Inclusive Growth: Unleashing the potential of Scotland in a new era of policy making

Inclusive growth — a new model for economic growth

Over the last few years, a worldwide consensus has emerged on the need for a more inclusive growth model — one that places an equal focus on increasing growth and tackling inequality, to ensure that everyone has the opportunity to participate in growth and benefit from it.

This represents a radical shift in economic and political thinking. For decades, economic growth alone has been considered the ultimate means of achieving prosperity for all. The focus for economic policy has been on getting market-led growth right, with gross domestic product (GDP) being the key measure of success. We neglected to look at how the benefits of growth were shared because growth would automatically “trickle down” and benefit everyone. Higher growth would attract more funding for social and redistributive policies to deal with any residual exclusion and poverty. It is now clear that this two-step model of “grow now and redistribute later” is flawed; economically and morally.

Although the growth models pursued by advanced economies over the last four decades have resulted in prolonged periods of rising growth prior to the recession, they have also generated the highest levels of inequality in income, wealth and opportunity we have seen for over 40 years. Poverty blinds people’s opportunities and affects just about every area of life that matters for wellbeing, including educational attainment, employment prospects, health and life expectancy. As well as being morally unjust, rising inequality, including educational attainment, employment prospects, health and affects just about every area of life that matters for wellbeing, over the last four decades has resulted in prolonged periods of poverty. It is now clear that this two-step model of “grow now and redistribute later” is flawed; economically and morally.

In this new era of public policy making, economic growth is no longer the ultimate objective; rather, it is the means by which we enable people and places to realize their potential, with the ultimate objective being to increase societal wellbeing. This requires an integrated approach to economic and social policy at all levels of government and new platforms and shared budgets to facilitate the task. We also need to change how we measure progress. GDP is a measure of national income, and while it is an important measure, it misses out many aspects of life that matter to us. Robert Kennedy reminded us of this in 1968:

“GDP does not allow for the health of our children, the quality of their education or the joy of their play. It measures neither our wit nor our courage, neither our freedom nor our learning... It measures everything in short, except that which makes life worthwhile.”

GDP also tells us nothing about the distribution of income. We celebrate when GDP rises but if that income goes to the top 1% or 10%, most people do not benefit and have become relatively worse off. These deficiencies in GDP were pointed out by the influential Stiglitz-Sen-Fitoussi Commission in 2009, which provided the intellectual backbone of the inclusive growth agenda. The Commission’s key recommendation was to “broaden the scope of our measurement systems to include measures of inequality, wellbeing and quality of life”.

Inclusive growth in Scotland

While inclusive growth remains a discussion topic in many countries, it is already a cornerstone of Scotland’s Government Economic Strategy (GES) and has been since 2015. Extensive work is underway at all levels of government in Scotland to create the conditions conducive to making inclusive growth a reality. The most recent development has been the re-fresh of the National Performance Framework (NPF), which adopts an improved set of measures to monitor Scotland’s performance and create alignment across a wide range of dimensions of prosperity, including wellbeing and inequality.

The next step should be the parallel development of appraisal frameworks and guidance across central and local government and agencies, to ensure that decisions on public spending in Scotland are aligned with inclusive growth and wellbeing objectives. This is critical to identify, design and deliver investments that not only drive growth but also create inclusion and wellbeing, and, just as importantly, challenge investments that are not worthwhile.

Given the scale of public investment in infrastructure, it is essential that this investment is refocused on delivering inclusive growth rather than being solely focused on economic growth. This has been our key issue for in appraising large infrastructure projects and requires new methods and new data. We believe transport and digital infrastructure has a critical role to play in advancing inclusive growth outcomes because it connects lagging regions and communities, not only to jobs, but to all the facilities and services that contribute to wellbeing.

With this in mind, in partnership with SIMETRICA, we have developed a new, robust framework model to appraise investments that align with inclusive growth and wellbeing objectives.

A measurement framework for inclusive growth: SocialValueX™

The new HM Treasury Green Book (2018) provides best-practice recommendations for how we assess the wider impacts of our investments and it needs to be at the core of how we evaluate inclusive growth policies.

SocialValueX™ is fully compliant with the Green Book and provides a framework for quantifying the full economic, environmental and wider societal impacts of policies and projects, including all relevant wellbeing outcomes. Importantly, it is the only approach that includes a methodology for quantifying and including distributional impacts in appraisals and business cases. It is also the only approach that provides a framework to consider the ethical issues that can arise in practice when targeting investment, particularly when there are trade-offs between growth and equity objectives.

Our new framework can be applied in any policy area and allows us to balance the aims of economic prosperity, equity and wellbeing by quantifying these impacts in the same terms. It produces a wider assessment of impacts, enabling us to think more holistically and maximise the benefits of projects for the whole of society. This means that when we assess employment programmes, for instance, we go beyond the standard tax and productivity benefits and also acknowledge the benefits to people’s mental health, the criminal justice system and the opportunity to create. In transport appraisal, we go beyond the economic benefits typically captured, such as travel time savings and tax revenues, to quantify and value wider impacts such as built and natural environment, crime, health, connectivity and social capital.

This fundamentally changes how we are appraising interventions on multiple transport and infrastructure studies across the UK and will have a significant impact on business cases, decision-making, and ultimately on society; ensuring that we can maximise inclusive growth.

Inclusive growth — a growing priority for the private sector

The inclusive growth agenda is not only causing a fundamental re-think of public policy; it is causing leading companies to re-evaluate how they operate. Inclusive growth and wellbeing are becoming increasingly important drivers of corporate performance and valuation. Studies demonstrate the “wellbeing virtuous cycle effect” where higher wellbeing, driven by factors such as fair wages, greater diversity and work-life balance, results in increased productivity and innovation.

Companies are increasingly searching for projects that not only generate profit but which also promote inclusive growth; for example, by creating “inclusive innovations”, financing technology-based projects that include more people into the mainstream economy and leveraging their data and analytics capabilities to transform urban policies.

The evidence also shows that while traditional corporate and social responsibility (CSR) programmes create valuable social benefits, the limited scale of these initiatives rarely produce transformative change. The truth is that systematic skills gaps and inefficient supply chains cannot be solved by any single company working through relatively specific investments. A new approach is required with businesses from multiple sectors working in tandem with government to identify sustainable and scalable solutions that address the key factors constraining inclusive growth in communities, cities and regions across Scotland.

Inclusive growth — the challenge of our times

Inclusive growth has been described as “the challenge of our times”. At Jacobs we believe it is also the opportunity of our times; to deliver a new type of growth — one that is economically and morally sustainable with equity built in from the start. By working together, we can shape and effect real change and unleash the full potential of individuals and communities across Scotland, ensuring that no-one or no place is left behind.

If you would like to discuss any of the issues in this article in more detail, please contact:

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Jacobs and SIMETRICA

Jacobs is delivering some of the most iconic, diverse and innovative infrastructure projects globally, across multiple sectors including: digital, transport, built environment, utilities, environment and maritime, energy and chemical, aerospace and technology. Innovation is fundamental to the way we do business and we use the best talent in the industry to create solutions to deliver a more connected, inclusive and sustainable world.

SIMETRICA is the global leader in social impact measurement and wellbeing analysis and has been instrumental in the work undertaken in the UK and internationally to improve the way social and wellbeing impacts are measured and incorporated into decision making.