ALL PARTY PARLIAMENTARY GROUP ON

INCLUSIVE GROWTH

THE STATE OF THE DEBATE 2017

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The All-Party Parliamentary Group on Inclusive Growth brings together reformers across politics, business, trade unions, finance, churches, faith groups and civil society to forge a new consensus on inclusive growth and identify the practical next steps for reform. In 2017 the APPG launched a new partnership with the Sheffield Political Economy Research Institute (SPERI). Through new research and thinking our aim is to pinpoint what needs to change and how, and to lead the debate on finding a new consensus on inclusive growth.

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THE STATE OF THE DEBATE 2017

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WELCOME TO THE FUTURE OF POLITICAL ECONOMY

Rt Hon Liam Byrne MP

This ground-breaking series of essays begins to set out the foundations for a new consensus in political economy. And not before time.

The debate held amidst the snow-topped peaks of Davos this year was dominated by one issue and one issue alone, the surge in inequality. In a democracy, anger isn't abstract. As both the vote for Brexit and the election of Donald Trump show, it turns up on polling day, with potentially disastrous results for the health of the world's marketplace.

In the US, new research shows that in the rust-belt states an incredible 40% of those born in 1980 are worse off than their parents. Here in the UK the gender pay gap still looms large – and as the Institute for Fiscal Studies revealed, there has been a four-fold increase in the number of men in low-paid, part-time work over the last 20 years. Young people in Britain, according to the Resolution Foundation, can now expect to be £12,000 a year worse off in their twenties, than the generation before them.

The root of the problem is what the OECD describes as the 'productivity-inclusiveness nexus'; productivity growth, which is what drives standards of living, is flat. Wages as a share of national income are falling - and a bigger slice of the wealth that is created is carried off by those at the very top.

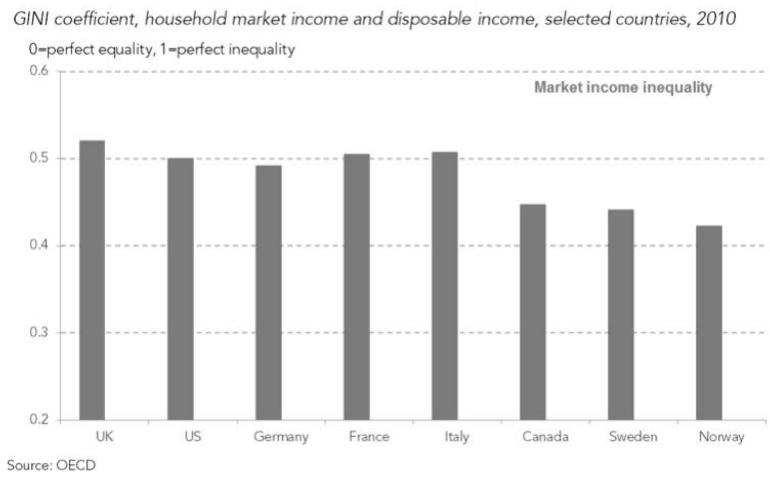
Today's combination of hyper-loose monetary policy and tight fiscal policy means that the asset-rich get richer while the asset-and-income-poor get battered. If you're lucky enough to own a house or shares or pension rights, you've done well since 2010: the stock market is up 40%; house prices are up by over a quarter; and the 'triple lock' on pensions in the UK will have channelled more than £33 billion extra to those with pension rights by 2020. Yet those on tax credits have seen their incomes fall precipitously while, of course, benefiting not at all from asset-price inflation; needless to say, they have little if any pension rights to protect.

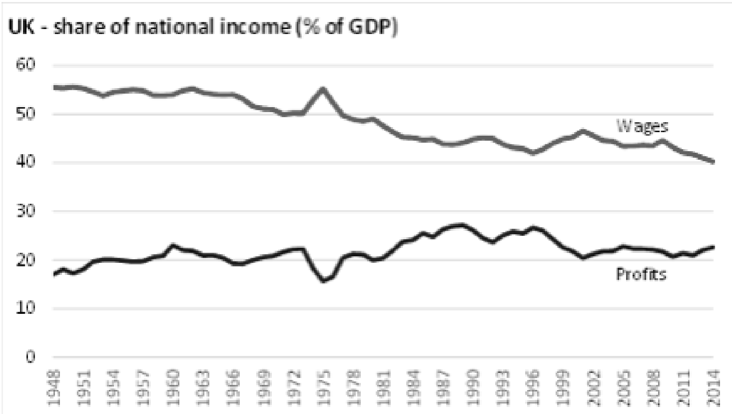
Yet beyond the economics of austerity, it is now clear that the four basic assumptions that underpinned Anglo-Saxon political economy since the 1970's - and the views of politicians like me - are now broken, and need rethinking wholesale.

Much was owed to Milton Friedman and the thinking of the monetarists. In the years after Friedman's 1969 American Economic Association lecture, his ideas took hold; that huge levels of public spending, and public borrowing, crowded out private investment by driving up interest rates and inflation. The corollary was the small state, with low levels of corporate tax, designed to spur investment and job creation. Fierce competition in the marketplace would drive up productivity, and the ensuing wealth created would trickle-down - sometimes with the help of big fiscal transfers like tax credits - to enrich the majority of the population.

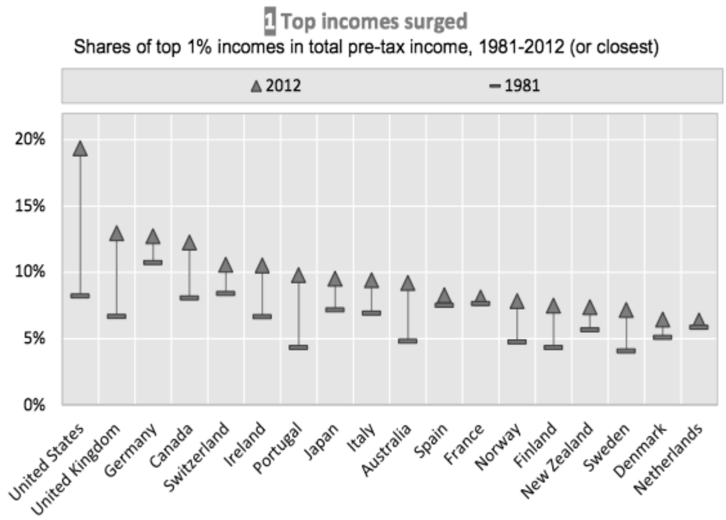
New Labour brought some important changes of approach to the Thatcher-Lawson years. New Labour recognised that demand management was important but could not on its own deliver high and stable levels of employment; it provided a new institutional framework for governing monetary policy including the independent Bank of England to replace the failed policy of target chasing; and delivered active supply side policy – targeting productivity, competitiveness and active labour market policy with policies like the new deal, tax credits, the national minimum wage – support for high levels of employment. Contrary to Nigel Lawson's neat but contrived separation of macro-policy to combat inflation and micro-policy to aid competitiveness, New Labour argued that 'macroeconomic and microeconomic policy are both essential – working together – to growth and employment'.

Figure 1: The UK economy produces high levels of inequality. Worse, wages as a share of national income are falling - while the top 1% carry off a bigger and bigger share (Source: Resolution Foundation; House of Commons library; OECD)



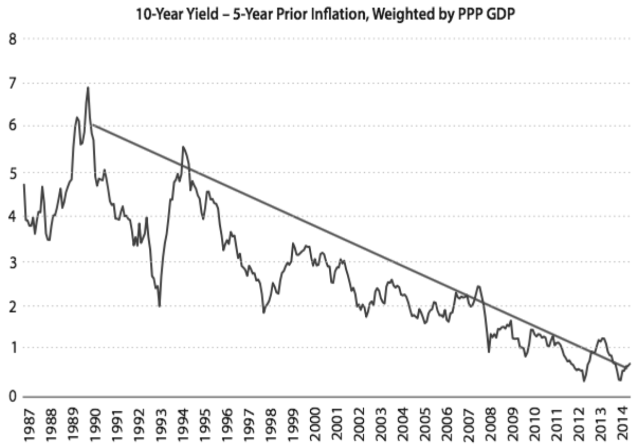


For many years there was much to the 'constrained state' theory. But those years are decisively behind us.



First, it is clear that large scale government borrowing is driving up neither interest rates nor inflation. As Larry Summers, Paul Krugman, Robert Gordon and Ben Bernanke have all argued - with different explanations - there is today vast global surplus of savings outstripping investment, and for as far as the eye can see, interest rates and inflation expectations are, historically, rock bottom, despite government debt in Western nations rising to 80-90 per cent of GDP.

Figure 2: The Evolution of Global Interest Rates

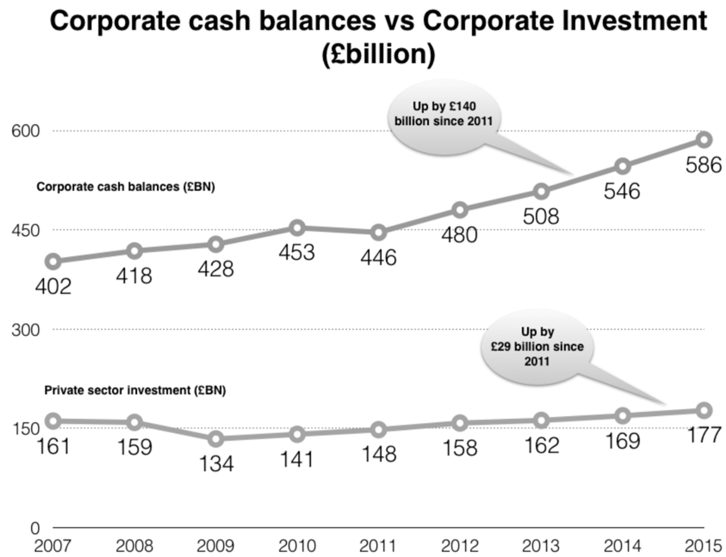


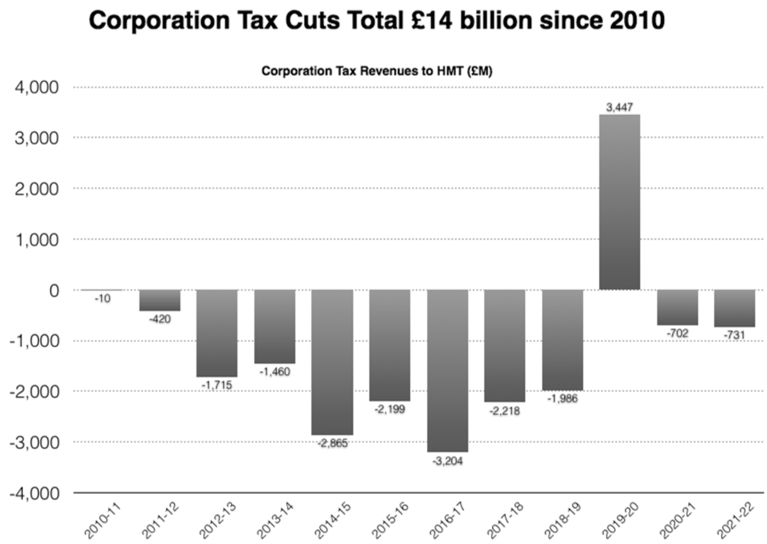
SOURCE: Bloomberg; IMF.

Second, it is no longer clear that slashing taxes and red tape do actually spur the sort of boost to investment that Government's used to expect.

As Figure 3 sets out, since 2010, the UK government has delivered corporate tax cuts totalling some £14 billion. And private sector investment has risen - by around £29 billion; but cash hoarding by the private sector has increased an extraordinary *five times more.* An incredible £140 billion extra in cash (over 2011 levels) is now sitting in corporate bank accounts.

Figure 3: Corporate Tax Cuts and Private Sector Investment (Source: House of Commons library)

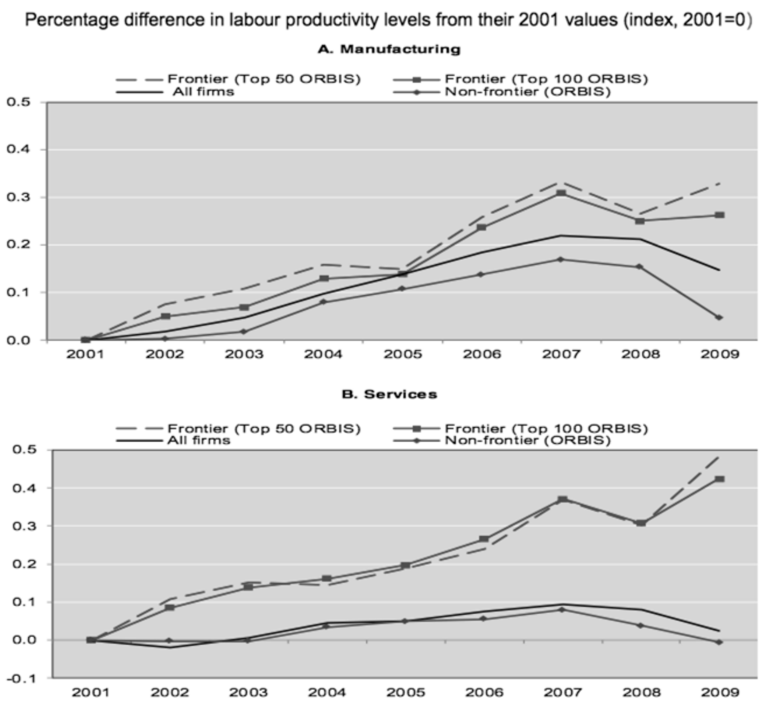




At the very least, we can conclude that government strategy for mobilising investment is significantly under-powered. When firms invest less, productivity stalls. And when productivity stalls, wages stall. The bottom line is this: the marketplace alone is no longer able to mobilise the investment society needs to drive forward economic progress.

Third, it is no longer clear that in the new 'platform economy' dominated by new super-giants like Google, Apple, Alibaba and Facebook, productivity gains are diffused through the economy as free market theory would suggest.

Figure 4: Productivity Gaps Between Frontier Firms and the Rest (Source: OECD)

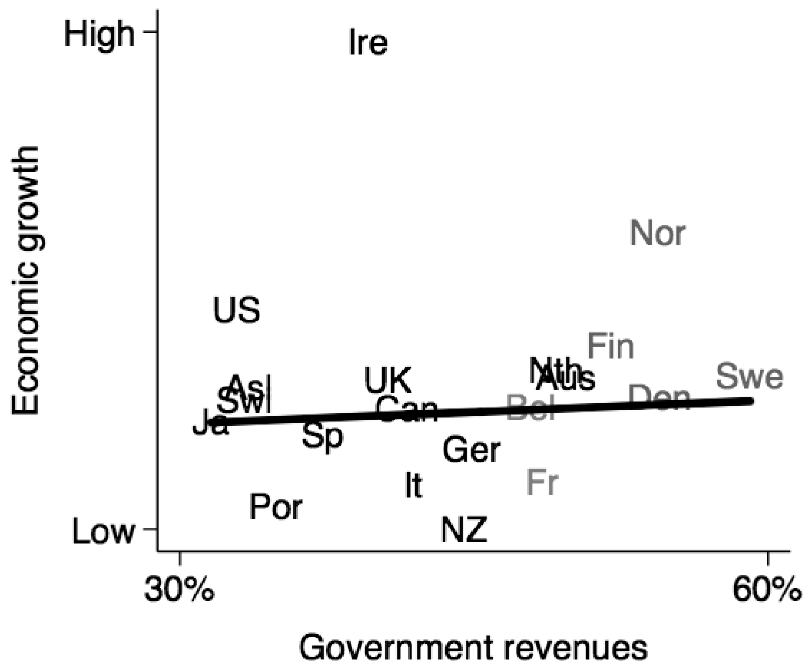


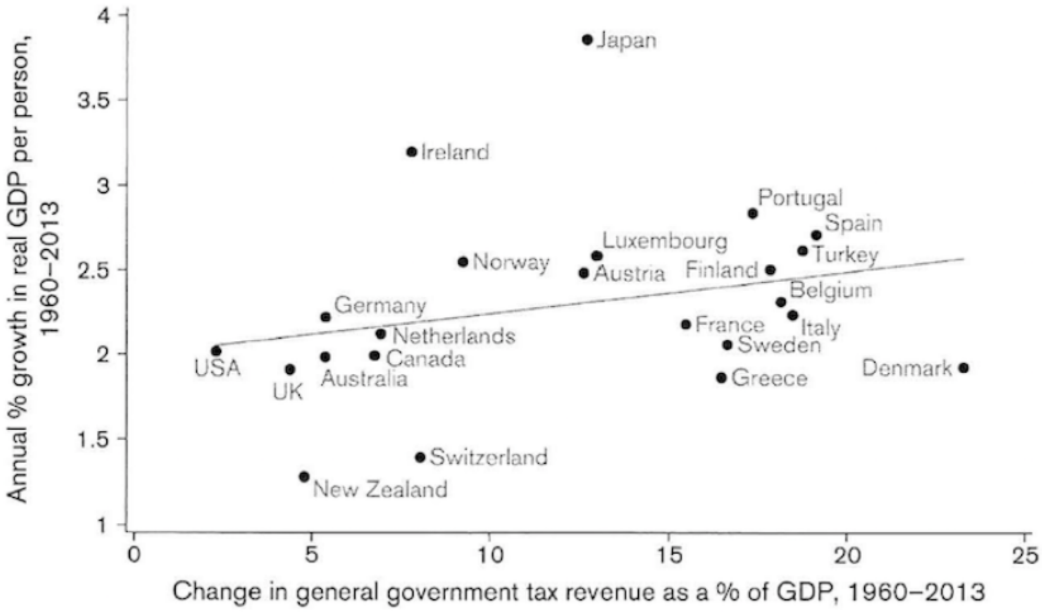
The globalisation of the last thirty years has sparked the most extraordinary $8 trillion merger wave, creating a vast new consolidation in the commanding heights of the global economy. These new Olympians channel billions into brand building and technology spending to create giant new barriers to competition; around 1,500 firms now control about *half* of world-wide R&D. The result is, as the OECD has discovered, that the productivity of industry-leading 'frontier-firms' is hugely ahead of the rest of the economy. And if productivity gains are 'hoarded' by a handful of firms, then only a handful of workers get well paid.

Fourth, it is no longer clear that 'big states' do indeed slow down economic growth. What Lane Kenworthy has called social democratic capitalism, may in fact be better for economic growth, because it 'encourages entrepreneurship, facilitates employment by women and those from less-advantaged backgrounds, allows unemployed workers more time to reskill and choose a productive job, and limits income inequality'.

What is the evidence? Well, nations like Denmark, Finland, Norway and Sweden all have a tax take that is at the extreme end of advanced economies. And all have enjoyed above average levels of economic growth (see Figure 5).

Figure 5: 'Big States' do not seem to suffer slow growth (Source: Lane Kenworthy)

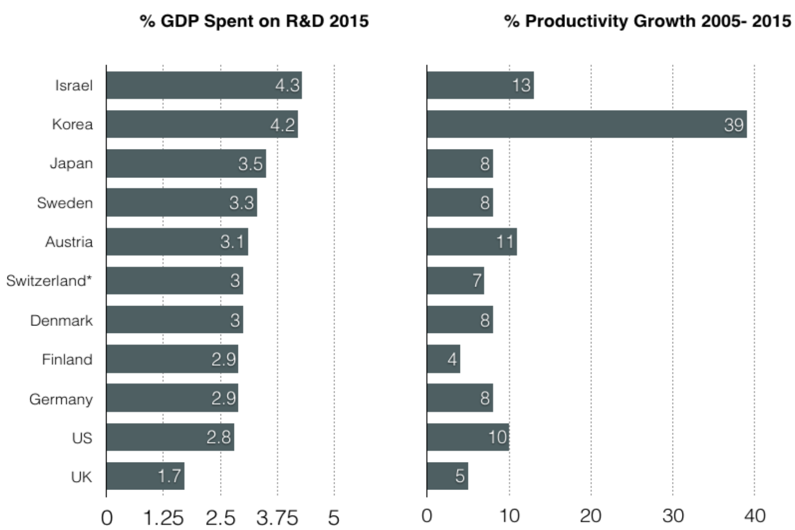




Source: Jon Bakija, "Would a Bigger Government Hurt the Economy?" In *How Big Should Our Government Be?* University of California Press, 2016.

The issue is thrown into sharpest relief by those nations that spend most on research and development. There is more and more evidence that far from 'crowding out' private sector investment, public science spending 'crowds in'. This appears to have a crucial effect on productivity growth. Some eight nations worldwide muster R&D spend of 3% of GDP. All bar Finland, have enjoyed productivity gains over the last decade that well ahead of the UK.

Figure 6: R&D spending and productivity growth (source: House of Commons Library)



So what does all this mean for the future of political economy? It must mean a much sharper focus on the institutions that shape the marketplace - and the rules that guide them.

As the late, great Nobel economist Douglass North proved, the quality of a country's economic growth depends on the quality of its institutions. Look at Britain. As I argue in *Dragons*, my history of British capitalism, down the ages there would have been no British miracle if it wasn't for great national institutions, like Parliament, the Royal Navy, the Royal Exchange, the Royal Courts of Justice, the Royal Society, and the welfare state first pioneered in places like Bournville, Port Sunlight and the board rooms of John Lewis.

Our challenge today is that the institutions needed to democratise the opportunities of this new global order simply do not work for ordinary working people.

For instance, we have global institutions that can help reflate growth - but we've not found ways of *taxing* the new wealth of nations: globally, $7.5 trillion is currently stashed in tax havens. Some $6 trillion of that has never been taxed. That is a problem when we need fiscal policy to carry more of the burden for driving up global demand.

Or, here at home, as many of the authors in this pamphlet point out, we lack the institutions needed for this new age. As Caroline Spelman, Alison McGovern and Richard Samans, all point out in this pamphlet, countries with better social institutions, like childcare services, technical education systems and systems that give working people access to assets like housing and pensions, do much better in creating inclusive growth.

New ideas in economics only come along every so often. And orthodoxy takes time to change. But, what is now clear is that the neoliberal orthodoxy of the past is collapsing into the dust. A new philosophy of inclusive political economy is starting to take shape. And that will be the meat of our debate for the rest of this parliament.

INCLUSIVE GROWTH: THE CHALLENGE OF OUR TIMES

Professor Colin Hay

"All animals are equal, but some animals are more equal than others"

George Orwell, Animal Farm, 1945

In a context in which we have been told for so long that '*we are all in it together*' to ask for inclusive growth might not seem to be asking for very much. Who could object, after all, to the idea that any growth dividend arising from our (admittedly) still meagre recovery should be evenly shared? Indeed, isn't such a commitment logically entailed by the very suggestion that we are all in it together – shared pain; sharing the gain? Put like this inclusive growth might seem a very modest and unobjectionable request.

And, morally, of course it is. But in economic terms, inclusive growth is, in fact, a very radical idea; all the more so in the context of the kind of capitalism that has characterised the Anglo-liberal world since the late 1970s. During that period the standard measure of income inequality, the Gini coefficient, has risen at an alarming and alarmingly consistent rate, reversing all of the gains made in the post-war years (the last time we had something credibly resembling inclusive growth). For the UK and the US inequality is now at levels last seen in the 1930s.

Consider, too, our response to the global financial crisis. The sad reality is that since 2008 whilst the income - and, above all, asset-rich have been largely spared the costs of post-crisis readjustment and even compensated for the losses they endured, the income - and asset-poor have borne the brunt of the public austerity that has been the principal response to the crisis - in Britain, as throughout the OECD world. In short, neither the misery and suffering of non-growth, nor the dividends of growth have been fairly shared since at least the 1980s. Indeed we are so far from inclusive growth today that the asset and income rich experience growth whilst the asset and income poor have yet to escape the recession (trapped in it, as they are, by conscious public policy choices presented to them in disingenuously egalitarian terms). Meanwhile, their real disposable income continues to fall.

To understand why this might be so, we need to return to, and consider again, the economic growth models put in place since the turn to Thatcherism and Reagonomics in the late 1970s and early 1980s in the UK and the US respectively. Originally and until at least the turn of the century, that model was a simple variant of the 'trickle-down' thesis. In such a conception what mattered was not the inclusivity of growth but growth alone – and the best way to maximise growth, so the argument went, was not to think about its potentially inegalitarian implications at all. Entrepreneurialism was the key; and entrepreneurialism was seen to be crowded out by the kind of redistributive fiscal transfers that had previously rendered the growth of the post-war period more credibly inclusive (as long as one was prepared, that is, to turn a blind-eye to the 'male breadwinner model' of the welfare state with which it was associated). Unremarkably, under trickle-down economics, whilst the pie did indeed get a little bigger (though at nothing like the rate of the earlier post-war period), the ever smaller slices left for the (conveniently labelled) 'undeserving' poor proved an ever more meagre ration; the staggering rise in the Gini coefficient in the 1980s and 1990s can only begin to hint at the suffering this model produced.

Yet by the turn of the new century, and partly prompted by the piquing of the moral conscience of somewhat more socially progressive administrations (notably, in Britain, those of Blair and Brown), the 'trickle-down' model of growth started to morph into what we now know as the 'privatised Keynesian' or Anglo-liberal growth model of the pre-crisis period – and its social policy corollary, 'asset-based welfare'. Though in the end this model proved scarcely less inegalitarian than its predecessor, it offered something new to some (though by no means all) of those suffering from declining real wages and ongoing welfare retrenchment. That 'something new' was the opportunity to participate in - and to benefit, for as long as it lasted, from – the asset price bubble that had been fuelled by the new low inflation and low interest rate equilibrium. As we now know (and should perhaps have realised all along) it was not going to last indefinitely. But, for as long as it did, those with assets and those sufficiently non-risk averse and sufficiently credit-worthy to borrow to acquire such assets (in a cheap credit market), were able in effect to compensate themselves for their stagnant wages with a credit-engendered top-up typically secured against the rising value of their property.

But this model too was staggeringly unevenly distributed, opening up a new stark axis of social and economic inequality between those with and those without appreciating assets (most significantly, property in general, their own home or, failing that, a mortgage). Arguably this made access to the private housing market, through mortgage lending (whether prime or sub-prime), the new marker of social inequality of our times. With house prices rising again (albeit far more unevenly than before), it remains so today. But the point is that, in a context of stagnant or declining real wages (the key story of the period since the 1980s), whether one experiences a net improvement in one's living standards or not is determined very significantly (and to a previously unprecedented extent) by whether one is asset-rich or asset-poor. The more asset-rich one is, the greater the gain; one has to be in it to win it.

As the preceding paragraphs suggest, we are as far from inclusive growth today as we have been since at least the 1930s. And things are almost bound to get worse before they get better. Brexit, even understood in the simplest possible way, as a worsening of the terms of trade between Britain and the remaining EU27 (and, indeed, through the trade deals to which Britain is currently party only through its EU membership, between Britain and over 100 other economies), can only prove corrosive of growth. And if it proves corrosive of growth it is likely also to suppress tax receipts. Brexit, in other words, reinforces public austerity. And we know who will suffer disproportionately from that - those who have already suffered the most.

In a short piece on inclusive growth, this may well sound like a manifesto of despair. It might well be read that way; but it certainly can be read rather differently. In a sense, the crisis reminds us that the growth model that we nurtured in the years before the bubble burst was always flawed and bankrupt technically and practically (it didn't work); the story of Britain's non-inclusive growth both then and now reminds us, at a time when we most urgently need to be reminded, that it was also flawed and bankrupt *morally*.

The challenge to achieve inclusive growth is therefore the challenge of our times: to build something both economically and morally sustainable for our children and for their children in turn.

INCLUSIVE GROWTH: A NEW AGENDA

George Freeman MP

With the long term fallout of the great crash of 2008 becoming clearer the issue of ‘inclusive growth’ has never been more urgent.

Eight years after the Great Crash it is becoming clear that the long term impacts of the crisis profoundly challenges the model of economy - and politics - we have become used to. Asset inflation and technological revolutions are entrenching untold wealth for a small global elite. This sits alongside falling relative disposable incomes for the many and inter-generational disposable income differentials, whilst a cohort of ‘just-about-managing’ citizens are working harder than ever simply to get by, with falling rates of savings. All of this – along with a persistent structural deficit in pensions, welfare and health budgets - combines to create an urgent need for new economic thinking about a model of growth and twenty-first century economic citizenship that works better for all people and places in our country.

Whilst the main political parties set out to tackle these challenges and develop policy programmes for them, Theresa May has set out a bold new Conservative agenda of reforms to help those of our fellow citizens who are working hard but struggling to get by: to build an economy that works for everyone, and for the people and places left behind.

But this challenge is also generational and will need thinkers from all parties - and none - to talk and think together about fresh approaches, which is why this cross-party initiative on inclusive growth is a welcome contribution to the policy debate.

As Theresa May has set out in her sequence of seminal speeches since being called to office in in the aftermath of the Brexit referendum and resignation of David Cameron, she leads a government committed not just to deliver Brexit, but also to the fresh thinking and fresh solutions to the scale of the domestic challenges we face which clearly contributed to the scale of the Leave vote last June. As she has said, it's clear that as well as rejecting the EU, voters were rejecting a model of growth that wasn’t working for them.

The UK’s vote to leave the European Union was one of the most dramatic and significant political events in decades – for this country and potentially for Europe. It changes everything: our economic model, our long term economic prospects, the assumptions and mechanisms through which we run most of our government and the diplomatic and economic status of the UK internationally.

Delivering a successful Brexit – one which strengthens our global security, our united kingdom, our economy and popular trust in parliamentary democracy, and a model of political economy that works to these ends, will dominate this political generation.

This is a challenge, but is every bit as much an unprecedented opportunity to reform our model of political economy to tackle the causes of deepening domestic political disillusionment and put our country on the path to long term recovery.

Brexit provides us with a unique chance to address two of the most important public policy challenges facing our country. First, the need to enable and enhance the conditions for creating and developing greater enterprise and innovation across our economy in order to increase competitiveness and productivity. Second, the need to tackle the growing sense of marginalisation and alienation of so many people and places from the opportunities of globalisation, which has in turn entrenched attitudes towards welfarism and social inequality. I believe these two challenges are fundamentally linked.

Without social mobility and the removal of the economic barriers holding back national and regional participation in the opportunities of enterprise and innovation transforming our world, we will never be able to tackle the structural challenges of productivity, public service modernisation, competitiveness and innovation.

It's becoming clearer to more and more people that a twenty-first century 'innovation economy' both requires and drives an 'opportunity society'. You can't have an enterprising economy with low rates of social mobility and opportunity on a hierarchical society. And the entrepreneurial spirit of economic aspiration is the essential fuel that powers the engine of social mobility.

For too long we have run an economic model based on generating growing tax revenues from an ever smaller global elite to pay for the welfare costs of a workforce increasingly dependent on handouts. Whitehall has tended to treat social policy quite separately from economic policy. The inevitably siloed thinking entrenched into the Whitehall machine – the Treasury and the Department for Business, Energy and Industrial Strategy for 'growth' and the Department for Work and Pensions, Department of Health and Department for Education for 'public services' - compounds a lack of integrated policymaking to tackle the socio-economic causes of low productivity. The challenges holding back the people and places we need to help do not fall neatly into Whitehall silos.

Since 1997 successive governments have pursued a model of growth based on a booming service sector, high levels of low-cost migrant labour and housing and asset inflation whilst putting in place a policy framework to support long term industrial renaissance and rebalancing. The EU referendum demonstrated that this model of growth was not working for too many people.

Our industrial strategy must be as much about lifting communities out of low-skill and low-wage stagnation as it is about driving pockets of new activity. We need Cambridge to continue to grow but we also need to ensure that communities from Cromer to Carlisle and Caithness, which do not enjoy the benefits of being a global technology cluster, can participate too. That means new measures to drive infrastructure and skills investment to spread opportunities more widely.

The Great Crash and its aftermath - including Brexit - represents a chance for a new generation to think these problems through and tackle them. We all have a part to play. This is the reason I set up the 2020 Conservatives Group in Parliament six years ago as a forum for a new generation of progressive Conservative MPs, regardless of increasingly old fashioned labels of 'left' or 'right', and from both sides of the Europe debate, to discuss new ways to tackle the current problems facing our country, beyond the conventional silos of Whitehall. Drawing on previous career experiences outside of Parliament, the group also looks ahead strategically at the potential longer-term social and economic challenges that may confront us in the future.

I believe that technology, and a new zeitgeist of public sector (as well as private sector) enterprise hold the key to resolving the barriers that are currently holding back the development of new opportunities in our society. With innovative new approaches to better infrastructure and skills to connect opportunities to the people and places left behind, better incentives and freedoms for our great innovators to lead the way in public sector innovation, and new models of mutualised public/ private partnerships and ventures, we can build an economy that genuinely works for everyone.

The Government has already set about making this happen. Through the industrial strategy, the £23billion package of investment in new infrastructure and innovation announced by the Chancellor, Philip Hammond, we can now be much bolder in developing a twenty-first century knowledge economy infrastructure that will be the foundation for economic success.

The success of inclusive growth rests on a number of core foundations: that our economy grows, that social inequality is redressed; that people are given the skills they need to pursue a career in the new economy and that we better spread the opportunities of the global economy hitherto enjoyed by a segment of our workforce to the many.

This can only be achieved if we recognise the way in which enterprise and opportunity are interdependent. Together, politicians from all parties have a chance to set out a new path for a Global Britain: making our country the world capital of innovation and opportunity. Not trickle-down economics, but ‘innovation economics’ where the private and public sector commit to a programme of supporting each other for mutual benefit.

An economy that works for everyone is an economy in which the country unites around the twin pillars of opportunity and security which are open to all. A country united by a lived truth of the shared values of opportunity and security. A county in which ‘shared values’ are as important as ‘shareholder value’. And in which *both* are better shared by all. A country once again with that precious alignment of economic and social purpose which is the hallmark of all great civilisations. It's a great prize.

INCLUSIVE GROWTH: TURNING ASPIRATION INTO ACTION

Richard Samans

Over the past several years, a worldwide consensus has emerged on the need for a more inclusive growth and development model. However, this consensus is mainly directional; inclusive growth remains more a discussion topic than an action agenda.

Consistent with the theme of the World Economic Forum's Annual Meeting in Davos last month, 'Responsive and Responsible Leadership', we published at that time a report the aim of which is to help countries and the wider international community *practice* inclusive growth and development by offering a new policy framework or 'growth model' and a corresponding set of policy and performance metrics.

The report suggests that many countries have significant unexploited potential to simultaneously increase economic growth and social equity. But this will require them to change their approach to structural reform, reimagining it as an ongoing process of continuous improvement within a wider ecosystem of both demand- and supply-side policies and institutions, the combined effect of which is to diffuse opportunity, income, security, and quality of life, i.e., living standards, *as part of the growth process.*

We define a framework of 15 areas of structural policy and institutional strengths that are important drivers of both growth and inclusion. This policy ecosystem constitutes the implicit 'income distribution system' - or, more accurately, living standards diffusion mechanism - underpinning modern market economies. It deserves equal emphasis with the traditional focus of top economic policymakers: macroeconomic, trade and financial supervision policies.

Rebalancing policy priorities in this manner would imply a profound change in the way economic policy is conducted in many countries and indeed for the growth model that has been posited for a generation by much of the economic policy establishment. In some economies, a reimagined process of structural reform aimed at broadening the base and benefits of growth may be the best hope for accelerating its rate in the current context of diminishing returns from extraordinary monetary policy measures and limited fiscal space.

In more than a few advanced economies, this policy and institutional ecosystem has deteriorated or been inert over the past two decades as the forces propelling widening inequality – technological change, global integration, domestic deregulation, and increased immigration – have intensified. Many developing countries, meanwhile, have lagged in creating its basic elements as they have industrialized and integrated into the global economy, missing an opportunity to include more of their populations in their development process and rendering their economies more vulnerable to fluctuations in exports and commodity prices.

We have created two benchmarking databases to support governments wishing to devise and monitor the progress of a practical inclusive growth and development strategy, covering 109 countries for which data is available. One is a new Inclusive Development Index in which countries are ranked based on 12 national key performance indicators that include, but go beyond, GDP growth, incorporating key measures of economic opportunity, inclusion, and environmental and intergenerational sustainability. Many have long called for an alternative measure of national economic performance to GDP, and this is a concrete example. We compare the rankings of the two. The second benchmarking database is the Policy and Institutional Indicators, which yield a profile of each country's relative institutional strengths and their utilization of the policy space.

Based on this framework and data, our new report recommends specific changes in the priorities of national policy and international economic cooperation – in effect a new growth and development agenda that would greatly aid progress towards both the Sustainable Development Goals and Paris climate agreement targets. We argue that a coordinated global initiative along these lines is what is required to counteract secular stagnation and dispersion, to raise growth and reduce inequality at the same time by placing median living standards – i.e., people – at the centre of national development strategies and international economic integration.

Related social frustrations being expressed through the ballot box and on the street have an essential validity. The implicit income distribution system in many economies is clearly underperforming or relatively underdeveloped, but this is mainly due to an unduly narrow conception of and sustained lack of attention to structural economic policy rather than an iron law of capitalism.

Reshaping the assumptions and priorities of the way modern market economies organize themselves to generate socioeconomic progress can only be realized with the engagement of all stakeholders. The report was developed as part of the Forum's multi-stakeholder 'System Initiative on Economic Growth and Social Inclusion' and includes contributions from five international organizations, three companies and one G20 government. The initiative is intended to serve the international community as a platform for public-private cooperation to help governments and companies translate the shared aspiration of inclusive growth into collective action.

GLOBALISATION AND INCLUSIVE GROWTH: THE CHALLENGES FOR GOVERNMENTS AND BUSINESS

Rt Hon. Dame Caroline Spelman MP

The current rise in populism internationally reflects in part the inability of governments to address adequately some of the big challenges arising from globalisation. The planet is effectively shrinking as the digital economy cuts across old frontiers and challenges the old orders that divided the world into developed and developing nations. Whilst globalisation brings substantial benefits, there are also some significant disadvantages. The low-waged in relatively rich developed nations have seen a squeeze on their incomes as it has become harder to compete to produce products with those made in relatively poor nations.

Those affected have been described euphemistically as '*left behind*'. It is not the case that global liberal elites have wilfully ignored this looming problem. Indeed, there have been attempts to help the low-waged, tax credits with a minimum wage in the UK and America's efforts to provide healthcare for the poorest being two primary examples. However, these are palliative policies which have not addressed some of the underlying causes of disadvantage and the consequent rise in inequality. Many countries have actually missed the opportunity to effectively include more of their populations in their economic growth.

We must take seriously the social frustrations increasingly being expressed through the ballot boxes of successive elections and referenda. In a poll of voters in December 2016, ComRes uncovered something of the strong negativity that some in the UK hold towards globalisation and the perceived effect this has had on inequality. Almost half (49%) of participants felt that globalisation has pushed wages down for British workers, while 51% thought that it had led to more inequality between rich and poor.

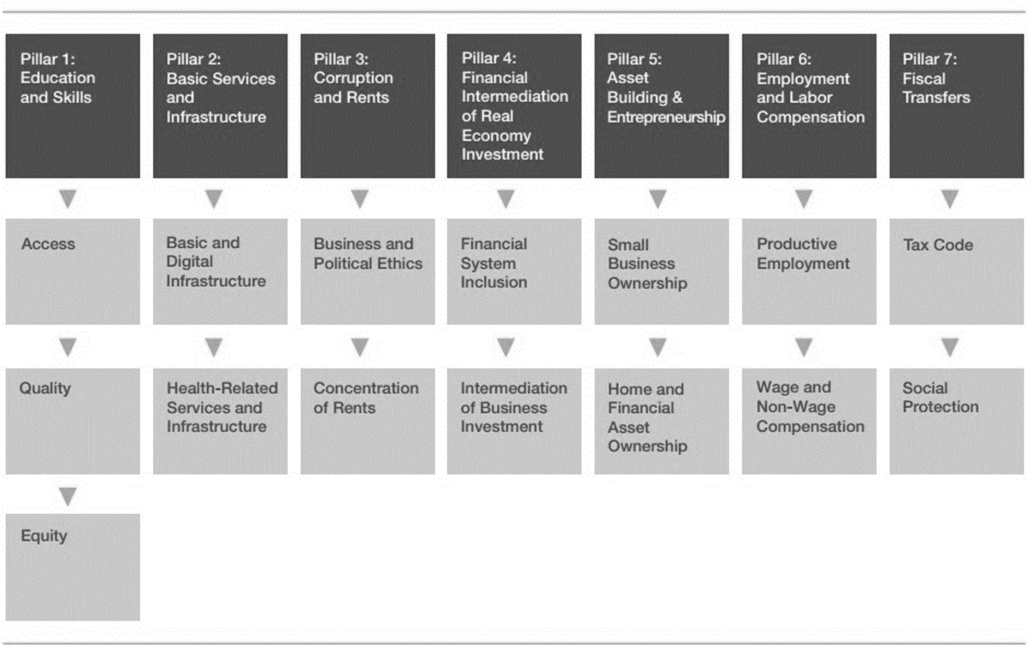
This was a key theme at this year's annual meeting of the World Economic Forum (WEF), where a new report was launched on '*Inclusive Growth and Development*'. This report includes the Inclusive Development Index (IDI) which measures 109 countries for inclusive growth. Out of these, 30 are considered within the sub-index of advanced economies. The UK ranks at 21st just above America at 23rd with many Southern European countries being ranked below. The marked difference is the Scandinavian region of Europe. At the top of the IDI is Norway, with Sweden 6th and Finland 11th.

OECD data also shows that income inequality in Scandinavian countries is dramatically lower than that of the UK. While the UK had a higher level of income inequality (36%) than most European countries in 2013 (based on the Gini coefficient for disposable income) Norway was the second lowest amongst OECD countries at 25%, with Finland at 26% and Sweden at 28%.

As we can see, public frustration is valid. Income distribution in many countries is unequal, and growth in advanced economies has not translated well into social inclusion, but this is due to a lack of attention rather than '*an iron law of capitalism*'. As the WEF report highlights, wider inequality in our current financial system needs to be recognised and addressed to restore public confidence in the capacity of technological progress and international economic integration to support rising living standards for all.

The report presents an interesting policy framework encompassing seven principal domains (pillars) and 15 sub-domains (sub-pillars) which describes the spectrum of structural factors that particularly influence the breadth of social participation in the processes and benefits of economic growth factors. As a whole these represent an ecosystem of structural policy incentives and institutions to help diffuse opportunity, economic security and quality of life. Below is a figure generated by the WEF for the report.

Figure 1: Inclusive Growth and Development Framework



This model of inclusive growth was described as one which is both pro-business and pro-labour, an agenda to boost social inclusion and economic efficiency through a stronger focus on appropriate institutions. If the institutions in society are weak and old fashioned they will not be able to make the adjustments to a fast moving world or ensure that those entrusted in their care are well protected and equipped for global challenges. For example, if the education system fails to ensure computer literacy, a whole generation of schoolchildren will grow up digitally disadvantaged. If basic labour standards fail to keep pace with technological changes and are too inflexible to support rising productivity and skills adaptation then a whole generation of workers will find themselves facing redundancy.

This report provides a fascinating snapshot of the world in 2017, but we must expect the challenges to intensify as the fourth industrial revolution strikes and new technologies threaten the old order. Again, taking the UK as an example, the Institute of Fiscal Studies in its report 'Living Standards, poverty and inequality in the UK 2016' highlighted that after 2016 income inequality is expected to increase. This growth in inequality between 2015/16 and 2020/21 is expected to reverse the fall previously seen between 2007/08 and 2015/16.

This is no doubt what prompted a Conservative British Prime Minister to consider tackling the emotive issues of wage multiples between the highest and lowest paid in organisations. However, to bring such changes about, governments will need to set meaningful targets for change to improve five key areas of human capital formation: active labour market policies, equity of access to good quality basic education, gender parity, work benefits and protection and better school-to-work transition. A universal basic income is no substitute for these five crucial institutional underpinnings of a well-functioning labour market and we must level-up performance across these areas.

So, we must fix our attention on the quality of growth and start clearly demonstrating to the ordinary man and woman on the street that our endeavours are focused on achieving greater fairness, shared inclusive growth and a sustainable future for all. We are being called to make a collective commitment to greater responsiveness and to take responsibility for economic leadership - this applies to both governments and businesses alike.

THE DIFFERENCE BETWEEN ECONOMIC GROWTH, AND ECONOMIC GROWTH FOR ALL

Alison McGovern MP

Economic policy is always boring, until it's too late.

Pensions. How they are funded, who they cover, what happens if they fail. Boring. Until it was too late.

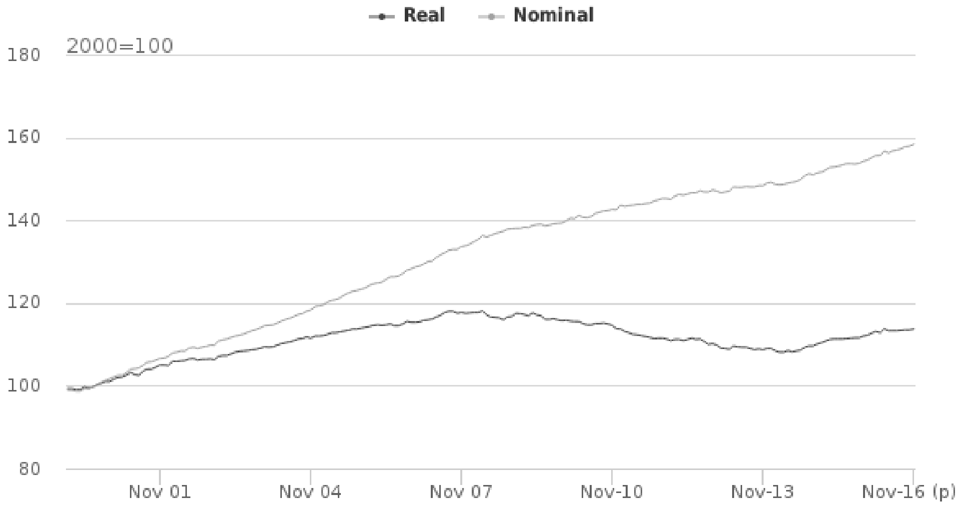
Mortgages. Who has them, who needs one, who should have one. Boring. Until it was too late.

Finance. Capital markets, their products, their structure, their risk profile. Boring. Until it was too late.

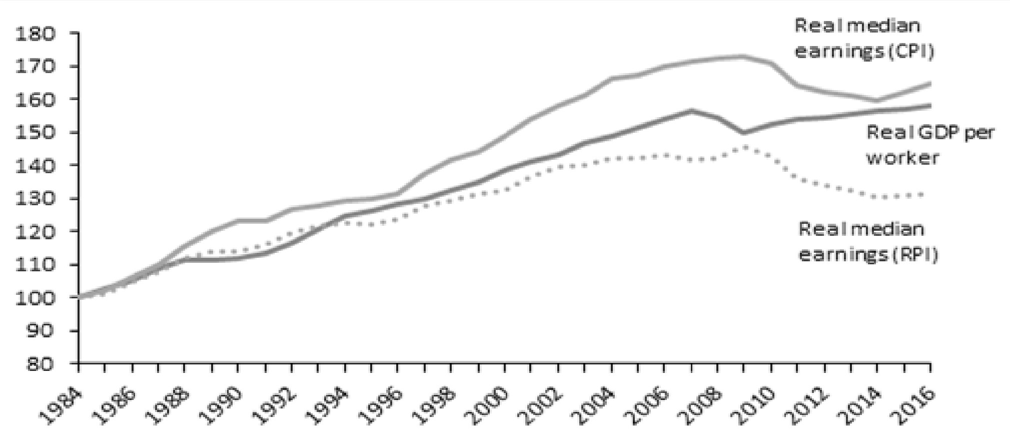
You see the point I'm making. It's easy to look away from numbers. The data doesn't necessarily tell us an obvious story. And then one day, a catalyst sparks an unforeseen, if, with hindsight, predictable event, and we all wonder why we didn't see it coming.
Something similar happened with the Brexit vote. Of course, it was a perfect political storm: an overconfident Prime Minister calls a referendum that he only needs to have to pay off his right flank, safe in the knowledge that the mainstream voters and the leadership of the Labour party will carry him through. Except he forgets that there is someone more despised than even his right flank: him.

But beneath all of that, the Brexit vote revealed a divided country. Between those who felt that Britain as it was before the referendum offered them a decent enough – if imperfect - future, and those who felt it offered them nothing of the sort.

Could we have seen it coming? Perhaps we could. Take two graphs.



Real wages are still, today, on average below what they were in 2008, nearly a decade ago. At the point of the referendum, average wages were yet to return to the level they hit eight years earlier. The difference between real and nominal wages is inflation. People have watched prices steadily drift up while their wages have remained stubbornly flat. Not an overnight shock, but a long drawn out crisis all the same.



Source: GDP figures from ONS National Accounts, series ABMI; Employment data from ONS Labour Market Statistics, series MGRZ (2016 figure approximated); earnings data from ONS New Earnings Survey (1968-1996) and Annual Survey of Hours and Earnings (1997-2014); price data from ONS Consumer Price Indices and Bank of England ("Three centuries of macroeconomic data").

It is important not to over-interpret the data with hindsight. After all, vast numbers of pensioners (over 60 per cent of them) voted to leave the European Union, and pensioners incomes have not seen the same fall as incomes for the working age population (in fact they rose by 19 per cent in real terms in the last 10 years). But there are nearly 32 million British people of working age. That surely should have been enough to carry the vote, had far too many people not had too little reason to back the status quo.

So in the years running up to the crucial Brexit vote, the economy was, by and large, moving ahead. But in the case of the most crucial, most noticeable, economic transfer - a person's wages - the economy was not moving ahead at all. In fact between the crash and the 2015 general election wages largely only fell, and since then, pay has struggled to make up ground, against a picture of an otherwise 'growing' economy.

Worst of all - nearly 4 million households in measurable (and therefore known) poverty include someone at work. Of the 17 million Brexit voters, for all of those wealthy retired voters who always hated Brussels, how many were unpersuadable simply because they had too little to lose, and couldn't stand Cameron.

The problem with all this though, and the reason we didn't see it coming, is that no one's life is a graph. I mean, we are all data points on the graph. But no one *feels* like a data point. Everyone feels like a person. And people are notoriously bad at providing logical, graph-like, mathematical reasons for their political judgements. '*My individual wages have failed to keep pace with growth in the economy at large*' said no person on no doorstep, ever. Unhappiness with what is on offer manifests itself in lots of different ways but it isn't likely to be an analysis of the macro-economy.

We all know of course that people are much more likely to connect with politics (and politicians) emotionally. That is how we make our choices. Our emotions are informed by the facts of our life and are responses to the facts we experience, the facts we see. So, whilst the graphs above cannot tell us all we need to know about how the mainstream Labour and mainstream Conservative parties lost the Brexit vote, they tell us about some facts likely to impact on the choices we make.

The challenge is to work out how, and if, changing the trends shown on the graphs above can be sure to impinge on the lives of the many in our population who lost out over the past decade. How should policy makers have seen the separation of economic growth from economic growth for all? And what can be done to repair the link?

This challenge is what is meant by creating 'inclusive growth'. Or as I think of it, making sure there is a hard chain linking growth in the economy overall to the growth of wages and incomes of the many.

When the country rises, so must all within it.

The hard links in the chain are what should have kept our country together. They are the rules of the economy that should have meant that the British economy doing better meant individuals, families, towns, cities all doing better too. You can see from the graphs above that the rules worked between 1997 and about 2005. Our country grew, and we all grew in capacity with it. But then the model stopped working. And 11 years later people were asked to vote for the status quo, even though the status quo was clearly failing the many.

So that's why we have to work out what the rules of the game should be. We will never be able to see the trends until it is too late. We need rules that shape our markets, including the labour market, that will achieve the outcome that people can see and feel in their pockets. Analysis of the past is only any good if it can help shape the future, and understanding the graphs, the macro-economy, the big numbers, is only any use if you can see the connection between that and life as experienced by British people in every town in our country.

It's not enough to say that somehow our economy is rigged against people, as if this was one great fiddle. Rather, we should remember that policy choices have consequences.

Now some people suggest that the correct response to falling wages, and precarious work, is some sort of universal benefit, or citizens' income. Recent Fabian Society research demonstrated that the vast majority of people – about 80 per cent - feel positive about their work *even despite the story told here about wages*. So even if it were practical for government to increase tax and then to transfer something in the region of the state pension to every person in our country, costing hundreds of billions, it hardly seems like it would be popular.

So if people, in general terms, actually like their work, the problem is making sure they get paid enough and can get promotion. Start from the alternative view that working people are ground down by their experience of work, and our policy ideas will fail to resonate. Rather, recognise what the past decade has taught us: that the growth of the economy must mean economic growth for all within the economy, or else there will be consequences.

So, the question remains: what are the hard links in the chain between the economic growth of the country as a whole and economic growth of the people, families and towns within it?

Unfortunately, this is where the boring stuff still matters. You can get paid more if you have better prospects. That means a buoyant labour market, and the skills to participate in it.

Now the government say that they are addressing the challenges in our economy by investing in infrastructure, through their plan to develop an industrial strategy. And along with buzzy new ideas like universal basic income, everyone in politics loves announcing campaigns for new railway lines (me included). Trains are big, fast, expensive and showy. But travelling to work by train tends to be the preserve of those who already have a high-skilled job and are commuting some distance. We should worry a little more about those who get the bus to work, or we will fall into the same trap as before, just focusing on those who already have a chance to get on. As I mentioned above, in politics we seem permanently in danger of missing the point.

For example, take those who work in low-pay sectors like care, retail, hospitality, or construction. Each sector has its own challenges, but one thing that unites of all these sectors is the likelihood of people working in them to be working below their potential skill level. Hopefully our new metro mayors will be able to take on some of this challenge, and provide better education opportunities for those at or near the minimum wage. But what about in those areas without mayors? Do they fall even further behind? Skills transfers matter much more for future growth than a massive financial transfer like universal basic income.

And in case anyone should think that I have forgotten, with less than 15 per cent of people in the private sector represented by a trade union, it is little wonder that workers have insufficient power to command better wages. Our labour market leaves too many people on their own, without the strength of collective bargaining to get them a good deal.

Universal basic income fails for another crucial reason. It would fail for the same reason that tax credits were economically effective but open to political challenge. For most people, the part of government, of the state, that they wish to defend are the things they can see, they can touch, emotionally engage with. The hospital their child was born in, that cared for a sick parent, the school they went to, the park they played in with their grandchild. They prefer to earn their wages, and do a job they enjoy. Transfer payments from the state are always harder to defend, as the history books attest to (child benefit, for example), because the institutions of the state that persist - that are, in the end, fought for - are those that engage emotionally with the public.

So for me, truly inclusive growth means making the most of the institutions we already have – colleges of further education for example – and building new ones like universal quality childcare. Many members of our workforce are prevented from returning to work after the birth of a child, simply because the cost of childcare means it is not worth it or even possible. This affects mostly women, who often shoulder the main burden of childcare. Universal free childcare would provide the economic and social infrastructure to allow many more women to go back to work or have the time to gain more skills, should they want to. Moreover, good quality childcare would benefit all of our children, narrowing the attainment gap by providing our children with the preparation they need to succeed in school. The hard links in the chain, ensuring that growth in Britain necessarily involves economic growth of all of those people and places within it, are, in fact, the institutions of the state.

These are the platforms Labour governments have built for ordinary people to stand on from which to reach up. But these are the very institutions under attack from current government policy. If we're going to rebuild the chain then the government must change tack. We need to develop new ideas and solutions and the APPG can be a place to bring people together across the party divide. Theresa May has spoken about an economy that works for all. Now's the time to protect the institutions that can deliver that economy and inclusive growth, before it is too late.

SOCIAL POLICY: A VITAL PARTNER IN ANY INCLUSIVE GROWTH STRATEGY

Dr Hannah Lambie-Mumford

People are at the centre of the economy. This is of course an obvious statement in practical terms but, in the age of austerity and rising inequality and in-work poverty, it is clearer than ever that the current political economic model over looks this premise, in any meaningful moral sense. The inclusive growth agenda provides a unique opportunity to reconnect people with the economy and build a fairer, more equitable society. As we work towards this, however, social policy will necessarily need to play a central role; keeping focus on the needs and aspirations of all people, especially the most vulnerable.

Social policy focuses on people and their wellbeing and looks particularly at the state's role in ensuring it. Whilst the question of the role of the state in creating and protecting a better society for all is not a fashionable one right now, it is one that nonetheless should take centre stage in any notion of inclusive growth. The state can hold other actors accountable and ensure all stakeholders take their share of responsibility. Social policy is an essential engine in its own right and in an inclusive growth agenda it should be seen to form one of the key bedrocks of a progressive society. Ultimately, social policy needs to be seen as a *partner in*, not just one *part of* inclusive growth.

Over the last several decades social policy has been slowly but surely marginalised and maligned as part of neoliberalising policy shifts which have also been facilitated by contemporary notions of the 'deserving' and 'undeserving'. Meaningful and impactful social policy has been sacrificed with damaging results. Rising levels of homelessness, inequality and food bank use is symptomatic of the double impact that has been felt: economic marginalisation through changing, insecure and low paid work *and* the absence of an adequate social safety net. What we have seen emerge in this context is the rise of a system of increasingly privatised risk and care. Individuals are blamed for their own socio-economic circumstances and left to fend for themselves and their families or to turn to ad hoc charitable initiatives when all else fails. Austerity politics has continued a recent trend which has shifted focus away from structures as the most important determinants of poverty and inequality. At the same time, the importance of treating care as a structural and public good has also been undermined, along with the sense that we have a duty to others and that the state has a progressive role to play in facilitating this.

This has all led to a hollowing out of specific social policies: reduced and increasingly conditioned social security; decreasing social housing stocks; cuts to children's services; cuts to community facilities; a funding crisis in social care for the elderly; and cuts to education funding. The social impact of this move away from progressive social policies looms large over any prospect of an inclusive economy.

Harnessing the legacy of 70 years of social policy practice and research will be vital to the success of an inclusive growth agenda. Those most vulnerable and most excluded have to be at the centre of inclusive growth and strong independent social policy is the best way to hold any (inclusive) growth agenda accountable to that notion.

As we look to initiate meaningful moves towards inclusive growth, social policy will help to promote a focus on many urgent questions, but four will be particularly important.

1. What does a progressive safety net look like?

People will almost inevitably encounter times of transition and unemployment, even in an 'inclusive' economic model. In those instances, what form will social protection take? What can we learn from current trials of Universal Basic Income? What will rights and entitlements look like and how will they be enshrined and enacted? How will the state guarantee them? And what role will other sectors take?

2. *How can social institutions promote inclusive growth?*

Social institutions will play an important role in inclusive growth, both in terms of facilitating access to the labour market and promoting wellbeing. To these ends we will need to address such questions as, how will education and early years support need to be reformed to provide every child with the best life chances? How can childcare be improved (from early years through to secondary level) to enable carers to participate in the labour market? What community facilities are needed to promote healthy, sociable and independent living for all? What does progressive health and social care policy look like? And how do they intersect with enabling carers to access employment?

3. *How can inclusive growth promote wellbeing for all?*

Social policy also promotes a focus on those outside of the labour market, and will hold an inclusive growth agenda particularly accountable to the wellbeing of *all*. How well the most vulnerable in society will be cared for, and their wellbeing maximised, will be the litmus test for the success of any inclusive growth strategy. To this end we must at the outset ask how to best promote wellbeing for our children? And those who are sick or elderly? And how can those with disabilities best be supported? How will we ensure gender and racial equality in the context of inclusive growth as well?

4. How do we take account of the role of place?

In the context of inclusive growth we will need to be conscious of enabling the inclusion of both people and (through) the places in which they live. Place can form important barriers to social participation and inclusion and to this end we will need to ask such questions as: what do adequate and affordable public transport systems look like, that promote both social and environmental wellbeing? How can we promote more affordable, healthy local food landscapes? And how can we ensure that everyone lives in a high standard of secure, well heated and well equipped housing?

The inclusive growth agenda provides an important opportunity to re-write and re-affirm the social contract. In discussions of inclusive growth, social policy is often referred to as an important element or dimension. But its role is much more than being one of several key components. Social policy will need to be seen as a vital, independent partner in any inclusive growth agenda. It can hold the agenda accountable to, and help it work towards, the wellbeing of all, including the most vulnerable and marginalised.

WE NEED TO RETHINK ECONOMIC POLICY TO BRING PROSPERITY TO THE WHOLE COUNTRY

Michael Jacobs

The vote for Brexit and the election of Donald Trump have been widely seen as a cry of protest by people in former industrial areas in both the UK and US who have been left behind by the processes of globalisation.

Both events took commentators by surprise, but in many ways they should not have done. In the US, real median household income is barely higher now than it was in 1990 – despite growth of around 80 per cent in GDP in the same period. In the UK, half of all households have seen no meaningful increase in their incomes since 2005. Before taxes and benefits, only 10 per cent of overall income growth in Britain between 1979 and 2012 went to the bottom half of the income distribution, with the bottom third barely sharing in it at all. The richest 10 per cent meanwhile took almost 40 per cent.

The geography of national income in the UK is even more skewed. London and the South East account for almost two-fifths of national output. Indeed, the remarkable fact is that outside those two regions, no part of the UK has got back to the level of output it had before the financial crisis in 2008.

But the weakness of the British economy goes much deeper than this, as a recent IPPR report sets out. The UK invests less as a proportion of national income than most other advanced economies, and investment has been declining for a quarter of a century. As a consequence our productivity is lower, and since the financial crisis its growth has stalled altogether. This makes raising wages almost impossible – which helps to explain why household incomes have not increased in recent years. We have a record trade deficit which has also been growing over a long period. This makes the UK deeply vulnerable to a decline in overseas' investors' confidence in the value of UK assets, which currently fund the deficit. The recent depreciation of sterling will benefit our exports – but so many of them are so full of imported components that the effect will be much less than it would be in a country (like Germany, say) with a stronger manufacturing sector.

At the same time the UK has an alarming fiscal gap: due to its ageing population, there is a rapidly growing divergence between future tax receipts and spending commitments, unless taxes (as a proportion of GDP) can be raised. The declining proportion of working age people relative to the young and the retired has also given us a huge 'pensions gap'. The difference between actual pensions saving and the levels required to provide the incomes that most people expect in retirement now amounts to around 13 per cent of GDP.

The challenges facing the UK economy today are severe. We start from a fundamentally weak base, in which growth has been sustained since the financial crisis only by near-zero interest rates, rising household debt and almost continuous quantitative easing. Brexit now poses serious risks to trade and inward investment. But on top of this we will soon face a new wave of globalisation as China and other emerging economies start competing higher up the value chain. And meanwhile the new technologies of automation and machine intelligence offer huge opportunities but also serious risks of job loss and dislocation.

These challenges will require more than tinkering at the edges of economic policy, whether on left or right. Ensuring that economic growth can be sustained and its fruits properly shared across all households and regions will require some fundamental rethinking – not just of policy, but of economics itself.

Political debate and policymaking over the past half century has relied on a narrow school of orthodox economic thought, dominated by a simplistic idea of markets and market failures, and of the limited role of government. To address the problems we face today we need to draw from a richer set of economic ideas which acknowledge that wealth is not created by the private sector alone, but is co-produced by the private and public sectors. Markets are not external forces which bind firms into inevitable choices, but are created by the decisions made by private firms, public institutions, and the customs and cultures of society. Different kinds of interactions between firms and policies can generate different outcomes: policy makers can actively reshape and create markets for better ends. And the rewards can be shared more fairly: inequality is as bad for prosperity as it is corrosive to society. If growth is not low-carbon, it cannot be sustained at all.

Over the next two years the IPPR Commission on Economic Justice will be rethinking economic policy from these foundations. Comprising leading figures from across the country and the economy – from the Archbishop of Canterbury to the organiser of Citizens UK in the North East; from the CEO of Siemens to the General Secretary of the TUC – the Commission will be examining the challenges facing the UK economy and making practical recommendations for its reform. We are exploring what industrial strategy really means; how to make financial markets more long-term; how to close the class, gender and ethnic skill and pay gaps. We will look at the distribution of wealth as well as income, and how it can be made more equal. We will look at how economic policy can be devolved to the nations and regions of the UK, and how it can be decarbonised. We will think big, and consult widely.

The political revolt of 2016 asks a powerful question. It needs urgent answers. The Commission on Economic Justice aims to start a new conversation about where the

British economy is going, and how it can be shaped to bring prosperity to the whole country.

The APPG on Inclusive Growth is the parliamentary partner of the IPPR Commission on Economic Justice and will be working with them throughout 2017 and 2018.

INCLUSIVE GROWTH AT CITY-REGION LEVEL: A PERSPECTIVE FROM GREATER MANCHESTER

Professor Ruth Lupton

The Inclusive Growth Analysis Unit (IGAU) was established in January 2016 by the Joseph Rowntree Foundation (JRF) and The University of Manchester, as part of JRF's work on cities, growth and poverty, and the University's new Urban Institute and wider efforts to support the 'Devo-Manc' process. Over the last year we have set out both to advocate for inclusive growth and to provide a research resource to help city leaders and other stakeholders know what to do and to understand the effects of different approaches. Guided by a multi-stakeholder advisory group, we reported first on the challenges and opportunities to inclusive growth in Greater Manchester – a kind of 'call for action'. At the same time, we consulted broadly across sectors on what inclusive growth might and should look like in our city-region. We're now fleshing out some of these ideas with more detailed research-based briefings to inform the debate around the upcoming Greater Manchester mayoral election.

So what have we learned about inclusive growth from a year in the thick of conversations in the city at the forefront of the devolution process?

First, we've learnt lessons about inclusive growth as a term and a concept. Our consultation report revealed that there are broadly two spheres of action upon which stakeholders agree: developing a more inclusive economy; and connecting more people to economic opportunity - the latter including a very broad suite of issues including housing, care and transport as well as education and skills.

There are tensions here though. One is about breadth. Should inclusive growth just be about the economy – is this what distinguishes it from a broader social justice or environmental sustainability agenda? Related to this is the chicken/egg conundrum. Should social policies such as housing, health and childcare be included here because they lead to a more inclusive and therefore more productive economy, or should we be evaluating all our economic decisions in the light of their contributions to broader social goals such as health and wellbeing? Lastly, how much emphasis should be on growth (future) rather than redistribution of existing prosperity? Do we need to wait for growth, is one argument, while another is that the planet cannot actually sustain more growth, so we should be thinking about inclusive economies on their current size at most.

Our experience in Greater Manchester is that so far, people working for the same goals in terms of reducing poverty and inequality are prepared to embrace 'inclusive growth' as an articulation of the broad direction of travel. New coalitions can be formed on this basis. But it remains to be seen how these are translated into strategy and practice. There is a clear danger that stakeholders will sign up to inclusive growth in a 'motherhood and apple pie' way and that one or two additional things will get done, with no overall transformational effect.

We have also learned that 'inclusive growth' doesn't resonate very well with businesses or business representative organisations, although there are firms in Greater Manchester who are leading and championing exactly the kinds of practices that are needed: local recruitment and procurement; supply chain development; flexible hiring; workforce development; promoting apprenticeships; paying the Living Wage and so on. Businesses are crucial to the inclusive growth agenda. A key challenge nationally and locally will be to leverage change in business behaviour using a language and an evidence base that makes sense but which also leads to genuine change. We are now exploring some of these issues in our current work.

Second, leading inclusive growth at a local level demands new ways of working and new kinds of knowledge and capacity. Not only are policymakers in areas like Greater Manchester dealing with upscaling from the local authority level to a city-region level and with new responsibilities and budgets, they are also, with inclusive growth, having to break down some traditional silos between economic development and social policy. To do inclusive growth properly, economic development officers will need to think about the distribution of benefits as well as overall growth, transport officials about the structure of subsidies, health officials about what health benefits (and savings) can be made through their own and others' employment practices. Different processes will be needed such as new cost-benefit analysis tools, commissioning frameworks, guidance documents, and staff training, and cities will need to reorganise their own resources. We are moving into new territory with such a holistic economic/social agenda. In Greater Manchester, the IGAU has been able to play a key role in pulling together evidence and convening people across networks, but a much greater resource is really needed – perhaps in the form of a national inclusive growth academy, where local personnel could gain access to research and practice examples, networks and training.

Third, central government is in the way. I mean this partly as a point about England's highly centralised governance structure. By contrast with cities in other countries there are no powers to raise money locally, run schools, or make rules about welfare payments or conditions, for example. There is no possibility of a city in England deciding that the most sensible route to an inclusive economy and society in the face of technological change would be to offer a citizen's income. There are no mechanisms for raising money locally and recirculating it into local businesses. The hyper-central plus hyper-local configuration of the school system is the most obvious problem. Never mind curriculum, pedagogy, and school improvement, cities in this country cannot even coordinate careers advice, employer links, or the allocation of funding where it is most needed.

But I also mean that specific current policies of central government are getting in the way. Three issues have occurred most commonly in our consultations: the role of a punitive welfare system in preventing sustained employment; cuts to the services which underpin inclusion in the labour market (such as adult and community learning, libraries, Sure Start centres and employment tribunals); and cuts to social security which are taking money out of local economies. For this reason, while I agree wholeheartedly with the Joseph Rowntree Foundation when it argues that cities can get on with inclusive growth and should not wait for permission from central government, I also think that we will not see substantial progress unless central government also understands that social investments, funded through general taxation, underpin economic inclusion, and very likely also underpin greater prosperity and stronger national economic performance.

The inclusive growth agenda has gathered momentum very quickly in Greater Manchester, especially since the Brexit vote, which so clearly reinforced the sense of discontent in the more economically marginalised parts of the conurbation. During the summer, the Greater Manchester Combined Authority (GMCA) appointed its first portfolio holder for Fairness, Equalities and Cohesion, Councillor Jean Stretton. In November 2016 the IGAU and GMCA jointly convened a Fair Growth conference at which Councillor Stretton announced the intention for inclusive growth to be 'embedded in all that we do'. In May 2017, we will elect our first Mayor for Greater Manchester, with both leading candidates actively campaigning around inclusive growth issues. The city will be an important test-bed for how inclusive growth can be put into practice at a local level. At the IGAU we look forward to being able to support these developments with rigorous research, evidence synthesis and monitoring.

TOWARDS AN EMPOWERING STATE: TURNING INCLUSIVE GROWTH INTO A GLOBAL REALITY

Gabriella Ramos

We live in turbulent times. Nine years on from the eruption of the financial crisis, we remain stuck in a low growth trap. To make matters worse, the great upheaval in our economies has now transmuted into a profound political crisis in many countries.

The economic hardship of the last nine years has created many casualties, but chief amongst them has been trust - the glue that holds our societies together. Trust between different groups of people, and trust in institutions has plumbed record lows, with Gallup World Poll data showing public belief in governments in the OECD standing at just 42% in 2016. This has now spilled over into the social realm, stoking fear and provoking the rejection of global interconnectedness, trade, migration and technological progress.

Everywhere we look, globalisation is being called into question and the potential consequences of the rise of protectionist measures could scarcely be greater. The origins of this loss of faith in international integration are numerous and vary considerably from country to country, but there is a common thread running throughout: a growing sense that the global economy is delivering only for the lucky few.

International elites have categorically failed to deal with this. The benefits of globalisation and rapid technological change were understood in an overly simplistic economic framework that relied too heavily on averages and representative agent models, blurring the outcomes for different income groups.

Simplistic assumptions of how the economy operates prevented us from advancing better policies. Trade and investment became an end in itself, and the efficiency of markets became the ultimate goal of economic policy. We neglected the differentiated outcomes of policies for different income groups, and by relying on incomplete metrics - like GDP per capita alone - we ignored the distributional outcomes of the policies we undertook.

We have since learnt that this was not the right choice - and we have learnt it the hard way. Policies have affected different groups in very different ways. The initiative I lead at the OECD on Inclusive Growth has charted how rising income inequalities have been blighting people's opportunities, wasting their potential contribution to productive activity and limiting their ability to lead meaningful lives.

The numbers make for stark reading. Here in the UK, the average income of the richest 10% has gone from being eight times that of the poorest 10% in the late-1980s, up to almost ten times greater today. The situation is markedly worse at the very top, with the highest 1% of earners in the UK taking home around 20% of pre-tax national income in the last three decades.

Our report All on Board: Making Inclusive Growth Happen has set out how this reflects a more general trend seen across the OECD, where those at the top of the income distribution have pulled away from those at the bottom. We see this particularly in the period since the crisis, where across the OECD, the top 10% of income earners have managed to recover their pre-2008 income levels, whilst those in the middle and at the bottom have seen incomes fall and stagnate. The picture is even more troubling in terms of wealth, where the richest 10% in the OECD own around half of all household assets, whilst the bottom 40% own barely 3%. At the very top of the distribution, the top 1%, holds a staggering 19% of total wealth.

All too often, wealth and income inequality stand in a symbiotic relationship with the intangible social trappings of success, such as cultural capital and access to parental networks. Together, they influence the key formative outcomes in children's lives, helping to turn the unequal outcomes of one generation into the unequal opportunities of the next, affecting everything from employment to health status.

Nowhere is the damage more keenly felt than in education. OECD data shows that the children of poorer parents struggle to keep up with the social and cultural capital of their wealthier class-mates. From that initial disadvantage, many go on to lower educational attainment. Children whose parents did not complete secondary school have only a 15% chance of making it to university against a 60% chance for peers with at least one parent who had attained tertiary education. More troubling still is the fact that the very same children at a disadvantage in the education system typically go on to receive smaller salaries and, most worryingly of all, to lead shorter lives.

This is profoundly unjust. But it is not just those at the bottom who suffer when inequalities scale new heights – we all do. Of course, inequality has always been with us and it has often been presented as an engine for growth. When it derives purely from differences in efforts and investment, such an argument may have some merit, but with the levels of inequality we see today that is demonstrably not the case.

As OECD work on the Productivity-Inclusiveness Nexus spells out, when the poorest are unable to fulfil their potential, we all lose out on the visionary leaders, the innovators, and the economic growth that could have come to pass. Moreover, recent OECD research has highlighted how rising inequality knocked 6 to 10 percentage points of GDP growth between 1990 and 2010 across a range of OECD countries including the UK, Mexico, Finland, Italy, and the United States.

With the ongoing global and technological transformation of our economies these issues are likely to be brought into starker relief. Digitalisation has the potential to unleash untold benefits for all of human kind, but if it is not managed properly, it could exacerbate inequalities by creating greater job insecurity and cementing 'winner takes all' dynamics in our most rapidly growing markets.

Already, since the early 90s around half of the jobs created in the OECD have been in more insecure temporary, part-time or self-employed work. Over roughly the same period, the power of multinational firms at the global frontier to exploit their greater access to knowledge-based capital, digital technology, finance, cheap labour and low-tax jurisdictions have been able to lock-in their productive advantages. In the manufacturing sector for instance, since the early 2000s, labour productivity of OECD firms at the global frontier has increased at an average annual rate of 3.5%, compared to just 0.5% for non-frontier firms.

Given the extent of these social and economic costs, it is hardly surprising that rising inequality has translated into growing political disaffection, anti-market sentiment and disenchantment with globalisation. In such a context, we desperately need to take action to promote inclusive growth and restore public confidence in the power of policy makers to improve people's lives.

So what can we do to redress this situation and regain trust?

To start with, we need to listen to people. It is not enough to talk about a 'post-truth' environment. Or to say that people haven't paid attention to facts and evidence. It is we that have not listened. We have to be honest with ourselves and acknowledge that the 'truths' in our economic models have systematically failed to capture much of what matters to people.

In short, we need to put people, and their multidimensional well-being, back at the centre. The OECD's Inclusive Growth and New Approaches to Economic Challenges (NAEC) Initiatives are at the forefront of efforts to put people at the centre, to create social and economic models that provide a more accurate representation of the world around us. Today, advances in computing power are also opening up new tools to support our work, with possibilities for integrating complex systems dynamics and behavioural insights into our approaches with agent-based modelling and network analysis.

Yet, we also must recognise economics does not have a monopoly on truth. In many countries, orthodoxy has seen the bottom 40% completely left behind and their potential contribution to our economies and societies has been lost. Only by recognising that mistakes have been made can we begin to build a new socio-economic narrative that goes beyond the old tropes of growth first, redistribution later; and beyond aggregate measures of economic success like GDP.

The false certainty provided by an all too literal interpretation of models can only ever be cold comfort. Rather we need a humbler, more grounded economics that draws on the lessons of other disciplines like physics, biology, psychology, sociology, philosophy and history, to feed a richer more nuanced policy discussion.

If we want to save open markets and globalisation, we need to re-write the rules of the economic system to make them work for everyone. We also need to bring, that much neglected concept, fairness back to the heart of the policy debate.

The role of the state is absolutely key to this discussion. We need to redefine and reimagine its role, to ensure that it is prepared for contemporary opportunities and challenges and is set-up to empower people.

For starters, it is time to rethink the risk approach-only to welfare. The work of behavioural economists like Amos Tversky and Daniel Kahneman has shown us that people are not 'risk averse' so much as 'loss averse'. If we are to create entrepreneurial societies that encourage everyone to fulfil their productive potential we need to deploy this insight via welfare policy to reduce the consequences of failure.

To be sure, providing people with a social safety net is vital, but it is not enough. We need to move beyond this approach, to create an empowering state that serves its citizens as a launch pad by furnishing them with capacity enhancing assets.

Such a state would also seek to prevent disadvantage cascading down generations. It would recognise that its role was not simply enough to remove barriers to opportunities, but also to furnish people with the capacity to seize them. Crucially, it must see redistribution and social expenditure in vital areas like education and healthcare not as operating costs, but as investment in our most valuable assets – people.

In practice, this would mean deploying a coherent approach to intervention across individual's life-cycles to provide high-quality early years education, comprehensive training throughout adult life, income and skills support to help people transition between jobs and perhaps even a universal basic income. But it wouldn't stop there, because, when all is said and done, there is more to life than money. The key role of the state should be to support people helping them to have meaningful lives.

However we also need to face up to the big global challenges to deal with concentrations of wealth and international tax and competition issues, relating to the mobility of tax bases, labour rights and regulatory standards. We need to ensure that globalisation is based in international rules that are respected. We have to create trade agreements that are comprehensive and, crucially, also inclusive. We must hold global firms to greater standards of responsible business conduct. OECD work on taxes, responsible business conduct, due diligence and anti-corruption will be key to ensuring better functioning global rules.

To restore the faith and trust of people in the role of governments, a priority for an empowering state must be to focus on the bottom 40%, who risk being trapped in a cycle of deprivation and lack of opportunity. We need to deploy targeted policies to help these groups access quality education, healthcare and the benefits of innovation, finance, and entrepreneurship.

Of course, giving people the chance to make the most of these opportunities is reliant on a thriving business sector. The state has a role to play to 'crowd in' financing in young and innovative sectors and in investing in basic R&D that will see positive spill-overs into countless other domains. We also need policies which support the diffusion of innovation through the economy, ensuring a level playing field for incumbents and challenger firms, enabling small companies to access finance, technology and high-quality skills.

Adopting such an approach will require some changes to the way we design and implement policies, with particular care taken to avoid vested interests. One aspect of this will be ensuring that policy prescriptions must take regional and local circumstances into account. Regions and cities have a key role to play by adapting economy-wide policies to the characteristics of local communities, as well as by promoting local policies that reduce or remove the barriers limiting access to opportunities.

There is also a dire need to overcome traditional 'silo-based' approaches to policy making. This will require a renewed 'whole-of-government' push, where different government departments, agencies and ministries work together to deliver joined-up solutions as part of a coherent systems approach.

The challenge before us is clear. Succeeding in our endeavours will demand a new bipartisan spirit, where political parties, and leaders from civil society and business come together to recognise that the long-term prosperity of an economy depends on the broader success of its individual parts.

Together we can make inclusive growth a reality.

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