

Inclusive growth

**Why it can rekindle
progressive politics**

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centre for
**progressive
policy**



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About the Centre for Progressive Policy

The Centre for Progressive Policy is a new think tank committed to making inclusive economic growth a reality. By working with national and local partners, our aim is to devise effective, pragmatic policy solutions to drive productivity and shared prosperity in the UK.

Inclusive growth is one of the most urgent questions facing advanced economies where stagnant real wages are squeezing living standards and wealth is increasingly concentrated. The Centre believes that a new approach to growth is needed, harnessing the best of central and local government to shape the national economic environment and build on the assets and opportunities of place.

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For about a decade we thought we had cracked it. The end of boom and bust. The 'end of history'. Balanced, sustainable growth and the inevitable march of progress would follow. But all that came to an abrupt halt when the banks crashed in 2008. Since then, the political debate on both sides of the Atlantic has crystallised around the question of whether 'progress' might be possible after all.

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At the Centre for Progressive Policy, the idea of progress and what progressive politics and economics might look like are of central interest to us. As a non-partisan think tank we look to identify practical, data-driven solutions to policy problems, focussed on the question of how we make economic growth more inclusive. Whether framed as 'for the many, not the few' or 'making the economy work for everyone', the issue of inclusive growth is one shared by the political parties in the UK and by countries across the world.

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The term 'progressive' was once also shared across a broad, centre-left and centre-right position. Now it is used more often as a term of scorn than worn as a badge of pride, on both sides of the political spectrum. The revival of identity politics has levered open deep divisions within both the Conservative and Labour parties; what you believe has been surpassed by who you are, and how you choose to identify yourself and others. The ideological glue that for decades, if not centuries, has bound the broad churches within – and at times between – our political parties, is starting to disintegrate.

Appetite for progressive ideas thrived in the post-1945 consensus. Society was ready for modernisation and change. Two elements began to break the progressive vision down: first, the challenge to the idea that the kind of technocratic change being offered was progress at all, and then – more fundamentally – from Milton Friedman's version of free market thinking which told us that markets would clear at an optimal (or at least economically efficient) level. Economic 'progress' was supposed to reach its pinnacle and simply stay there. It was an alternative end of history if ever there was one.

Deregulation and privatisation followed. Subsequently, the economics of the Third Way offered us hope that we

were not powerless to improve our economic outcomes in the face of bigger, increasingly global forces. Markets could be shaped in the interests of society. But, as the financial crisis of 2008 revealed, our economic institutions were not up to the task. The Third Way was a smoke and mirrors game.

Progressive politics needed a more structurally fair and theoretically robust economic underpinning. Without this, the progressive impulse has tended towards a dependent welfarism (socialist) or a form of economic pragmatism (liberal). Self-regulation has proved a pipe-dream, government regulation – in many cases – toothless, and in the UK, economic development has been largely a nationally determined process under which individuals and places could only hope to take back control. The causes of recent voter disaffection and Brexit are complex but have their origins in the decades of deindustrialisation, deregulation and rising health, wealth and income inequality.

Progressive politics needs a progressive economics, and one that does not kowtow to seemingly ever-rising market power. This is why the emergence of inclusive growth is so significant, and why – in striving to be a genuine enabler of social and economic justice – we need to search for robust, politically plausible means to effect system change.

Economic growth – the need for quantity and quality

The term 'inclusive growth' has gained legitimacy and traction in the UK, particularly since 2016 and the vote to leave the European Union. Despite in that same year the UK being the fastest growing economy in the G7, for many people the prosperity of growth had not 'trickled down' to them. Instead, rising house prices and stagnant real wages were compounding decades of persistent inequality and deprivation. Ten years after the bail out of the banks, the former Chancellor, George Osborne's promise that '*we're all in this together*' continued to ring hollow.

At the heart of inclusive growth is one big idea: it is not enough to welcome the rate, or quantity of economic growth. We also must consider its quality – where the impact of growth and its distributional impacts matter as much as how much the headline Gross Domestic Product (GDP) figures go up or down.¹

It is not enough to welcome the rate, or quantity of economic growth. We also must consider its quality.

¹ Over the last three decades GDP doubled in the USA while median household income only grew 16 per cent. Something similar has happened in the UK, where GDP per head puts it in the richest third of EU countries, yet disposable household income per resident in over half of the UK sub-regions is below the EU average.

Much has been written on the 'beyond GDP' issue. At a macro level, initiatives such as the OECD's 'Better Life Index'² or the Stiglitz-Sen-Fitoussi (2009) Commission on the Measurement of Economic Performance and Social Progress³ have sought to address the limitations of tracking headline GDP growth in understanding wider societal and distributional benefits. In 2010 the then prime minister, David Cameron, attempted to follow suit, requiring the Office for National Statistics to capture 'General Well-Being' at a local and national level. But the notion of wellbeing or happiness captures a vast range of factors and therefore does little to enhance our direct understanding of people's experience of the economy.

Other efforts to humanise economic theory have tended to focus at the micro level, appealing to the insights of behavioural science to understand how we, as economic actors, 'really' make decisions. Economists and policy makers have stopped short of transforming the way we think about economics as a whole and concentrated instead on how we incentivise or 'nudge' people into behaving in certain ways. Inclusive growth seeks more broadly to humanise (and therefore hopes to re-legitimise) economics as a discipline – both at a micro and macro level – so that economic policy underpins social good and vice versa.

Inclusive growth – a political imperative dressed up as a policy fad?

Eighteen months ago the RSA Inclusive Growth Commission published its final recommendations.⁴ The Commission set out a framework for local and national policy makers as they sought to respond to the long-term concerns that had come to define the post-Brexit political context: productivity and prosperity had to be coupled with fairness, both for those in work today and for the next generation.

But the instigation of the Commission, which I directed and was chaired by Stephanie Flanders, could be found in much longer trends of economic dislocation and voter disaffection. How could we ensure that people have the skills and capabilities to adapt to a fast-evolving modern economy, perhaps

many times during their working lives? What role could central and local government play in each of these, and would it seem to make any difference if people could still not get on the housing ladder or to save for a pension?

The day after the launch of the Commission's final report, the Chancellor, in his Spring Budget statement, emphasised the importance of central government investment in education and skills, which was, he said, the key to inclusive growth – to an economy that works for everyone.⁵ The role of place and devolution also continued to take a prominent position in the UK government's promise to respond to the palpable sense of economic injustice and inequality that would later be symbolised by the tragedy of Grenfell tower fire in June 2017.

Since then the UK has fallen to the bottom of the G7 growth table and the process of Brexit has overshadowed any domestic policy agenda to respond to the deep divisions in our society that the EU referendum exposed.⁶ Even in some of the most resilient areas of economic activity, central government (and some local policymakers) have shown their readiness to relegate distributional or structural concerns in pursuit – once again – of headline GDP (or GVA) figures. The UK government briefly flirted with the idea of helping the 'Just About Managing' families, but lost interest.

Despite some exceptions, we have also seen the stalling of city- and county-regional devolution, as central government has held onto the levers (and behaviours) it is most familiar with and local institutions have taken time to get up to full capacity.

"We need to make fundamental choices about the sort of economy we need for the way we want to live."⁷

Justin Welby, Archbishop of Canterbury

It was against this backdrop that the IPPR's Commission on Economic Justice reported in the summer of 2018, making the case again for inclusive growth while our national leaders – within government and across much of the wider progressive political space – continue to be deafened by the white noise of Brexit.⁸

2 The OECD Better Life Index is part of the OECD's work programme on Measuring Well-Being and Progress. Since 2005 it has sought to enable cross-country comparison on what drives well-being of people and nations and what needs to be done to achieve greater progress for all. Available at: <http://www.oecdbetterlifeindex.org/#/11111111111>

3 Stiglitz, J., Sen, A., and Fitoussi, J (2009) 'Report by the Commission on the Measurement of Economic Performance and Social Progress'. Available at: <https://ec.europa.eu/eurostat/documents/118025/118123/fitoussi+commission+report>

4 Inclusive Growth Commission (2017) 'Making our Economy Work for Everyone'. Available at: <https://www.thersa.org/discover/publications-and-articles/reports/final-report-of-the-inclusive-growth-commission>

5 Hammond, P. (2017) 'Spring Budget 2017' [Oral statement to Parliament]. Available at: <https://www.gov.uk/government/speeches/springbudget-2017-philip-hammonds-speech>

6 UK GDP growth was on average lowest of the G7 across the last four quarters: 2017 Q3 to 2018 Q2. See OECD Data Quarterly GDP Indicator. Available at: <https://data.oecd.org/gdp/quarterly-gdp.htm>

7 Welby, J. (2017) 'British society deserves an economy rooted in the common good'. The Financial Times, September 5. Available at: <https://www.ft.com/content/64f88e80-918c-11e7-83ab-f4624cccbabe>

8 Institute for Public Policy Research (2018) 'Prosperity and Justice. Final Report of IPPR Commission on Economic Justice'. Available at: <https://www.ippr.org/research/publications/prosperity-and-justice>

Nevertheless, several local leaders have shown they are determined to embed inclusive growth at the heart of their place strategies. There is now a range of institutions and other system and structural changes emerging, each of them trying to tackle deeper, more complex economic, social and political discontent, while trying to maintain and enhance their competitiveness at the same time.

Many local leaders have shown they are determined to embed inclusive growth at the heart of their place strategies

For example, the **Bristol** City Office is pioneering a place-based approach to local governance in which business leaders, community organisations and citizens work with the mayor to set a vision for the city and drive inclusive growth – including through a new, cross-sector City Funds initiative.

In the **London Borough of Barking and Dagenham**, the council has restructured its senior leadership team to appoint a Director for Inclusive Growth. The postholder is responsible for leading a broad place-shaping agenda, bringing strategic responsibility for employment and skills strategy, industrial strategy, housing and energy policy and the impact these have on the lives of residents. Barking and Dagenham's commitment to 'no one left behind' has also been the driving force behind their Community Solutions reorganisation of public services, an integrated approach that emphasises early intervention and seeks to support residents to be more self-sufficient and resilient.⁹

The **West Midlands Combined Authority** has set up a cross-sector 'Inclusive Growth Unit' (of which the Centre for Progressive Policy is a member) to advise and support the delivery of innovative new approaches to achieving inclusive growth across the city-region.¹⁰

In the **North of Tyne**, the soon-to-be combined authority is already devising ways to ensure its devolution deal investment fund – providing £100m over five years – which will go beyond GVA uplift to ensure the region is the 'home of ambition for all.'

Local and regional examples of innovative inclusive growth practice are already emerging

But inclusive growth excites controversy. On the right there is a question of whether inclusive growth is sufficiently orientated towards economic productivity or just a code-word for increased redistribution and welfare. On the left there is concern that inclusive growth does not go far enough – that it is predicated on the same neoliberal market principles that extract wealth from communities and enrich only the top 1%.

Inclusive growth is still in its infancy both as a theoretical construct and in practical application. To some, it means starting from the ground up and finding new ways to create the conditions for local system change. Examples such as **Preston's** public procurement strategy and work with public sector anchor institutions to drive change through local government is one well-known (but not always sufficiently understood) example. **Wigan's** attempt to reshape the social contract between the local state and residents – its 'Wigan Deal' – is another that touches on the boundaries of inclusive growth.

However, there are others who hold that global market forces and, in some cases, individual firms are so powerful that unless inclusive growth addresses these issues of competition, corporate governance and the regulation of global financial capital, local and national interventions will be marginal at best. Despite the failures of national governments to respond to increasingly global problems, are cities the right level of scale to handle the complexity of inclusive growth? The answer inevitably lies across each of these international, national and local tiers of policy and practice.

The bottom line for inclusive growth is that there should no longer be one (global or national) measure of economic growth, which politicians can announce while they expect everyone to cheer. We need to know if the growth delivers prosperity to all citizens involved, and we need to find ways of making this a reality. In striving to achieve this, the Centre for Progressive Policy believes in harnessing the best of central and local government to shape the national economic environment and build on the assets and opportunities of place.

The responsibility of place

There has been a growing number of thinkers making the case for the end of national government as we know it. Nation states, it is argued, have shown themselves unable or unwilling to step up to the task when dealing with increasingly complex, often global problems. Climate change and inclusive growth are two such cited problems, and

9 London Borough of Barking and Dagenham (2018) 'No-one left behind: Corporate Plan 2018/2022'. Available at: <https://www.lbdb.gov.uk/sites/default/files/attachments/No-One-Left-Behind-Corporate-Plan-2018.pdf>

10 See the West Midlands Combined Authority website: <https://www.wmca.org.uk/what-we-do/public-service-reform/inclusive-growth-unit/>

the work of Bruce Katz and the late Benjamin Barber has been at the forefront of this debate in recent years.

"Power is drifting downward from the nation-state to cities ... horizontally from government to ... public, private, and civic actors, and globally along transnational circuits of capital, trade, and innovation".¹¹

Bruce Katz

In the UK (particularly in England) devolution has given some city- or county-regions the opportunity to experiment with a new kind of 'whole place' leadership. Constrained by the fiscal realities of austerity and the persistent 'guiding hand' of our highly centralised political economy, places are nevertheless starting to work across a wider institutional and geographic footprint in a concerted attempt to achieve inclusive growth. Indeed, only by calling on leaders from all sectors to play their part – including small and medium sized businesses and major employers, public sector anchor institutions (such as schools, hospitals, universities and colleges) and the voluntary sector – can we expect to create the conditions for systemic, structural change. Whole place leadership hinges too upon a new economics, broadened to reflect the social drivers of productivity and prosperity as much as traditional emphases on supporting innovation, high value-added sectors and connectivity.

Agglomeration theory – the idea that cities thrive by concentrating resources within geographic proximity – was the backbone of the first wave of devolution to city-regions. But transport connectivity and inward investment only get us so far. We need to equip people with the skills they need to benefit from transport links and new job opportunities, with quality careers advice that can inform meaningful education and employment choices, with support to call upon in times of financial difficulty, and access to mental and physical health services that underpin resilience and quality of life. We need to invest in such 'social infrastructure' to embed economic justice within our economic system.

We need to invest in social infrastructure to embed economic justice within our economic system

However, after ten years of fiscal tightening in the UK, the question of how we invest sufficiently in social and physical infrastructure is significant and – as the Treasury prepares its 2018 Budget and 2019 Spending Review – the challenge could become the defining one of the post-Brexit age. Pressure for increased

spending is mounting in virtually every public service area, from social care to defence, from police and crime to affordable housing. Deterioration in public service outcomes is storing up economic consequence down the line; a failure to respond to the need for broader based prosperity might further fuel the unease which has led to the rise of populist or intolerant politics in recent years – in the UK. We have witnessed similar developments in the rest of Europe and the US.

For inclusive growth to be a real game changer it should therefore be based on deep engagement with citizens. If we have learnt nothing from the last few decades of the technocratic elite, or indeed the last two years since the EU referendum, it is that – unless we listen and co-create policy – managerial centrism will continue to let people down.

Inclusive growth is, by implication, not just an economic outcome but also the description of a process through which every city, town and region must go to answer their central economic problem – which may also be the central economic problem of the age: the failure of economic success to trickle down to support many if not most of us.

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It is for these reasons that inclusive growth must be at the heart of our politics – imbuing government at every level with a commitment to bring about change and charging places with a shared sense of mission they need to work across organisational and ideological boundaries. This is the essence of place-based leadership. Only then can we start to identify, leverage and coordinate the resources (financial and non-financial) required for inclusive growth to become a reality.

Ambitious inclusive growth as an objective in its own right

In presenting new, big policy directions, practical solutions are often articulated as compromises. A balancing between different groups, interests or ideologies. Tony Blair's 'Third Way' or Bill Clinton's 'policy of triangulation' are two such examples.

The reason why a compromise approach is initially attractive is that it seems to be easier to achieve.

11 Katz, B. (2018) 'The New Localism'. Brookings Institution Press.

Existing assumptions operate within existing institutions, making it easier to reach for familiar ideas. With enthusiasm to making inclusive growth happen fast, there is a risk that we grasp for off-the-shelf solutions (many of which have been tried and failed) rather than shift to a new way of thinking and test new approaches.

However, inclusive growth cannot amount to re-labelling government programmes and projects that we have been trying for years and often met with disappointing results.

For example, conventional local economic policy suggests that places must build on their assets and high growth sectors. This is indeed critical. But we should not be deceived that continuing pockets of poverty are likely to be subsumed in growth in deep sea technology or biomedical sciences or gaming software design. They might help if the wealth from these successes trickled down, but the whole reason for inclusive growth is that we have seen time and again that the chances of this are slim. The principles of inclusive growth need to be embedded across all sectors, particularly those which employ high numbers of people today (such as care and retail) and future proofed as the economy evolves increasingly rapidly.

An interwoven social and economic agenda is good for business – enabling a platform for sustainable commercial success, through access to the right skills, long-term planning and tailored business support. Yet local government needs to have the courage to reset the ‘deal’ with the private sector, raising the bar of what is expected of a local employer in terms of fair pay and working conditions, and providing publicly funded business support, for example, only where inward investment and enterprise supports underinvested areas, or enables particular groups to access the labour market.

As is increasingly acknowledged, we need to do more than create jobs or just talk about the importance of skills and technical education. We need to dig deeper to establish a cultural expectation of good work. Ensuring labour market regulation, public services and planning - such as mental health, quality of housing and transport connectivity - work in tandem with efforts to attract inward investment. One of the key reasons why the inclusive growth agenda has picked up pace in the UK is because of the shift from poverty due to unemployment, to poverty due to employment paying too little. That the state subsidises these employers while they transfer commercial risk to their staff is morally unacceptable. It is also ineffective as a sustainable economic strategy.

Conclusion

Inclusive growth is not the abandonment of economics. Nor is it a Trojan horse for old-fashioned redistribution. It asserts a new structural economic doctrine – one which seeks to tackle inequality and poverty as an integral part of achieving more sustainable, quality growth. Inclusive growth is not just about making the economy spread its pie more thinly and fairly. Nor is it an abandonment of the principle of increasing national wealth or GDP. It is about moving away from the ‘grow now, redistribute later’ of our current approach to create broad-based prosperity as an intrinsic outcome.

Inclusive growth is about moving away from the ‘grow now, redistribute later’ approach

What does this mean in practice? At a global level we must challenge policy makers and regulators to ensure financial markets and international institutions are geared up to tackle inequality as a systemic global risk. What for example could a Basel II or III process – designed to ensure global financial stability – look like for inclusive growth? What more can be done to create and enforce fair and transparent tax regimes, and give regulators sharper teeth when it comes to international anti-competitive practices?

At a national level we must orientate our institutions and accountability mechanisms to support inclusive growth – through corporate governance frameworks, fiscal and monetary policy and our labour market regulation. How can we distinguish between the ‘choice’ exercised by a zero-hour contractor with a portfolio career and a worker at risk of losing their job if they raise their concern about the shift pattern that week?

At a local level we need to call upon leaders from across the public, private and voluntary sector, involving community groups and individual residents in the shaping of a new, shared mission for their place. Devolution has given some places the ability to test new ways of sharing budgets and accountability across organisational lines, but limited examples here – such as Greater Manchester’s health and social care deal – need to be expanded to reorganise and tailor public services so they are as much a legitimate driver of productivity as investment in transport and R&D.

Ambitious, early practitioners of inclusive growth – including, in the UK, Bristol’s City Office, North of Tyne’s investment fund and Inclusive Economy Board, Preston’s model of money flows analysis, Barking and Dagenham’s community solutions approach to

reorganising public services and Greater Manchester's health and social care integration alongside economic devolution – are forging a path to a new economic model, and – in every instance – developing new approaches to place-based governance and leadership. A summary of the key aspects involved in developing local inclusive growth strategies can be found in the box below.

The emergence of inclusive growth is significant for many reasons, notably the need to offer a politically and economically more sustainable model of productivity and prosperity. As progressives and populists recognise alike, the distribution of growth can no longer be an afterthought. But for progressive politics to be revived,

it needs to be based on a progressive economics, and one that does not kowtow to seemingly ever-rising market power.

Inclusive growth is still in its infancy but seeks to be a genuine enabler of social and economic justice. In so doing, it offers the hope of a robust, politically progressive theory of systemic change.

In practice – at a national or local level – inclusive growth will, of course, mean different emphases by Conservative, Labour or Liberal progressives. What they have in common is a sense, with a structural and intellectual framework like inclusive growth, that progress is possible again.

Driving an ambitious agenda for system change will require creativity, leadership and a commitment to:

Understanding the specific barriers to inclusive growth in their place using deep, data-driven analysis. For example, to what extent are people dependent on low wage, low value added sectors in the local economy? Are there persistent mismatches between the supply and demand for certain skills, and what effect is this having on inward investment and the creation of additional quality jobs?

Devising long term, system-level actions rather than reaching for standard tools and well-worn 'solutions' that have not yielded significant results. E.g. how can we engage the public and other stakeholders (for example football clubs, faith groups, housing developers, industry leaders) in the process of defining inclusive growth and devising solutions?

Integrating economic and social policy programmes so that each are the flip sides of the same coin, driving productivity and broader-based prosperity. E.g. how will decisions taken across the combined and/or local authority reinforce its vision for inclusive growth at every turn? How can institutional boundaries be formally and informally blurred so that there are more incentives for shared accountability and whole-system change?

Investing in inclusive growth by finding ways to raise, pool and channel new/existing resource, developing appropriate financial vehicles, governance arrangements and central/local accountability mechanisms. E.g. how can we leverage public, private, philanthropic and civic resources to unlock these barriers to inclusive growth?

Driving change through anchor institutions, such as hospitals, schools, colleges, universities and major employers, raising the bar for other players – across the public, private and social sectors – in what it means to be an organisation truly committed to their place. E.g. what's the 'deal' with local businesses and private sector investors, large and small when it comes to paying at least the National Living Wage, providing in-work training and routes to progression? How will inward investment support the long-term inclusive growth interests of the region?

Measuring progress, going beyond GVA uplift in headline terms and at a more granular programme/project level to track distributional impact upon people and places within their locality. E.g. will these metrics resonate – in theory and practice – with local people? How can we make the case to central government within the parameters of the Green Book whilst capturing the full breadth of social and economic impact intended over time?