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Comments on Kumi Shigehara's Issues Note on "The Future of Policy Advice by Intergovernmental Institutions: Lessons from the UK's EU Referendum Leave vote"

By

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In his note, Kumi Shigehara reflects on the policy advice communicated in the campaign leading up to Brexit and examines what role the OECD and other international organisations played in that context and may play in the future. In this commentary, I initially review what factors were decisive in settling the 2016 UK referendum as well as US presidential election, and that may go on to shape additional electoral outcomes. From there on, I offer some further reflections on the role of the OCED and other international organisations.

My compliments to Kumiharu Shigehara for his sharp observations on the Brexit campaign and what lessons it may offer for the role of international organisations. This subject has become all the more urgent in the aftermath of the US presidential election in November 2016.

We appear to be witnessing a dramatic changing of the guard. For many years, the UK and the US claimed to carry the torch of **globalisation**, extolling its benefits for all nations. Now, they are making a point of preaching narrow self-interest, as evident from the UK's call to "control its borders" as well as Donald Trump's "Make America Great Again" rallying cry coupled with an apparent contempt for any US role as custodian of the ruling world order.

But is this correctly portrayed as a repudiation of "**globalisation**"? In the UK, the dismissal by conservatives of the influence on national policy of European Union institutions, blamed for bureaucracy and protectionism, has blended with a call for Britain to craft its own relations with the rest of the world. Likewise, Trump has attacked **regional** trade agreements, including NAFTA, rather than the **multilateral** trading system.

This is not to argue that such nuances won the UK referendum or US presidential election. Negative coverage of immigrants and refugees by the British tabloids is widely believed to have been decisive. Trump, meanwhile, in effect ran against both Republicans and Democrats on an agenda that bashed Mexicans and Muslims while dismissing climate change as a Chinese hoax devised to hurt the US.

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It is hard to avoid the impression that both campaigns were exceptionally convoluted and confused. To what degree will only be known once the outcomes of the policies to be pursued by the winning parties can be contrasted with the promises made to secure victory. In a deeper sense, however, the winning campaigns may be viewed as logical and consistent when it comes to their success in coalescing divisive forces among voters and the media, in triggering emotional responses, and in riding a wave of hollow trust in established expertise and institutions.

Part of the explanation for the nature and tone of the campaigns lies in digitalisation and associated changes in public communication. Far from losing their significance in a digital era, populist media conglomerates have raised their profile by adapting to and integrating with social media, Twitter and smart messaging. In this, they found convenient symbiosis with a new kind of politician – the likes of Nigel Farage, Boris Johnson and Donald Trump. Factual and political correctness fell out of fashion as provocation and opportunism took centre stage.

It remains to be seen whether the UK referendum and US presidential election represent the "new normal". In Austria, the right-wing anti-immigration candidate, Norbert Hofer, recently failed to win the presidency. In Italy, the Five Star Movement of comedian Beppe Grillo was on the winning side in rejecting a new constitution, in this case preserving the old order (one chastised for being conducive to instability). Probably, the next big test will be in France, where Marine Le Pen will campaign on the outspoken objective of breaking up the EU. Her Dutch counterparts are on the same page. Anti-immigration politicians are advancing even more strongly in Eastern Europe, notably in the Czech Republic, Hungary and Poland. Reflecting the benefits of these countries from their workers accessing jobs across the Single Market though, none of them call for the demise of the EU.

Meanwhile, hardly any movement in the European Union prioritises resistance to **"globalisation**". In fact, trade negotiations under the auspices of the World Trade Organisation (WTO) have been in stasis for many years now, leaving a patchy vanguard of regional and bilateral agreements on trade and investment to dominate the liberalisation agenda – to the benefit of those with the most clout at the negotiating table.

Both the UK and the US have, in fact, taken considerable advantage of this state of affairs. These two countries are more extreme, if not unique, in other respects, however. This can be seen from Table 1, which illustrates an experiment run by the World Economic Forum (WEF) in Geneva in 2014 to examine how national competitiveness would be affected by weighing in social cohesion and environmental considerations. As indicated by the red arrows, the UK and the US stood out with a unique degrading of their otherwise respectable ranking among the world's most competitive economies. [†]

While the World Economic Forum has now indeed begun to stress the risks to economic competitiveness caused by the undermining of social and environmental stability, the OECD

[†] The UK fell from 9th to 11th place and the US from 3th to 17th when both social and environmental considerations were weighed in (*Global Competitiveness Report*, 2014/2015, World Economic Forum, Geneva). These countries were the two whose ranking deteriorated systematically within this experiment, compared to ranking based on mainstream indicators.

Table 1: Adjustment in the GCI Scores with Sustainability Indicators

	GCI 2014/15		Social sustainability-adjusted GCI		Enviromental sustainability-adjusted GCI		Sustainability-adjusted GCI		
	rank	score	score	+ / -	score	+ / -	score	rank	+ / -
Switzerland	1	5.70	6.75	↑	6.84	↑	6.80	1	→
Singapore	2	5.65			n/i				
USA	3	5.54	5.97	↓	5.24	↓	5.61	17	↓
Finland	4	5.50	6.48	↑	5.98	↑	6.18	3	↑
Germany	5	5.49	6.36	↑	6.00	↑	6.18	4	↑
Japan	6	5.47	6.29	↑	5.83	↑	6.06	6	→
Hong Kong SAR	7	5.46			n/i				
Netherlands	8	5.45	6.39	↑	5.88	↑	6.13	5	↑
UK	9	5.41	5.95	↓	5.75	↓	5.85	11	↓
Sweden	10	5.41	6.05	↑	5.95	↑	6.00	7	↑
Other selected countries									
Norway	11	5.35	6.43	↑	6.14	↑	6.28	2	↑
Denmark	13	5.29	6.14	↑	5.69	↑	5.91	10	↑
China	28	4.89	4.96	→	4.28	↓	4.62	25	↑

Source: The Global Competitiveness Report 2014-15

undertook extensive analysis of such matters for many years. [‡] That work has drawn on the diversity and pluralism of the organisation, as a dedicated Secretariat interacts with a range of experts and stakeholders across different committees and working parties to undertake and synthesise highly original work on outstanding and forward-looking issues.

Kumiharu Shigehara observes in his note, however, that the OECD's communications in the lead-up to Brexit aligned closely with those of the UK Treasury, focusing on macroeconomic aspects and what negative impact Brexit could be anticipated to exert as measured by mainstream economic indicators. In effect, these messages probably added little to the British debate, and hardly swayed those voters who were sceptical about the benefits of Remain.

One may argue, of course, that the OECD is in no position to deviate much from the stance of its member countries on hot political issues, and that it may thus just as well stay silent on politically charged agendas, a matter to which I will return below.

Shigehara reminds us of earlier episodes in which the OECD ran into trouble, referring to the 1997 OECD report "Open Markets Matter". That time, in the subsequent year, a different sort of flagship report appeared, titled "Trade, Investment and Development: Policy Coherence Matters". While not a complete sea change, that publication signalled a significant shift in perspective, taking the line that trade and investment are not a panacea. Unless countries get

[‡] Some of this work has fed into the 2016 OECD Global Strategy Group Meeting 28-29 November 2016, "Fixing Globalisation: Time to Make it Work for All", GSG/A(2016)1/REV1, OECD, Paris.

their act together and make it attractive for market actors to transfer capital and technologies and undertake productive investment, outcomes may be negative. [§]

In parallel, the OECD took decisive steps to recognise the complex role played by technology. Though essential for increasing productivity, and hence for achieving international competitiveness, technology had previously been viewed mostly as an exogenous factor. Now, both its determinants and its impacts, including on jobs, became a subject of scrutiny, with a host of conditions at play. To what degree are resources, for instance, able to re-allocate from areas in decline to those susceptive to growth? Are workers willing and able to re-train? Can entrepreneurial capacity kick in to breed new enterprises? Are financial services along with labour and product markets conducive to creative destruction? [**]

Technology's enhanced exposure continued with the *OECD Growth Project*, a key topic at the Ministerials of 1999 and 2000, and a cornerstone of the OECD's work in this area for many years to come. Not only did this lead on to more systematic assessment and reform of the way member countries' policies impact on research and innovation, but engagement by non-members was elicited as well. This included China, which revamped its statistics by adopting the OECD Frascati Manual, to improve comparability with OECD data and engaged in policy dialogue to enact reforms in support of science and technical progress and associated economic restructuring. [††]

The advance of technology has created enormous new opportunities in a range of respects, across all countries and spheres of economic activity. But the speed and pervasiveness of enhanced information management also played its part in developments that spiralled out of control, such as financial market deregulation and the real estate bubble during the Bush era that brought the world economy to the brink of collapse when it burst in 2008. The cost of financial malpractice at banks deemed "too big to fail" was diffused far and wide through the "globalised" financial system and loaded onto taxpayers. The public generally had no say. Where they did, resistance was firm, as in Iceland where 98 percent of voters refused the deal.

[§] In this case, the book advertisement read "While opening their economies to trade and investment is a necessary condition for developing countries to achieve sustained high growth and reduce poverty, it is by no means a sufficient condition. Initiating a sustainable dynamic growth requires sound, market-oriented economic policies; appropriate social policy frameworks, including strong investment in human capital and adequate social safety-nets; and good governance".

[**] In the 1998 OECD report *Technology, productivity and jobs, Best Policy Practice*, country policies were for the first time assessed and ranked with a view to influencing performance associated with technical progress.

[††] In 1998, the undersigned engaged in deliberations with the Chinese Academy of Sciences and the Chinese Ministry of Science and Technology (MOST). China subsequently translated several OECD publications on the knowledge-based economy into Chinese, including the *Science, Technology and Industry Scoreboard, Benchmarking Knowledge-Based Economies* (1998). On this basis, China enacted a strategic decision in the late 1990s to transition away from its previous growth model, based on investment in tangible assets and exploitation of low labour costs, in favour of a knowledge-based economy and innovation-driven growth. In 2001, China joined the Science and Technology Policy Committee (CSTP) as an observer, the first OECD Committee that China entered in that capacity. The resulting long-term collaboration recently prompted the Chinese government, within the framework of its presidency of the G20, to introduce a new work stream on innovation, digitalisation and the next production revolution, and also a G20 task force on Innovative Growth, with the support of the OECD (G20 Leaders' Communique, Hangzhou Summit, 4-5 September 2016).

[‡‡] Mainstream policymakers, international organisations, economists and journalists decried Iceland at the time. Following a lengthy legal dispute, referred to the EFTA court, however, in 2013 Iceland was eventually cleared of all charges.

In the wake of the global financial crisis, especially southern Europe found itself thrown into a morass of unpayable debt and social decline. Youth unemployment approached and, in some cases surpassed, 50 percent. Bankers and the wealthy, on the other hand, soon returned to business as usual. It took months, not years, for directors on Wall Street and in the City of London to once again embrace the excesses of the past, or exceed them. This – and the failure of corporate governance to rein in managerial intemperance, the loss of jobs to automation in hugely profitable companies, the ongoing and continued deterioration of the global environment, and the spectres of terrorism and immigration – feature among the grievances of those middle-class citizens who have responded by repudiating the established order. It matters little to these people that their life challenges pale in comparison to the difficulties faced by refugees or Middle Eastern communities exposed to foreign military intervention.

For many years, the IMF and the "Washington consensus" put faltering economies in Latin America and elsewhere under relentless pressure to shore up their public finances while paying little heed to education and social safety. Today, the IMF has begun to re-evaluate its habit of professing fiscal stability and short-term debt reduction at the expense of all else. [§§]

The case of the OECD is different. As already noted, the organisation has made long-standing and wide-ranging analytical efforts to penetrate a range of outstanding and forward-looking issues, spanning education, finance, regional development, environment, technology, industrial development, entrepreneurship, and so on. Here, the question is more about balance. Naturally, the OECD must weigh the multifaceted efforts of a diverse organisation against the desire to communicate an appropriately focused, flagship policy message capable of making an impact on the echelons of mainstream policymaking. However, it may be that the virtues of decentralised, bottom-up initiatives and communication to multiple stakeholders have come to play second or third fiddle. In the case of Brexit, as previously observed, the OECD's "big drum" stayed in tune on macroeconomic assessment and forecasting. We do not know if those who voted Leave would have been more prone to listen if the OECD had highlighted social, cultural or environmental aspects, or had it adjusted its way of messaging to be more inclusive. But those questions are worth asking.

The key to making a difference is not to communicate what is already known and fits the received wisdom but to bring to the table what is unexpected or unheard or unseen in a particular context and can help bring common purpose and solutions.

Again, the OECD's room for manoeuvre is influenced by its member countries. At the same time, it is a vehicle for inter-country collaboration that is bestowed with a formidable organisation for inter-sectoral interface and stakeholder interaction.

[‡‡] The Icelandic president, Ólafur Ragnar Grímsson, twice refused to sign into law Government bills that would have made citizens liable for debts incurred by the country's mismanaged banking system. He thereby triggered two referendums, in March 2010 and April 2011, through which voters rejected the bailout of the bankers and the industry's creditors, i.e. the outcome suffered by taxpayers basically everywhere else where the crisis hit.

[§§] Jonathan D. Ostry, Prakash Loungani, and Davide Furceri (2016), "Neoliberalism Oversold?", *Finance & Development*, IMF, Washington.

When it comes to lessons going forward, the OECD should review how it can make effective use of its unique breadth of assets in the current information era. How should it generate most value from reaching out and gaining relevance where its messages matter? In this context, centralisation and high-powered communication from the top should co-evolve with new means of capitalising on diversity and multifaceted communication tools and channels, targeting different layers of society. Separately, political appointments and internal promotion as vehicles of recruitment policy need to go together with injections of “new blood”, perspectives and ideas.

The OECD has a great deal of substance to give voice to and develop further. It is crucial that its capacity does not diminish in the era that is now taking shape. The need for in-depth scrutiny, reflection and honest brokering is greater than ever, along with due attention to growth, income distribution and what will amount to social and environmental sustainability. The same applies to the use of new technologies for the good of society and for how to ensure that digitalisation and artificial intelligence combine with meaningful learning and work for men and women. A retreat to a bounded and fragmented arena where each and all look first and foremost to their own narrow and immediate interest, will hardly leave much behind.