

It's hard to talk about economic policy in Scotland without the phrase 'inclusive growth' popping up.

It is, not just at the core of Scottish Government activity, but the central narrative for local authorities, agencies and public bodies across Scotland.

At an event last week, some people asked for our take, so in this slightly longer than usual blog, we set out some thoughts on the inclusive growth agenda, the evidence, and where the debate might go next.

What is it?

The Scottish Government defines inclusive growth as:

"growth that combines increased prosperity with greater equity; that creates opportunities for all and distributes the dividends of increased prosperity fairly"

It's hard to disagree with this. Whilst global inequality has fallen in recent decades, many inequalities *within* countries have risen. Institutions from the [IMF to the OECD](#) are increasingly of the view that tackling inequalities will be key to delivering growth over time.

But for those who've been around for a while, it's not necessarily clear how 'new' all this is.

Take this statement -

"The vision is that economic development should raise the quality of life of the Scottish people through increasing economic opportunities for all, on a socially and environmentally sustainable basis.

The focus is therefore on achieving four outcomes that allow this vision to be realised:

- *securing economic growth through international competitiveness;*
- *all regions of Scotland contribute and benefit;*
- *all in society contribute and benefit;*
- *development is sustainable so that future generations are considered."*

It may be less snappy, but it sounds pretty much like a vision of inclusive growth to us.

Where's it from?

It's from the [Framework for Economic Development Scotland \(FEDS\)](#) published by the then Scottish Executive in 2000.

So if it's not entirely new, what progress has been made?

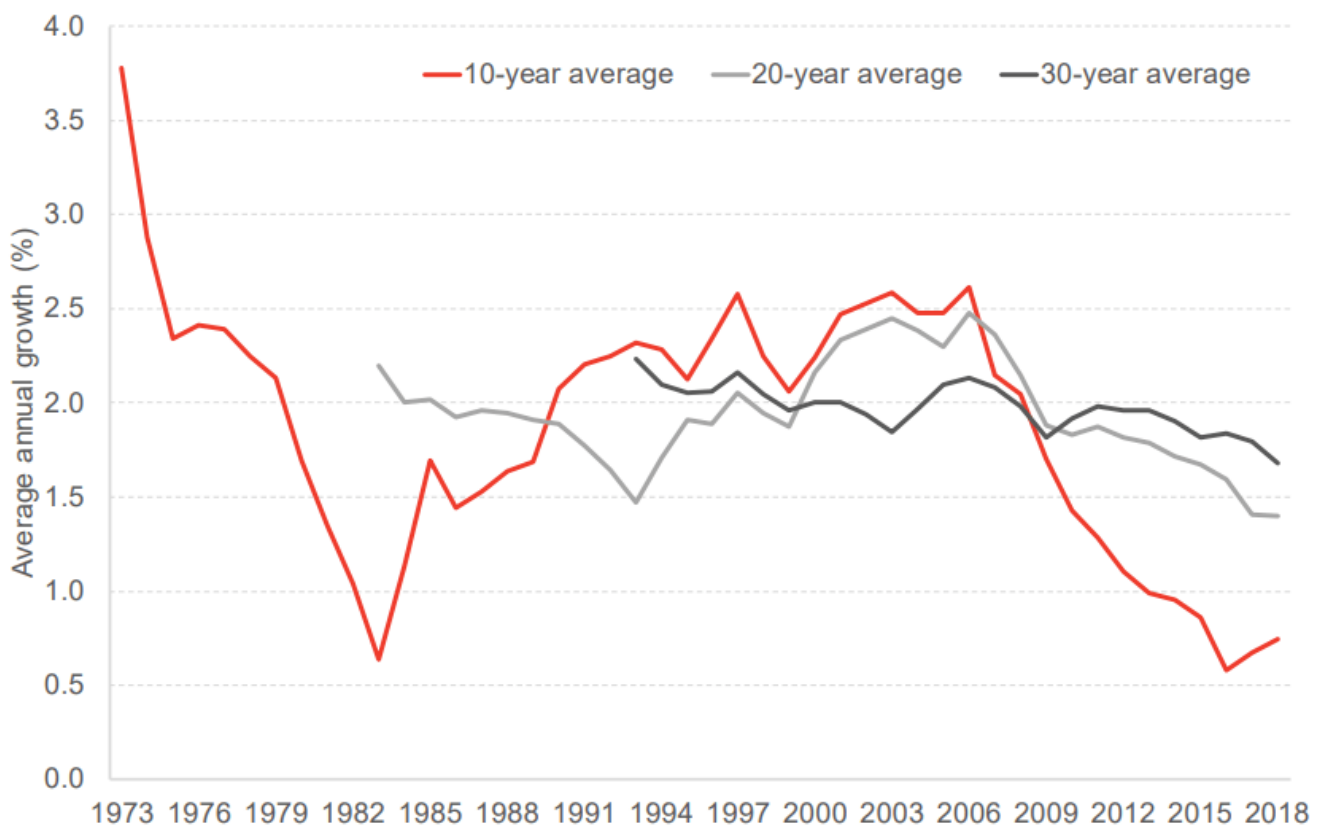
The evidence

One of the challenges with inclusive growth is measuring it in an effective way.

One simple - but admittedly unsatisfactory approach - is to focus upon two core elements: 1) economic growth and 2) aggregate levels of inequality.

The chart below shows Scotland's average economic growth rate over time. The global financial crisis, downturn in oil and gas and weak productivity, have all led Scotland's long-term growth rate to slide in recent years.

Chart 1: Scotland's average growth rates (1973-2018)

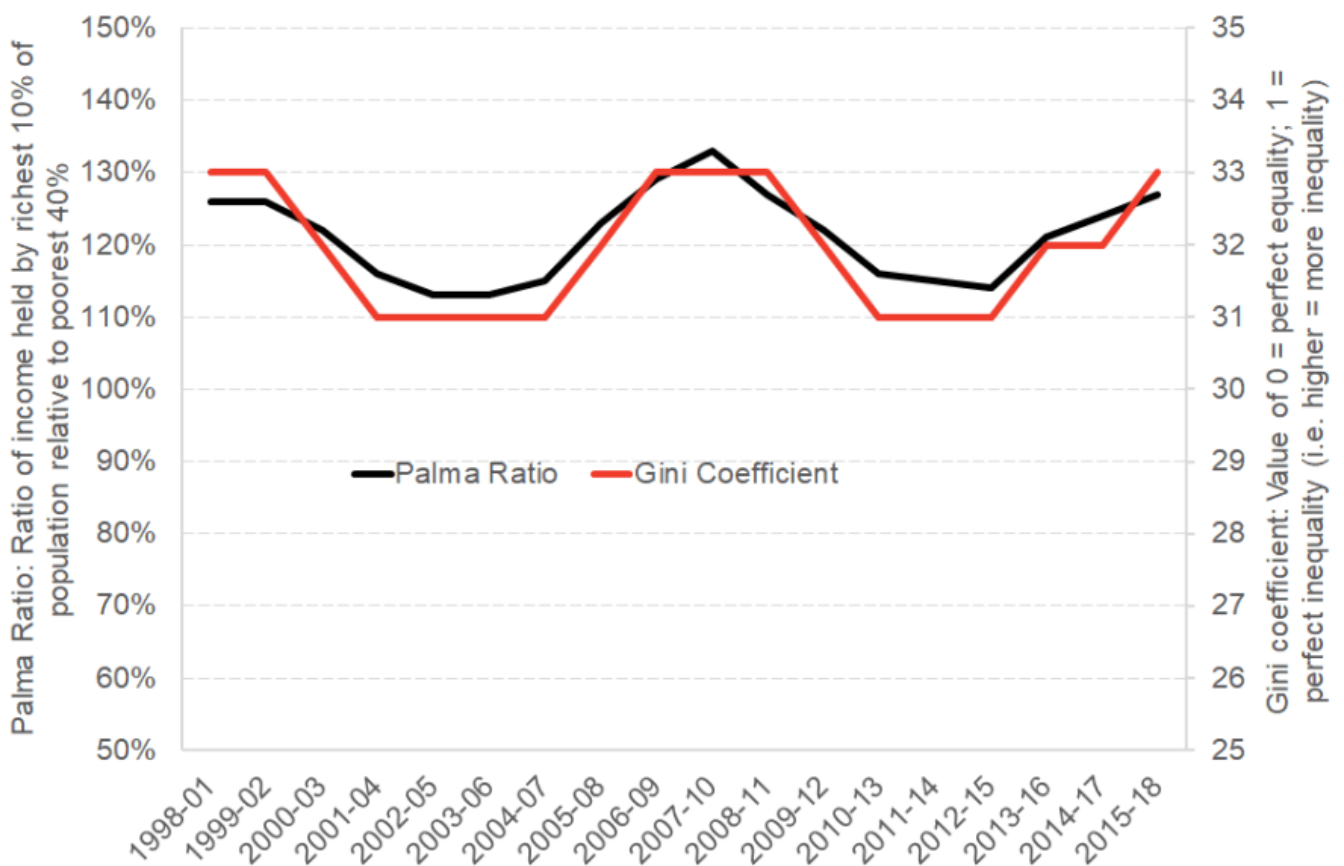


Source: Scottish Government

At the same time, if anything, economic inequalities *within Scotland* have [widened](#).

What about inequalities between households? The chart below looks at the government's favoured measures of the Palma Ratio and Gini Coefficient (see axis for definition).

Chart 2: Income inequality in Scotland



Source: Scottish Government

Both are effectively no different to 1999 (even though it has fluctuated over time following changes in tax credits and the financial crisis). And whilst the absolute poverty rate for Scotland has declined over the last 25 years or so, the relative poverty rate has remained broadly flat.

So at a macro level, inequality and the growth challenge remain tough to crack.

But are these even effective measures of inclusive growth?

Many would argue [no](#).

A problem with GDP of course is that it says nothing about how income or wealth is distributed across households or regions, or indeed whether it is sustainable or not.

An alternative is to look at household incomes. But even here there are challenges. Should we be concerned about where growth comes from - or should we just worry about growth and sort the rest out through taxes and benefits?

Employment outcomes might be an alternative, but we know that work is no longer the way out of poverty or inequality it once was.

On inequality more generally, measures such as the Gini coefficient and Palma Ratio are useful but they have limited use in telling us where inequalities are more prevalent and what is causing them.

And of course, for most of us traditional 'economic' or 'financial' outcomes don't really capture what makes us happy or motivates us - housing quality, health, access to public services, democratic engagement and wellbeing (somehow defined) - are all likely to be more relevant.

The [National Performance Framework](#) (NPF) was designed to help tackle this. But questions remain over the influence it has over day-to-day key policy decisions or budget allocations.

Inclusive growth in Scotland

An inclusive growth model is clearly better than one which simply ignores distributional concerns.

The Scottish Government has put inclusive growth at the heart of its approach via its policies on childcare, narrowing the attainment gap and social security.

It is arguably in more subtle ways, that the focus upon inclusive growth has had (and will have) a greater impact - particularly through the government's leadership on fair work, the living wage and its aims to create a more inclusive public service workforce.

But nearly 5 years since 'inclusive growth' took centre stage, policymakers will no doubt be reflecting upon the pace of progress, the scale of investment so far, and the challenges that

remain.

What still needs to be done?

A first challenge is around clarity of focus. Inclusive growth means different things to different people. A consequence is that any policy that targets an objective such as quality of life, health, education, employment etc. can be badged as 'inclusive growth'.

This carries the risk that 'inclusive growth' becomes a label either for doing things that would have been done anyway or as a political narrative for policies that aren't well evidenced.

It can also make finding out '[what works](#)' difficult. Definitions matter: they enable measurement, and measurement is crucial in targeting policy and budgets.

A second challenge - and this may sound obvious - is delivery.

Ultimately the success of the inclusive growth agenda will be judged on results. But this is not easy.

Many of the policy objectives that will make a difference - such as attainment, housing, health etc. - will only have an impact over time. Putting in place structures that will deliver results over the long-term - possibly over a generation - continue to pose a tricky challenge when up against short-term political cycles. For example, a re-designed local tax system could clearly better deliver inclusive growth outcomes but remains a 'no-go' area for many.

Secondly, the argument that *"increasing growth and promoting equality are mutually supportive in making Scotland a more successful country with opportunities for all to flourish"*, is persuasive. Poverty and its consequences are bad for the economy. But in reality, there can often be uncomfortable trade-offs (at least in the short-term) when deciding how to allocate funding or where to prioritise investment. Should government support be given to international investment that creates jobs and growth but in low paid sectors? Should enterprise support - or major national infrastructure - be prioritised toward poorer regions or toward cities (which are often the engines of national growth)?

A third challenge is around expectations. As with any policy area, we can often be too optimistic in our expectations of the impact of a policy initiative (and too quick to criticise when it doesn't deliver all that we hoped for). The last few years have demonstrated that factors outside Scotland's control - financial markets, the global price of oil - have huge sway over inclusive growth outcomes. And even then, many policy levers that could make a

difference – most notably welfare – remain at Westminster.

This isn't to downplay current efforts but simply to point out the need for realism in what can be achieved and over what timescale. Shifting the dial on some of Scotland's 'big' inequalities will require major investment.

So what next?

The government's inclusive growth agenda clearly has much to commend it.

But if inclusive growth is to take another step forward what might need to happen?

Firstly, we need more work from the government to define what they mean by inclusive growth, how to measure it, and what they think success will look like.

Secondly, we need better data and evidence gathering. Policymakers are ahead of what the data and statistics are able to help them with.

Thirdly, and a common theme, is the need to do more to find out what actually works. Delivery remains the biggest risk facing the inclusive growth agenda, particularly as it involves pay-offs that will take time to be realised, are uncertain and require multiple tiers of government to operationalise.

Fourthly, there needs to be a greater critique of agendas that are delivered under the banner of 'inclusive growth'. It seems that there is a reluctance to challenge policies labelled as 'inclusive growth'. But if inclusive growth is to succeed, it needs advocates to push back on agendas that merely slot in the words 'inclusive growth' to everything and anything.

Fifthly, it is important to remember that redistribution remains an important way of addressing poverty and inequalities if that is the objective. Indeed, for the government to deliver on its targets – particularly child poverty – it will require major investment on a [scale we have yet to see](#).

Finally, we cannot ignore the importance of *growth*. Some have sought to argue that it's possible to build an economy without growth. But as Sir Ian Wood argued at a recent event in Aberdeen as part of the [Scotland 2050 project](#), ultimately a more prosperous economy will play a key role in boosting incomes, creating high value jobs, supporting public services and providing the resources to help tackle inequalities. Inclusive growth needs both inclusion *and* growth.

Where next on inclusive growth? 6 steps to build upon...

Scotland has made good progress in setting out the strategic direction for inclusive growth. A continual focus on constructive challenge, evidence gathering and evaluation will be key to ensuring that the inclusive growth agenda takes a further step forward.