A pluralistic approach to public policy: the case of the OECD’s New Approaches to Economic Challenges initiative

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Abstract: The global financial crisis highlighted the need for international institutions to change, adapt and learn. The New Approaches to Economic Challenges (NAEC) initiative provides an important example of a strategic response to the crisis by the Organisation for Economic Co-operation and Development (OECD). NAEC proposes new economic thinking, challenges traditional assumptions, promotes and supports the adoption of pluralism. Drawing on the framework used by Laybourn-Langton and Jacobs (2018), this paper argues that the OECD has slowly embraced pluralism in response to the crisis, and changes can be characterised as a partial paradigm shift. However, the impact of NAEC as assessed by the adoption of pluralism in country reviews and flagship publications has been uneven; and the OECD rather than pushing for a more radical reframing of economic policy is extending and modifying the existing economic framework.

Keywords: global financial crisis; international organisations; OECD; NAEC; paradigm; pluralism; public policy.


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1 Introduction

The financial crisis, which began in 2008, was a global shock, the reverberations of which are still felt today. Unemployment increased, growth remained anaemic and deficits deepened (ILO, 2009). Governments have been pressured to protect jobs and create new opportunities. A crisis of globalisation has been building for years and the great recession has undermined further confidence in the benefits of maintaining an open economy (see Cerna et al., 2015). Overall the shock has pressured governments to act. From emergency provisions, such as bailouts and stimulus packages, governments have scrambled to find solutions.

The global crisis was a ‘wake-up call’ to policy-makers around the world. The idea of a growth model with a single general equilibrium has been challenged; and returning to business-as-usual was not an option (OECD, 2012). The global financial crisis highlighted the need for international institutions to change, adapt and learn.

International organisations not only must respond to the recent financial crisis, but other major global trends – i.e., globalisation and shifting wealth, population growth and ageing, environmental challenges and natural resources constraints, and skill-biased technological change – have put additional pressure on economies and institutions. These complex problems require deep and diverse frameworks to understand them.

But the extent of change has varied across international institutions, with some able to transform their thinking, approaches and practices. One example is the Organisation for Economic Cooperation and Development (OECD) and its New Approaches to Economic Challenges (NAEC) initiative. Founded in 1961, the OECD is an international organisation to stimulate economic progress and world trade. The Organisation currently has 36 member countries and promotes policies that will improve the economic and social well-being of people around the world.¹

The case of NAEC at the OECD was chosen for two reasons. First, the OECD has slowly embraced pluralism in order to revise its theories and frameworks, and to adopt new policy recommendations. Changes within the OECD can be observed in many directorates and committees in terms of approaches, responses and methods. NAEC proposes new economic thinking, and challenges traditional assumptions and practices. Second, the OECD is among the first international organisations to conduct a survey on changes in economic practices by relevant directorates and committees, and thus offers a unique primary source.

The paper answers two questions:
1. To what extent has economic and policy thinking changed within the OECD?
2. To what extent can changes be classified as a paradigm shift towards greater pluralism in policymaking?

By examining the research questions, our paper makes two interlinking contributions. First, to the growing literature on pluralism and pluralist thinking (e.g., Kirman, 2016; Arthur, 2013; Thaler and Sunstein, 2008; Reardon, 2009) as well as the literature on crisis response in international organisations and change within organisations (Haas, 1990; Lambany, 2010; Moschella, 2011; Porter, 2009; Zaring, 2010), in particular the OECD (e.g., Eccleston, 2013; Carroll and Kellow, 2011; Mahon and McBride, 2008; Martens and Jakobi, 2010; Woodward, 2009).

Second, we contribute methodologically by drawing on a new survey of changes in economic policy perspectives within international organisations. As part of the NAEC initiative, this survey explores the extent to which OECD analysis and policy thinking has changed in the 10 years since the global financial crisis. It proposes at least three perspectives for a range of policy areas including trade, banking and finance, tax, inequality, industrial policy, environment, corporate governance, labour markets and social policy; each including a simply-stated analytical framework and some policy prescriptions. Within each policy area, respondents are asked how they would characterise OECD thinking a decade ago, before the crisis; and how they would do so today.

The survey was administered to relevant OECD directorates and committees in March 2018, and preliminary results are presented in this paper. The survey was sent to all directors and committee chairs. Given the specialised nature of the questionnaire, only individuals directly concerned with economic policy responded (based on consensus views within their communities but in some cases individual views of the chair or director), though other policy communities provided general comments. These were compiled into a single institutional response representing the official view of the OECD. Our paper further draws on primary and secondary sources including official documents and the authors’ inside knowledge.

To examine the crisis response, our paper applies the framework of paradigm shift used by Laybourn-Langton and Jacobs (2018) to international organisations. We argue that while the OECD has slowly embraced pluralism in response to the crisis, institutional barriers still exist. Therefore, changes within the OECD can be characterised as a partial paradigm shift.

This paper proceeds as follows. Section two examines how pluralism can lead to better policymaking and introduces the analytical framework of paradigm shift. Section three discusses the OECD and its NAEC initiative. Section four reviews the crisis response at the OECD and presents first results of a recent survey examining changes in analytical and policy thinking within directorates and committees. The last section discusses implications from our findings.

2. Pluralism and better policymaking

Pluralism in economics calls for greater openness in approaches, topics and perspectives. Lord Skidelsky has criticised contemporary economists for their limited intellectual horizons, for eschewing inter-disciplinarity and for the monopoly of a, ‘demanding and
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seductive’ mathematics over economics (Skidelsky, 2016). Andy Haldane, Chief Economist of the Bank of England has similarly argued that one of the potential failings of the economic profession is borrowing too little from other disciplines – a methodological mono-culture (Haldane and Turrell, 2018).

The various strands of pluralism including behavioural, institutional and complexity economics have impacted the academic debate (e.g., Kirman, 2016; Arthur 2013; Thaler and Sunstein, 2008); and on public policy. Pluralism can be appealing in the policy world given the limitations and failings of economics to make sense of the economy. A more pluralistic approach to economics, based on diversity, dialogue, and cross-fertilisation is the only way for economics to realise its potential for real-world relevance (Chang, 2015).

In April 2013, Mervyn King wrote that “economists should avoid the hubris of thinking that we understand how the economy works, just as we should avoid the hubris of thinking that leaving markets to their own devices will lead to nirvana” (King, 2013 in Fischer et al., 2017). Economics should no longer be dominated by an intellectual monoculture, but be based on a range of methods and/or paradigms (e.g., behavioural, institutional, complexity, feminist and ecological economics) and these methods should interact with policy approaches (regulation, infrastructure provision, industrial strategy, etc.).

In addition, pluralism requires examining issues from different angles with a horizontal focus rather than a sectoral one, to draw out the cross-sectoral impacts of policy developments. This is essential to ensure that the approach reflects more closely the actual conditions faced by governments in making choices, in which differing points of view and objectives need to be reconciled.

Student groups have been active in promoting pluralism, in particular in France, Germany and the United Kingdom. The International Student Initiative for Pluralism in economics claims the collaboration of 82 associations of economics students from 31 countries. Academic work detailing and describing pluralist economics education has also expanded (e.g., Reardon, 2009).

The financial crisis revealed the urgent need for a new economic paradigm for society and policy makers. In trying to simplify structures, behaviours, social networks and institutions, economics failed to grapple with complex realities. Even before the crisis Greg Mankiw lamented that: “macroeconomic research of the past three decades has had only minor impact on the practical analysis of monetary or fiscal policy” (Mankiw, 2006).

A more pluralistic approach is part of a paradigm shift partially underway in economic policy-making institutions. This paper draws on the framework of paradigm shift, proposed by Hall (1993) and further elaborated by Laybourn-Langton and Jacobs (2018). This framework is applied to characterise the change to analytical/economic and policy thinking inside the OECD and other international organisations.

Economic policy is developed through a process of political choices and ‘social learning’ in which policy-makers decide on new goals and methods with only partial reference to academic theory or evidence. The inherent uncertainty of economic prediction and the deeply political nature of policymaking make it easier for degenerating programmes to retain their incumbency advantage. Path dependency is further strengthened by the influence of vested interests, which shapes the interpretation of external shocks and lends support to degenerating, over-progressive programmes. Hall
L. Cerna and W. Hynes (1993) argued that economic policy can exhibit three ‘orders’ of change, increasing in their magnitude:

1. adjustment of an existing policy
2. a change in the policy
3. a change in the goals of policy altogether (this corresponds to a paradigm shift).

According to Layborn-Langton and Jacobs (2018, p.3), a political-economy paradigm is a way of thinking about economic analysis and policy which dominates policy-making, relevant public debate, and the practice and teaching of economics. Such paradigms have several components:

1. A set of political/economic goals (problems) which are regarded as most important.
2. A general analytical framework for understanding how economies and societies work.
3. A public narrative and language describing and justifying the goals and analytical framework.
4. A set of principal economic and social policies which will achieve the goals and overcome the problems, based on the analytical framework.

Political-economy paradigms can exert a powerful influence over academic and media debates, and over the institutions of policymaking, both national and international (Layborn-Langton and Jacobs, 2018). However, not every change in goals, analytical frameworks, narratives and policies leads to a paradigm shift – sometimes a modified paradigm replaces the old paradigm. The idea of modification recognises that change can and does occur in the nature of a paradigm, without it being replaced altogether. Nevertheless, the dividing line between modification and replacement is usually contested [Layborn-Langton and Jacobs, (2018), p.11].

In fact, in most countries mainstream economic policy has not yet undergone any significant change, with little consensus on what, if anything, ought to replace it. It is true that a number of governments are now discussing new approaches, while debate in the economic policy community, both among academics and in international institutions and think tanks, has begun to change. Modern economics is more pluralist than a generation ago.

While the work of Layborn-Langton and Jacobs (2018) focuses on changes in the economic community, particularly in the United Kingdom, they propose to examine whether a paradigm shift is also occurring within international organisations, in particular the OECD’s NAEC initiative [Layborn-Langton and Jacobs, (2018), pp.13–14]. As the authors note:

“At the level of institutions within civil society, there is increasing interest in the idea that a significant shift in approach to economic policy is needed. Three of the major international leaders in economic thought and practice – the OECD, the World Bank, and the World Economic Forum – have become committed over recent years to a new narrative of ‘sustainable, inclusive growth’, based on an acceptance that the neoliberal model has generated both rising inequality and unsustainable environmental impact. At present it would be hard to say that the consensus has gone much beyond an acceptance of the failures of the dominant model and a set of new, broader objectives for
economic policy; but the OECD ‘New Approaches to Economic Challenges’ initiative is now seeking a more coherent theoretical and policy response. There appear to be important opportunities to promote a paradigm shift within each of these institutions.” [Layborn-Langton and Jacobs, (2018), pp.13–14]

Much like the goals of pluralist economics, NAEC looks beyond the narrow confines of mainstream economics for solutions to today’s pressing problems. Pluralism plays a crucial role in the changes adopted within and by the OECD in the aftermath of the economic crisis, embodied within the NAEC initiative. The NAEC initiative and forum at the OECD are unique in facilitating a fundamental conversation on new thinking and methods, largely absent in the intergovernmental system. In the next section, we discuss the OECD’s NAEC initiative, its origins, objectives and work to date.

3 OECD’s NAEC initiative

The OECD was established under a Convention signed in 1960, which provides that the OECD shall promote policies designed “to achieve the highest sustainable economic growth and employment and a rising standard of living in member countries while maintaining financial stability. And thus to contribute to the development of the world economy”. For much of its history, the OECD was considered a ‘temple of growth’ or the ‘growth conscience’ of its members (Schmelzer, 2012). A questioning of the merits of economic growth, however, emerged in the late 1960s, despite the high levels of GDP growth experienced by OECD members. It was motivated by the mistaken belief that growth in the 1970s would continue at the same pace as the 1960s. The subsequent report Problems of Modern Society outlined a number of long-term problems and immediate challenges such as the ecological and distributional consequences of growth (OECD, 1969). The Report also claimed that “the steadily increasing wealth [did] not necessarily mean that human welfare improves correspondingly” [OECD, (1969), p.18].

This reflection on the nature of growth paused with the economic crises of the 1970s. At that time, members were preoccupied with recession, unemployment, energy shortages and stagflation – leading to major changes in OECD policy advice during the 1970s and 80s. The McCracken Report spurred a move away from traditional Keynesian policy approaches of demand management to the adoption of new economic models such as monetarist and neo-classical (OECD, 1977; Keohane, 1978; Gayon, 2012). It was followed by a major shift towards structural adjustment policies (OECD, 1987). This shift challenged the routine macroeconomic and political prescriptions espoused by the OECD (Schmelzer, 2014). The report provided an improved analytical basis to underpin more detailed reviews of OECD members’ economic policies, especially regarding structural issues such as labour and employment policies, industrial and raw material bottlenecks, and agricultural and commodity prices (Carroll and Kellow, 2011).

The shift in OECD thinking also legitimised the critiques of the welfare state in the 1980s (Leimgruber, 2014). The OECD was a proponent of standard neoclassical economics assuming that rational self-interested agents trade in markets, and their (individualistic) preferences and choices scale up to an efficient state via the ‘invisible hand’. However this view of how an economy works is not well founded in either theory or practice (Kirman, 2016). In fact, Offer and Soderberg (2016) go further: “its premises are unrealistic, the models it supports are inconsistent, and the predictions it produces are
often wrong” (Offer and Soderberg, 2016; Kirman, 2016; Jacobs and Mazzucatto, 2016). However, OECD work in the 1990s and 2000s qualified many of the tenets of the neoclassical synthesis, i.e., recognising the limits of the representative agent and rational expectations from the point of view of public policy.

The global financial crisis highlighted the inadequacies of OECD analytical frameworks, economic forecasting, and understanding the links between the financial sector and the real economy. The OECD was examining and interpreting evidence with analytical approaches and models which failed to adequately reflect the behaviour of economic agents. This complacency also led to a failure to understand the inter-linkages between the financial sector and the real economy and how they led to unsustainable imbalances, as well as the consequences of insufficient structural reforms, under-regulation and excessive public debt. This caused many to miss the onset and the magnitude of the problems, and to underestimate the severity of their impact.

The idea of creating an OECD Institute was discussed among members and the Secretariat, enabling a ‘rapid deployment’ capacity to help countries in moments of particular need, such as economic crises, natural disasters or political transitions (OECD 2010). In 2009 and again in 2010, the enlarged Parliamentary Assembly of the Council of Europe called specifically upon the OECD to investigate the role of its past policy advice regarding the vulnerability of monetary, financial and economic systems in the crises: “as this investigation could provide valuable lessons for the OECD in order to improve its future policy advice” (Parliamentary Assembly 2010).

The main impetus for the creation of NAEC came from Secretary General Gurria and his Chief of Staff and Sherpa, Gabriela Ramos. Ramos oversaw the development phase of the initiative and led the effort to co-ordinate the OECD response. She also managed the production of NAEC reports and pushed for new economic thinking as well as more inclusive and sustainable growth in global governance including the G20 and G7. A NAEC Co-ordinator assisted the Chief of Staff, with this position held by Shardul Agrawala (2012–2013), Mathilde Mesnard (2013-2016) and William Hynes (2016-present).

The Ambassadors of the OECD discussed the need for such a reflection during a retreat in Deauville in 2012 (White, 2017). The Chairperson of the Economic Development Review Committee, Bill White, supported the launch of an initiative on economic thinking because “much of what we currently believe in the macroeconomic arena is not only untrue, but dangerously untrue” (White, 2012). The Ambassadors from the UK, Australia and Ireland were particularly supportive. Ministers at the 2012 Ministerial Council Meeting agreed to launch the New Approaches to Economic Challenges, or the NAEC initiative, which in 2013 was described by the OECD’s Secretary-General as “one of the most obvious, most visible, and most productive results of the dialogue between the Council of Europe and the OECD” (Parliamentary Assembly, 2015). Members called for a focus on delivering practical policy recommendations and underlined the importance of horizontality in doing so. They agreed that it should analyse the root causes of the crisis, draw lessons from it and, as appropriate, adjust the OECD’s economic analysis and policy recommendations.

At the First NAEC Group meeting in October 2012, the Secretary General stated that “a simple return to ‘business as usual’ is not an option. We urgently need to revisit models and theories to question conventional wisdoms and ‘established truths’ to see where they have fallen short” (Gurria 2012). The NAEC Initiative was established as a comprehensive organisation-wide reflection to renew and strengthen the OECD’s...
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analytical frameworks, policy instruments and tools in the face of a rapidly evolving social and economic environment. It was a response to calls from many quarters for such a reflection, to learn the lessons from the crisis and derive its policy implications, and to build a more solid path for economic growth and well-being (OECD, 2012).

As the 2012 Strategic Objectives by the Secretary General state, “the ambition of NAEC is not to build a new economic theory, but to better assess the economic underpinnings that inform our policy advice”. A key component in developing NAEC was to identify the areas where the OECD’s analytical framework needed adjustment (in tandem with the stock taking exercise and identification of the related policy implications) (OECD, 2012).

The 2012 NAEC agenda was timely and important, and subsequent developments have highlighted its value. Conventional analyses struggled to explain and address ongoing economic, social, political and environment challenges, and to address the significant rise in interconnectedness and complexity characterising the global economy. This includes interconnectedness across and within countries, between the financial sector and the real economy, and at a deeper level, among various global trends that have been building for decades (OECD, 2013). Economics, economic theory and traditional models, and their ability to shape and inform policy are increasingly a matter of debate.

NAEC Reports (2014, 2015) suggested that metrics such as gross domestic product (GDP) framed the policy debate too rigidly and disregarded the multi-dimensional nature of well-being. NAEC claims to put people at the centre of new economic models, approaches and narratives. This can help incorporate issues such as uncertainty, spill-overs, systemic risks and network effects (OECD, 2014; 2015). NAEC has questioned traditional ideas and methods challenging group-think and compartmentalised approaches. It has led to the mainstreaming of multi-dimensional objectives in OECD analysis and publications, which has partially pushed for the embrace of a new paradigm – the extent to which will be examined in the next section. A new phase of NAEC launched in 2017 looks to develop a new growth narrative based on behavioural and institutional realism (OECD, 2017b). In the next section, we will assess to what extent a paradigm shift has occurred within the Organisation.

4 Extent of changes within the OECD and remaining challenges

The framework on paradigm shifts presented earlier in this paper serves as the basis for examining the changes10 in economic and policy thinking. This section presents the first results of a survey of changes in economic policy perspectives in order to examine whether a paradigm shift has occurred. As part of the NAEC initiative, the survey explores the extent to which OECD analysis and policy thinking has changed since the global financial crisis. It proposes at least three perspectives for a range of policy areas, each including a simply-stated analytical framework, and some policy prescriptions. The first question asks how respondents would characterise OECD thinking a decade ago; the second asks about the OECD today. The survey was administered to relevant OECD directorates and committees in March 2018.

The results reveal a partial paradigm shift based on a consensus view from OECD Directorates and Committees. The Economic Policy Committee and the Economics Department were central to many areas (e.g., fiscal, monetary, structural policies), and
their views were complemented by the perspectives of more specialised committees, e.g., Corporate Governance and Trade Committees. While little change in perspective is indicated since the financial crisis there has been a shift on trade policy and monetary policy. There is also ambiguity as to whether a clear change in perspective on inequality, environment and measurement has occurred.

Post-financial crisis, all OECD committees that answered the questionnaire reported a consensus amongst its members that in order to gauge the prosperity levels of countries, GDP measures should be supplemented by employment, poverty, inequality and environmental measures. In contrast, pre-crisis, many committees viewed GDP growth as sufficient to measure a country’s prosperity, and as the ultimate goal of economics policy.

Work conducted under NAEC has developed new measures to complement traditional ones (e.g., Multi-dimensional Living Standards as a complement to GDP; job quality to interpret changes in employment etc.); and to deepen, generalise and systematise their use. These changes require measurement of stocks (wealth, natural, and social capital, etc.) and adequate consideration of both stock and flow concepts. They also require further developing the use of micro-data to identify the heterogeneity of households and firms, and facilitate analyses to understand and tackle inequality (OECD, 2015).

Following the financial crisis, most OECD committees agreed that excessive financial sector activity or ‘over-financialisation’ can generate systemic risks that must be monitored or regulated. This shift included understanding that unregulated financial activities – not only external shocks – can cause crises (not least because the financial crisis exemplified this) and increased emphasis on macroprudent regulation. Monetary policy was transformed during the crisis with extensive use of non-conventional policies. The OECD view before the crisis was that price stability was most effectively achieved by independent central banks controlling base interest rates. The sense now is that in response to crises, central banks can and should use a wider range of tools to achieve monetary policy objectives (e.g., quantitative easing). Skidelsky (2015) criticised the NAEC process for errors of omission, particularly related to monetary policy, the financial system and the impacts of unconventional post-crisis policies.

Views on trade policy also shifted post-crisis, from the characterisation of free trade as a positive sum game, to a more differentiated position acknowledging its potential to have adverse distributional effects and negative impacts on specific sectors and communities. Some committees reported a slightly more radical shift in policy thinking towards the view that, whilst trade can be advantageous, modern trade agreements often stimulate a ‘race to the bottom’ for labour, environment and consumer regulations. Related to this, many committees noted a shift from the view that state involvement should be restricted to dealing with market failures, to an understanding that supply-side industrial policy (i.e., proving infrastructure, competitive tax policy, etc.) can improve the business environment.

There was no significant change in the OECD’s view of fiscal policy, which was and remains characterised as advising governments to run a balanced current budget and pursue counter cyclical fiscal policies. Policies regarding labour market and social protection have not changed: insisting that unemployment results from market disequilibrium, and boosting employment is best achieved through flexible labour market policies, more efficiently allocating resources and reducing market frictions; though there was a variety of opinion on this issue across committees. Thinking on the environment, as
defined by a policy mix needed to respond to environmental problems through market mechanisms (i.e., regulatory measures, innovation policy etc.), also remained unchanged. Both suggesting that NAEC has not led to significant change in policy perspectives despite some success in mainstreaming issues such as inclusiveness, environmental sustainability, and financial linkages (OECD, 2016).

Based on the survey results, it is not clear that NAEC has strongly affected the thinking and acting of OECD Policy Communities and in particular that of the Economics Department. Rather than the OECD pushing for a more radical reframing of economic policy, the survey suggests that in spite of NAEC, the OECD is extending and modifying its existing economic frameworks (Beinhocker and Hanauer, forthcoming). This suggests that pluralism has not fully permeated OECD policy thinking.

A variety of institutional factors (budgets, programmes of work, internal governance and organisation) as well as the country-driven nature of the OECD, partially explain this. Specialised committees are supported by the traditional structures of functional departments. These silos increasingly hinder the ability to identify and analyse policy inter-linkages and to work effectively across teams restricting innovative thinking. These silos mirror, and are sustained by, similar structures existing within national administrations. A variety of structures, cultures, and work practices (broadly defined) inhibit cross-organisational co-operation and communication and develop ways to break silos down to unleash innovation through more integrated policy approaches and collaborative problem-solving.

5 Conclusions

The financial crisis has provided an opportunity for international organisations to learn and to respond with new thinking and new approaches. The NAEC initiative at the OECD is important in facilitating a conversation and rethinking of policies inside and outside the Organisation by adopting a pluralist approach. The NAEC has helped change the culture of the Organisation, to outline research directions and enhance horizontality in the work of the OECD. NAEC has fostered a culture of experimentation and investigation into new relationships, deepening the analysis of trade-offs and complementarities across policies. It has helped strengthen quantitative integrated analysis and led to the adoption of new policy tools and approaches across the OECD. More than a programme, the NAEC encourages the OECD to strive for excellence in policy analysis (OECD, 2016).

The NAEC has not fully succeeded in achieving all its goals. It has not led to the paradigm shift in policy ideas or perspectives, nor led to new structures and institutional change for addressing systemic challenges. The OECD still remains dominated by a neoclassical approach to economics and policy. Economic growth (though now accompanied with an adjective: inclusive, green or resilient), remains policymakers’ primary goal. Multi-dimensional well-being measurement is improving but raises difficult trade-offs between competing objectives.

The structural reform agenda (flexible labour markets, competitive product markets) remains central to the work of the Economics Department. Flagship publications and country surveys have not been significantly altered by the NAEC process, but progress has been made with more reference to inclusiveness, sustainability, the financial sector and resilience. OECD (2016) paints a mixed picture of the mainstreaming effort. Despite
considerable efforts, the OECD and its committees remain siloed. Many members have expressed doubts as to the relevance and value of the initiative.\textsuperscript{15}

Drawing on the framework of paradigm shifts, this paper examined the extent of economic and policy changes within the OECD. So far only a partial paradigm shift is apparent. Changing economic paradigms is not easy and takes time. A significant amount of human capital is invested in traditional forms and tools of analysis. Knowledge and expertise in new methods is limited at the OECD and requires support and resources for scaling them up. In addition, working across policy silos remains difficult due to institutional, budgetary and practical reasons. While some directorates and members claim that enough progress has already been made; challenging entrenched thinking and approaches should be a permanent feature of a multi-disciplinary institution with cross sector analytical capabilities like the OECD. In emphasising the need for greater pluralism in policymaking, NAEC is fulfilling an important role, not seen in other economic policy institutions.

Steve Keen recently wrote: "I have come to the conclusion that the reconsideration of economic theory that we need after the crisis is more likely to come from policy bodies like the OECD than it is from academic economics departments" (Keen, 2017). Keen also wrote that formal bodies have to accept the consequences of being wrong about the economy, "whereas neoclassical-dominated university departments can retreat into isolation when the real world fails to conform to their fantasies about it".

The survey administered at the OECD will also be taken by other international organisations such as the IMF and the World Bank as well as economic institutions in the United Kingdom. This is promising since it will allow comparing changes within international organisations and examine whether a paradigm shift has taken place as a response to the crisis. This paper is just the beginning of a potentially rich area of work.

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Disclaimer

The views expressed in this document are those of its authors and do not represent the views of the OECD.

References


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Notes
1 http://www.oecd.org/about/.
2 Thanks to Laurie Laydorn Langton and Michael Jacobs for preparing and sharing the survey.
3 More information on the Initiative can be found at [online] http://www.isipe.net/.
4 Such crises can also have important consequences for international organisations. As Haas (1990, p.86) describes, “a crisis is a sudden concatenation of circumstances that threatens the major values of most of the membership such as a war, a famine or global depression”. A crisis presents the membership with an unfamiliar set of problems given that its are seen as complex and not amenable to one-shot solutions. In a crisis, organisational members recognise that institutional routines have been insufficient in averting it [Haas, (1990), p.86] and seek changes in their analytical thinking, policies and structure in order to learn from the crisis and be better prepared the next time.
5 In the financial sector, the recent crisis erupted against the backdrop of macroeconomic imbalances and a range of additional structural weaknesses, including flawed incentives across a wide spectrum of financial market participants. While there were numerous signs of trouble before the crisis (e.g., balance-sheet imbalances, spikes in asset prices, and declines in risk premia), many analysts failed to connect them. The costs of the crisis were large, and the synchronicity of the crises in all major advanced economies further magnified its impact and duration (OECD, 2014). Governments’ efforts to counter the effects of the crisis and stimulate the economies during the depth of the crisis were well-placed, but sometimes worsened the already substantial fiscal imbalances.
6 To co-ordinate and drive forward this agenda, a NAEC Group was established, comprising representatives from OECD member and partner countries, policy committees/bodies, as well as the Business and Industry Advisory Committee (BIAC) and the Trade Union Advisory Committee (TUAC). As noted in the NAEC mandate and governance, “[t]he EPC [Economic Policy Committee] is expected to have a central role in this undertaking, but considering its multi-disciplinarity, its success crucially depends upon the strong ownership and participation of other Committees” (OECD, 2013).
7 Complexity analysis examines the economy as it is, as a network of interacting agents from which systemic properties emerge (White, 2015; Kirman, 2016). Existing models characterised by general equilibrium perform well when conditions are stable or stationary (Hendry and Mizon, 2014). However, economies are increasingly subject to tipping points, multiple equilibria, non-linearity and feedback loops – none of which are well captured in a general equilibrium framework. Agent-based approaches can do much better helping policymakers understand financial crises, (e.g., Bookstaber, 2017). OECD’s willingness to consider a complexity approach, in the words of Andy Haldane: “puts the Organisation at the forefront of bringing economic analysis and policy-making into the 21st Century” (Haldane, 2016).
8 The Organisation is currently reviewing and improving its modelling approaches, taking a more integrated approach while diversifying the types of models it uses, and noting the limitations of the fundamental assumptions upon which they are built (OECD, 2015).
9 NAEC has not only led to a rethinking of agendas, frameworks and methods, but also to institutional changes within the OECD and a greater embrace of horizontality in project design and pluralism in concepts and ideas.
10 The survey and detailed rationale of each question is available from the authors on request.
11 Committee chairs from the Education and Public Governance Communities felt that the survey did not sufficiently acknowledge the increasing role of education and skills in changing economic policy perspectives. In addition, the role of government is not addressed, and yet
this has been one of the major shifts since the economic crisis. Our governance colleagues contend that in the past 10 years there has been a paradigm shift. In the pre-crisis period, it was all about regulatory reform, ensuring free markets and free trade. There is now a consensus that governments need to work and need to be trusted, (i.e., the role of openness and trust).

12 Some Directorates felt that several survey statements were formulated in an exaggerated way, thereby forcing the respondent to answer with very little nuance. This might suggest bigger than actual changes. Some of the changes in views predated 2008 or have little to do with the impact of the financial crisis. Any causality should be formulated prudently. Committees were able to elaborate on sections of the statements they agreed with, and had the opportunity to add context and justifications.

13 Similarly, while the NAEC has promoted a range of approaches such as complex systems and behavioural economics, these have not penetrated the mainstream work of the OECD.

14 This involves not just looking at economic performance in terms of efficiency, but also equity and environmental implications (e.g., Inclusive growth and green growth policies). NAEC contributed to this effort through its focus on policy trade-offs and complementarities, and how trade-offs can be managed.

15 Number of countries opposed the continuation of the NAEC agenda beyond 2016, arguing that the process should be concluded with the Final Synthesis Report and Mainstreaming Update presented at the Ministerial Council Meeting. While the NAEC encountered opposition, in the end, a majority of countries supported continuation. Countries that opposed NAEC included the United States, the European Commission, Germany, France and Canada. For some, this was mostly on procedural grounds that initiatives with a sunset clause should eventually be discontinued. Others suspected mandate creep, with OECD extending into areas traditionally covered by other international institutions e.g., financial stability. Still others felt that NAEC should now be dealt with by directorates and committees and that a coordination function was no longer necessary.