OECD INSIGHTS

EDITED BY PATRICK LOVE

DEBATE THE ISSUES: NEW APPROACHES TO ECONOMIC CHALLENGES

OECD

OECD Insights

Debate the Issues: New Approaches to Economic Challenges

OECD
BETTER POLICIES FOR BETTER LIVES

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

Please cite this publication as:
OECD (2016), *Debate the Issues: New Approaches to Economic Challenges*, OECD Insights, OECD Publishing, Paris.
http://dx.doi.org/10.1787/9789264264687-en

ISBN 978-92-64-26211-9 (print)
ISBN 978-92-64-26468-7 (PDF)
ISBN 978-92-64-26470-0 (epub)

Series: OECD Insights
ISSN 1993-6745 (print)
ISSN 1993-6753 (online)

Corrigenda to OECD publications may be found on line at: *www.oecd.org/about/publishing/corrigenda.htm*.

New Challenges, New Approaches

by
Angel Gurría,
OECD Secretary-General

The year 2015 was a landmark year for international co-operation, with a transformative agreement on a set of universal Sustainable Development Goals (SDGs) in New York and the Paris Agreement at COP21 marking a decisive turning point in our response to climate change. Both agreements make a strong call for a more sustainable development path, a new growth model that benefits all people and that takes care of the environment.

In the midst of these hopeful developments, however, the world economy shows little sign of making a full recovery from the crisis. In addition, geopolitical uncertainty is rising – witness the refugee crisis in Europe, the old and new points of conflict in the Middle East, and the terrorist threat that has manifested itself so tragically in Paris, Brussels and elsewhere.

This generalised turbulence makes it very hard for our economies, our governments and our societies to chart the way for a sustained recovery from the legacies of the crisis.

So we have a lot to do. We need to capitalise on the new international resolve epitomised by the agreement on the SDGs and make a renewed effort to promote new policy thinking and new approaches to face the great challenges ahead of us. Responding to new challenges means we have to adopt more ambitious frameworks, design more effective tools, and propose more precise policies that will take account of the complex and multidimensional nature of the challenges.

The goal is to develop a better sense of how economies really work and to articulate strategies which reflect this understanding. A fundamental reflection is required on the changing nature of the economy which conventional analyses struggle to explain.

This is why we launched the New Approaches to Economic Challenges (NAEC) exercise. With NAEC, we are asking hard questions and challenging our assumptions and our understanding about the workings of the economy. We are transforming our ways of thinking and acting with respect to the economy, the environment and society as a whole system. NAEC is having an impact on OECD analytical work, data collection, and policy advice. It has strengthened integrated analysis and led to the adoption of new policy tools and approaches. We are doing better at using smart data and behavioural insights. We are also progressing in our understanding of complexity and systems thinking.

One of the main outcomes of the NAEC initiative, capitalising on OECD work on social issues and quality of life, has been to place inclusive growth at the heart of our analysis. Well-being, inclusiveness and sustainability are influencing economic surveys and other core work.

Slowing productivity, together with rising inequality, remains among the most important issues facing our societies. But we must understand that higher productivity is only a necessary, and not a sufficient, condition for raising living standards. That productivity must be "inclusive". This new approach to productivity, as with all new approaches, is not easy to design. We are deliberately challenging entrenched thinking, experimenting with new ideas. And we won't always get it right first time around.

This book summarises opinions from inside and outside the Organisation on how the NAEC initiative can contribute to achieving the SDGs, and describes how the OECD is placing its statistical, monitoring and sector analytical capacities at the service of the international community. The authors also consider the transformation of the world economy that will be needed. This requires an understanding of the long-term "tectonic shifts" that are affecting people, the planet, global productivity, and institutions, because the interplay of these shifts can have profound consequences for the success of our efforts. Policy linkages, trade-offs and complementarities are being better appreciated so that economic, social and environmental challenges can be tackled in integrated and coherent ways to achieve multiple goals simultaneously.

To meet the SDGs, we need to find new ways of addressing our current challenges and to seize the opportunities that the future offers us. The year 2015 was crucial for moving forward the development, environment, and trade agendas. With the ideas and the tools emerging from the NAEC initiative, we hope to continue our progress on the design, development and implementation of better policies for better lives.

Table of contents

Introduction: The Romeo and Juliet of economic transformation

by
Douglas Frantz,
OECD Deputy Secretary-General

Let's begin with a proposition: The UN Sustainable Development Goals (SDGs) and the OECD's New Approaches to Economic Challenges (NAEC) Initiative were made for each other. They are the Romeo and Juliet of economic transformation.

Consider first the SDGs. Last September at the UN, world leaders adopted an ambitious, 15-year blueprint for a better world. The goals are broad, universal and, indeed, potentially transformative. They envision nothing less than saving our planet for future generations, ending extreme poverty and hunger, and creating a healthier, safer, more inclusive world.

I say "potentially transformative" because achieving these sweeping objectives will require an unprecedented global effort. Decisions made by our governments in the next few years will determine the quality of life for generations to come around the globe.

But this is not a matter of the rich countries extending a hand to the poor ones – or dictating development approaches and policies. This time around, the leaders of the world's rich countries and its poor countries must work together to find common solutions that recognise our interdependence as well as our independence.

Tackling the 17 goals in the UN's 2030 Agenda for Sustainable Development will require new thinking in developed and developing countries alike, among leaders and civil society, in the corporate boardrooms and the village halls. The innovations will require fundamental changes in our patterns of consumption and production, and a recognition that we are all in this together.

Indeed, each individual goal – and the means of meeting it – will need to be viewed through the lens of policy coherence. This requires understanding that decisions made on one goal will have an impact on other goals. It's a vision that is less straightforward and simple than conventional practices.

As Kitty van der Heijden of the World Resources Institute told the NAEC workshop at the OECD in January, actions by all will have to benefit all.

We can say with certainty that the SDGs require dynamic new approaches to economic challenges.

This brings us to the second prospective partner in this marriage: The OECD's New Approaches to Economic Challenges, or the NAEC. The objective of the NAEC is to stimulate new thinking on integrated, multi-dimensional solutions to the world's most intractable economic and social problems.

The approach is rooted in the principles that we must make tough decisions together and that we must understand the impact of one policy decision on other decisions, which is not always obvious or considered. The NAEC weighs the impact of uncertainty, spill-overs, trade-offs and systemic risks in an effort to transform mind sets, policies and ultimately economies.

Will this marriage work? The NAEC provides an intellectual and practical framework for precisely the coherent, co-operative and universal approach required to achieve the targets set forth in the SDGs. And, like the SDGs themselves, this framework can be applied by all of us and to all of us – OECD members, emerging and developing countries and international organisations working to find solutions.

Words are cheap and the challenges are huge. But the opportunities to make the world a better place are very real – if we make the right decisions.

Progress is possible on a global scale. We have seen it. The agreement reached in Paris in December on combating climate change was a big step forward, though there remains a long way to go if we are to stop killing our planet.

The Millennium Development Goals showed what could be accomplished by focusing global attention on developing countries – child mortality rates were cut by more than half, so was the number of people living on less than USD 1.25 a day, to name just two results.

In the narrowest sense, the SDGs are an extension of that unfinished anti-poverty effort. Clearly, rich countries still need to help the poorest countries. The SDGs don't absolve us of that responsibility.

But the SDGs represent a very different agenda. Yes, the SDGs ask developed countries to redouble their efforts on behalf of developing countries, especially the poorest of the poor. Equally important, however, they require us to take a hard look at ourselves. No country can say that it has no work to do when it comes to improving our societies. In the eyes of the SDGs, we are all developing countries.

Indeed, the SDGs are the mirror in which we see our own policies and performance reflected. The picture isn't pretty in some categories. For instance, we all need to do a better job of fostering inclusive growth and adopting sustainable consumption patterns. We all need to make sure that, at the very least, our policies do no harm to the rest of the world.

These dual objectives of the SDGs – helping others while helping ourselves – are where the OECD and the NAEC initiative are the right match. No organisation is better equipped to work with both developed and developing countries than the OECD. We have been doing it for more than half a century.

At the same time, the fundamental and dynamic re-thinking of the path to solving global economic challenges embodied in the NAEC provides the right methodology for tackling the interrelated complexities of the 2030 Agenda.

In short, the integrated approach prescribed by the NAEC recognises our global responsibility to find universal solutions to the challenges of the SDGs. Our self-interest demands that we do so.

Returning to our star-crossed lovers, it seems self-evident that the SDGs and the NAEC, like Romeo and Juliet, were made for each other. Our job is to bring the Montagues and Capulets together and make sure there is a better outcome this time.

Useful links

Original article: Frantz, D. (16 January 2016), "The Romeo and Juliet of Economic Transformation", OECD Insights blog, *http://wp.me/p2v6oD-2mm*.

OECD New Approaches to Economic Challenges: *www.oecd.org/naec*

OECD work on the Sustainable Development Goals: *www.oecd.org/dac/sustainable-development-goals.htm*

UNIVERSAL

The Sustainable Development Goals: A duty and an opportunity

by

Gabriela Ramos,

OECD Chief of Staff and Sherpa to the G20

The Sustainable Development Goals (SDGs) are universal, multidimensional, and ambitious. To achieve them we need an integrated framework that promotes a growth path that respects the environment, and whose benefits are shared by all, not only by the privileged few. The concept of sustainable development challenges us to rethink how we relate to the world around us and how we expect governments to make policies that support that world view.

First, there is the realisation that economic growth alone is not enough: the economic, social and environmental aspects of any action are interconnected. Considering only one of these at a time leads to errors in judgment and unsustainable outcomes. The growth accounting that we have relied on has fallen short, by not raising the alarm regarding the accumulated imbalances that brought the worst financial crisis in our lifetime in 2008, and regarding natural resource depletion and high inequalities of income and outcomes for people.

Next, the interconnected nature of sustainable development calls for going beyond geographical or institutional borders, in order to co-ordinate strategies and make good decisions. Problems are rarely easy to contain within predefined jurisdictions such as one government agency or a single neighbourhood, and intelligent solutions require co-operation as part of the decision-making process. Our policy decisions should keep in mind that our decisions and actions will have impacts elsewhere, will influence the future, and be bound by national circumstances, institutional settings, and the historical and cultural traits that define our societies.

Most of all, we need a growth path that puts people's well-being at the core of policy efforts, and where GDP per capita and income are key elements of course, but not the only ones. In a highly interconnected global economy, the linkages between our economies, societies and environment should be central, and our policy choices should be informed by this high level of complexity.

The SDGs are therefore a healthy reminder that, to deliver, we should change the way we operate and update the tools that we use to understand the world. Indeed, to realise that GDP is a means to an end, and not an end in itself.

At the OECD we have been preparing for this in the last decade. We launched the New Approaches to Economic Challenges Initiative that makes a call to develop an agenda for sustainable and inclusive growth. We have also developed a hands-on agenda for green growth, and we have been working to address the slowdown of productivity growth with policy measures that will also have a positive impact on reducing inequalities of income and opportunities. That means changing the way we work, getting away from the "silo" approach, and trying to anticipate and shed light on the unintended consequences of the choices we make.

Our work on inclusive growth is a good illustration of this. Rising income inequality is often accompanied by greater polarisation in educational and health outcomes, perpetuating a vicious circle of exclusion and inequality. Moreover, inequalities impose costs on economic growth, particularly where inequality of opportunity locks in privilege and exclusion, undermining intergenerational social mobility. Accounting for the multidimensional nature of inequalities means evaluating the effects of policies on both income and non-income outcomes, as well as for different social groups.

Our analysis shows that "multidimensional living standards" – a measure that combines changes in household income, health and labour market outcomes – rose faster for more affluent social groups than for middle class or low-income households on average among OECD countries, and suggests that improvements in life expectancy and strong job creation during 1995-2007 did not compensate for widening income inequality.

A better understanding of the effects of policies on specific social groups allows policy makers to identify trade-offs and complementarities between growth and distributional objectives. For instance reducing regulatory barriers to domestic competition, trade and inward foreign direct investment can lift the incomes of the lower-middle class by more than it does GDP per capita. Conversely, a tightening of unemployment benefits for the long-term unemployed, if implemented without a strengthening of job-search support and other activation programmes, may lead to a decline in the income of the lower-middle class, even if it boosts average incomes.

These findings are reinforced by our work on the quality of jobs, defined as good pay, labour market security, and a decent working environment. There appear to be no major trade-offs between job quality and quantity but rather, potential synergies: countries that do relatively poorly with respect to job quality tend to have relatively low employment rates and vice versa.

In talking about jobs and equality, it is important to remember that the environment is not something you can think about later, once you have enough growth. Economic progress rests on ecological foundations. Natural capital – air, water, and other resources – is finite and has to be managed just as carefully as other forms of capital. More stringent environmental policies, when well-designed, need not undermine productivity growth. Similarly, policies that make environmental sense can support economic growth and promote social inclusion too.

Designing a strategy to implement the SDGs comes down to answering three questions. What should economies be doing? How should they be doing it? And for whom? These questions are not new. Gro Brundtland's answer in her 1987 report *Our Common Future* was economies promoting "growth that is forceful and at the same time socially and environmentally sustainable". But 20 years after Brundtland, we have still not managed to develop an integrated framework that combines the main objectives of well-being in a synergistic way. To do so we need to develop the best tools, but more importantly, to change habits – which is not easy – or to go against vested interests that benefit from the status quo. The political economy of reform is not going to be easy.

On the side of change, the SDGs give us not just the duty but the opportunity to advance our thinking. Let's not waste it!

Useful links

Original article: Ramos, G. (28 March 2016), "The Sustainable Development Goals: A Duty and an Opportunity", OECD Insights blog, *http://wp.me/p2v6oD-2r5*.

OECD work on green growth and sustainable development: *www.oecd.org/greengrowth*

OECD Inclusive Growth Initiative: *www.oecd.org/inclusive-growth*

Answering the Queen's question: New Approaches to Economic Challenges

by
Robert Skidelsky,
Emeritus Professor of Political Economy, University of Warwick

W"Why did no one see it coming?"asked Queen Elizabeth II of Great Britain, shortly after the world economy collapsed in 2008. In addressing the question to a group of economists, the Queen was spot on. As OECD Chief of Staff Gabriela Ramos said, "The crisis struck at the core of tightly held economic ideas, modules and policy". I would go further. Crisis struck because of tightly held economic ideas, models and policies. The policy models used pre-2008 were wrong or seriously flawed; this contributed to the collapse, chiefly by omission. The OECD's New Approaches to Economic Challenges (NAEC) report recognises this, arguing that the challenge is for economists to develop a better sense of how economies work; and for economic policy to develop policies which reflect this understanding.

To put the matter concretely, we have to determine under what combination of policies and institutions the macro economy will exhibit good performance, defined as cyclical stability, high employment, decent growth rates, stable prices, and human and planetary well-being. I would like to discuss questions which have occurred to me since 2008 along with some observations from the latest NAEC report, which gives much food for thought.

First, money and banking. Monetary policy is not mentioned by the NAEC. Orthodox macro policy before the slump consisted of "one target, one instrument". The target was the inflation rate; the instrument was interest rates. This was clearly inadequate. But we haven't yet sorted out what should be the proper aims of monetary policy, what is properly monetary and what is properly fiscal, what is macro and what is micro. For example, bank regulation is micro, but it increasingly counts as part of macro policy. Perhaps we should call macro any micro event or institution which has macro effects.

The NAEC report calls for "Better integration of the financial sector". What does this mean? Does it mean "better able to serve the needs of the real economy"? If so, what reforms are needed? I'm disappointed that the NAEC didn't challenge the orthodox view that financial innovation is good. What it does is to make the economy more financial – that is, enable more and more people to earn their living making money out of money. We have to ask further questions on money, starting with whether the central bank can control the credit system to avoid boom and bust. And if not, what is the alternative? What has been the impact of quantitative easing (QE)? The euro zone is gaily embarking on a massive monetary expansion, when most of the evidence suggests very limited effect for reasons Keynes would readily have recognised.

There is a cluster of issues around fiscal policy. The NAEC report talks of "promoting fiscal soundness and fostering the counter-cyclicality of macroeconomic policies". What is meant by "fiscal soundness"? Does it mean balancing the budget? What is meant by balancing the budget? Which budget? All governments are embarked on deficit reduction. We are rarely told which deficit they are planning to reduce. Are there safe upper limits to public deficits and debts? What are the best ways of financing public borrowing – bonds, QE, Treasury bills – and under what circumstances?

Can the public accounts be differently presented to bring out the capital/current account distinction? Should governments have off-budget accounts, for instance a National Investment Bank?

Forecasts of inflation, output gaps, multipliers have been fairly consistently wrong ever since the crisis struck. The whole question of forecasting needs a serious look. Forecasts are highly model dependent. If the model is wrong the forecast will be wrong – or wronger than normal.

Jobs. What is Europe's natural rate of unemployment? How is it estimated? If, as in Europe today we have zero inflation and unemployment at 10%, is this Europe's natural rate? Or has the term lost any useful meaning?

Where are the jobs in the future to come from? The NAEC report doesn't mention the impact of automation on jobs. It talks about need to enhance human skills and capital, which is simply conventional wisdom. Are humans destined to "race with machines" or "race against machines" to quote the question raised by Brynjolffson and McAfee.

Economic growth. NAEC wants both "economic growth and well-being" and "economic growth and environmental sustainability", in other words all the good things in life simultaneously. And so say all of us. But we can't have them. Continuation of the kind of growth we have had in the past will certainly be inimical to the well-being of humans, and of course of the planet. Growthmanship, and its associated consumerist culture, needs to be challenged much more vigorously.

Distribution and inequality. NAEC writes of "Increasing evidence that large income inequality undermines growth and well-being, by reducing investment in skills by low-income households". It says that taxation systems need to be reformed to ensure they are "progressive enough". But what is progressive enough? And what changes in politics will be needed to bring about more progressivity to offset the rise in inequality? Where is the political support to come from?

The woeful state of economics. NAEC says disappointingly little about this. It says economics should draw insight from sociology, psychology, geography, and history. I completely agree, except that philosophy is omitted and history put last. A reading of Aristotle would be a sound corrective to all those who place their faith in financial innovation and consumerism. A knowledge of history would correct the bias of economics to a priori theorising beautifully expressed by the 19th century French economist Jean-Baptiste Say: "What useful purpose can be served by the study of absurd opinions and doctrines that have long ago been exploded, and deserved to be? It is mere useless pedantry to attempt to revive them. The most perfect a science becomes the shorter becomes it history…" We are still waiting for the perfection which will abolish the need for history.

Useful links

Original article: Skidelsky, R. (12 October 2015), "Answering the Queen's question: New Approaches to economic challenges", OECD Insights blog, *http://wp.me/p2v6oD-2g3*.

OECD New Approaches to Economic Challenges: *www.oecd.org/naec*

Policy coherence from new data, new research, new mindsets

by

Catherine L. Mann,
OECD Chief Economist and Head of the Economics Department

Recent global economic performance – characterised by sluggish growth, widening inequality, environmental precariousness, and market volatility – is a sobering reminder of the myriad challenges facing policy makers. How can understanding and quantifying the interrelationships between and among policies help design policy packages to improve performance?

New analysis at the OECD, undertaken with new data, new methods, and new mindsets reveals the importance of policy coherence. The essence of policy coherence is to ask, How well do policies – directed toward demand management, structure of markets, environmental sustainability, and frontier innovation – work together to enhance the overall well-being of the citizens of a country and even broader through spillovers to the world? To what extent could a piece-meal approach, rather than an integrated policy assessment, lead us astray?

The mindset of policy coherence seems obvious. But it is in the nature of governments, academia, think tanks, and international organisations to analyse economic policies in silos – e.g. labour, environment, competition, finance, fiscal – because that simplifies the analysis and contains the domain for policy bargaining. The OECD is not immune to the silo tendency. However, the New Approaches to Economic Challenges (NAEC) ushered in a systematic mindset to see economic problems through a new lens to recognise that coherence in research across the silos is required to produce the evidence that yields "better policies for better lives".

Productivity research is one example of how new data and mindsets promote policy coherence. The traditional approach to policy making (and its research underpinnings) focused on policies to grow the pie (through productivity – enhancing policies such as R&D spending) in isolation from policies to redistribute the pie (through taxes and transfers or through skills development). This is partly because the research datasets to investigate these topics were distinctly separate, as were the interests of the researchers. But also, policy analysis was separated because the policy makers that would implement the policies had separate mandates. In any case, detailed data on firms and workers were not available, which implied that policy design was founded on the relationships between average firms, average workers, average economies, and average outcomes.

The NAEC approach to policy research on productivity evaluates policies for growing the pie and for its distribution at the same time. The research shows that it is the same type of policies (such as ease of business entry and exit, flexibility of labour markets, robustness of financial firms) that negatively affect productivity growth, negatively affect the matching of skills to firms, with attendant negative consequences for income distribution and its growth. This work reveals negative feedback loops that were not observed before, opening up new recommendations for policy packages. We are able to make this link now between productivity growth and income distribution because our datasets are granular enough and can be matched across objectives, the interests of the researchers came into alignment, and the importance of policy coherence is better appreciated by policy makers too.

Whereas the same type of policies affect productivity growth and income distribution, each country has its own unique combination of those policies, and therefore its own specific set of challenges. A key understanding under NAEC is to promote policy coherence across structural policies as well as demand management policies. The first generation of analysis of structural policies tended to address the implications for GDP growth of flexibility-enhancing labour market policies in isolation from policies to promote product market competition, and with little reference to overall demand conditions and demand management policies such as fiscal spending or monetary expansion. And, potential structural flaws in financial markets were not considered.

This piecemeal approach to policy assessment can lead to misunderstandings of how policies might impact economic performance. For example, increased flexibility in labour markets alongside product markets that lack competition or in which there is slack demand push, the brunt of adjustment onto individuals, raising inequality. On the other hand, robust competition among firms but with rigid labour markets starves competitive firms of resources to grow, hampering productivity. Or, a third example, banking systems that evergreen loans (renew them continuously) to poorly performing firms dampens overall productivity growth and traps labour, thus raising inequality. A new mindset appreciates the complexity of the interactions between policies. Integrated policy assessments that take into account the unique characteristics of each country help quantify how policy reforms might work together to raise productivity growth and improve income distribution. This integrated policy assessment helps policy makers tailor their approach to improve economic performance and respond to shocks.

We have the tools to quantify structural policies and their impact on firms and individuals in a coherent way, including during business cycle upturns and downturns. We have an understanding of how best to deploy different types of fiscal instruments to achieve inclusive growth. Is our understanding of policy coherence complete? No, not in two key dimensions: macroeconomic spillovers and micro-behaviour and attitude toward change.

On understanding and quantifying spillovers, we still lack the trade and financial linkages and the empirical apparatus to fully understand and quantify how spillovers from one country to another may impinge on achieving policy objectives of greater productivity along with inclusive and sustainable growth. But, these data and tools are available and the OECD is in the process of incorporating these into our integrated policy assessment for economies.

On understanding micro-behaviour and attitude toward change, much more needs to be done, and this is essential for understanding the political economy of reform. The key challenge is that enhanced productivity growth comes only with firm and worker reallocation, but fear of this dynamic can constrain policy makers' actions. A dynamic environment can strip economic rents from sheltered firms and exposes workers and households to job change and income volatility. As the pace of technological change increases, the imperative for a dynamic economy also increases. If people are not empowered to adjust, the backlash is reflected in policy stasis instead of reform, and worse outcomes, rather than better.

Research examining the behaviour of individuals is starting to give insights on which policies can best help them navigate change, but more needs to be done. Faster and more efficient resource reallocation helps economies to recover more quickly from adverse shocks, contributing thereby to reduced inequality, enhanced productivity growth, and higher living standards.

Useful links

Original article: Mann, C. L. (11 January 2016), "Policy Coherence from New Data, New Research, New Mindsets", OECD Insights blog, *http://wp.me/p2v6oD-2mm*.

OECD New Approaches to Economic Challenges: *www.oecd.org/naec*

OECD work on the Sustainable Development Goals: *www.oecd.org/dac/sustainable-development-goals.htm*

Measuring multidimensional well-being and sustainable development

by
Martine Durand,
OECD Chief Statistician and Director of the Statistics Directorate, and
Simon Scott,
Head of Statistics and Monitoring Division, OECD Statistics Directorate

The notion of sustainable development is profoundly multidimensional so assessing progress on sustainable development requires measures of multidimensional well-being. The number and diversity of the new Sustainable Development Goals (SDGs) and targets reflect the many dimensions of development (health, decent work, climate, etc.), and policy thinking must integrate these dimensions if progress is to be achieved across the board.

The OECD has long recognised the multidimensionality of people's well-being and of the resources needed to sustain it over time. Realising that measures of total output are not adequate to assess progress in all its complexity, we have been actively researching relevant new measures of well-being and prosperity, and developing policies designed to improve people's lives on a sustainable basis.

This effort has intensified and gained new traction in recent years as well-being has failed to improve in tandem with economic growth, leaving some people behind and exacerbating inequalities. The growing disconnect between the health of economies, as measured by GDP growth rates, and people's experiences and perceptions of their lives has given rise to a new measurement and policy agenda to identify well-being indicators that can signal whether societies are evolving in desirable directions and at a sustainable pace.

The OECD has played a major role in this effort, in particular by developing a multidimensional well-being framework that can both gauge whether people's lives are improving, and inform policy efforts toward this end. The framework also aims to indicate whether improvements are sustainable, and where governments and others need to invest to improve well-being now and tomorrow.

In 2011, the OECD launched *its Better Life Initiative* to measure progress on 11 dimensions of current well-being: health status; work and life balance; education and skills; social connections; civic engagement and governance; environmental quality; personal security; income and wealth; jobs and earnings; housing; and subjective well-being. The 11 dimensions are recognised as universal, i.e. relevant to societies across the world, irrespective of their level of socioeconomic and human development. The framework focuses on people, takes distribution into account, includes both objective and subjective elements, and concentrates on outcomes as opposed to inputs and outputs.

The framework also considers resources for future well-being, thus bringing in a sustainability perspective. In particular, the OECD approach focuses on the broader natural, economic, human and social systems that embed and sustain individual well-being over time. The focus on stocks of "capital" or resources is in line with the recommendations of the *Stiglitz, Sen and Fitoussi Report* (2009) and other recent measurement initiatives that distinguish between well-being "here and now" and the stocks of resources that can affect the well-being of future generations "later". Several approaches go beyond simply measuring levels of stocks to consider how these are managed, maintained or threatened. Recognising the global challenges and shared responsibilities to maintain well-being over time, they also highlight how actions taken in one country can affect the well-being of people in other countries ("elsewhere").

The OECD well-being framework and the SDGs are highly consistent, not only in their general features – focusing on people, multidimensionality, today and tomorrow, here and elsewhere – but even in their specific dimensions.

Because of these close linkages, OECD work on well-being can be particularly useful in helping countries deliver on the SDGs agenda:

- From a measurement perspective, the OECD framework and indicators can pinpoint specific data sets to monitor national and regional progress towards targets in OECD countries, especially where the official SDGs indicator set may be more relevant for emerging and developing economies and/or for global monitoring.
- From a policy perspective, the framework covers several areas relevant for the SDGs where the OECD has specific long-standing expertise and instruments to offer (health, education, environment, jobs, etc.).
- From a coherence perspective, the framework embodies a recognition that many dimensions are related and therefore must

be studied together and not in isolation. This has already been central to establishing the OECD Inclusive Growth policy framework which aims to nail down the interdependencies at the policy level.

In order to make the concept of well-being more policy-actionable, work is under way to study the drivers of well-being, i.e. the policies and the individual and societal characteristics shaping each of the outcomes of interest. In addition, to help policy makers better grasp policy trade-offs and find ways to improve both the level and distribution of well-being outcomes, the OECD has built new measures of *"multidimensional living standards"* that integrate the multidimensionality of the Better Life framework with a focus on the distribution of income and non-income dimensions of well-being.

The interest of such an approach lies in providing an explicit link to key structural policies and their effects on various income groups, making it possible to estimate the impact of policy packages with ambiguous net effects on the well-being of the various segments of the population. For example, both stricter climate mitigation policies and extending health insurance through higher tax may improve health outcomes but reduce household income, with the net well-being effects depending on the relative elasticities of income and health to these policy changes. Work has started in the OECD to quantify these impacts, so that net results can be seen through the multidimensional living standards metric. This approach is flexible and can be easily adapted to the SDGs framework. It provides opportunities to identify the best policy measures to reach several goals at the same time – a key challenge posed by the multidimensional character of the SDGs.

Useful links

Original article: Durand, M. (13 January 2016), "Measuring Multidimensional Well-being and Sustainable Development", OECD Insights blog, *http://wp.me/p2v6oD-2m0*.

OECD Better Life Initiative: *www.oecd.org/statistics/better-life-initiative.htm*

OECD work on statistics: *www.oecd.org/std*

The importance of a policy coherence lens for implementing the Sustainable Development Goals

by
Ebba Dohlman,
Senior Advisor, Policy Coherence for Development, OECD

The 2030 Agenda for Sustainable Development and the Addis Ababa Action Agenda call upon all countries to "pursue policy coherence and an enabling environment for sustainable development at all levels". Sustainable Development Goal 17 – on the means of implementation – includes a Target to "enhance policy coherence for sustainable development" (PCSD). The OECD defines PCSD as an approach and policy tool to integrate the economic, social, environmental, and governance dimensions of sustainable development at all stages of domestic and international policy making. PCSD aims to increase governments' capacities to foster synergies across economic, social and environmental policy areas; identify trade-offs; reconcile domestic policy objectives with internationally agreed objectives; and address the spillovers of domestic policies.

Policy coherence for sustainable development is fundamental to ensure that progress achieved in one SDG contributes to progress in other SDGs, and to avoid the risk of progress in one goal at the expense of another. PCSD is critical to:

- Consider the economic, social and environmental costs and unintended consequences of policy decisions. For example, the USD 55-90 billion annual support for fossil fuels in OECD countries incentivise further CO_2 emitting fossil fuels rather than investment in renewables; contribute to climate change; aggravate pollution and health risks; and waste money that could be reallocated for more targeted spending on the poor while contributing to global climate objectives.
- Identify effective uses of diverse sources of finance other than official development assistance (ODA). While ODA remains crucial for the least developed countries and most vulnerable populations, it now represents only 20% of the developed world's financial engagement with developing countries. PCSD can help to make best use of existing resources, including more effective fiscal administrations, higher tax income; remittances; trade and investment; more direct access to capital markets; low interest debt; and addressing illicit flows.
- Shed light on critical sectoral interactions to achieve SDGs and Targets. PCSD can help to inform how efforts to attain a goal in

one sector would affect (or be affected by) efforts in another sector, for example between water (SDG6), food (SDG2), and energy (SDG7). Agriculture is the largest user of water at the global level; energy is needed to produce and distribute both water and food; and the food production and supply chain accounts for almost one third of total global energy consumption. Policy decisions made in these sectors can have significant impacts on each other and tensions may arise from real or perceived trade-offs between various objectives. Improved water and energy services reduce the burden on women and young girls who often spend several hours each day collecting water and gathering biomass for cooking, thus freeing up time for their participation in education and income generating activities. The provision of cleaner water and energy services is also linked to improvements in the health, micro-enterprise activity, and agricultural productivity of women, thereby spurring overall national economic development.

- Deal with systemic conditions and disablers that hamper sustainable development. Illicit financial flows for example are a major disabler for sustainable development. In many countries of origin, they are a symptom of governance failures, weak institutions, and corruption, but also of other systemic conditions in recipient countries that allow illicit financial flows (IFFs) to thrive, such as tax havens and secrecy jurisdictions. A PCSD lens can inform actions at international level to support a fairer and more transparent global tax system; and curb tax avoidance strategies which in most cases are legal but unfairly take advantage of the interaction between tax rules of different countries. At the national level, success will depend on the quality of domestic regulations, institutions and capabilities to identify, track, and fight tax evasion, money laundering and corruption.

The multi-sectoral and transformative nature of the 2030 Agenda for Sustainable Development will require institutions to be able to work across policy domains (horizontal coherence) and governance levels from local to global (vertical coherence). It requires policies that systematically consider sectoral inter-linkages (synergies and trade-offs) and effects (here and now, elsewhere, and tomorrow). The OECD's analytical framework can help inform decision making and support policy makers and stakeholders to design policies that systematically consider:

- The roles and responsibilities of different actors as well as the diverse sources of finance – public and private, domestic and international – for achieving sustainable development outcomes.
- The policy inter-linkages across economic, social and environmental areas, including the identification of synergies, contradictions and trade-offs, as well as the interactions between domestic and international policies.
- The non-policy drivers, i.e. the enablers (that contribute to) and disablers (that hamper) sustainable development outcomes at the global, national, local and regional levels.
- The policy effects "here and now", "elsewhere", and "later". This captures ways in which the pursuit of well-being today in one particular country may affect the well-being in other countries or of future generations (the long-term impact of policies at national and global levels).

Against this background, the OECD is developing PCSD Framework, a self-assessment policy toolkit, aimed at providing policy makers with practical guidance on: setting up institutional mechanisms for coherence, including political commitment and leadership, co-ordination capacity and monitoring systems; managing policy interactions at different levels to detect and resolve policy conflicts; addressing contextual factors that enable or impede coherence for sustainable development; and anticipating the unintended consequences of policy decisions. It includes thematic modules on Food Security, Illicit Financial Flows and Green Growth.

Useful links

Original article: Dohlman, E. (15 January 2016), "The Importance of a Policy Coherence Lens for Implementing the Sustainable Development Goals", OECD Insights blog, *http://wp.me/p2v6oD-2mg*.

OECD work on policy coherence for development: *www.oecd.org/Pcd*

INTEGRATED

How Tajik weddings helped me understand Wall Street

by

Gillian Tett,

Financial Times US Managing Editor

T *The Silo Effect* first sprung to life during the Great Financial Crisis of 2008. But it is not a book about finance. Far from it. Instead, it asks a basic question: Why do humans working in modern institutions collectively act in ways that sometimes seem stupid? Why do normally clever people fail to see risks and opportunities that are subsequently blindingly obvious? Why, as Daniel Kahneman, the psychologist, put it, are we sometimes so “blind to our own blindness”?

It was a question I often asked myself in 2007 and 2008. Back then, I was working as a journalist in London, running the markets team of the *Financial Times*. When the financial crisis erupted, we threw ourselves into trying to understand why the disaster had come about. There were lots of potential reasons. Before 2008 bankers had taken some crazy risks with mortgages and other financial assets, creating a gigantic bubble. Regulators had failed to spot the dangers, because they misunderstood how the modern financial system worked. Central bankers and other policy makers had given the wrong economic incentives to financiers. Consumers had been dangerously complacent, running up huge credit card debts and mortgage loans without asking whether they could be repaid. Ratings agencies misread risks. And so on.

But as I dug into the story of the Great Financial Crisis as a journalist (and later wrote a book about it, *Fool’s Gold*) I became convinced that there was another reason for the disaster: the modern financial system was surprisingly fragmented, in terms of how people organised themselves, interacted with each other, and imagined the world. In theory, pundits often like to say that globalisation and the Internet are creating a seamless, interlinked world, where markets, economies, and people are connected more closely than ever before. In some senses, integration is under way. But as I dug into the 2008 crisis I also saw a world where different teams of financial traders at the big banks did not know what each other was doing, even inside the same (supposedly integrated) institution. I heard how government officials were hamstrung by the fact that the big regulatory agencies and central banks were crazily fragmented, not just in terms of their bureaucratic structures, but also their worldview. Politicians were no better. Nor were the credit rating agencies, or parts of the media. Indeed, almost everywhere I looked in the financial crisis it seemed that tunnel vision and tribalism had contributed to the disaster. People were trapped inside their little specialist departments, social groups, teams, or pockets of knowledge. Or, it might be said, inside their silos.

That was striking. But as the 2008 crisis slowly ebbed from view, I realised that this silo effect – as I came to call it – was not just a problem at banks. On the contrary, it crops up in almost every corner of modern life. In 2010 I moved from London to New York, to run the American operations of the *Financial Times*, and when I looked at the corporate and government world from that perch, I saw a fragmented pattern there too. The silo syndrome cropped up at gigantic companies such as BP, Microsoft, and (later on) at General Motors. It plagued the White House and Washington agencies, not to mention large multilateral groups such as the World Bank and International Monetary Fund – and, I daresay, the Organisation for Economic Co-operation and Development too.

Large universities were often beset with tribalism. So were many media groups. The paradox of the modern age, I realised, is that we live in a world that is closely integrated in some ways; but fragmented in others. Shocks are increasingly contagious. But we continue to behave and think in tiny silos.

So this book sets out to answer two questions: Why do silos arise? And is there anything we can do to master our silos, before these silos master us? I tackle this partly from the perspective of someone who has spent two decades working as a financial journalist, observing global business, economics, and politics. That career has trained me to use stories to illustrate my ideas. So in this book you will hear eight different tales about the silo effect, ranging from Michael Bloomberg's City Hall in New York to the Bank of England in London, Cleveland Clinic hospital in Ohio, UBS bank in Switzerland, Facebook in California, Sony in Tokyo, BlueMountain hedge fund in New York, and the Chicago police. Some of these narratives illustrate how foolishly people can behave when they are mastered by silos. Others, however, show how institutions and individuals can master their silos. Some of these are stories of failure. But there are also tales of success.

But there is a second strand to this book. Before I became a journalist (in 1993), I did a PhD in the field of cultural anthropology, or the study of human culture, at Cambridge University. As part of this academic work, I conducted fieldwork, first in Tibet, and then down on the southern rim of the former Soviet Union, in Soviet Tajikistan, where I partly lived between 1989 and 1991 in a small village. My research was focused on marriage practices, which I studied as a tool to understand how the Tajik had retained their Islamic identity in a (supposedly atheist) communist state.

When I first became a financial journalist, I was often wary about revealing my peculiar past. The type of academic qualifications that usually command respect on Wall Street, or the City of London, are MBAs or advanced degrees in economics, finance, astrophysics, or another quantitative science. Knowing about the wedding customs of the Tajiks does not seem an obvious training to write about the global economy or banking system. But if there is one thing that the Great Financial Crisis showed it is that finance and economics are not just about numbers. Culture matters too. The way that people organise institutions, define social networks, and classify the world has a crucial impact on how the government, business, and economy function (or sometimes do not function, as in 2008). Studying these cultural aspects is thus important. And this is where anthropology can help. What anthropologists have to say is not just relevant for far-flung non-Western cultures, but can shed light on Western cultures. The methods I used to analyse Tajik weddings, in other words, can be helpful in making sense of Wall Street bankers or government bureaucrats.

The lens of anthropology is also useful if you want to make sense of silos. After all, silos are cultural phenomena, which arise out of the systems we use to classify and organise the world. Telling stories about the silo effect as an anthropologist-cum-journalist can thus shed light on the problem. These tales may even offer some answers about how to deal with silos, not just for bankers, but government bureaucrats, business leaders, politicians, philanthropists, academics, journalists – and perhaps OECD officials too. Or that, at least, is my hope.

Useful links

Original article: Tett, G. (8 October 2015), "How Tajik weddings helped me understand Wall Street", OECD Insights blog, *http://wp.me/p2v6oD-2fV*.

Tett, G. (2015), *The Silo Effect: The Peril of Expertise and the Promise of Breaking Down Barriers,* Simon & Schuster, New York.

Turning the tide towards inclusiveness

by
Stefano Scarpetta,
Director of the OECD Employment, Labour and Social Affairs Directorate

A rising tide lifts all boats, or so many used to think. But the evidence suggests that over the past three decades in a large number of advanced and emerging countries economic growth has disproportionally benefited people who are already relatively well-off, leaving the lower middle-class lagging behind.

Today the average income of the richest 10% of the population across the OECD is almost ten times that of the poorest 10%. We observe also a worrying pattern: in each of the past three decades the gap has increased by one factor – it was 7:1 in the 1980s, 8:1 in the 1990s and 9:1 in the 2000s.

These averages hide large differences across countries, from a ratio to 6:1 in Nordic countries, to 19:1 in the United States, almost 30:1 in Mexico and Chile and beyond 50:1 in South Africa and other emerging economies. But over the past decades we have observed a convergence towards higher levels of income inequality (although some emerging economies have managed to reduce income inequality, albeit from very high levels). The situation is even worse when we look at the distribution of household wealth. *Comparable data* collected for the first time by the OECD for 18 OECD countries show that the top 10% of households owned half of all total household wealth in 2012, while the bottom 40% owned a meagre 3%.

Not only do high levels of income inequality challenge social cohesion, they also tend to reproduce themselves from one generation to the next. This happens largely because they hinder the opportunities of the lower middle-class to access the same education and health opportunities as their better-off counterparts. The gap in educational outcomes between individuals from a low socioeconomic background and those with median and high socioeconomic backgrounds increases dramatically as one moves from a more egalitarian to more unequal country. Similarly, a new set of OECD data shows that at age 25, men with university education can expect to live almost 10 years longer than men with primary education. Surely we can agree that people's life chances should not essentially boil down to their wealth, age, gender, or place of residence.

The risks posed by such lopsided growth are evident. Our recent publication *In it Together* revealed that economies grow more slowly when lower earners get left behind – and we are talking about as much as 40% of the population. The rise in inequality observed between 1985 and 2005 in 19 OECD countries knocked 4.7 percentage points off their cumulative growth between 1990 and 2010.

The implication is that if we want to achieve our full growth potential, we need to promote equality of opportunities rather than just relying on redistribution of income and wealth. In all countries, and particularly in advanced ones, redistribution still greatly reduces income inequality – typically through taxes and transfers such as unemployment and other social benefits. Yet, in recent decades, the effectiveness of redistribution has weakened in many countries. It is important to put a renewed focus on it, through effective and well-targeted transfers as well as by making sure that the rich and the very rich in particular pay their fair share of taxes.

But policies also need to do more to address inequalities at their roots, ensuring that people can access high-quality education and health services while having a reasonable prospect of finding good quality jobs, regardless of their social backgrounds.

Improving access to pre-school care and education – and its quality – for children and youth in lower-income households is a key first step in all countries. Too many young people are leaving education without basic skills, even in some of the richest countries. The proportion is put at 24% in the United States, 22% in Norway and 14% in Switzerland.

But promoting equality of opportunities is not just about education. It is also important to promote inclusion in the labour market for under-represented groups, like women and youth. Concerning women, for example, we need to stop talking about equal pay for equal work and just make it happen. We also need to better support families in areas like parental leave and childcare to ensure that both parents can balance their work-life commitments.

The situation of young people in labour markets has become a growing cause of concern since the financial crisis struck. In 2014, 14% of youth were not working, studying or in training in the OECD, but this share reaches 25% in Italy and Greece and even higher in some emerging economies. To avoid scarring effects on their long-term employment prospects, and for the sake of intergenerational justice and social stability, our societies need to offer our young people a better deal, especially those with low skills and from migrant families. To tackle high youth unemployment, we need to be ambitious and use well-targeted activation strategies and measures to encourage firms to provide high-quality apprenticeships, internship programmes and training opportunities.

Moreover, only focusing on increasing the number of jobs is not enough. To make sure that growth is inclusive, countries need to ensure that good education is rewarded by access to productive and rewarding jobs; jobs that offer career and investment possibilities; jobs that are stepping stones rather than dead ends. There is a lot that labour market policies can and should do to address labour market segmentation, improve working conditions and foster skills recognition and a better match of wages with productivity.

Inevitably, policy mixes will vary between countries, responding to their individual economic and political circumstances. There are a number of win-win policies – good for growth *and* inclusiveness. But, equally inevitably, countries may also face trade-offs between policies to boost growth in the *short-run* and those to improve the distribution of growth dividends. However, given the scale of the inequality challenges we face and its impact on *long-term* growth, we need to exploit synergies and complementarities of policy in different areas, while addressing possible short-term trade-offs, for a better and more inclusive future.

Useful links

Original article: Scarpetta, S. (19 January 2016), "Turning the Tide towards Inclusiveness", OECD Insights blog, *http://wp.me/p2v6oD-2mx*.

OECD Centre for Opportunity and Equality: *www.oecd.org/inclusive-growth/about/centre-for-opportunity-and-equality*

OECD (2015), *In It Together: Why Less Inequality Benefits All*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264235120-en*.

Inclusive Growth: An opportunity to put growth on a socially sustainable footing

by
Lamia Kamal-Chaoui,
Senior Advisor to the OECD Secretary-General and Coordinator of the Inclusive Growth Initiative and
Shaun Reidy,
Policy Analyst, Inclusive Growth Unit, OECD

The crisis left many a nation teetering on the edge of financial and economic catastrophe. Thankfully, governments managed to pull us back from the brink. Yet, as we have stabilised our economies, the gaping chasm between our societies' "haves" and "have-nots" has come into sharp relief.

In the last seven years, in a context of prolonged fiscal retrenchment, we have watched as OECD unemployment levels hit a peak unseen in a generation and as precarious work has boomed. We have also seen *inequalities* of income and wealth rise to their highest levels in some 30 years. In 2012, the average income of the top 10% of earners in the OECD grew to just under *ten times that of the bottom 10%*, up from around seven times in the mid-1980s. In terms of assets, the top 10% controlled *half of total household wealth* in 2012, with the bottom 40% owning only 3%, in the 18 OECD countries with comparable data.

To be sure, these problems did not originate with the crisis. The economic seeds of the inequality we are reaping today were sown over many years. Structural changes in the labour market, the forward march of technology, integration into global value chains, and the decline of unionisation all contributed to growing wage dispersion between high- and low-skilled workers.

But it was not just bad luck that this occurred at the very moment that the traditional redistributive mechanisms of the state began to weaken, in a climate of growing fiscal pressures and increased tax competition. Specific policy choices meant some people losing out. Prior to the crisis we relied on growth to paper over the cracks. We can no longer. Yet for want of a better alternative many individuals, companies, and countries have simply returned to business as usual.

With our economies going nowhere fast, we need to take this opportunity to fundamentally re-think how we grow and who benefits from that growth. Taking its lead from the *New Approaches to Economic Challenges (NAEC)* project, this is precisely what the OECD's *All on Board for Inclusive Growth* initiative sets out to do.

The OECD's work on Inclusive Growth understands that GDP growth is important to improving everyone's living standards, but it also recognises that it is not the be all and end all. We cannot continue to blindly pursue growth at all costs without a thought to who benefits from it, or to how socially sustainable it is. That is why our approach to Inclusive Growth moves beyond money alone to look at how people are faring in other areas of life that matter to their *well-being* like their health, jobs and disposable household income. That is also why we look past the statistically constructed 'average person' to get a real and clear picture of how each part of the income distribution is doing.

Our work on Inclusive Growth has made it clear that over the long-run growth will neither reach its potential, nor be sustainable if it is not inclusive. In many ways this is self-evident. Growth built on an ever smaller base, like a building built on shrinking foundations, will be gradually undermined and ultimately collapse. Whilst from a political perspective, a public growing weary of the worst excesses of inequalities will likely not tolerate them indefinitely.

These dawning realisations have led to the issue of inequality gaining increasing political traction. Many citizens are concerned about the implications of increasingly unequal societies and many governments have started to talk about the issue. Much of that talk has been about promoting equality of opportunity. Such talk is to be welcomed, but talking about opportunity is not enough. We also need to focus on outcomes.

Inequalities of opportunity and of outcome are two sides of the same coin. The unequal outcomes of one generation tend to become the inequality of opportunity of the next. Simply giving a child from a poor background access to the same opportunities as a wealthy counterpart will not suffice. The balance of life chances is stacked against children from lower-income backgrounds. Children born into poorer families suffer from any number of disadvantages in relation to their richer peers: they are likely to have poorer diets, more likely to be bullied in school, have parents with shorter formal education and to live in workless households. Overcoming these obstacles can be nigh on impossible.

Dealing with this calls for a much more comprehensive approach to Inclusive Growth that does not only give people equal opportunities, but also bestows them with the ability to make the most of those opportunities. The *OECD's Framework for Inclusive Growth* aims to help policy makers do just that, setting out to assess the effects of policies on income and non-income outcomes simultaneously. The Framework seeks to enhance policy makers' understanding of the trade-offs and synergies that exist between pro-inclusiveness and growth-friendly policies.

In practice, pursuing Inclusive Growth calls for an approach that promotes the creation of *high-quality jobs*. An approach that understands the benefits of flexibility for employers and employees, but also grasps the importance of ensuring that a workforce is properly protected and supported by a strong social safety net, and activation policies to help people back into work. It calls for an approach that recognises the importance of increasing skills and improving education, but also sees that such efforts will be of little value if investment is not forthcoming to create skilled jobs in sufficient numbers. It also calls for an approach that underlines the value of progressive taxation to make sure no one is left behind.

Of course, each country has different goals and priorities, and distinct preferences as far as inequality is concerned. But we also need to have critical awareness about where country preferences come from. In many instances there is a clear danger of elites, who have an important role in setting national preferences, determining the political direction of travel for their own ends. Transparent and accountable government and well-structured institutions are key to avoiding that risk.

By pursuing Inclusive Growth we can empower individuals, ensuring that everyone benefits from growth, and that everyone has the chance to contribute to growth in the future. Businesses stand to gain just as much from this. Companies rely on healthy, well-educated, productive workforces to succeed, and they rely on effective labour market policies to help supply them. Inclusive Growth means more and better resources for businesses to draw on.

Now governments need to move this agenda forward. With the Crisis fresh in the memory and inequality grabbing the world's attention we have a golden opportunity to put growth on a socially sustainable footing, and turn greater inclusiveness into a strong driver of economic growth. We cannot afford to let this chance go to waste.

Useful links

Original article: Kamal-Chaoui, L. and S. Reidy (20 January 2016), "Fostering Inclusive Growth: A Golden opportunity to Put Future Growth on a Socially Sustainable Footing", OECD Insights blog, *http://wp.me/p2v6oD-2mt*.

OECD Centre for Equality and Opportunity: *http://oe.cd/cope*

OECD Inclusive Growth Initiative: *www.oecd.org/inclusive-growth*

The productivity and equality nexus: Is there a benefit in addressing them together?

by

Gabriela Ramos,
OECD Chief of Staff and Sherpa to the G20

Productivity growth has slowed since the crisis and inequality has been getting worse. Could they be influencing each other? The linkages between the productivity and inequality challenges are still to be fully explored. Each may have its own solution, but there is also good reason to think that there is a nexus between them. For instance, OECD evidence suggests that wage dispersion between firms, which reflects diverging rates of productivity growth, has contributed to rising inequality of incomes between workers. At the same time, the increased prevalence of knowledge-based capital and digitalisation may have unleashed winner-take-all dynamics in key network markets, which in turn may have led, in some instances, to an increase in rent-seeking behaviour.

OECD research has highlighted how the rise in inequality over the last three decades has slowed long-term growth through its negative impact on human capital accumulation by low income families.

Since the crisis, stalled business dynamics have seen resources, including workers, being trapped in firms where they are not using their full potential. In particular, individuals with fewer skills and poorer access to opportunities are often confined to precarious and low productivity jobs or – in many emerging countries – informal ones.

In the spirit of our integrated framework on inclusive growth and our New Approaches to Economic Challenges (NAEC) initiative, at the OECD we believe that our efforts to address productivity and inequality challenges could have a better chance of succeeding if we looked at the synergies and trade-offs emerging from policies to address them. This means designing policies for each of these two core issues bearing in mind how they might impact one another and avoiding the "silo" approach through more effective and comprehensive policy packages.

We must also learn from previous policies. Traditional measures to boost productivity in competition, labour market, or regulatory frameworks would allow for the reallocation of resources to more productive activities, or for increasing productivity in specific sectors. But this may have an adverse impact on inequalities of income and opportunities, as workers better equipped to cope with change are usually those with higher skill sets. For instance, in the past, the drive towards flexible labour markets has benefited many employers, and particularly the most productive firms that have gained from an improved allocation of labour resources. But increased flexibility has also brought a greater prevalence of non-standard work. Recent OECD work on job quality highlights how low-skilled individuals can be trapped in precarious low wage jobs, and receive less training.

Our approach to designing policies to ensure that individuals, firms and regions that are left behind can fulfil their full potential and contribute to a more dynamic economy, draws on OECD work from diverse policy areas. It starts from the Inclusive Growth agenda, by focusing on well-being as an ultimate objective of policy. It builds on OECD productivity work through *The Future of Productivity* report and efforts towards an OECD Productivity Network. It also synchronises with the Organisation's efforts to measure productivity more accurately at a time when traditional measures are ill-adapted to account for the full effects of rapid technological change and innovation centred on knowledge based capital, the increasing prominence of the services sector, and productivity in the public sector.

The ultimate outcome is for governments to focus on the extensive range of win-win policies that can reduce inequalities while supporting productivity growth, thereby creating a virtuous cycle for inclusive and sustainable growth. This calls for distinct but complementary policy interventions at the individual, firm, regional and country levels. What this entails in practice will vary for each country depending on its circumstances. But broadly speaking, a number of policy areas are worth considering:

First, a new approach is needed to boost productivity at the individual level so that everyone has the opportunity to realise their full productive potential. Expanding the supply of skills in the population through more equal access to basic quality education is crucial, but not enough. With rapid technological change, skills need to keep up with the demands of the market to avoid the skills mismatches which have contributed to the productivity slowdown.

A broad strategy is also needed to ensure a better functioning of the labour market, promote job quality, reduce informality, allow for the mobility of workers and inclusion of under-represented groups such as women and youth, and promote better health outcomes for everyone.

Second, for people to realise their full productivity potential, businesses have to realise theirs. While heterogeneity among firms is normal, the widening dispersion in productivity levels and its implications for aggregate productivity and workers is a cause for concern. According to our productivity report, the early 2000s saw labour productivity at the global technological frontier increase at an average annual rate of 3.5% in the manufacturing sector, compared to just 0.5% for non-frontier firms. The gap was even more pronounced in the services sector. The larger the share of business that can thrive, the more productive and inclusive our economies will be. Achieving this requires a reassessment of competition, regulatory and financial policies to ensure a level playing field for new firms relative to incumbents. It also requires policies to facilitate the diffusion of frontier innovations from leading to lagging firms.

Third, policy prescriptions will be ineffective unless they take regional and local circumstances into account. Inequalities that play out in regions, like housing segregation by income or social background, poor public transport, and poor infrastructure, can lock individuals and firms in low-productivity traps. This means that some policies to promote both productivity and inclusiveness are best undertaken at the regional level.

Finally, adopting a more holistic approach to policy requires fundamental changes to public governance and institutional structure to strengthen the ability of national governments to design policy that promotes synergies and deals with trade-offs. In highly unequal societies, governments also need to address political economy issues including the capture of the regulatory and political processes by elites that benefit from the status quo, and policies that favour the incumbents.

None of this will be easy, but it is nevertheless essential. At the OECD we believe it is time to develop a better understanding of the dynamics between two of the key issues of our time – productivity and inequality – in order to build a more resilient, inclusive and sustainable future.

Useful links

Original article: Ramos, G. (29 January 2016), "The productivity and equality nexus: is there a benefit in addressing them together?", OECD Insights blog, *http://wp.me/p2v6oD-2nn*.

OECD Centre for Equality and Opportunity: *http://oe.cd/cope*

OECD Future of Productivity: *www.oecd.org/economy/the-future-of-productivity.htm*

OECD Inclusive Growth Initiative: *www.oecd.org/inclusive-growth*

OECD productivity statistics: *www.oecd.org/std/productivity-stats*

Structural policies and distributional consequences

by
Christian Kastrop,
Director of the Policy Studies Branch, OECD Economics Department

In a majority of OECD countries, growth over the past three decades has been associated with growing disparities in household income. This suggests that some of the forces driving GDP have also fuelled inequalities. As a result, gains in household disposable incomes generally have not matched those in GDP per capita and the gap has been particularly large among poorer households and the lower-middle class. An important policy question is whether some of the policy changes driving GDP may in addition play a "hidden" role on inequality. New empirical evidence produced by the OECD on the effects of structural policies on household incomes across the distribution scale has identified potential policy trade-offs and complementarities between efficiency and equity.

Labour market policy reforms are often designed to boost aggregate employment through behavioural effects such as labour supply incentives, and through this channel, GDP per capita. At the same time, these policies also affect income inequality through their impact on the earnings distribution. For some reforms, these two impacts on measures of inequality may be offsetting each other. For example, reducing unemployment benefits and lowering statutory minimum relative to median wages are associated with both higher wage dispersion and higher employment rates among low-skilled workers, which may result in a very small net change on inequality among the working-age population, while the impact on overall inequality is uncertain. For other reforms, however, wage and employment effects may reinforce each other, resulting in both stronger growth and less inequality. This could be the case of policy reforms aimed at easing the strictness of job protection on regular contracts as a way to tackle labour market duality, i.e. the existence of separate segments where comparable workers enjoy differential wage conditions and job protection in contrast to others.

Many tax policies raise well-known trade-offs with respect to growth and equity objectives. Economic theory and empirical evidence suggests that the tax structure influences macroeconomic efficiency. In particular, that direct taxes have relatively more distortionary effects by reducing incentives to work and invest. One of the highest ranked growth-friendly tax reforms, shifting the tax burden away from income taxes to consumption and property taxes, may in principle have adverse effects on inequality through various channels. For instance, reform-driven positive employment effects can be counterbalanced by increased income dispersion resulting from lower tax progressivity. Also, empirical evidence suggests that consumption taxes can be regressive, at least in the short run. There is ambiguity with respect to the distributional effects of property taxes. On the one hand, depending on how they are designed, recurrent taxes on immovable property can be regressive with respect to disposable incomes; on the other hand, inheritance and capital gains tax clearly reduce wealth inequality.

Relaxing anti-competitive product market regulation can bring productivity and employment gains in the long run, therefore spurring economic growth. However, the impact on income inequality is uncertain and empirical evidence generally inconclusive. This is because employment gains may be at least partly offset by changes in the wage dispersion, as more intense product market competition tends to reduce the bargaining power of workers. Recent evidence has shown, however, that reducing barriers to competition is found to lift incomes of the lower-middle class by more than GDP per capita. Research also shows that linking well-tailored employment and product market reforms could bring additional gains on growth and equality.

There is some consensus, in both developed and, to a lesser extent, developing countries, that globalisation is a growth-enhancing force. But there is no consensus, and mixed empirical evidence, about the distributional implications. Economic globalisation involves increased exposure to international trade and financial and capital movements, increased mobility of production factors (i.e. workers and capital) and increased fragmentation of the production process in Global Value Chains (GVCs). The effects of globalisation on overall income inequality have mainly focused on the earnings dispersion channel as opposed to the employment channel. Available evidence would seem to suggest that globalisation-induced inequality effects are mainly driven by greater wage dispersion, in particular arising from changes in the skill and industry composition of labour demand.

Stronger export intensity based on sound and dynamic competitiveness is found to boost long-run GDP per capita and average household disposable income. Such effects hold across the distribution of household income, with stronger estimated gains for the poor – implying reduced inequality. Overall, these findings signal synergies across policy objectives, i.e. that reforms enhancing competitiveness aimed at encouraging exports among domestic firms could boost efficiency and equity.

Globalisation may also affect income distribution insofar as increased trade and international capital flows facilitate the diffusion of technology, thereby increasing wage dispersion via mechanisms such as skill-biased technological change. To the extent that skill-biased technological change shifts demand of labour towards higher skills, and especially when this increase in demand is not matched by a sufficient increase in the supply of skilled workers, technical progress may increase wage inequality. The implications of this hypothesis for inequality have found empirical support for many OECD countries. Going further, recent evidence strongly suggests that skill-biased trade specialisation is associated with higher wage inequality, even accounting for technological change.

Technological progress, as measured by the share of investment in communication technology (ICT) in overall investment, is found to boost long-run GDP per capita and average household disposable incomes. Average household income gains hold across the distribution and as a result, there is no evidence of inequality effects.

Taking these findings into account, the OECD is following up designing general, but also country tailored, policy frameworks which avoid and minimise trade-offs in the short and long run. This encompasses the right mix and sequence of employment and product market reforms, etc., together with science, innovation, education and redistribution systems with taxes and benefits in cash or kind.

Useful links

Original article: Kastrop, C. (3 March 2016), “Structural Policies and Distributional Consequences”, OECD Insights blog, *http://wp.me/p2v6oD-2pM*.

Economic Policy Reforms: Going for Growth reports: *www.oecd.org/eco/goingforgrowth.htm*

OECD work on labour markets, human capital and inequality: *www.oecd.org/eco/labour*

Ruiz, N. (1 March 2016), “Connecting the dots on income inequality: what do official sources suggest when adjusted for top incomes?”, OECD Ecoscope blog, *https://oecdecoscope.wordpress.com/2016/03/01/connecting-the-dots-on-income-inequality-what-official-sources-suggest-when-adjusted-for-top-incomes*.

Environmental policies and economic performance

by
Shardul Agrawala,
OECD Environment Directorate and
Tomasz Koźluk,
OECD Economics Department

A dirty, rundown environment has quantifiable costs for the economy and the well-being of societies. For example, the welfare costs of air pollution from road transport alone are estimated to amount to around USD 1.7 trillion in OECD countries, USD 1.4 trillion in China and USD 0.5 trillion in India. Without adequate policy action, costs will continue to increase, and can have tangible effects on economic growth, for instance through reduced labour productivity. Similarly, the prospects for long-term growth are under stress – for example, climate change is projected to decrease global GDP by 1% to 3.3% by 2060.

These are of course, but a microcosm of all the environmental challenges we face. Yet, action to address environmental pressures often proceeds too slowly. Policy makers have long feared that stringent environmental policies may constrain competitiveness and growth. For example, a number of studies attributed a significant part of the 1970s productivity slowdown in the United States to the tightening of environmental policies. Such fears also underlie the so-called Pollution Haven Hypothesis, which sees a flight of industrial activity and pollution leakage to countries with laxer environmental standards. Moreover, arguments against tightening of environmental policies have re-emerged in the context of an increasingly globalised world with fragmented production and mobile capital.

At the same time, there are solid indications that the future is not necessarily a race to the bottom and that environmental protection and growth are not an "either-or" dilemma. A counter argument is that more stringent environmental policies will encourage changes in behaviour by firms and households, reduce inefficiencies, and encourage the development and adoption of new technologies that may be good for the environment, and for the economy as well. After all, growth did not collapse following the implementation of numerous environmental policies over the years. Moreover, when scrutinised, the claims of negative effects of environmental policies have found little backup in the data.

Empirical evidence from the OECD clarifies this. Based on analysis of two decades of data on the stringency of a subset of environmental policies and economic outcomes in 24

OECD countries, it shows that productivity has generally not been negatively affected by the introduction of more stringent environmental policies. Yes, there have been some temporary adjustments, but these tend to disappear within a couple of years.

To be clear, there will be winners and losers. The most productive and technologically advanced firms (and industries) tend to actually gain from tighter environmental policies, an outcome likely reflecting their superior ability to grasp the new opportunities by innovating and improving their products, but also potentially by relocating part of their production abroad. In contrast, the least productive firms – which generally use their resources less efficiently – may see a temporary fall in their productivity growth, possibly as they require more investments to cope with the more stringent environmental requirements. Some of the least productive firms may cease to operate. Still, if resources are swiftly reallocated to young and expanding firms, the overall impacts will not necessarily be negative and can be positive, both for the economy and the environment, particularly if policies are put in place to enable the entry and exit of firms into and out of markets and to support employment.

Follow-up work on international trade and environmental policies adds another perspective to this picture. Taking a global value chain perspective on the Pollution Haven Hypothesis, OECD work finds some confirmation of the hypothesis itself. However, there is no overall loss of competitiveness of economies attributable to environmental policies. More stringent environmental policies do have significant effects on comparative advantages – countries with more stringent policies tend to lose competitive edge in more pollution-intensive activities. However, this loss is compensated by a gain in less pollution-intensive activities – hence, an overall shift in specialisation patterns. Still, while significant, the effects are very small, for instance with respect to those of trade liberalisation. They are in line with other recent evidence on competitiveness effects and on the potential of affecting countries' specialisation in so-called environmental products – a rapidly expanding global market. Increased trade in such products can spur global improvements in environmental quality. In fact, when combined with stringent, well-designed environmental policies, open trade can form a vital channel for reducing pollution and spurring growth both globally and domestically.

Economic dynamism and flexibility are crucial to ensure such positive outcomes, and the design of environmental policies can do a lot to contribute. The keywords are flexibility and competition: market-based instruments, such as green taxes, that leave the choice to the firm as to which clean technology to use, tend to have more robust positive effects on productivity. On the contrary, while rules to spur markets are important, policies that lead to excessive and unnecessary "green tape" or provide advantages to incumbents, such as laxer norms or subsidies that prop up dirty and inefficient firms, can prevent both environmental and economic progress. One of the crucial findings of recent work is that in general there is no correlation between the stringency of environmental policies in OECD countries and the regulatory burdens they impose. In other words, more stringent environmental policies can be designed while limiting the burdens such policies may impose.

Finally, countries can also do much more to align policies across many different areas, such as taxation, investment, land-use or sectoral policies, to be more consistent with environmental goals. Obviously, this is not easy, and more work linking the environment, environmental policies and economic outcomes is on the way.

Useful links

Original article: Agrawala, S. and T. Koźluk (14 March 2016), "Environmental Policies and Economic Performance", OECD Insights blog, *http://wp.me/p2v6oD-2qt*.

Albrizio. S. et al. (2014), "Do Environmental Policies Matter for Productivity Growth? Insights from New Cross-Country Measures of Environmental Policies", *OECD Economics Department Working Papers*, No. 1176, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5jxrjncjrcxp-en*.

Koźluk, T. and C. Timiliotis (2016), "Do Environmental Policies Affect Global Value Chains? A New Perspective on the Pollution Haven Hypothesis", *OECD Economics Department Working papers,* No. 1282, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5jm2hh7nf3wd-en*.

Koźluk, T. and V. Zipperer (2015), "Environmental policies and productivity growth: a critical review of empirical findings", *OECD Journal: Economic Studies*, Vol. 2014/1, *http://dx.doi.org/10.1787/eco_studies-2014-5jz2drqml75j*.

OECD (2014), *The Cost of Air Pollution: Health Impacts of Road Transport*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264210448-en*.

OECD (2015), *The Economic Consequences of Climate Change*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264235410-en*.

OECD (2015), *Aligning Policies for a Low-carbon Economy*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264233294-en*.

Sato, M. and Dechezlepretre, A. (2015), "Asymmetric industrial energy prices and international trade", *Energy Economics*, Vol. 52/1, *http://dx.doi.org/10.1016/j.eneco.2015.08.020*.

Sauvage, J. (2014), "The Stringency of Environmental Regulations and Trade in Environmental Goods", *OECD Trade and Environment Working Papers,* No. 2014/03, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5jxrjn7xsnmq-en*.

Understanding and managing the unequal consequences of environment pressures and policies

by
Shardul Agrawala,
Head of Environment and Economy Integration Division,
OECD Environment Directorate, and
Rob Dellink,
Principal Administrator, Environment and Economy Integration Division, OECD Environment Directorate

The consequences of the degradation of environmental quality, as well as the consequences of environmental policies, are typically unevenly distributed. In general, poorer countries and lower income households are more severely affected by environmental degradation and at the same time have less capacity to adapt.

Outdoor air pollution kills more than 3.5 million people a year globally (WHO, 2012). Poor health caused by air pollution is especially problematic for children and the elderly in major emerging economies. Between 2005 and 2010, the number of premature deaths in China and India increased by 5% and 10%, respectively. Road transport is a significant source of air pollutant emissions, and rapid growth in traffic has outpaced the adoption of tighter regulations, leading to increased vulnerability of the urban population. The welfare costs of road transport alone are projected to amount to around USD 1.7 trillion in OECD countries, USD 1.4 trillion in China and USD 0.5 trillion in India (OECD, 2014).

Despite the role of international trade in smoothing the economic costs of environmental feedbacks across regions, OECD estimates suggest that climate change impacts will be substantially more severe in most countries in Africa and Asia than in most of Europe and America. Despite large regional differences, market consequences from climate change are projected to be negative in almost all regions, and the economic consequences of greenhouse gas emissions are unavoidable and enduring for a century or more. Changes in crop yields and in labour productivity are projected to affect the economy most strongly, each amounting to several percent of GDP loss in the most vulnerable regions. Moreover, there are significant non-market impacts as well as risks of crossing essential tipping points and moving towards a climate system with the potential for very severe impacts on regional economies over the longer term.

In OECD countries the sectoral shifts in employment, resulting from global climate mitigation policies, are substantially larger than the effect on overall employment. Moreover, as skill requirements differ across sectors, skills mismatches could appear thereby significantly increasing the transition costs associated with these policies, and increasing inequality between skilled and unskilled workers.

Mitigation and adaptation policies can reduce the negative impacts of climate change globally, yet the costs of these policies will not be borne by all sectors and regions proportionally to their expected benefits, that is they are unequally distributed. These differential impacts pose key political economy challenges to policy reform.

Distributional aspects are often used as an argument against implementing or reforming environmental policies. A key economic question then becomes whether policy reforms can be designed in such a way that they are not regressive. For instance, OECD work finds large differences in regressiveness of different energy taxes between energy carriers and between regions in 21 OECD countries.

The case of Indonesia is particularly illustrative: the country is facing severe environmental challenges, not least from climate change and air pollution, and until very recently had significant subsidies for fossil fuel consumption. As part of the New Approaches to Economic Challenges (NAEC) initiative, an innovative analytical framework was developed to simultaneously assess the macroeconomic, environmental and distributional consequences of energy subsidy reforms in Indonesia. The study found that if Indonesia were to remove its fossil fuel and electricity consumption subsidies, it could record real GDP gains of around half a percent in 2020, while also substantially reducing a range of energy-related emissions. The simulations showed that replacing the fuel subsidies with cash transfers, and to a lesser extent food subsidies, can make reform more attractive for poorer households and reduce poverty. Food subsidies tend to create other inefficiencies, however. Mechanisms that compensate households through payments proportional to labour income were, on the contrary, found to be more beneficial to middle- and higher-income households and increase poverty. This is because households with informal labour earnings, which are not eligible for these payments, are more represented among the poor.

Indonesia has reformed its subsidies to fossil fuel consumption, providing real world evidence of what policy reform can achieve. The conclusion from OECD work – confirmed in practice by the way Indonesia went about its reforms – is that the design of any redistribution scheme will be crucial in determining the overall distributional performance of the reform. Well-designed policies with adequate accompanying measures can ensure a triple win on economic efficiency, environmental effectiveness and reduced inequality. The right policy mix is very sensitive to local circumstances, but the OECD's analysis confirms that inequality concerns do not have to hamper environmental policy.

Both environmental pressures and environmental policies clearly affect different countries and different groups within them unequally. These differences are essential to take into account in the design of more targeted and more equitable policies, but in order to do so measurement and quantification of these differential effects is an important first step. The tools and frameworks developed in this area, particularly as part of the NAEC exercise, are an important methodological contribution in this regard.

Useful links

Original article: Agrawala S. and R. Dellink (4 March 2016), "Understanding and Managing the Unequal Consequences of Environmental Pressures and Policies", OECD Insights blog, *http://wp.me/p2v6oD-2pQ*.

Château, J., A. Saint-Martin and T. Manfredi (2011), "Employment impacts of climate change mitigation policies in OECD: a general equilibrium perspective", *OECD Environment Working Papers*, No. 32, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5kg0ps847h8q-en*.

Durand-Lasserve, O., et al. (2015), "Modelling of distributional impacts of energy subsidy reforms: an illustration with Indonesia", *OECD Environment Working Papers*, No. 86, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5js4k0scrqq5-en*.

Flues, F. and A. Thomas (2015), "The distributional effects of energy taxes", *OECD Taxation Working Papers*, No. 23, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5js1qwkqqrbv-en*.

Hallegatte, S., et al. (2016), *Shock Waves: Managing the Impacts of Climate Change on Poverty*, World Bank, Washington, *http://dx.doi.org/10.1596/978-1-4648-0673-5*.

OECD (2009), *Integrating Climate Change Adaptation into Development Co-operation: Policy Guidance*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264054950-en*.

OECD (2014), *The Costs of Air Pollution: Health Impacts of Road Transport*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264210448-en*.

OECD (2015), *The Economic Consequences of Climate Change*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264235410-en*.

World Health Organisation (2012), *Global Burden of Disease*, WHO, Geneva.

Resilience of economies to exogenous shocks

by
Aida Caldera Sanchez, and
Giuseppe Nicoletti,
OECD Economics Department

Countries are subject to economic shocks originating from long-term trends, such as demography, and short-term events, such as financial crises; but healthy economies should be resilient to both. It is important to understand the factors that shape a country's economic resilience, defined broadly as a country ability to contain long and short-term vulnerabilities as well as its capacity to resist and recover quickly when shocks occur. Ideally, whatever the shock, policies should be such that they help the economy remain close to its welfare potential in a sustainable way, notably in terms of jobs, incomes and quality of life.

Sources of short-term vulnerabilities include financial crises, sovereign debt crises, commodity price fluctuations or volatility. Longer term issues include ageing, declining dynamism, rising inequalities and environmental degradation. Resilience to short-term shocks also has implications for long-term sustainability because large shocks can lead to significant upheaval (as witnessed by the recent financial crisis), increasing risk and uncertainty for households, investors and governments, and have negative effects on the potential for increasing welfare that cannot be easily reversed.

Countries can strengthen the resilience of their economies to shocks through better detection and analysis of structural trends, for instance with an increased focus on long-term scenarios, as well as a better monitoring of macroeconomic and financial vulnerabilities; and by strengthening policy settings to address long-term challenges and mitigate the vulnerabilities that can lead to costly shocks, as well as strengthening policy settings that can help to mitigate the shock impact and speed the recovery.

The OECD identifies five types of short-term vulnerabilities that are most often linked to severe financial crises, deep downturns in economic activity or both:

1. Financial sector imbalances, e.g. excessive leverage, maturity and currency mismatches, high interconnectedness of banks and their common exposures.

2. Non-financial sector imbalances, such as imbalances in the balance sheets of households and non-financial corporations.
3. Asset market imbalances, most notably equity and real estate busts.
4. Public sector imbalances, in particular doubts about the sustainability of public finances that can lead to high risk premiums on government debt.
5. External sector imbalances, such as persisting current account deficits.

Monitoring these country-specific vulnerabilities can be useful in warning of severe recessions and crises and should be an essential part of a country strategy to strengthen resilience. To assist countries, the OECD systematically reports vulnerability indicators in both the Economic Outlook and country Economic Surveys. Vulnerability indicators should be and are complemented with other monitoring tools and in-depth assessments that provide a holistic view of country risks, as even countries without significant domestic or external imbalances can be affected by external shocks through spillovers and contagion through trade, financial and confidence channels.

From a longer-term perspective, the OECD has pointed at three major factors that could continue to generate difficult challenges for the global economy: a slowdown in global growth, mainly related to ageing and deceleration in emerging economies, but also due to uncertainties concerning the rate of innovation and skill development; a tendency for inequalities to continue to rise, partly due to the nature of technical progress that raises the demand for the highly-skilled; and rising economic damages from environmental degradation due among others to climate change.

To raise awareness about these long-term challenges, the OECD has developed long-term scenarios and has increasingly focused on forward-looking analysis in various areas, including productivity, income and wealth inequality and the environment, for example in *The Future of Productivity* and *The Economic Consequences of Climate Change*.

Policies should be geared towards mitigating the build-up of vulnerabilities and prepare the economy to deal with structural challenges, combining both structural and macroeconomic dimensions and including international co-ordination in some areas. For instance, preventing or soothing the effects of financial crises requires macro-prudential regulation to limit banking sector instability and excessive pro-cyclicality; tax policies that avoid special treatment of housing or corporate debt, to help reduce the risk of asset price bubbles; and monetary and fiscal policies that mitigate the impact of shocks. Structural policies can facilitate worker mobility (e.g. active labour market policies and flexible housing markets) and the turnover of firms (e.g. lifting barriers to entry and competition) thereby improving resilience by accelerating the reallocation of resources across firms and sectors in response to shocks.

Similarly, addressing longer-term challenges requires structural policies – such as those affecting innovation, market experimentation, labour force participation and skill formation – that inject dynamism in markets and make the most of the knowledge economy to sustain both productivity and employment growth in the context of ageing. Policies should also target redistributive mechanisms and education systems to improve equality of opportunities and contain the tendency for inequality to rise. Finally, early action is needed through a policy mix of carbon pricing, reduction of fossil fuel subsidies and other targeted measures to avoid environmental damage that affects future growth potential and welfare.

More international co-operation will also be needed to support global supply chains and trade, to boost the provision of global public goods that are increasingly important – such as basic research, intellectual property rights legislation, competition policy and the climate – and to tax bases that are increasingly mobile across borders, thereby limiting tax avoidance. Co-operation in these areas will help address long-term challenges with positive repercussions on innovation, growth and welfare.

Identifying policy tools to enhance overall resilience is complicated by the existence of trade-offs among policy objectives and interactions in both macroeconomic and structural policy settings. In times of crisis, macroeconomic policies that aim at reducing the severity of the downturn and stimulate the recovery may have unintended consequences by increasing vulnerabilities down the road. For instance, by increasing public debt ratios or building-up central banks' balance sheets and generating ample liquidity. Structural policies aimed at sustaining dynamism and knowledge-based growth could at the same time tend to increase earning gaps and favour continued structural adjustment. The consequences for inequality and workers' well-being will have to be addressed including through fiscal measures, which however will be increasingly constrained by the need to manage public debts.

Useful links

Original article: Caldera Sanchez, A. and G. Nicoletti (7 March 2016), "Resilience of Economies to Exogenous Shocks", OECD Insights blog, *http://wp.me/p2v6oD-2pW*.

OECD work on economic resilience: *www.oecd.org/economy/growth/economic-resilience.htm*

Gender equality and the Sustainable Development Goals

by
Monika Queisser,
Senior Counsellor, OECD Directorate for Employment,
Labour and Social Affairs

The push for policies to improve gender equality at the global level is getting new impetus through the Sustainable Development Goals (SDGs). SDG No. 5 is devoted to gender equality and aims to "achieve gender equality and empower all women and girls". The goal's detailed targets refer to a range of challenges, such as discrimination of women, violence against women, reproductive health, ownership rights and technology. Global progress in reaching these targets has been uneven. Despite impressive progress in enrolling girls in primary education, for example, gender equality in many other domains is still in far reach in the developing world.

This does not mean, however, that advanced economies can lean back and close the file. No single OECD country can claim to have achieved full gender equality. Women are now as well or even better educated than men in most countries and their participation in the labour market has increased, but they still spend fewer hours in paid work per week than their partners. And even the most advanced countries, such as the Nordics, where women are well integrated in the labour markets, are faced with stubbornly high gender wage gaps and a continued lack of women in senior management positions, for example.

The consensus is growing that traditional gender stereotypes and roles are standing in the way of further progress in closing the gender gaps. In literally all countries for which data exist women do more unpaid work than men. As a result they have less time for paid work and fewer opportunities to develop their careers. Policy makers are thus starting to focus more on a better sharing of caring responsibilities and domestic work. This new policy direction is also reflected in one of the targets under SDG 5 which calls upon governments to "recognize and value unpaid care and domestic work through the provision of public services, infrastructure and social protection policies and the promotion of shared responsibility within the household and the family as nationally appropriate".

New evidence from the OECD shows that countries with the smallest gender gaps in caring responsibilities also have the smallest gender gaps in employment rates. On average, female partners spend twice as much time in unpaid work at home than their partners. Couples where women participate more in the labour market, also appear to have a better gender balance in their cooking, caring and cleaning chores. But sadly this is not due to men doing more at home. The reason is that partnered women and dual-earner couples overall do less unpaid work.

Parenthood marks a turning point in the way couples share household and caring tasks. When a child arrives couples often revert to more traditional gender roles. Mothers may spend more time with their children than fathers, but fathers spend a larger proportion of their childcare time with "quality" interactive activities such as reading, playing and talking with the child than mothers.

The reasons why women do more unpaid work are manifold; some women prefer fewer hours in paid work or to not work in a paid job at all, particularly when they have young children. But many other women would like to be in paid work and/or work more hours. But they struggle to reconcile work and family life due to constraints such as limited access to affordable and good quality childcare or flexible working hours. OECD analysis has also revealed several other factors that may influence the sharing of unpaid work among partners, such as family size, education and/or the relative earnings potential of partners. Gender inequality in the public sphere, societal attitudes, and policies, in particular parental leave arrangements, are also associated with different levels of sharing across countries.

In 2014, G20 leaders adopted a common goal of reducing the gender gap in labour force participation by 25% by 2025. Better sharing of unpaid and paid work will be an important element of any strategy to reach this ambitious target. But change will not happen if gender equality is only pushed by women and for women. Men need to be champions as well if barriers and gender stereotypes are to be broken down. And there is a lot in it for men too. They will be able to spend more time with their family without harming their careers, if this becomes more of a shared norm. There will be more freedom to choose one's role in society and less pressure for men to be the sole or main breadwinner of the family. Having more income from women's work will provide greater financial security for their households and reduce overall income inequality. Men, like women, will benefit equally from broader effects of more gender equality, such as stronger economic growth, higher productivity, and improved sustainability of social protection systems. And children will not only be happier to spend more time with both of their parents, but as they grow up, they will find it normal for fathers to spend more time at home and mothers to spend more time at work. More gender equality is thus a win-win proposition, everyone has to gain from it.

Useful links

Original article: Queisser, M. (16 May 2016), "Gender Equality and the Sustainable Development Goals", OECD Insights blog, *http://wp.me/p2v6oD-2tf*.

OECD work on gender equality: *www.oecd.org/gender*

Finance, growth and inequality

by
Boris Cournède,
Senior Economist, Public Economics Division, OECD Economics Department, and
Oliver Denk,
Economist, OECD Economics Department

Finance is the lifeblood of modern economies, but too much of the wrong type of finance can hamper economic prosperity and social cohesion. We have taken a holistic approach to study the consequences of finance for the inclusiveness of growth, in the spirit of the OECD New Approaches to Economic Challenges initiative.

The UN's Sustainable Development Goals (SDGs) are looking at finance in a similar way. They specify the target of better financial regulation under Goal 10, "Reduced Inequalities" and thereby directly recognise the importance of finance for inequality. Our research thus provides an empirical foundation for the SDGs' target to improve the regulation of financial markets and institutions to attain greater economic prosperity and income equality.

Credit intermediation and stock markets have seen a spectacular expansion over the past half-century. Since the 1960s, credit by financial institutions to households and businesses has grown three times as fast as economic activity. Stock markets too have expanded enormously. These secular changes to the financial landscape have taken place amidst a global economy in which growth has declined and inequalities have widened. They have therefore raised deep questions about the role of finance: What are the effects of changes in the size and structure of finance on economic growth? How do financial developments influence income inequality? Which policies can improve the contribution of finance to people's well-being?

The development of credit markets boosts economic growth when it starts from a low base, and many developing countries have a lot to gain from further financial expansion. Nevertheless, looking at the data over the last 50 years, our empirical analysis shows that credit expansion has reduced economic prosperity on average across OECD countries. An increase in credit by financial institutions by 10% of GDP has been associated with a 0.3 percentage point reduction in long-term growth. At the levels now reached in most OECD countries, further credit accumulation is therefore likely to lower long-term growth. On the other hand, further expansions in equity finance are found to promote economic growth.

We identify three main channels linking the long-term expansion of credit with lower growth:

- *Excessive financial deregulation.* OECD countries relaxed financial regulation in the 40 years preceding the global financial crisis, and this initially benefited economic activity. Relaxation of regulation however went too far and resulted in too much credit.
- *The structure of credit.* Our research decomposes credit by lending and borrowing sectors. These breakdowns show that, on the lender side, bank loans have been linked with lower growth than bonds. On the borrower side, credit has dragged down growth more when it went to households rather than businesses.
- *Too-big-to-fail guarantees.* Our findings of excessive financial deregulation and over-reliance on bank credit suggest that too-big-to-fail guarantees to banks have been one channel encouraging too much credit. This is further supported by evidence that the link between credit and growth is not as negative in OECD countries where creditors incurred losses due to bank failures as in those where they incurred no such losses.

Finance may also exacerbate inequalities, a concern that comes out very strongly in the formulation of the SDGs. Our work finds that this has indeed been the case. Expansions in bank credit and stock markets are both linked with a more unequal distribution of income. We suggest three underlying mechanisms:

- *The high concentration of workers in finance at the top of the earnings distribution.* There are few financial sector employees in low-income brackets and many higher up in the income distribution. The strong presence of financial sector workers among top earners is justified as long as very high productivity underpins their earnings. However, our detailed econometric investigations show that financial firms pay wages well above what employees with similar profiles earn in other sectors. The premium is especially large for top earners.
- *Unequal bank lending.* Banks generally concentrate their lending on higher-income borrowers. Credit is twice as unequally distributed as household income in the euro area. This may reduce credit risk,

but it also means that well-off people have greater opportunities than the poor to borrow money and fund profitable projects. In this way, lenders are likely to amplify inequalities in income, consumption and opportunities.

- *Unequal distribution of stock market wealth.* Stock market wealth is concentrated among high-income households who thus get most of the income and capital gains generated through capital markets.

The evidence base from our research therefore suggests that the SDGs' target of reforming finance is likely to contribute to greater economic prosperity and income equality. Reforms should involve avoiding credit overexpansion and improving the structure of finance.

- *Avoiding credit overexpansion.* Macro-prudential instruments can provide tools to keep credit growth in check. Caps on debt-service-to-income ratios have been identified as effective in this regard. Strong capital requirements on banks and other lenders help limit the extent to which financial institutions can fund lending through liabilities that benefit from public support. Further reforms are necessary to reduce explicit and implicit subsidies to too-big-to-fail financial institutions and level the playing field for competition between large and small banks. This could be achieved through break-ups, structural separation, capital surcharges or credible resolution plans. In the short term, however, measures to avoid credit overexpansion may temporarily hurt economic activity.

- *Improving the structure of finance.* Tax systems in most OECD countries currently encourage corporate funding through loans rather than equity. Tax reforms can improve the structure of finance, by reducing this so-called debt bias, which leads to too much debt, and not enough equity. They would help make finance more favourable to long-term economic growth. Measures to encourage broad-based participation in stock holdings, for instance a wider application of nudging in pension plans, can allow for a better sharing of the benefits from stock market expansion

Useful links

Original article: Cournède, B. and O. Denk (29 March 2016), "Finance Growth and Inequality", OECD Insights blog, *http://wp.me/p2v6oD-2r1*.

Cournède, B. and O. Denk (2015), "Finance and economic growth in OECD and G20 countries", *OECD Economics Department Working Papers*, No. 1223, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5js04v8z0m38-en*.

Cournède, B., O. Denk and P. Hoeller (2015), "Finance and Inclusive Growth", *OECD Economic Policy Papers*, No. 14, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5js06pbhf28s-en*.

Denk, O. (2015), "Financial sector pay and labour income inequality: Evidence from Europe", *OECD Economics Department Working Papers*, No. 1225, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5js04v5wjw9p-en*.

Denk, O. and A. Cazenave-Lacroutz (2015), "Household finance and income inequality in the euro area", *OECD Economics Department Working Papers*, No. 1226, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5js04v5wh9zs-en*.

Denk, O. and B. Cournède (2015), "Finance and income inequality in OECD countries", *OECD Economics Department Working Papers*, No. 1224, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5js04v5jm2hl-en*.

Denk, O., S. Schich and B. Cournède (2015), "Why implicit bank debt guarantees matter: some empirical evidence", *OECD Journal: Financial Market Trends*, Vol. 2014/2, OECD Publishing, Paris, *http://dx.doi.org/10.1787/fmt-2014-5js3bfznx6vj*.

Challenges facing Asia and Pacific in terms of sustainable development

by
Stephen P. Groff,
Vice President (South East Asia, East Asia and the Pacific),
Asian Development Bank

Despite great strides in reducing the number of people in abject poverty, Asia and the Pacific remains home to more than half of the world's extreme poor. With the global and regional economic outlook uncertain, the key challenge facing Asia is to sustain the growth needed to create jobs and reduce poverty.

Just as important is making sure that development efforts to address poverty tackle the multi-dimensional nature of the problem. The Sustainable Development Goals (SDGs) recognise that many challenges overlap in areas such as water, sanitation, education and health – and demand an integrated approach. Balancing multiple components in a single project adds to complexity, so we need to take careful note of lessons learned from such past interventions. Doing so ensures that our efforts at a project level reinforce structural and macroeconomic reforms to promote economic growth, and increase well-being.

In that regard, there is wide agreement that growth must be socially inclusive. Performance on many Millennium Development Goal (MDG) indicators demonstrates that economic growth and income poverty reduction alone have not reduced many forms of deprivation. While countries were generally able to meet the primary education-related MDG targets for enrolment and completion rates, the target for reducing the number of underweight children, child health and maternal mortality, will not be reached. Many were also off-track on access to basic sanitation, which is associated with poor health. While the MDG on gender parity in education is expected to be achieved, progress on women's empowerment is lagging.

These persistent gaps are worrying, as rising disparities of income and access within and across countries and subregions can undermine social cohesion and erode development gains. Continuing gender disparities, for example, lead to loss of valuable productive human resources, which affects a country's economic performance as well as the social fabric of its communities.

Compounding these problems are environmental threats such as increasing greenhouse gas emissions, loss of biodiversity, and changing weather patterns leading to flooding and droughts, which harm the livelihoods of vulnerable people in particular. They also intensify pressures on natural resources, which are likely to worsen as Asia's population grows.

Such realities highlight the inter-linked and multiple dimensions of challenges to be addressed under the SDGs. What can we learn from the implementation of the MDGs? In this context of overlapping challenges, well designed projects and programmes can make a real difference to people's lives. Our experience with multi-sector activities in the social sectors "pre-2015" offers useful insights for such programmes.

First, for international finance institutions, difficulties in achieving targets in multi-sector projects can lead to low performance ratings and inadvertently create internal disincentives. In response, we have shifted our operational strategy by simplifying project design; adopting a sector-specific approach with fewer components if conditions don't suit a multi-sector approach; assessing, and where needed, strengthening the capacity of the government in undertaking multi-sector operations, e.g. for municipal services; creating incentives for citizens to access services through approaches such as conditional cash transfers; working with governments to engage alternative and efficient service providers, like NGOs, state-owned enterprises (SOEs) and the private sector, for service delivery and accountability; and modifying financing arrangements to better support large government-led programmes, where these work well and are delivering outcomes reasonably well.

Second, while the MDGs were primarily viewed as goals for governments, their implementation has highlighted the importance of partnerships between governments, citizens, and the private sector if we are to deliver on the SDGs. While the understanding and commitment to the SDGs from all partners is strong, much more remains to be done at the country and regional levels to translate these international development goals into laws, regulations and operational policies adhered to by all parties.

Third, the implementation of the MDGs underscores the importance of data and knowledge to guide incremental improvements in operations. The advent of the SDGs is opportune as it coincides with technological advances in a more open and globalised world that will allow us to undertake operational research using new tools such as the web, satellites and mobile phones; communicate with stakeholders with powerful images and data on what is happening in our classrooms, to our forests, and within the oceans; and use social media to debate, inform policy priorities and fine tune government programmes.

These lessons help to expand country ownership, sharpen the focus on development results, attract private sources of financing, and encourage innovation. They build on lessons from the MDGs and can be scaled up under the SDGs.

The SDGs are ambitious and demand integrated agendas for action, providing new opportunities for independent financial institutions (IFIs) to respond to the evolving needs of countries. Two particular areas deserve increased attention to enable integrated actions that deliver results: financing for development and sustainable development investment. IFIs can play crucial roles in strengthening financial markets, catalysing private sources of finance towards development, expanding domestic fiscal resources and, importantly, helping direct increasing resources for climate finance to countries where such investment is needed. And Asia's diversity makes it critical that investments in sustainable development and other financing instruments are tailored to individual country conditions. The Asian Development Bank (ADB) is expanding its financial capacity to provide significantly higher resources for lending operations, based on the differing needs of our member countries. We plan to boost annual lending, increasing from an average of USD 13.6 billion in 2012-14 to at least USD 16.8 billion by 2018, and possibly reaching USD 20 billion by 2020.

Meeting the SDGs will be an operational challenge, but one that offers IFIs a chance to recalibrate their strategies for maximum impact. ADB has started work on a new long-term strategy for 2030 to respond more effectively to the region's fast-changing needs. Meeting the SDGs in the region will be a core goal, and providing integrated, multi-sectoral assistance will be central to our success.

Useful links

Original article: Groff, S.P. (29 February 2016), "Challenges Facing Asia and Pacific in Terms of Sustainable Development", OECD Insights blog, *http://wp.me/p2v6oD-2pv*.

From analysis to action – Multidimensional Country Reviews

by
Mario Pezzini,
Director, OECD Development Centre, and Director ad interim
of the OECD Development Co-operation Directorate; and
Jan Rieländer,
Economist, OECD Development Centre

Multidimensional Country Reviews (MDCRs) support developing countries in designing development strategies that aim for high impact. These strategies address the binding constraints to development, defined as sustainable and equitable growth and well-being. A growing number of developing countries worldwide are implementing MDCRs. Many see the MDCR as a tool to implement the Sustainable Development Goals.

The OECD's 2012 Strategy on Development put forward the MDCR as a response to a twofold challenge. First, all countries face challenges that are specific to their individual circumstances and their level of social, institutional, and economic development. Only mutual learning and the adaptation of expertise and policy advice to the inner workings and outer circumstances of a country can achieve better policies for better lives. Second, policy makers, especially from developing countries, shared feedback that while the OECD's sector-specific policy expertise was excellent, little is offered to inform a comprehensive strategy and manage the trade-offs. Yet, key policy makers, especially at the centre of government, were seeking precisely this overarching analysis and where to prioritise efforts and in what sequence.

Shortly before the 2012 Strategy on Development, the Arab Spring shook up a number of beliefs about development. Take Tunisia for example. It had very high marks on all indicators according to the Millennium Development Goals and standard macroeconomic guidance: 3% fiscal deficit, 5% average growth since 1990, 100% primary enrolment rate since 2008, 80% healthcare coverage for its population, and a good reformer in doing business. Although of little surprise in hindsight, the uprisings revealed the need for a broader understanding of what progress means for a country. Observers had completely overlooked the importance of social cohesion, the highly unequal regional distribution of opportunities, and the inability of the institutional and productive systems to adapt to changing circumstances.

MDCRs take the essential broader view. They understand development as strengthening a society's capabilities to consistently translate monetary, human and natural resources into well-being outcomes. The definition of well-being is inspired by the OECD's

How's Life? framework with its 11 dimensions and concepts of quality of life and material well-being. These include income and jobs as well as subjective well-being measures of social connections, civic engagement, environmental conditions, health and education, among others. To consistently create such well-being requires a large range of capabilities in the realms of innovation, production, governance, finance and social protection, to name a few.

Countries must transition to higher levels of functioning as internal and external circumstances change if they are to successfully pursue broad-based development. A stumbling block to further development occurs whenever a given combination of capabilities, resources, and the external environment impedes a country from optimising opportunities and addressing its most imminent social and economic challenges. In this context, traditional analysis has often concentrated on investment or productivity constraints. This correctly describes a need in most cases. However, social, environmental and governance challenges are equally important and often underlie the productivity trends. High inequality, for example, translates into highly unequal school systems that weaken human capital, which implies reduced economic capabilities and lower productivity. A high concentration of economic power reduces opportunities for new activities to surface and drive change by challenging less efficient incumbents. A misuse of natural resources may be a bottleneck to further development. Low levels of trust combined with non-transparent judicial and executive government systems often lead to a social contract of the smallest common denominator that cannot underpin a transition to new engines of progress.

MDCRs have been created as a continuously evolving tool to help countries identify the core constraints among their capabilities. The MDCR then provides national policy makers and their partners with the inputs needed for a country-owned and implemented development strategy. Aided by the toolkits of strategic foresight and governmental learning, a multidisciplinary team works together across OECD directorates to identify a country's most important shortcomings in terms of well-being outcomes and the capabilities to produce them. Some of the capabilities that have been identified as holding back development in the MDCRs include:

- Sustain inclusive economic growth by continuously diversifying the economy to meet the changing demands of the global marketplace (this shows up in various forms at most levels of development).
- Channel sufficient financial resources to where they can be used most productively.
- Turn the country's human resources into human capital by equipping citizens with the skills necessary to further develop the economic, social and institutional potential of the country, given the most likely set of opportunities.
- Adapt the institutional environment to the higher level of functioning required to transition, including more reliable judicial systems, less corruption, and stronger incentives for performance in the civil service.
- Manage environmental resources to maximise natural capital while at the same time providing incentives for increased productivity.
- Sustain a social contract that overcomes the divisions between the formal and informal economies and delivers well-being and revenue by including as many citizens as possible.

In a follow-on, OECD expertise is applied by the partner country to address these shortcomings and create a more sustainable system for delivering growth and well-being. In Côte d'Ivoire, sector experts from across the OECD worked together with a strong local team in the Prime Minister's office to design a full government action plan which addresses the needs for economic modernisation, infrastructure, a more efficient and equitable tax system, developing skills that can sustain production transformation, and a financial sector that can deliver resources to where they can be most productive.

Analysis is only the very first step. Progress requires action. With this in mind, the OECD team works closely with a core group of national policy makers and analysts throughout the MDCR. This ensures that the recommendations are well adapted to a country's circumstances and priorities and that the policy makers are in a position to make full use of the MDCR output. The preparation of the MDCR involves a spectrum of policy makers and researchers as well as public, private, and NGO actors. They reach beyond capital cities to encompass expertise across a country. Once the analysis and recommendations are done, MDCRs go beyond just delivering a report to engaging in a true dialogue around the recommendations that build on shared prioritisation. The result is a programme that, when implemented well and in supportive circumstances, can rapidly and positively transform national welfare.

Useful links

Original article: Pezzini, M. and J. Rieländer (27 January 2016), "From Analysis to Action – Multidimensional Country Reviews", OECD Insights blog, *http://wp.me/p2v6oD-2mV*.

OECD Multidimensional Country Reviews: *www.oecd.org/dev/mdcr.htm*

TRANSFORMATIVE

Making trade and investment work for people

by

Ken Ash,
Director, OECD Trade and Agriculture Directorate

Both the UN Sustainable Development Goals (SDGs) and the OECD New Approaches to Economic Challenges (NAEC) explicitly recognise that trade and investment are not goals in themselves, but are a means to an end. That desired end is stronger and more inclusive growth, better jobs for more people, and improved societal well-being. Trade and investment policies cannot deliver these outcomes alone, but they can contribute as part of a wider package of comprehensive structural policy reforms, designed in light of the specific situation in countries at various stages of development.

Global value chains (GVCs) account for an increasing share of world income, reflecting the high degree of economic interdependence among nations today. All countries have increased incomes associated with GVCs, in particular major emerging economies, but these benefits do not accrue automatically. The fragmentation of production across borders highlights the importance not just of open, predictable and transparent trade and investment policies, but also of effective complementary policies that enable less developed countries (LDCs) and small- and medium-sized enterprises (SMEs), in particular, to participate in and to benefit from GVCs. In brief, making trade and investment work for people requires a coherent and well integrated public policy agenda.

GVCs magnify the costs of protection. As goods, services, capital, data and people cross borders multiple times, the cumulative effect of a number of individually small costs imposes a significant burden on traders and on investors. These costs can result from explicit restrictions, such as tariffs, from inefficient or unnecessary border procedures, and from constraints on the flow of capital. Where foreign investment is a driver of export capacity, the cumulative effect may even discourage firms from investing, or maintaining investment, in the country. As a result, production facilities, technologies and knowhow, and jobs might move elsewhere.

In a world dominated by GVCs, there is a tendency for more, and more demanding, regulatory standards, driven by the imperative to ensure reliability, quality, and safety. The right to regulate and to protect consumers is not in question, but regulations should be science-based, proportionate and non-discriminatory. Any unnecessary costs imposed by excessive regulatory burden falls most heavily on SMEs and firms in LDCs, where the capacity to adapt is often limited. In too many cases, this can preclude effective participation in GVCs.

There would be no GVCs without well-functioning transport, logistics, finance, communications, and other business services to move goods and co-ordinate production along the value chain. Today, services represent over 60% of GDP in G20 economies, including 30% of the total value added in manufacturing goods. The supply of these services is often provided through investment, yet services markets remain relatively restricted in many countries, imposing high costs on domestic as well as foreign firms, limiting productivity growth, and constraining participation in GVCs unnecessarily.

GVCs also strengthen the case for unilateral policy reform. Domestic firms benefit from the expanded export opportunities that are often the aim of trade negotiations, but they also benefit from access to world class imports of intermediate goods and services. Opening your own markets, in particular for intermediate inputs, can benefit your own firms and workers. But the gains are even greater when more countries participate and markets for goods, services, capital, technology, data, ideas, and people are opened on a multilateral basis.

GVCs make evident the necessity of more coherent rules for trade and investment; this twin engine of development can only reach its full potential if other policy areas are also better aligned and in co-ordination with those on trade and investment. These areas include macroeconomic, innovation, skills, social and labour market policies among others. The nature of the enabling environment and complementary policies to accompany trade and investment opening depends on country specificities; while there is no 'one size fits all' policy recipe, there are a number of common ingredients.

Trade and investment opening are necessary but insufficient conditions for stimulating much needed and more inclusive growth, development and jobs. Accompanying policies that promote responsible business conduct and enable the needed public and private investments, in particular in people, in innovation, and in strategic physical infrastructure, help ensure not just that growth is realised, but that the benefits are shared widely.

Useful links

Original article: Ash, K. (9 February 2016), "Making Trade and Investment Work for People", OECD Insights blog, *http://wp.me/p2v6oD-2n*W.

OECD work on investment: *www.oecd.org/investment*

OECD work on trade: *www.oecd.org/trade*

The Sustainable Development Goals and development co-operation

by
Erik Solheim,
Chair, OECD Development Assistance Committee;
Frans Lammersen,
Senior Policy Analyst, OECD Development Co-operation Directorate; and
William Hynes,
Senior Economist, OECD New Approaches to Economic Challenges Unit

The Sustainable Development Goals which world leaders agreed on in 2015 are focused on people, peace and planet. Achieving goals requires a transformational, integrated, and universal agenda that is based on effective policies, sufficient finance, and true partnerships.

Achieving economic growth is not a miracle according to the Commission on Growth and Development (2008). Impressive progress towards the Millennium Development Goals in countries like Botswana, Brazil, China, Indonesia, Malaysia, Oman, Singapore and Thailand highlights that sustainable economic growth was an essential ingredient to raise the income of all, the poor in particular. The growth models of these countries carried some common flavours: the strategic integration with the world economy; the mobility of resources, particularly labour; the high savings and investment rates; and a capable government committed to growth.

The Sustainable Development Goals envision a new growth model, one that is inclusive, sustainable and resilient. In the face of mounting global challenges, a new approach to growth requires consideration of how the benefits of growth are distributed, the impact on the environment and the stability of the global financial and economic system. A growth strategy incorporating all these elements does not involve a single recipe to follow. This is because no single recipe exists. Timing and circumstance determine how the ingredients should be combined, in what quantities, and in what sequence (Rodrik, 2008). Limited political and financial capital for reform should focus on the most binding constraints to sustainable economic growth and poverty reduction.

More and better public and private resources are needed to promote sustainable development. Official development assistance (ODA) has, until recently, been seen as the main source of funding for development. At the same time, ODA is only one part of the flows targeted to support development. At nearly USD 161 billion in 2013, ODA represented only 18% of all official and private flows from the 29 member countries of the OECD's Development Assistance Committee (DAC) and the International Financial Institutions. Overall in 2013, developing countries received USD 250 billion in ODA and "other official flows" provided by public bodies at close to market terms; private finance at market terms, such as foreign direct investment; and private grants from philanthropic foundations and non-governmental organisations (OECD, 2014).

The emerging consensus in the literature is that aid has a positive, if small effect on growth. While aid has eradicated diseases, prevented famines, and done many other good things. Its effects on growth, given the limited and noisy data available, is on the other hand difficult to detect (Roodman, 2007). Arndt et al. (2010) found that it was reasonable to believe that aid worth 1% of a country's gross domestic product (GDP) raised economic growth by 0.1%/year on average during 1970-2000. That is a small, but helpful impact. Clemens et al. (2012) re-examine three of the most influential published aid-growth papers and found that increases in aid have been followed on average by increases in investment and growth. The most plausible explanation is that aid causes some degree of growth in recipient countries, although the magnitude of this relationship is modest, varies greatly across recipients and diminishes at high levels of aid. Tarp et al. (2009), in an extensive review of the aid-growth literature, concluded that the bleak pessimism of much of the recent literature is unjustified and the associated policy implications drawn from this literature are often inappropriate and unhelpful.

In general, ODA has been a success but more is needed. ODA can be beneficial in getting the fundamentals for growth right: supporting government capacities, strengthening governance, and addressing infrastructure deficits. It has also shown beneficial for improving poor education, health and social protection systems. Such assistance is particularly important for low-income countries and especially for fragile and conflict-affected states, where integration with global markets has been severely hampered. While the relative importance of ODA compared to private investments is decreasing in the middle income countries, ODA can continue contributing to their development by mobilising private flows, leveraging private investment and facilitating trade. Southern providers of development co-operation are also increasingly important. China is now a major source of development assistance, particularly in Africa. In addition, it accounts for 20% of all foreign direct investment in developing countries. Based on their own experience, Brazil and Mexico assist Latin American neighbours.

Foundations have also become important actors. For instance, the Bill & Melinda Gates Foundation now donates more to development than many OECD countries.

The policy environment for development has fundamentally shifted. The Third International Conference on Financing for Development and the UN Conference on Climate Change hold great promise, but they also pose a challenge to the way the international development community does business. In response to the changing nature of the world economy and its rising complexity, new analytical approaches are needed to better understand the trade-offs and complementarities between policy objectives – e.g. between growth promoting policies and equity and environmental concerns. Addressing these concerns requires integrated approaches that break down silos between policy communities. Three priorities will be critical in delivering this ambitious global agenda: Firstly: collective policy action to address global challenges, secondly; putting people's well-being at the centre of development efforts, and thirdly; partnerships to deliver results on the ground.

Useful links

Original article: Solheim, E. (16 February 2016), "The Sustainable Development Goals and Development Co-operation", OECD Insights blog, *http://wp.me/p2v6oD-2oJ*.

Arndt, C., S. Jones and F. Tarp (2009), "Aid and Growth: Have We Come Full Circle?", *University of Copenhagen Department of Economics Discussion Paper*, No. 09/22, *http://ssrn.com/abstract=1489392* or *http://dx.doi.org/10.2139/ssrn.1489392*.

Commission on Growth and Development (2008), *The Growth Report Strategies for Sustained Growth and Inclusive Development*, the World Bank, Washington.

OECD (2014), *Development Co-operation Report 2014: Mobilising Resources for Sustainable Development*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/dcr-2014-en*.

Rodrik, D. (2008), *One Economics, Many Recipes: Globalization, Institutions, and Economic Growth*. Princeton University Press, Princeton.

Benefiting from the next production revolution

by
Dirk Pilat,
Deputy Director, OECD Directorate for Science, Technology and Innovation; and
Alistair Nolan,
Senior Policy Analyst, OECD Directorate for Science, Technology and Innovation

The production of goods and services has been transformed in many ways over recent years. First, production increasingly takes place across borders, in global value chains (GVCs). Second, production is increasingly knowledge-based and involves a mix of goods and services, a phenomenon also known as the "servitisation of manufacturing". Third and closely related, a growing part of production, in particular in the services sector, is affected by digitalisation and can sometimes be delivered through digital means. Finally, a new wave of technological change is now fundamentally altering the nature of production, heralding what has been referred to as a next production revolution. Ensuring that these transformations support overall growth and well-being requires sound policies in many areas and is a current focus of OECD work.

Global value chains. Over recent decades, the world has witnessed a growing movement of capital, intermediate inputs, final goods and people. Technological progress and innovation, notably in transport and communication, alongside trade liberalisation, have led to the fragmentation of production across borders and across tasks. Goods and services, and their components, are produced and assembled in different locations, often geographically clustered at the local and regional level, before reaching their target markets. This partitioning of production in GVCs has drawn attention to the role of different stages in a GVC to overall value creation. Indicators derived from the OECD-WTO Trade in Value Added (TiVA) database point to the growing importance of GVCs for international trade and production, and point the heterogeneity and complexity of trade flows in these GVCs. Whether for domestic or international consumption, the increasing reliance of production on intermediate inputs produced elsewhere stresses the need for countries to act so as to exploit their comparative advantages and fully benefit from GVCs.

Knowledge-based capital (KBC). At the same time, sustained competitive advantage in production is increasingly based on innovation, which in turn is driven by investments in R&D and design, software and data, as well as organisational capital, firm-specific skills, branding and marketing, and other knowledge-based assets. Generating higher value-added largely hinges on the (continuous) development of superior and often firm-specific capabilities and resources. These are frequently intangible, tacit, non-tradable and difficult to replicate. Investment in KBC has become an important driver of success in GVCs. Much value creation occurs in upstream activities, such as R&D, design, and the manufacturing of key parts and components, as well as in downstream activities, such as marketing, branding and customer service. OECD countries increasingly specialise in developing ideas, concepts and services that are related to the production of physical goods, and less on the production of physical goods as such. As physical production has increasingly relocated to emerging economies, manufacturers in OECD countries rely more on complementary non-production functions to create value, using KBC to develop sophisticated and hard-to-imitate products and services.

The digitalisation of the economy and society. Important as they are, KBC and GVCs would not have provided the opportunities they have without the rise of digital technologies. These have triggered deep changes in economy and society and enable strong productivity gains. It is not just the digital sector which makes a difference, the Internet and other digital technologies are now ubiquitous and underpin economic activities in all sectors. The innovations spurred by digital technologies hold huge potential for boosting growth and driving societal improvements, including in such areas as public administration, health, education and research. For example, the creation of large volumes of data and the ability to extract knowledge and information from them ("big data") is initiating a new wave of (data-driven) innovation and productivity gains. The analysis of these data (often in real time), increasingly from smart devices embedded in the Internet of Things, opens new opportunities for value creation through the optimisation of production processes and the creation of new services. This is what some dub the "industrial Internet" as empowering autonomous machines and systems that can learn and make decisions independently of human involvement generate new products and markets.

The Next Production Revolution. As the global economy continues to transform, new technologies mix and amplify each other's possibilities in combinatorial ways. Many potentially disruptive production technologies are on the horizon and some are already starting to have an impact, e.g.:

- Data analytics and big data increasingly permit machine functionalities that rival human performance.
- Robots are set to become more intelligent, autonomous and agile.
- Synthetic biology, still in its infancy, could become transformative, for instance allowing petroleum-based products to be manufactured from sugar-based microbes, thereby greening production processes.
- 3D printers are becoming cheaper and more sophisticated. Objects can now be printed (such as an electric battery) that embody multiple structures made from different materials.
- Bottom-up intelligent construction and self-assembly of devices might become routine, based in part on greater understanding of the principles of biological self-construction.
- Nanotechnology – which uses the properties of materials and systems below the 100 nanometre scale – could make materials stronger, lighter and more electrically conductive, among other properties.
- Cloud technology is enabling the rapid growth of Internet-based services.

The precise economic implications of these and other near-term technologies are unknown. But they are likely to be large. These new production technologies will be able to significantly boost productivity, particularly if they can be diffused across less productive firms and support an inclusive growth process. New technologies could also make production safer, as robots replace humans in the most dangerous manufacturing tasks. New production technologies also hold the promise of cleaner production and the creation of an array of products that could help meet global challenges. For instance, facilities producing bio-based chemicals or plastics could help to address environmental and waste issues and generate new jobs.

Challenges for policy. At the same time, various barriers might hinder the potential impact of the next production revolution on productivity, growth, jobs and well-being. For one, there is still a low level of digital technology adoption in most businesses, preventing realisation of their full potential. And enabling the next production revolution is not only about technological change: benefiting from new technology also rests on the ability of firms, workers and society to adjust to change, and on government policies that ensure that this transformation is inclusive and yields broad-based gains across the population. Organisational change, workplace innovation, management and skills are some of the areas where firms will need to invest to support rapid technological change, supported by complementary public investments in education, research and infrastructure. Enabling resources to flow to the most productive and innovative firms is also essential. Trust will also be critical to maximising the social and economic benefits of the digital economy. And, as our dependency on digital technologies increases, so too do our vulnerabilities, making on-line security, privacy, and consumer protection ever more essential.

The more governments and firms understand the implications of new technologies for production, the better placed they will be to prepare for the risks, shape appropriate policies, and reap the benefits. The OECD is therefore undertaking work on possible developments in production technologies, and their risks and opportunities, so as to help policy makers and business leaders realise the benefits and minimise the costs of the next production revolution.

Useful links

Original article: Pilat, D. and A. Nolan (23 February 2016), "Benefitting from the Next Production Revolution", OECD Insights blog, *http://wp.me/p2v6oD-2ph*.

OECD work on innovation in science, technology and industry: *www.oecd.org/sti/inno*

Learn to earn: Skills, inequality and well-being

by
Andreas Schleicher,
Special Advisor on Education Policy to the OECD Secretary-General
and Director of the OECD Directorate of Education and Skills

Jobs, wealth and individual well-being depend on nothing more than on what people know and what they can do with what they know. There is no shortcut to equipping people with the right skills and to providing them with opportunities to use these skills effectively. If there's one lesson the global economy has taught us over the last few years, it's that we cannot simply bail ourselves out of a crisis, that we cannot solely stimulate ourselves out of a crisis and that we cannot just print money our way out of a crisis.

But we can do much better with equipping more people with better skills to collaborate, compete and connect in ways that lead to better jobs and better lives and drive our economies forward. The OECD's Skills Survey shows that poor skills severely limit people's access to better-paying and more-rewarding jobs. It works the same way for nations: The distribution of skills has significant implications for how the benefits of economic growth are shared within societies. In the end, productivity is about working smarter, not just working harder. Put simply, where large shares of adults have poor skills, it becomes difficult to introduce productivity-enhancing technologies and new ways of working, which then stalls improvements in living standards. Importantly, skills affect more than earnings and employment. In all countries with comparable data, adults with lower skills are far more likely than those with better literacy skills to report poor health, to perceive themselves as objects rather than actors in political processes, and to have less trust in others. It is for these reasons that the new SDGs formulate their goals no longer just in terms of years of education, but in terms of the skills that people attain.

In short, without the right skills, people languish on the margins of society, technological progress will not translate into economic growth, and countries can't compete in the global economy. We simply cannot develop fair and inclusive policies and engage with all citizens if a lack of proficiency in basic skills prevents people from fully participating in society. For no group is all that more important than for today's youth, who cannot compete on experience or social networks in ways that older people can.

All that said, skills are only valuable when they are used effectively, and some countries are far better than others in making good use of their talent. While the United States has a limited skills base, it is extracting good value from it. The reverse is true for Japan, where rigid labour market arrangements prevent many high-skilled individuals, most notably women, from reaping the rewards that should accrue to them. But underuse of skills is visible in many countries, and not just for women. It is also common among young and foreign-born workers and among people employed in small enterprises. Employers may need to offer greater flexibility in the workplace. Labour unions may need to reconsider their stance on rebalancing employment protection for permanent and temporary workers. The bottom line is that unused human capital represents a waste of skills and of initial investment in those skills. And as the demand for skills changes, unused skills can become obsolete; and skills that are unused during inactivity are bound to atrophy over time. Conversely, the more individuals use their skills and engage in complex and demanding tasks, both at work and elsewhere, the more likely it is that skills decline due to ageing can be prevented.

In some countries, skills mismatch is a serious challenge that is mirrored in people's earnings prospects and in their productivity. Knowing which skills are needed in the labour market and which educational pathways will get people to where they want to be is essential. The under-utilisation of skills, in specific jobs in the short to medium term can lead to skills loss. Workers whose skills are under-used in their current jobs earn less than workers who are well-matched to their jobs and tend to be less satisfied at work. This situation tends to generate more employee turnover, which is likely to affect a firm's productivity. Under-skilling is also likely to affect productivity and, as with skills shortages, slow the rate at which more efficient technologies and approaches to work are adopted.

Developing the right skills and using these effectively needs to become everyone's business: governments, which can design financial incentives and favourable tax policies; education systems, which can foster entrepreneurship as well as offer vocational training; employers, who can invest in learning; labour unions, which help that investments in training are reflected in better-quality jobs and higher salaries; and individuals, who can take better advantage of learning opportunities. Countries also need to take a hard look at who should pay for what, when and how. Governments need to design financial incentives and tax policies that encourage individuals and employers to invest in post-compulsory education and training. Some individuals can shoulder more of the financial burden for tertiary education and funding can be linked more closely to graduation rates, provided individuals have access to income-contingent loans and means-tested grants.

It's worth getting this right. If the industrialised world would raise its learning outcomes by 25 Programme for International Student Assessment (PISA) points, the level of improvement that we have seen in a country like Brazil or Poland over the last decade, its economies could be richer by over EUR 40 trillion over the lifetime of today's students. Many countries still have a recession to fight, but the cost of low educational performance is the equivalent of a permanent economic recession.

Useful links

Original article: Schleicher, A. (1 March 2016), "Learn to Earn: Skills, Inequality and Well-being", OECD Insights blogs, *http://wp.me/p2v6oD-2pB*.

OECD (2015), *OECD Skills Outlook 2015: Youth, Skills and Employability*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264234178-en*.

The future of development is ageing

by
Ken Bluestone,
Political and Policy Advisor for Age International

Two themes that resonate strongly across the OECD are the need to achieve sustainable development and the growing significance of population ageing. It is rare, however, that these two agendas are brought together to consider the importance of ageing for developing countries.

It is all the more surprising given that population ageing is a global phenomenon acutely affecting developing countries. The numbers speak for themselves: in 2014, there were 868 million people over the age of 60 in the world – 12% of the total population. By 2030, this will increase to 1.2 billion or 16% of the population; and looking ahead to 2050, current estimates suggest there will be 2.03 billion older people worldwide – 21% of the population. By 2047, there will be more adults over the age of 60 than children 16 and under for the first time in human history.

This is a reality for developing countries today. Some 62% of people aged 60 and over live in developing countries and this is expected to increase to 80% by 2050. What is more important is the pace of the change taking place in lower- and middle-income countries. The demographic landscape is changing radically in many parts of Asia and Latin America, offering little time for governments in these countries to adapt. Even in sub-Saharan Africa, given the trends of increased longevity and economic development, it should be fully expected that the 'youth bulge' will become an 'older person bulge' within a few short generations.

So what does this mean for efforts to tackle poverty, inequality and climate change? At its simplest, we need to be asking ourselves the question: does our understanding of development include older people? Not taking older people into account means excluding up to 20% of the world's population. In this regard, the post-2015 sustainable development goal (SDG) agenda marks a turning point in recognising ageing and older people as part of the development process. The SDG negotiations have already made it clear that addressing the rights and needs of older people is integral to the ambition of "leave no one behind".

At a deeper level, it forces us to reconsider basic assumptions of what it means to be productive in society and what the role of older people is. All too often policy makers, planners and development practitioners assume that life takes place in three stages: childhood (dependency); adulthood (productivity); later life (dependency). This simplistic understanding could not be further from the truth and masks a huge diversity of economic activity and social interactions at all stages of life.

Hidden from view is the contribution grandparents who have pensions make to improving children's education and nutrition. There is no calculation that captures the economic value of an older nurse that provides healthcare services on a voluntary basis in her community, having already been identified as "retired" and "non-productive". There are no figures that adequately value care and support by and for people of all ages in lower- and middle-income countries.

In the context of achieving the SDG framework, the promise of a 'data revolution' and the commitments to disaggregating data by age offer some hope that this situation can change. But any analysis must capture data at all stages of a person's life. Without a better understanding of ageing and development, we risk investing in development and building programmes that do not know where poverty and inequality lie. Disaggregating data by age, gender and disability is not an expensive add-on to the SDG framework, but is the very bedrock upon which effective decisions can be made and must be invested in.

Another critical lesson that the 'leave no-one behind' agenda provides is that the essential building blocks for building sustainable, peaceful and equitable societies are the very individuals within those communities. Without a better understanding of ageing and development, we fail to capture adequately the potential of individuals of all ages and abilities within society. Living in better health longer allows older people to contribute more to building resilience in disaster-prone areas. Having access to finance can mean better income and nutrition for older farmers and their families. Getting appropriate healthcare for grandparents can mean children spending more time in education.

Ageing is a development fact. There should be no value judgement attached to this statement or to a person's chronological age, whether they are young or old. Older people are carers, teachers, farmers, athletes, market traders, labourers, professionals, and Nobel laureates. Older people can also be frail and living with chronic illness, dementia or disability. The important thing is that we do not keep ageing hidden from view. We also need to have the courage to challenge our preconceptions of what getting older means to enable policies to emerge that are fit for purpose for our rapidly ageing societies.

Useful links

Original article: Bluestone, K. (27 April 2016), "The future of development is ageing", OECD Insights blog, *http://wp.me/p2v6oD-23K*.

Age International, *Facing the facts: the truth about ageing and development,* Age International, *www.ageinternational.org.uk/what-we-do/Policy-where-we-stand-/ageing-and-international-development*

OECD work on inclusive societies and development: *www.oecd.org/development/inclusivesocietiesanddevelopment*

The Disaster Risk and Age Index from HelpAge ranks 190 countries based on the disaster risk faced by older people: *www.helpage.org/what-we-do/climate-change/disaster-risk-and-age-index*

A new paradigm for rural development

by

Carl Dahlman,
Special Advisor to the Director of the OECD Development Centre

Three billion people in developing countries live in rural areas; they include the majority of the world's poor; and their number will continue to grow for the next decade and a half. Conditions for them are worse than for their urban counterparts when measured by almost any development indicator, from extreme poverty, to child mortality and access to electricity and sanitation. And the gulf is widening, contributing to large-scale migration to urban areas.

They are constrained by a lack of productive employment opportunities, poor education and infrastructure, and limited access to markets and services, despite half a century of rural development theories and approaches. Although building on the experience of early developers is useful, rural regions in less developed parts of the world today face new challenges and opportunities that developed countries did not face before, including a more demanding competitive international environment, rapidly growing rural populations, and increased pressure on limited environmental resources. Opportunities include advances in information and communications, agricultural, energy, and health technologies that can help address some of these challenges.

A new paradigm for rural development is needed. It must incorporate the lessons of past experience but also needs to meet the challenges and harness the opportunities of the 21st century – including climate change, demographic shifts, international competition and fast-moving technological change. The OECD Development Centre proposes a new rural development paradigm (NRDP) for developing countries in the 21st century, founded on eight components for successful rural development strategies.

1. *Governance*. A consistent and robust strategy is not enough if implementation capacity is weak. It is important for an effective strategy to build governance capacity and integrity at all levels.
2. *Multiple sectors*. Although agriculture remains a fundamental sector in developing countries and should be targeted by rural policy, rural development strategies should also promote off-farm activities and employment generation in the industrial and service sectors.

3. *Infrastructure*. Improving both soft and hard infrastructure to reduce transaction costs, strengthen rural-urban linkages, and build capability is a key part of any strategy in developing countries. It includes improvements in connectivity across rural areas and with secondary cities, as well as in access to education and health services.

4. *Urban-rural linkages*. Rural livelihoods are highly dependent on the performance of urban centres for their labour markets; access to goods, services and new technologies; as well as exposure to new ideas. Successful rural development strategies do not treat rural areas as isolated entities, but rather as part of a system made up of both rural and urban areas.

5. *Inclusiveness*. Rural development strategies should not only aim at tackling poverty and inequality, but also account for the importance of facilitating the demographic transition.

6. *Gender*. Improving rural livelihoods should take into account the critical role of women in rural development, including their property rights and their ability to control and deploy resources.

7. *Demography*. High fertility rates and rapidly ageing populations are two of the most relevant challenges faced by rural areas in developing countries today. Although the policy implications of these two issues are different, addressing these challenges will imply good co-ordination across education, health and social protection policies, as well as family planning.

8. *Sustainability*. Taking into account environmental sustainability in rural development strategies should not be limited to addressing the high dependence of rural populations on natural resources for livelihoods and growth, but also their vulnerability to climate change and threats from energy, food and water scarcity.

The Sustainable Development Goals (SDGs) are closely linked to addressing the new challenges for rural areas, such as demographic pressure, ecological side-effects and climate change, and poor governance, along with negative consequences imposed by lagging rural areas such as polarised regional development and rural migration into urban slums. Since the SDGs and rural development are closely interconnected, investment in both areas will have mutually beneficial impacts. Thus rural development should be put at the heart of national development strategies in all countries at all development stages to ensure equal, inclusive and sustainable development.

The challenge is that urban areas in most developing economies with fast growing populations are not able to productively absorb their growing urban populations, let alone migrants from rural areas. The result is an increase in urban slums, informal employment, underemployment, falling labour force participation rates and persistent poor livelihoods in rural areas. Furthermore, with the slowdown of China's growth and its changing economic structure toward services, the fall in commodity prices is not a cyclical but a structural change. Combined with the expected rise in global interest rates it is likely to lead to slower economic growth in developing countries which will further complicate prospects for rural development.

The challenge is particularly large for South Asia and sub-Saharan Africa because their populations are largely rural and they also have high population growth rates and lack productive jobs to absorb the rapid increase in the labour force. There is already vast growth of urban slums and the informal labour force, underemployment in rural areas, and falling labour force participation rates. While most other developing regions have already had the demographic transition, in sub-Saharan Africa population growth rates have been around 2.8% per year for the last 35 years. They are expected to remain about 1.5 percentage points higher per year than the world average for the next three decades. The increase in the labour force by 2030 from people that have already been born is 300 million workers, which is roughly the current labour force of the EU. In addition many sub-Saharan countries are fragile states and many are also very environmentally fragile. As a result there are likely to be large humanitarian challenges as well as increased pressure for people to migrate out of Africa to Europe and other regions.

Unless effective rural development policies can be put in place it will not be possible to meet the SDGs because rural areas tend to be left behind. Addressing the challenge of rural development is going to require innovative approaches at the local, national and international level. These include developing multi-sectoral and multi-level and multi-agent strategies that further economic and social development and are also environmentally sustainable. Innovative approaches to urbanisation and the development of intermediary cities that are economically and environmentally sustainable will be needed, which will require bringing to bear the best global knowledge on how to achieve this in a cost-effective way and also addressing the difficult governance and financial challenges for achieving this.

In addition the challenges are not only at the country or regional level but at the global level because in our currently very interconnected world lack of productive jobs, increasing inequality and population pressures in the developing world can lead to social unrest, political instability, conflict and increased migration flows which will impact other parts of the world as we are seeing with the spread of global terrorism and the refugee crisis.

Useful links

Original article: Dahlman, C. (31 March 2016), "A New Paradigm for Rural Development", OECD Insights blog, *http://wp.me/p2v6oD-2rg*.

New Approaches to Economic Challenges in a century of cities

by
Rolf Alter,
Director, OECD Public Governance and Territorial Development Directorate

We live in the century of cities. In OECD countries, two out of three people live in cities with 50 000 or more inhabitants. Outside the OECD, the share of urban residents is currently slightly lower, but urbanisation is progressing rapidly. While today over half of the world's population lives in urban areas, the United Nations (UN) estimate that the global urbanisation rate will reach 60% by 2030 and 70% by 2050. Cities are important drivers of economic performance, and their contribution can be expected to increase. Metropolitan areas with more than 500 000 inhabitants generate 55% of OECD countries' GDP and more than 60% of their economic growth. Due to agglomeration economies and high levels of human capital, most cities have higher productivity levels than their countries as a whole. As many OECD countries have seen declining rates of productivity growth in recent years, utilising the full potential of productivity-increasing agglomeration effects can create new sources of growth.

Cities matter not only for the economic performance of a country; they also play a crucial role in determining the well-being of their residents. This is recognised prominently in Sustainable Development Goal (SDG) 11, which calls for cities to be *inclusive, safe, resilient and sustainable*. It is also at the heart of the "New Urban Agenda", to be launched at the *UN-Habitat III* Conference in October 2016 and an opportunity to reinvigorate our collective commitment to address urban policies at all levels of government.

Already today, many cities are desirable places to live and continue to attract new residents. Cities often provide better and more specialised services than rural areas. They generally have better transport connections and more diverse consumption opportunities. Most cities also offer greater cultural diversity and other amenities than rural areas. But cities also face challenges in the form of agglomeration costs. Some are directly measurable economic costs, such as higher price levels; others primarily affect the well-being of residents and are more difficult to quantify in monetary terms. Air pollution and noise levels, for example, tend to be worse in large cities and have negative effects on the health of residents. Most commonly, agglomeration costs affect both economic performance of cities and well-being. A shortage of affordable housing, increasing congestion, long commutes and high crime rates have clear economic costs and also direct adverse effects on well-being.

Cities within the same country often have very different productivity levels and face varying degrees of agglomeration costs. This indicates that policies play an important role in influencing the performance of cities. In particular, the degree to which agglomeration costs can be avoided determines a city's success. Cities in developing countries face some challenges that developed countries have already tackled, such as the provision of water and access to sanitation for all residents. But reducing agglomeration costs is important everywhere and can improve productivity and well-being even in the most advanced cities.

Agglomeration costs and policies to alleviate them frequently concern the same fields across developing and developed countries, albeit at very different starting points. The provision of affordable housing is a necessary condition to upgrade slums in developing countries and it is also required to make the most successful cities in developed countries more inclusive. Similarly, reducing congestion will increase productivity levels in cities in advanced countries, just as it will increase productivity levels in the least developed countries.

Most of the challenges that cities face are complex and multi-dimensional. The policy response therefore requires governance mechanisms which facilitate the development and implementation of complex and multi-dimensional public policies in urban areas. Running a big city requires more than just concentrating on a few specific problem areas in a piecemeal approach to policy. It requires a package of co-ordinated policies that produces synergies and complementarities.

Effective urban and regional policy calls for co-ordination between many different actors, an area in which until recently many countries have fallen short. In the past, national-level urban policies in OECD countries were often narrowly defined and limited to one or two issues, such as infrastructure provision or the revitalisation of distressed neighbourhoods.

Yet a wide range of national policies can have a profound impact on urban development, even if national policy makers do not view them through an "urban lens". Better co-ordination of national policies affecting cities can eliminate tensions between various sectorally oriented policies and give clearer signals to city leaders, empowering them to work more effectively with each other, with higher levels of government, with citizens and with the private sector.

Empowering cities will in many cases require more efficient city and metropolitan governance. As administrative boundaries are typically based on historical settlement patterns that do not reflect the increasingly inter-connected socioeconomic realities in large urban agglomerations, municipal fragmentation makes it difficult to co-ordinate policies on the local level and puts a brake on growth. OECD metropolitan areas with appropriate governance systems have not only higher productivity, but also experienced less sprawl and greater citizen satisfaction, particularly with transport systems.

According to the United Nations, urban populations in high-income countries are expected to increase only modestly over the next two decades, from 920 million people to just over 1 billion. Consequently, changes to cities and their urban form will be incremental.

In developing countries, by contrast, the stakes are much higher. Existing cities will need to be modified and expanded, and new cities will need to be built. The importance of actions taken today goes far beyond the 15 years' time horizon of the SDGs. Housing and infrastructure that will be built to accommodate billions of new urban residents will determine urban form for many more decades to come. This is a task that neither city authorities nor national governments can take on alone. It is therefore crucial that the mechanisms chosen to implement the SDGs and the New Urban Agenda take into consideration how choices made in cities today will affect the extent and impact of global challenges such as climate change, the ability to achieve emission reductions and the capacity to adapt to changing circumstances, such as ageing population.

Achieving inclusive growth requires co-ordination of economy-wide and local policy measures to build cities that are both environmentally sustainable and offer the opportunities for personal fulfilment that education, skills and jobs can bring. At stake are our hopes and aspirations for a fairer, more prosperous world. Let's make sure we "get cities right".

Useful links

Original article: Alter, R. (21 March 2016). "New Approaches to Economic Challenges in a Century of Cities", OECD Insights blog, *http://wp.me/p2v6oD-2qF*.

OECD work on cities: *www.oecd.org/gov/cities.htm*

OECD work on regional development: *www.oecd.org/gov/regional-policy*

How's life in your region?: *www.oecdregionalwellbeing.org*

Food security and the Sustainable Development Goals

by
Jonathan Brooks,
Head of Agro-food Trade and Markets Division,
OECD Trade and Agriculture Directorate

The new Sustainable Development Goals (SDGs) include a significant number of interconnected objectives related to agriculture and food. SDG 2 focuses explicitly on food by seeking to "end hunger, achieve food security and improved nutrition and promote sustainable agriculture", but multiple other goals relate to challenges in the food system. SDG 1 focuses on poverty reduction, where agriculture and food has a key role to play. Sustainable agriculture plays a central role in achieving SDG 6 on water, SDG 12 on sustainable consumption and production, SDG 13 on climate change adaptation and mitigation and SDG 15 on land use and ecosystems. Sustainable management of fisheries also features prominently in SDG 14 on marine resource and oceans. This chapter summarises the main policy leverages to achieve sustainable and secure food systems in line with these goals.

A majority of the world's poor lives in rural areas, where farming – predominantly by smallholders – is the central economic activity. Large increases in agricultural investment will be needed both to raise incomes and increase the supply of food sustainably. Most of the investment will need to come from the private sector, but governments have an important role in establishing the framework conditions. Public investment, supported by development aid, can also complement and attract private investment. Policies that support agriculture's enabling environment, but do not distort incentives or crowd out the private sector, are likely to be more effective in the long term than specific subsidies to the agricultural sector. Priority areas for public spending include research, innovation and rural infrastructure, together with social protection and backstopping to ensure improved nutrition.

Agricultural productivity growth will increase food availability and benefit consumers to the extent that domestic prices are lower than they would otherwise be. Productivity gains imply lower unit costs and also translate into higher incomes for innovating farmers. But the resulting decline in prices dissipates some of these gains. Farmers who fail to innovate will only experience the price decline and thus face adjustment pressure. For that reason, broad-based development is needed to ensure that less competitive farmers are pulled, rather than pushed, out of farming into more remunerative activities.

Trade will have an increasingly important role to play in ensuring global food security. Developed and major emerging economies in particular need to avoid policies that distort world markets, making them a less reliable source of food supplies. Multilateral action to ensure that national policies do not generate a new range of spillovers that compromise food security in poor countries has been elusive thus far but remains a priority for early action.

Climate change and the degradation of land, water and biodiversity resources are expected to require changes in production systems. Policies at the national level need to be aligned towards sustainable productivity objectives. An essential step is to remove agricultural policy incentives to market-distorting environmentally harmful practices, such as subsidies to energy and agricultural inputs. More efforts are needed in the areas of agricultural R&D, technology development, and skills. Environmental policies are also required to ensure well-defined property rights for natural resources and to tackle economy-wide environmental challenges. Given the local specificity of the challenges, targeted agri-environmental policies have a role to play to effectively redress negative environmental impacts and to ensure a better management of resources.

Fisheries provide jobs and nutrition to hundreds of millions of people worldwide, especially in poor coastal areas. Overfishing threatens the long-term health of fisheries and ultimately harms fishery-dependent communities. Modern management tools such as individual fishing quotas help to control overfishing and improve the prospects of the sector, but their adoption has been slow. Part of the problem is the lack of resources in many countries for the required monitoring, control and surveillance, but resistance to changing traditional approaches has also played a role.

The benefits of reform of fisheries policies are clear. Controlling harvest to achieve maximum sustainable yield is estimated to enable the sector to produce an additional USD 50 billion per year or more in profits. Recovering fish stocks can lead to eventually harvesting nearly 20% more fish than is possible at current stock levels.

Many people assume that the majority of problems occur on the high seas, where enforcement is weak and illegal fishing is common. But most fishing occurs in domestic exclusive economic zones (EEZs) and most overfishing is done legally, resulting from poorly set quotas or ineffective effort control regulations. Improvements in domestic fisheries management are where the biggest gains are to be made.

One part of the solution is reducing policy supports that increase fishing effort and maintain excess capital and labour in the fishing sector. In many cases, improved management can remove the need for supports as profits and prospects in the sector improve. For fisheries and aquaculture, sustainable management and protection of marine ecosystems means more production, higher quality and more diversity of food choices. It offers a clear win-win-win solution for producers, consumers and the environment. Success does not require new technologies or leaps in productivity, just a commitment on the part of governments to use sound science and proven management techniques to maximise the biological productivity of the resource.

Useful links

Original article: Brooks, J. (6 April 2016), “Food Security and the Sustainable Development Goals”, OECD Insights blog, *http://wp.me/p2v6oD-2rM*.

OECD (2013), *Global Food Security: Challenges for the Food and Agricultural System*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264195363-en*.

Co-ordination and implementation of the Sustainable Development Goals: The role of the centres of government

by
Luiz de Mello,
Deputy Director, OECD Public Governance and Territorial Development Directorate

A principal issue for governments with respect to the Sustainable Development Goals (SDGs) is how to align policies in practice given the breadth and complexity of the SDGs and their 17 goals and 169 targets, the mixed track record of most governments in working horizontally, and the need to include an unprecedented range of public and private actors in both policy formulation and implementation. The different phases bring with them very specific challenges. For example, adapting global targets to national contexts and setting targets at department level is a delicate, political task that requires careful and sensitive negotiation in order to ensure an inclusive process with real buy-in from key stakeholders both within and beyond government. Implementing the SDGs is a formidable governance challenge that needs to be steered. In recognition of this challenge and as a shift in thinking since the last set of global goals were agreed, the SDGs underscore the importance of building effective, accountable and inclusive institutions at all levels (Goal 16) as a foundation for achieving the desired outcomes from ending poverty, to improving health, and combating climate change and its impacts.

Achieving progress across the SDGs will require governments to work across policy areas and steer the delivery of these ambitious goals. However, this is not an easy task: the obstacles to joined-up government are well known. For example, immediate economic and social pressures often crowd out strategic policy initiatives, particularly where the benefits from the latter span electoral terms. Public budgets and accountability systems are usually aligned with departmental structures and have difficulty tracking progress and valuing outcomes that accrue in multiple policy areas. One of the key institutions that can play a role in steering the delivery of the SDGs by highlighting trade-offs, enabling policies across issue areas to address multiple and sometimes competing objectives is the Centre of Government.

The OECD survey of the role and functions of the Centre of Government confirmed that, for most countries, the number of cross-ministerial initiatives has increased since 2008, but governments are still searching for effective models to deliver policies than span multiple departments. Governments have tried numerous solutions. For example, “super ministers” or “policy tsars” can be effective if they have sufficient drive and authority, but success depends on the status of an individual and might not lead to integration at the policy level. Similarly, super ministries can help to integrate the policies of multiple departments, but internal silos often remain. Permanent (standing) or ad hoc committees are the most typical mechanism for "routine" co-ordination, but seem less suited for ambitious initiatives. Finally independent policy units can bring fresh ideas and new expertise but may face challenges in establishing legitimacy across departments. These models all have strengths and weaknesses, but none have shown to be entirely fit for purpose.

Of course, governments already have bodies and agencies to assess how well policies are being implemented – major contracts performance teams, supreme audit institutions, the ministry of finance expenditure tracking teams, and so on. They provide essential information to ensure accountability, track spending and measure outputs, but as each usually has its own benchmarks and reporting requirements, they often lack an overview of performance that would be needed to monitor the SDGs.

The centre of government has a number of assets that can help to ensure that agenda-setting leads to an agreed and realistic approach. First, the centre is, technically, policy neutral, in contrast to departments. Second, the centre has convening power borrowed from the head of government and can bring pressure to bear on departments to adjust policies and commit resources. In principle, with respect to the head of government's priorities, it does not need to rely on achieving consensus through compromise and lowest-common-denominator negotiations. Third, while line ministries, even those with the most relevant technical expertise, might have little experience in driving cross-disciplinary policies, the centre usually has co-ordination expertise allied with political sensitivity.

Often, the crucial ingredients provided by the centre are relatively minor, practical tools to overcome administrative rigidities, such as holding funding pools, designing tailored accountability frameworks or hosting project teams of specialists drawn from different departments or from outside government. Together, these inducements ensure that disruption of departments other operational tasks is minimised and that roles and expectations are clear for all.

There is also a clear role for the Centre to take a more active stance in reviewing and refining policy implementation linked to complex strategies such as the SDGs. The role of the Centre is already evolving in this direction in some countries. This has a number of advantages. First, it creates a more flexible system in which, if necessary, decision makers can take action to remedy problems or change course. Second, the Centre can pinpoint blockages and propose support and problem-solving advice to the agency concerned. Dedicated teams at the Centre of Government have become the preferred tool to ensure this close-to-the-ground monitoring, with countries setting up one or more teams in the three principal areas, strategy, policy and delivery. They are also in charge of building an evidence base of citizen experiences and expectations in the delivery of government priorities. These teams allow for focused attention on chosen priority areas, which are often complex and require management across a number of departments from the design phase to the implementation phase. In essence, Centres of Government can help steer government action from planning to the delivery of the SDGs.

Centres of Government have good practices to share in the design, steering and delivery of complex policies such as the SDGs, built on practical experience of setting, and increasingly leading complex agendas across government. As a way forward, and as the SDGs are a universal agenda – the Centres of Government could envisage:

- Establishing whether there is an adequate evidence base to support quality decision making throughout the policy cycle with regards the implementation of the SDGs.
- Maintaining the focus on the goals underpinning the SDGs despite short-term emergencies, shifting political priorities and electoral discontinuities.
- Setting out plans to address potential trade-offs in the agenda of the SDGs and ensuring inclusiveness is at the heart of the implementation plan in order to leave no one behind.

In all of these areas, the regional or country context will define implementation plans – there will not be a single pathway to delivery. As a result, the Centres of Government could benefit from the sharing of experiences on how countries have addressed complex agendas such as the SDGs that do not fall neatly under departmental or ministry portfolios, and how innovations in this area can support effective and accountable institutions.

Useful links

Original article: de Mello, L. (5 April 2016), "Coordination and Implementation of the SDGs: The Role of the Centres of Government", OECD Insights blog, *http://wp.me/p2v6oD-2rI*.

Network of Senior Officials from Centres of Government: *www.oecd.org/gov/cog.htm*

The implications of the UN 2030 Sustainable Development Agenda for the OECD

by
Patrick Paul Walsh,
Professor of International Development Studies,
University College Dublin, Ireland;
Senior Advisor, UN Sustainable Development Solutions Network (SDSN)

OECD countries need to cope better, in terms of household well-being, income equality, and environmental damage, in response to external shocks and risks around migration, financial markets, climate, disease, security, to name a few. The UN's 2030 Agenda would want the OECD to contribute to global partnerships to address these issues. In addition, the OECD should continue its historical way of dealing with the developing world through the OECD Development Assistance Committee (DAC) and facilitate the developing world to come to terms with this agenda.

But in addition to supporting the implementation in non-OECD countries, this universal agenda puts pressure on the OECD to take part in global partnerships to address global issues and implement the agenda within the nation states of the OECD themselves. The OECD will need to think about how to finance and allocate resources and capacity across these three horizontal segments of the UN 2030 Agenda.

The agenda gives the responsibility for implementing this agenda to every person, whether in a household, or in a company, or in a government, or in any sphere of life. Multi-stakeholder partnerships got the mandate to implement this agenda, and OECD policy making can only truly engage such partnerships if they are formally part of setting the policy agenda.

Economics, society and the environment are largely dealt with as horizontal issues by policy makers at all levels. The UN 2030 Agenda makes them vertical. The OECD has a great tradition producing reports that link product and labour markets, economic and social issues. How do we bring the three pillars of sustainable development together? How do we integrate equity, efficiency and suitability issues in to all OECD policies? The first challenge is to ensure the economics, social and environmental departments work vertically on policy analysis. This will require institutional reform and an upskilling of researchers, the resourcing of data and technical capacities to integrate economics, social and environmental pillars into their policy formation and advice. Economic policy with a focus on economic growth will have to bring in sustainability and equity issues. Walsh (2015) illustrates how industrial policies can be designed to build in social and sustainable issues. OECD countries attract multinationals by allowing access to markets, and must ask in return that multinationals show us how inclusive they are from a societal point of view, not just locally, but also globally, and also that they are not causing undue damages to the environment locally and globally.

Economists in economic planning and finance need to build in social and environmental targets into their economic planning. The problem is, even if we had inclusive and sustainable industrial policies and technologies, can the economies really grow 4% to 5% a year? The targets for economic growth are there in the goals for the developed and developing world. But economic growth is already stretching planetary boundaries. It may happen that OECD members might have to ensure that sustainability is put first, and then allow social and economic transformations and development to work within planetary boundaries. That is going to be politically very difficult. But on the other hand, if you want to avoid the worst effects of climate change we may have to do this. This is why the OECD has to mainstream social and environmental issues into government planning and financing.

Going a little deeper, what does this mean for our statistical offices and the data we use? Policy makers will need integrated data on companies, households, and on natural capital and environmental damage. Even though there is a lot of micro data out there, the data sets are not interoperable for use in policy making. If we were truly designing economic policy in a particular region, we need to know the benefit to the society and environment. If we don't have the data, which would incorporate data on water, land use, energy, climate, we cannot study how that interplays with productivity, or the interplay with social issues. Lots of companies have data for what they do, from an efficiency point of view. But the government tends not to have linked social and environmental data to create policies that create the future we want. And as good as the OECD datasets are, they are not linked up to support truly integrated approaches to sustainable development.

While the 17 SDGs and 169 targets are for every country, the agenda is quite prescriptive at the global level but is rather open and flexible at the regional and national level. Obviously, this has risks.

For example, African countries can decide to target SDGs 8 and 9, which are mainly economic in nature and forgot about social and environmental development. But in reality, it is clear that you can design your own agenda, in line with the spirit of the agenda, to achieve as many goals as you can, but it has to be relevant to the country and region.

The Agenda can be led by OECD member states and could take a formal legal approach, where governments would implement their actions and plans and legislate, enforce and make all accountable by law. This top-down approach would need serious buy-in by bureaucratic, parliamentary and judicial systems. The data, knowledge and regulatory ability would be high. Yet, member states and partnerships should be encouraged to implement the Agenda in their own way. For example, different countries have different labour market institutions. Some countries can target equity issues using smart labour market policies and progressive tax systems.

Europe might have a tradition of big state, and we might favour top-down government policies. But in other countries, where the state is not as legitimate and powerful, maybe this type of policy is not the way forward. Financial markets, companies, NGOs, civil organisations can be encouraged to change their governance structure and policies to help a bottom-up movement which is enabled by global government and global institution.

The OECD may have a history of government-led policies, implemented by government, reviewed by government, but why not be an enabler and see how you can incentivise and enable companies, households, NGOs and other stakeholders to be part of this agenda, to reward them, underwrite them? Like the UN Agenda, the plan should be that the OECD enables 24/7 participation and innovation by partnerships at local, national, regional and global levels in Sustainable Development.

Useful links

Original article: Walsh, P.P. (12 April 2016), "The Implications of the UN Sustainable Development Agenda for the OECD", OECD Insights blog, *http://wp.me/p2v6oD-2sa*.

UN Sustainable Development Knowledge Platform: *https://sustainabledevelopment.un.org*

Walsh, P.P. (2015), *Industrial Policy and Sustainable Development* GSDR Policy Brief: *https://sustainabledevelopment.un.org/content/documents/6459101-Industrial%20policy%20and%20sustainable%20development.pdf*.

A policy pathfinder for the Sustainable Development Goals

by
Ron Gass,
founding Director, OECD Directorate of Social Affairs, Manpower and Education and the OECD Centre for Educational Research and Education (CERI)

At one time, I might have said that sustainable development is in the OECD's blood, but biological metaphors have made enormous progress over the past few years and now I'd say it's in the Organisation's DNA. The OECD Convention, signed in December 1960, talks about the signatory countries' determination to: "promote the highest sustainable growth of their economies and improve the economic and social well-being of their peoples". This commitment has been reaffirmed regularly, in 2013, for example, when the strategic role of the OECD was defined as helping to achieve a resilient economy, inclusive society, and sustainable environment.

How to relate economic growth to the other goals is more than an analytical question, since it lays bare the burning political issues of the day: threats to the biosphere; growing inequality leading to a threat to democracy; and a new technological revolution. Above all, there is a loss of trust in the capacity of governments across the world to advance towards obviously desirable goals.

None of these issues can be tackled in isolation, but the economic, social, and environmental systems have different logics, so systems analysis is back in vogue. Trade-offs and synergies can be demonstrated by analysis, but politicians have to arbitrate between different goals. The disaggregation of policy frameworks is part of that movement, which has several thrusts: the importance of relating a reduced range of indicators to the political goals of individual countries; "around the table" discussions in the country review process to nail down the real policy options; the preponderant role of metropolitan areas in growth; and the fact that national strategies may simply not work at the regional level.

Can the economic, social and environmental systems be reformed to take account of this more complex and more realistic view of what makes human beings tick? Can rational self-interest be balanced by altruism, power by individual autonomy, greed by solidarity? These questions take the OECD growth paradigm to, and perhaps beyond, its limits. They challenge the behavioural assumptions about economic man and woman on which the dominant macroeconomic theory is built. On the theoretical side, behavioural economics is beginning to provide new insights concerning individual and collective rationality. On the policy side, alternative concepts such as the collaborative economy are coming under debate.

The long OECD quest for fair (income distribution) and open (equality of opportunity) societies is now faced by a new challenge: how to inter-relate the two. OECD analyses have shown that income disparities are widening and that the meritocratic social ladder is blocked. But there is no clear strategy for the redistribution of opportunities, involving both education and the labour market. The redistribution of life-long learning opportunities could be an answer, since it would help individuals to renew their human capital at several points in the life-cycle.

Behind this lurks the most serious threat to inclusive society – profound inter-generational inequalities. When I asked the OECD's New Approaches to Economic Challenges (NAEC) Seminar on the New Growth Narrative if inclusive growth includes the non-active population, the affirmative "yes" in reply puzzled me, since I had the opposite impression. Obviously, inclusive growth includes the non-active population insofar as household income and health care are concerned, but the problem of social exclusion involves the redistribution of opportunities as well as incomes. Hence the recent creation of the OECD Centre for Opportunity and Equality (COPE).

As is the case of the feminist movement, the status of youth in society is more than an economic issue. As stated in the OECD/EU Youth Inclusion Project of the Development Centre: "young people are agents of change. They live in a fast-growing world and have heightened expectations". The costs of blocking youth from accession to adulthood, as citizens as well as workers, will be very high. The response lies in "A Society Fit for Future Generations", a question already raised in the OECD Global Strategy Group. The future is now and it has to be invented, so say the strategic foresighters. Yes, but it has to be built on the foundations of the past.

I am struck by the reality that the past and the future are colliding. Both growth and de-growth are in the nature of things: the seed in the pod flowers, dies and is reborn. What humankind has added is the idea of progress: the act of moving forward towards chosen goals.

But the relationship between collective goals and individual autonomy is the central problem of democracy, and it pervades contemporary philosophical, political and economic debate. Human rights, empowerment, and universal human needs are embedded in the UN's Sustainable Development Goals (SDGs) and the OECD's "Better Lives" approach. How can this reality find expression in the efforts of OECD and other countries to chart their future?

The systemic interdependencies between the economy, society and nature cannot in all circumstances be handled by market solutions. A new humanism, centred on fundamental human needs rather than runaway consumerism, is needed to combat the threat of transhumanism. Innovative creativity across the policy arena, piloted by strategic foresight and with human progress as its goal, is the order of the day.

The goal of reconciling nature, the economy and society requires a world view. In the absence of a world government, a sort of coalition of multinational agencies, serving the political leadership in the UN, G20, G7 frameworks, is emerging. There are many examples of OECD bilateral co-operation with other international agencies such as the WTO, ILO, and UNESCO, but the most striking phenomenon is a common effort to achieve the SDGs.

In this "coalition" of international agencies, the OECD role is that of policy pathfinder and standard setter, based on soft-power, rather than legal or financial power as is the case of the IMF, ILO and WTO. Professionalism, political neutrality, and intellectual independence are essential for that role to be exercised and accepted.

Useful links

Original article: Gass, R. (19 April 2016), "A Policy Pathfinder for the Sustainable Development Goals", OECD Insights blog, *http://wp.me/p2v6oD-2sI*.

OECD work on the Sustainable Development Goals: *www.oecd.org/dac/sustainable-development-goals.htm*

New Approaches to Economic Challenges and the Sustainable Development Goals: The way forward

by
Mathilde Mesnard,
Senior Advisor to the OECD Secretary-General and New Approaches to Economic Challenges Co-ordinator; and
William Hynes,
Senior Economist, OECD New Approaches to Economic Challenges Unit

While global integration has been an engine of growth since the emergence of capitalism, the financial and economic crisis highlighted that the current level of interconnectedness between countries and its impact, positive or negative, was poorly understood. This increased complexity has exposed the limitations of prevailing analytical tools, policy frameworks, and governance arrangements. It has also underlined the fact that global challenges can only be addressed through collective co-ordination and action.

The 2030 Agenda for Sustainable Development with the Sustainable Development Goals (SDGs) at its core are based on this new understanding. The goals are universal – applicable to all countries with targets adapted to national circumstances and context. The agenda acknowledges that new approaches are needed to tackle an integrated set of challenges. The SDGs are also transformative – they contribute to systemic change and help anticipate future global threats.

The OECD is actively responding to the agenda with better policies for better lives – drawing on the cumulative experience of member and partner countries and capitalising on its value-added. The New Approaches to Economic Challenges (NAEC) Initiative is helping the OECD to prepare for the SDGs – through developing integrated analysis and policy advice for tackling an ambitious set of interlinked goals, as well as the forward-looking transformational agenda. As Doug Frantz has argued, the SDGs and NAEC are like Romeo and Juliet – they are meant for each other.

An Integrated Policy Agenda

The Millennium Development Goals (MDGs) focused mainly on social objectives. Less systematic emphasis was placed on economic growth and jobs as well as environmental sustainability and climate change. A key lesson of the MDGs is that sustained change cannot be achieved through one-dimensional or single sector goals. The SDGs with their much broader coverage require multidimensional policy responses which involves identifying trade-offs, complementarities and unintended consequences of policy choices. This is the only way to improve policy advice for dealing in a more realistic and effective manner with global challenges. It privileges collaboration and coherence in addressing interlinked problems by removing the compartmentalised approach that has too often limited the effectiveness of policies. It also requires a more sophisticated policy design in which systemic spillovers can be beneficial as well as damaging.

Consideration of these trade-offs should at the first instance be undertaken at the national level. This is where policy makers can optimise among trade-offs between economic, social and environmental goals. Making policy choices on the basis of their inter-relationships requires systemic and long-term thinking, strategic foresight and strategic governance. Realising this vision has proved elusive but gradually the relevant policy signposts have been put in place. Through the NAEC, analytical frameworks have been broadened to assess better the nexus between economic growth and inequality on the one hand (inclusive growth), and between environment and growth on the other (green growth). Less progress has been made on the social-ecology nexus. Further work is needed to better examine the distributional, employment and skills implications of the transition to environmentally sustainable growth. Eloi Laurent has argued at a NAEC seminar that environmental challenges are in fact social problems that arise largely because of income and power inequalities (Laurent, 2016).

Transformational approaches

With NAEC the OECD is also considering how to cope with the complexity of the world economy replete with numerous interconnections between states, and networks of firms through global and regional value chains. We are increasingly considering the global economy as a complex system. We are measuring the trade and investment linkages between economies – rich and poor – through the Trade in Value Added (TiVA) database. And we are examining how international regulatory co-operation also in tax matters can help ensure a level playing field between jurisdictions.

The policy agenda to meet the SDGs must be transformational to shape a future of intensifying environmental pressures, (e.g. climate change and resource depletion); technological progress and digitalisation as well as rising inequalities.

With NAEC, we are preparing for the future, or possible futures. This requires our Committees and Directorates to keep asking hard questions and challenging assumptions about our understanding of the economy while constantly reviewing our analytical approaches. To ensure that the global goals are reached, we must collectively do the same. We must change our mindsets, approaches and ultimately our economies.

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

The OECD is a unique forum where governments work together to address the economic, social and environmental challenges of globalisation. The OECD is also at the forefront of efforts to understand and to help governments respond to new developments and concerns, such as corporate governance, the information economy and the challenges of an ageing population. The Organisation provides a setting where governments can compare policy experiences, seek answers to common problems, identify good practice and work to co-ordinate domestic and international policies.

The OECD member countries are: Australia, Austria, Belgium, Canada, Chile, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Latvia, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The European Union takes part in the work of the OECD.

OECD Publishing disseminates widely the results of the Organisation's statistics gathering and research on economic, social and environmental issues, as well as the conventions, guidelines and standards agreed by its members.

OECD PUBLISHING, 2, rue André-Pascal, 75775 PARIS CEDEX 16
(01 2016 11 1 P) ISBN 978-92-64-26211-9 – 2016

OECD INSIGHTS

Debate the Issues: New Approaches to Economic Challenges

To capitalise on the new international resolve epitomised by COP21 and the agreement on the universal Sustainable Development Goals (SDGs) requires a renewed effort to promote new policy thinking and new approaches to the great challenges ahead. Responding to new challenges means we have to adopt more ambitious frameworks, design more effective tools, and propose more precise policies that will take account of the complex and multidimensional nature of the challenges. The goal is to develop a better sense of how economies really work and to articulate strategies which reflect this understanding. The OECD's New Approaches to Economic Challenges (NAEC) exercise challenges our assumptions and our understanding about the workings of the economy. This collection from OECD Insights summarises opinions from inside and outside the Organisation on how NAEC can contribute to achieving the SDGs, and describes how the OECD is placing its statistical, monitoring and analytical capacities at the service of the international community. The authors also consider the transformation of the world economy that will be needed and the long-term "tectonic shifts" that are affecting people, the planet, global productivity, and institutions.

Visit the Insights blog at: www.oecdinsights.org

OECDpublishing
www.oecd.org/publishing

ISBN 978-92-64-26211-9
01 2016 11 1 P