as the Business and Industry Advisory Committee (BIAC) and the Trade Union Advisory Committee (TUAC). As noted in the NAEC mandate and governance, “*[t]he EPC [Economic Policy Committee] is expected to have a central role in this undertaking, but considering its multi-disciplinarity, its success crucially depends upon the strong ownership and participation of other Committees*” [\[C\(2012\)109/REV1\]](#). This is already underway, as several Committees have discussed NAEC in their recent meetings and expressed strong support for it. The NAEC Group is chaired by the Secretary-General. At EPC’s discussion of NAEC on 13 May 2013, delegates welcomed the progress on NAEC and expressed interest in contributing to increase coherence among the various lines of work that relate to EPC’s areas of expertise.

4. The NAEC Group met twice since the initiative was launched. The first meeting was held on 24 October 2012 in the form of a seminar with leading experts to discuss the initiative around four themes: revisiting macroeconomic goals; designing a financial system to support sustainable and equitable growth; revisiting policies to address social and employment consequences; and major trends shaping the global economy and their policy implications. At the second meeting on 11 February 2013, NAEC Group members discussed a work programme for the OECD, as outlined in the NAEC Scoping Paper [\[SG/NAEC\(2013\)1\]](#). The work programme has evolved through the discussions and is now presented in the NAEC Interim Report [\[C/MIN\(2013\)2\]](#).

5. A cross-cutting theme that emerged from the discussions on NAEC is the limitation of existing analytical tools, policy frameworks and governance arrangements to address the significant rise in interconnectedness and complexity that characterise the global economy. This includes interconnectedness across and within countries, between the financial sector and the real economy, and at a deeper level, among various global trends that have been building up for decades. These trends include a further integration of large emerging economies in the world economy; technological change; increases in

* The Economic Policy Committee (EPC), the Economic and Development Review Committee (EDRC), the Committee for Employment, Labour and Social Affairs (ELSAC), the Environment Policy Committee (EPOC), the Committee for Industry, Innovation and Entrepreneurship (CIIE), the Education Policy Committee (EDPC), the Committee on Financial Markets (CMF), the Competition Committee, the Corporate Governance Committee, the Public Governance Committee (PGC), Network of Senior Officials Centres of Government (COGs) and the Trade Committee.

specialisation and international division of labour; population ageing, migration and other demographic shifts; and growing natural resource scarcity, climate change and environmental degradation. Coordinated action is needed to tackle these interconnected issues, including in developing countries. Fully exploiting synergies and complementarities between NAEC and OECD Strategies, such as on Development, Green Growth, Skills and Innovation can leverage the organisation's contribution to new economic approaches.

6. An increasingly complex economic environment and the associated challenges it poses for policy-making calls for innovative approaches to identify emerging issues and trends, as well as for dealing with the synergies and trade-offs that may arise when setting policies to address multiple policy objectives. "New Approaches" in the context of this initiative is defined broadly. It involves revisiting some of the fundamental assumptions about the functioning of the economy, particularly with regard to self-stabilisation and efficient markets, and the implications for policy. It also refers to addressing the limitations and extending the capabilities of existing tools for structural analysis and analyzing trends over the long-term to factor in key linkages and feedbacks – for example between growth, inequality, and the environment. It addition, it entails strengthening the evidence base for examining the linkages between policy drivers and wellbeing outcomes. It encompasses the idea that growth is an important means but not an end of policymaking.

7. The NAEC Interim Report identifies specific project proposals (see Annex) within an overall three-category structure, each with several streams of work, to encompass critical dimensions of NAEC (see Figure). Individual projects will evolve as the NAEC initiative develops. The three categories are:

- **Reflection on the crisis**, drawing lessons in the context of OECD work, revisiting frameworks to guide immediate policy priorities, and **horizon scanning** for new economic tools and approaches;
- **Analysing policy trade-offs and complementarities between policy drivers and well-being outcomes**, with a particular focus on the interlinkages between growth, inequality, environment and economic stability, as well as on long-term global trends and the resulting policy tensions; and
- **Institutions and governance improvements** to enable national and sub-national governments to more effectively adopt and implement policies in an increasingly interconnected world.

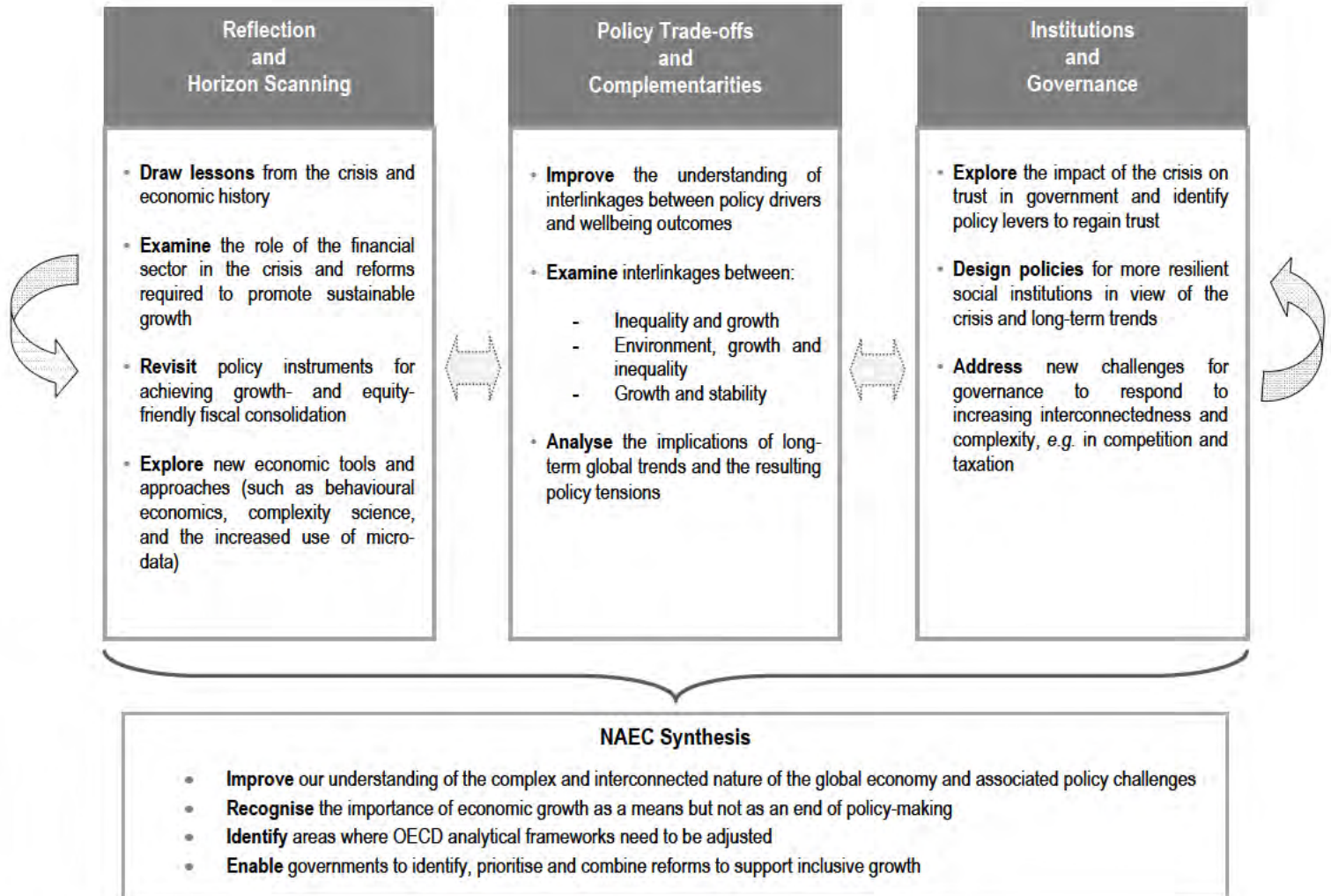
8. With the proposed work programme, NAEC aims to:

- **Improve our understanding of the complex and interconnected nature of the global economy** and find better ways to cope with policy trade-offs and profit from synergies (such as between growth, inequality, stability and the environment). In this context, NAEC will examine how global trends may evolve in the longer term and the challenges they may pose to policy objectives;
- **Recognise the importance of economic growth as a means, but not as an end, of policy-making**. This means having a broader definition of well-being outcomes and developing policy outcomes that combine strong economic growth with improvements in living standards and outcomes that matter for people's quality of life (*e.g.* good health, employment, etc.);
- **Identify areas where OECD analytical frameworks need to be adjusted or complemented**; and examine the potential for mainstreaming new economic data, tools and approaches (*e.g.* behavioural economics); and

- **Enable governments to identify, prioritise and combine reforms to support sustainable, inclusive growth.** This is related to the implementation challenge that is an analytical area of its own, but that also impacts the results of the other pillars in the proposed NAEC work. To diminish the implementation gap and costs, it is important that governments upgrade their regulatory and institutional capacities, to build the right framework for economies to flourish.

9. In terms of next steps, lines of work under NAEC will continue to advance following the 2013 MCM, and substantive elements of a Synthesis will be delivered to the 2014 MCM. A comprehensive Synthesis is envisaged after the 2014 MCM as part of the Programme of Work and Budget (PWB) cycle. By design, NAEC is horizontal in nature, with various projects conducted under the auspices of different OECD committees. Therefore, individual projects will inevitably yield intermediate outputs at different time frames. The timing of delivery will also be a function of the availability of funding. Thus far, NAEC proposals have been reviewed by 17 committees and working parties (including EPC) dealing with projects under NAEC; 4 bodies have yet to review their proposed work under the NAEC banner. NAEC is a ground-breaking and challenging initiative for the OECD. Such an agenda will enrich the horizontal character of our work, analysis and policy advice, as well as bring together different policy communities across OECD committees and bodies. The ultimate objective of NAEC is to develop a strategic policy agenda for inclusive and sustainable growth.

Figure. Organising structure for NAEC work



Annex. Overview of project proposals

A. REFLECTION & HORIZON SCANNING	B. POLICY TRADE-OFFS & COMPLEMENTARITIES	C. INSTITUTIONS & GOVERNANCE
<p>Lessons from economic history and previous crises</p> <p>A1 - The crisis: Drawing lessons from history and past policy experiences</p> <p>A2 - Forecasting in time of crisis: post-mortem of OECD projections</p>	<p>Linking policy drivers to wellbeing outcomes</p> <p>B1 - New approaches to analysing multi-dimensional wellbeing: trade-offs and synergies</p> <p>B2 - Measuring and assessing job quality</p> <p>B3 - Assessing the effects of distribution of skills and key related institutional variables on multi-dimensional wellbeing outcomes</p>	<p>Trust in government</p> <p>C1 - Revisiting the social contract: rebuilding trust for sustained economic recovery</p>
<p>Role of the financial sector in the crisis and future reforms</p> <p>A3 - The role of the financial system in the crisis and reforms required to promote sustainable growth</p> <p>A4 - Fostering long-term investment and responding to the challenges of ageing and longevity</p> <p>A5 - New approaches to SME and entrepreneurship financing: broadening the range of instruments</p>	<p>Inequality and economic growth</p> <p>B4 - Do policies that increase GDP per capita also increase median income?</p> <p>B5 - Assessing the transitional costs and distributional consequences of structural reforms</p> <p>B6 - Closing the loop: how inequality affects economic growth and social cohesion?</p> <p>B7 - Analysing growth and equality trade-offs in taxation</p> <p>B8 - Trade-offs and synergies between globalisation, innovation and inequality</p>	<p>Vulnerability of social institutions</p> <p>C2 - Assessing the vulnerabilities of social institutions, and policy responses to enhance resilience</p> <p>C3 - Can health become an even bigger part of the economy without undermining fiscal sustainability?</p> <p>C4 - Assessing immigrant characteristics and links to labour market performance</p>
<p>Revisiting policy instruments for achieving growth- and equity-friendly fiscal consolidation</p> <p>A6 - How much scope to achieve growth- and equity-friendly fiscal consolidation?</p>	<p>Interactions between environment and economic growth/inequality</p> <p>B9 - Cost of Inaction and Resource Scarcity: Consequences for Long-term Economic Growth/Benefits of Action</p> <p>B10 - Environmental policies and economic performance</p> <p>B11 - Trade-offs and synergies between environment and inequality</p>	<p>New challenges for governance</p> <p>C5 - Promoting inclusive growth through better regulation</p> <p>C6 - Implications of globalisation for competition</p> <p>C7 - Securing tax revenues in a globalised economy</p>
<p>Horizon scanning for new economic tools and approaches</p> <p>A7 - Applying new tools and approaches for better policy making</p>	<p>Economic growth and stability</p> <p>B12 - Increasing the resilience of economies to exogenous shocks</p> <p>Long-term trends and policy trade-offs</p> <p>B13 - OECD@100: global trends and policy challenges</p> <p>B14 - Long-term scenarios for food and agriculture</p> <p>B15 - Ensuring productivity growth and innovation in the long run</p>	

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