



INCLUSIVE GROWTH
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Inclusive Growth for dynamic, resilient local economies

Roundtable Writeup - London
24th May 2016 at The RSA

The RSA Inclusive Growth Commission hosted its first seminar in May, 2016. The roundtable event probed the characteristics of dynamic local economies and explored what they need to become engines of inclusive growth – where the widest range of people are able to contribute to, and benefit from, local economic success. It examined how inclusive growth strategies can complement place-based public service reform, within and beyond our major city regions.

The roundtable brought together over 30 experts, policymakers, academics and practitioners. The speakers were:

Professor Ruth Lupton

Professor of Education at Manchester University and
Head of the Inclusive Growth Analysis Unit

Dr Carolyn Wilkins

Chief Executive of Oldham Council

Alexandra Jones

Chief Executive of Centre for Cities

Charlotte Alldritt

Director of the Inclusive Growth Commission and
Director of previous City Growth Commission (Chair)

Inclusive growth in a changing economy

Professor Ruth Lupton spoke about the emerging themes from the research she is leading for the Inclusive Growth Analysis Unit. She emphasised that public attitudes about economic growth are not influenced simply by functional concerns such as productivity, but by the kind of society people want to live in. For example, the British Social Attitudes Survey has consistently shown that people believe the gap between rich and poor is too wide and something should be done about it.

Professor Lupton set out the context for current challenges, illustrating that there was relatively equitable income gains from growth until the 1980s, at which point the poorest saw their incomes fall and the gap between rich and poor widened significantly. This occurred against a backdrop of economic restructuring, large scale deindustrialisation and the geographical concentration of mass unemployment. Four key factors provide important context for why inclusive growth has become an urgent contemporary challenge:

- The 'New Economic Geography'. The spatial dynamics of job creation have changed significantly – new jobs are not in the same places as old jobs. There are important questions about whether we can grow employment in places where new jobs are not being formed, and whether we can really connect people in more peripheral areas to the centre of metro economies.
- The legacy of economic decline. Many of the neighbourhoods affected by deindustrialisation and economic restructuring in the 1980s are still experiencing the aftereffects. Many of these places have been left with a legacy of poor health, loss of identity, loss of community and a loss of hope, as well as a sense of reduced individual efficacy and abandonment by public services. Our history of mostly unsuccessful place-based initiatives demonstrates that we have not dealt with these legacy challenges.
- Structural change in the economy. The structure of our economies and labour markets have changed dramatically, seen for example in the emergence of an 'hourglass' labour market, the challenges of low pay and insecure employment (temporary work, zero hour contracts), and a surge in self-employment.
- A shift in economic values. In the 1980s we also saw a notable shift in our economic values, and an 'economisation' of society, as institutions, activities, behaviour and outcomes

became increasingly defined in terms of their economic value.

Professor Lupton summarised emerging themes arising from her consultation on inclusive growth in Greater Manchester (GM) with the private and voluntary sector. These include:

- Inclusive growth demands more effective and intensive joined up social and economic policies in order to address the legacy issues mentioned above.
- Inclusive growth and the development of local economies should not simply be a productivity maximising exercise – it is more so about asset building and supporting people and places to realise their potential.
- Devolution provides an opportunity to rethink our core economic values and bring in the involvement of a wider set of actors (employers, anchor institutions, civil society). It is important devolution isn't just a technocratic process.
- Enhancing connectivity in the context of our 'hour glass' labour market is important – for example getting to grips with transport and costs to labour market participation, and what powers over transport may be useful.
- We need to address the challenges of wage growth and progression, and what contribution firms can make.
- Examining ways to promote the circulation of money within the local economy, for example through procurement and supply chains.
- Similarly, exploring how we build local economies rather than relying on connecting people to economies and labour markets developed elsewhere.
- Understanding and promoting the role of microbusinesses and creating more inclusive access to finance.

What does inclusive growth for a metro-region and its localities look like?

Dr Carolyn Wilkins spoke about the fast-changing context in GM (a combined authority comprising 10 local authorities) brought about by devolution and how places such as Oldham can benefit from growth in the metro region. GM is one of the leading city regions that has agreed a devolution deal with significant powers over transport, economic development, and health and social care alongside the establishment of a metro mayor by 2017¹. Local leaders have set out an ambition for the city region to be a place where everyone contributes and benefits, and everyone is valued. GM's Growth and Reform Plan underscores the importance of looking at growth and inclusion simultaneously.

Dr Wilkins identified three key challenges facing the inclusive growth and public service reform agenda in Greater Manchester. These include:

- The growth and reform narrative has been strong on articulating city regions as functional economic entities, but has been largely silent on the societal links and social infrastructure of a place. A city region is not just a functional economic entity, but also a socially connected entity but we have lacked a narrative about strengthening that social connection. GM's Growth and Inclusion Review, building on the Manchester Independent Economic Review, is now exploring the link between the social and economic dimensions of growth and policymaking.
- A related part of the challenge is the dominance of money in the narrative, building on Professor Lupton's point about our underlying economic values. The metrics we tend to use to give meaning and value to interventions tend to focus on numbers and money – for example the need to make savings and undertake cost benefit analyses.
- Another challenge concerns the paradoxes of inclusive growth, particularly for those places that are on the periphery of metro growth. For example, recognising that there are serious issues with your local economy in terms of growth and inclusion can deter investment because people like to invest in success and are less likely to do so in areas that may have a reputation as struggling places.

Dr Wilkins also described some of the ways in which Oldham Council has sought to strengthen local economic development and inclusiveness within the borough as well as the importance of leadership across the city region.

- Oldham Council is five years into its 'co-operative journey,' which has involved a strong public service reform agenda built on a platform of 'fairness'. Part of this has included an ethical framework that guides the council's decision-making and service delivery, with a focus on promoting fairness. An important driver of this agenda has been the pursuit of fair growth, building on the council's role as an anchor institution and a local influencer. This has included, for example, making best use of social value procurement to promote good practice (such as paying the living wage) and having a residency requirement for Oldham Council jobs. Despite what has been achieved, there is a lot more councils can do to leverage their role as anchor institutions. For example, Oldham is beginning to look more at promoting in-work progression. It is also examining ways to build connectivity and promote health and wellbeing in the borough through initiatives with its own employees, which largely live in Oldham.
- Achieving more inclusive growth is a key leadership challenge for Greater Manchester. It is important not only to create stronger links across society, but also between public sector leaders – understanding and addressing the disconnect and fragmentation within different parts of the system and developing a more sophisticated understanding of the consequences of local decisions and the potential for leaders to transform not only places but also organisations. The GM leadership framework is helping to think through these challenges.

Inclusive growth in a changing economy, society and politics

Alexandra Jones discussed the emergence of inclusive growth as a key challenge for advanced economies and their cities. She related this to significant shifts in our economy, society and politics.

It was emphasised that the economy has been changing in a way that privileges certain places and people over others, building on points made by Professor Lupton about economic restructuring and a new geography of job

¹ John Walker, "Land Value Capture in Large Scale Developments," accessed July 21, 2016, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/491163/future-of-cities-land-value-capture.pdf.

creation.

- In a more globalised world, the fastest growing sectors are those that are high-value and high-skilled, which require a higher level of qualifications. Many of the firms creating these jobs prefer to be located in larger city centres, and tend to invest in places that are 'buzzy' and offer a proximity of skilled workers, high value businesses and institutions such as universities.
- This economic shift can also be seen in the steep decline of manufacturing employment and an inability to deal with the impact of deindustrialisation in many parts of the UK. The places that have struggled the most are those with an industrial heritage, which have relied on one sector in the past. The structural changes in our economy and labour markets are benefiting some places at the expense of others.
- Employment has recovered and grown following the most recent recession, but there has been wage stagnation. Moreover, the largest job losses during the recession were administrative jobs and less skilled jobs, reinforcing a 'hollowing out' of parts of the labour market.
- A key challenge is to understand the role of places in a changing economy, and the ways in which they can use their unique strengths, characteristics and resources to create local economies that work for them. Embedding 'place' into city-based growth strategies is vital.
- Some suggest that strategies for agglomeration and city centre growth undermine inclusive growth, but it is wrong to juxtapose the two: the key challenge is to target economic investments and policies in a more intelligent manner that recognises that different places can have different roles in a connected economy. For example, advanced manufacturing does not need to be in the city centre: there are other places that would be a better fit.


In addition to economic shifts, there have also been significant social changes. In a post-recession context with relatively strong employment growth but little wage growth, more people are beginning to ask why many are not benefiting from the economy and why people are unable to influence outcomes. There is a growing desire for more local decision-making and a societal trend towards wanting greater influence.

Policy is starting to catch up to these changing economic and social trends. There is a growing recognition amongst policymakers that the UK (and England in particular) remains a highly centralised country in an increasingly globalised economic system where global forces are impacting different places differently. The inflexibility of our current settlement makes

tackling these place-based challenges more difficult.

Devolution deals are providing an important opportunity to begin to tackle some of these issues. They are providing cities in England with certain powers over transport, planning, skills and in the case of GM, health. There have also been City Deals that have provided individual cities with additional powers and freedoms to grow their economies. They also offer potential opportunities to promote an agenda for inclusive growth. These include:

- Providing cities with the flexibilities and opportunities to address skills challenges which impact the inclusiveness of a local economy.
- Developing more connected transport policy and infrastructure, particularly inter-city transport. Better transport can connect different parts of a city region and ensure growth and employment opportunities are accessible to a wider range of people.
- Enabling health and public service reform, joining up services, wrapping them around people and places and focusing on outcomes.
- City regions with metro mayors have an opportunity not only to exercise new formal powers, but also take advantage of the leadership and informal powers of the mayor to bring in investment, negotiate with central government, engage with the public, convene and spur action, and stimulate debate about the kind of economy we want.

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Despite these benefits and opportunities, they nevertheless pose important questions about whether more significant devolution is necessary to create the right incentives for local service reform and what the role of central government should be (currently, for example, the majority of the savings from initiatives such as Community Budgets accrue to central government). It is also important to acknowledge that devolution isn't the whole answer for more inclusive growth – certain powers should remain within Whitehall and it is crucial for central and local government to work together.

Inclusive growth or inclusive economies?

Participants discussed the importance of having a clear understanding of what we mean by 'inclusive growth', but also ensuring that there is sufficient flexibility for local places and their citizens to shape growth models that are relevant to them – inclusive growth will not and shouldn't look the same everywhere. Some also argue that there is a distinction between inclusive growth and inclusive economies that should be considered. Some of the research being undertaken in GM suggests many stakeholders prefer the latter – which they regard as an approach that seeks to develop an economy that serves broader goals in society, rather than simply being growth-focused. Recent research on monitoring inclusive growth from Sheffield Hallam University for the JRF reveals an interesting relationship between growth and inclusiveness in this regard. Some places in the UK are experiencing very little growth, but their economies are nevertheless more inclusive than higher-growth cities – in terms of income, living costs and labour market inclusion. Conversely, some places (such as London) have high rates of growth but with economies that perform poorly in terms of inclusiveness².

When defining inclusive growth, some participants argued that it is important not to see it simply as conventional growth with some of the rough edges smoothed off. Inclusive growth should provide a strong enough challenge to our current model of growth.

Adapting to the post-industrial economy: new skills and cultures

The nature of our economy has changed dramatically since the economic restructuring of the 1980s and the decline of manufacturing employment. Participants reinforced points raised by the speakers and suggested that two central drivers of unequal growth have been the failure to properly deal with transition from an industrial to a post-industrial economy, and the way in which the structure of the post-industrial economy maintains high levels of inequality (the UK, for example, has amongst the highest levels of market income inequality in the developed world³). A city council chief executive highlighted the challenges

of persistently polarised cities – where the same communities continue to experience poverty and exclusion generation after generation, and a disconnect from the growth that takes place.

 Responding to these challenges requires more than just new policies, services and tools, but also a new set of skills and specialisms for understanding microeconomic trends across neighbourhoods and communities...

Such challenges demand added layers of nuance to traditional policy and economic interventions such as education and skills investment. One participant reflected on how skills shortages was a significant issue identified through the course of the City Growth Commission, but as you delved deeper into how it impacted communities in a place, it was an issue that was more complex than, for example, the provision of courses in FE colleges. It was more fundamentally about communities and neighbourhoods that didn't seem to function and lacked any sort of connection to the growth that was happening around them. The North East, for example, contains the most productive car plants in Europe but many of the families and communities in Sunderland do not feel a sense of connection to the opportunities these provide.

Responding to these challenges requires more than just new policies, services and tools, but also a new set of skills and specialisms for understanding microeconomic trends across neighbourhoods and communities, and how social and economic policies intersect across a city economy. The role of universities is important here – particularly in helping to develop a "new breed of social economists" to help cities navigate some of the challenges of inclusive growth.

In addition to the skills challenge, some participants also identified the importance of culture and cultural change to the future of places. It was argued that cultural renewal could help strengthen the 'pull factor' of cities, particularly in the North, that have traditionally struggled. Part of this challenge also applies to cultures around public service delivery and the role of the private sector. In the United States, for example,

2 University of Manchester's Inclusive Growth Analysis Unit, "Inclusive Growth Indicators for Cities," <http://www.cities.manchester.ac.uk/igau/research/inclusive-growth-indicators/>

3 The tax and benefits system plays a significant role in cushioning the UK's high levels of market income inequality. See for example ONS (2016) The effects of taxes and benefits on household income: financial year ending 2015. Available at: www.ons.gov.uk

businesses and the social sector play a strong role alongside city governments in promoting growth and social impact. In what ways might inclusive growth strategies combine public expenditure with the resources of the private sector to achieve greater impact?

Early support can tackle entrenched problems – but government policy alone can't solve everything

Some participants highlighted the role that early years and early support can play in developing ways to address the intergenerational, long term poverty that impacts many communities. We tend to support families and individuals only when they have reached crisis point, but their life chances will have been adversely affected much earlier – it is therefore important to get investment into early support. However, it was acknowledged that we have also oversold the story of early years to a degree – it works but we continue not to do it because it is considered too expensive and inflexible (requiring for example high cost, high quality early education with highly qualified teachers). It may be just as important to develop a 'second chance' narrative supporting young people aged 14-20, including in their transition from school to work and ensuring local labour markets have routes to employment for those that have not pursued higher education.

Despite the growing focus on reforming public services so that they are more aligned, intervene earlier and take a longer time view, there was also an important caution that government policy alone is neither the root of the problems of inequality and exclusion, and nor is it the key or primary lever to address such problems – this underestimates the structural challenges we face in developing more inclusive growth.

Making the knowledge economy work for more people

The knowledge economy and urban-based economic agglomeration are increasingly driving growth and job creation, but have also widened inequalities as people with fewer skills have often been unable to benefit. Participants noted that it is important to understand the trends of the knowledge economy, how it is reshaping local

places and economies (for example through 'innovation clusters'), and the governance and inclusivity effects of its growth. In some places the 'innovation economy' is revaluing downtown locations, creating more inclusive spaces for young people, and promoting living wage zones.

One of the central challenges for institutions (such as universities, particularly those that are competing internationally) in the context of a globalised, knowledge-driven economy is to become both 'world referring' (or world class) and 'local referring' (or providing opportunities for local people). Firms and universities may operate in a globalised context, but it is important they retain a connection to their locality.

Participants also discussed the relationship between poverty and economic dynamism – and whether there is any acceptable degree of poverty so long as it is transitional, and not the sort of poverty that seems to be locked into our current economy, which is increasingly shaped by precariousness and insecurity.

Beyond redistribution – creating surplus and productive investment

Some participants questioned relying on the traditional, redistributive, approach to broadening the proceeds of growth. Redistribution simply involves the state taxing the unequal rewards of growth and redistributing through welfare. Some would argue that this model is broken in terms of outcomes – it may prevent inequality and poverty worsening, but it hasn't supported the most disadvantaged communities from participating in and contributing to their local economies. The idea of 'predistribution' – where access to growth is not simply about the distribution of money but also about the creation of local growth ecosystems that support people and places to create a surplus – is also of value.

Two types of surplus were also identified – those from productive investment and those from rent-seeking. It was argued that the latter undermines inclusive growth by driving up the cost of housing and leading to owners of land or property capturing the uplift of productive investment, sometimes at the expense of local communities. There is growing interest, including a recent Treasury thought-piece⁴, in exploring how strategic economic planning can provide development that enables communities to capture more of the uplift in land value in order to fund infrastructure and support local economic development. Metro mayors could

4 Walker, "Land Value Capture in Large Scale Developments."

play a significant leadership role in such strategic economic planning.

Housing and inclusive growth

Participants discussed the dysfunctionality of the UK's housing market and the way in which it has impacted issues affecting inclusive growth (though the nature and scale of issues vary from place to place) – including income inequality, the growing polarisation of housing and housing wealth, and increasing disparities between those that own and live in decent housing and those experiencing precarious housing conditions. Despite the centrality of housing to inclusive growth, current devolution deals do not provide the powers and flexibilities necessary to enable places to respond to their unique housing challenges. Localising reforms, such as giving councils full control over housing assets, have been put into reverse.

Conclusion

Eight years following the global financial crisis, the UK has achieved recovery in parts of its economy and a decline in unemployment. But this paper has highlighted the ways in which significant changes in our economy, society and politics have impacted the inclusiveness of economic growth. There is a clear need for inclusive growth strategies to support those communities that have been structurally disadvantaged by deindustrialisation and economic restructuring. Government policy alone cannot provide an easy fix. But more integrated policies, more inclusive governance, and new skills, cultures and institutional responses (including those that bring in the resources and leadership of business and the third sector) can play an important role, particularly in the context of the opportunities provided by devolution. It is important that 'inclusive growth' is not seen simply as conventional growth with the rough edges smoothed over – nor should it be reduced narrowly to functional priorities such as maximising productivity. The relationship between economic growth and the sort of economy and society that citizens want to be part of, is important to consider.

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About the RSA Inclusive Growth Commission
Launched in April, 2016, the Inclusive Growth Commission is an independent, impactful inquiry designed to understand and identify practical ways to make local economies across the UK more economically inclusive and prosperous. Chaired by Stephanie Flanders, former BBC economics editor and J.P. Morgan Chief Market Strategist (UK and Europe), and building on the success of the RSA's City Growth Commission, the Commission will seek to devise new models for place-based growth, which enable the widest range of people to participate fully in, and benefit from, the growth of their local area.

The RSA City Growth Commission demonstrated how the largest UK cities can drive prosperity through place-based investment and economic policy making, enabled through devolution and new forms of governance and finance. This economic narrative has since driven policy developments, but it has become increasingly urgent to understand how we can deepen and broaden this vision, tackling the entrenched inequalities within and between neighbourhoods that act as a drag on growth, and ensuring that the benefits of this place-based approach are more widely shared.

Find out more and get involved

To find out more about the Commission and view its latest content, visit www.thersa.org/inclusivegrowthcommission or our Twitter on @incgrowth.

To find out more about how you can get involved, contact Charlotte Alldritt, Director of the Commission, at alldritt@rsa.org.uk or Atif Shafique, Lead Researcher, at atif.shafique@rsa.org.uk.



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