Infrastructure Commission *for* Scotland

Inclusive Economic Growth: A Review

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Contents

1. Background

Inclusive growth (IG) and inclusive economic growth (IEG) are interchangeable terms. Inclusive economic growth features strongly in the Commission remit including the strategic drivers: securing Scotland's international competitiveness; the markets and connections Scotland requires for goods, services and people; how to prioritise investment to deliver inclusive economic growth and low carbon objectives; demographic and other social change factors; place-making; technological change and innovation; and considerations around development, ownership and financing of infrastructure, including Fair Work.

In addition, inclusive economic growth is the first challenge listed in the overarching objectives for the Infrastructure Commission for Scotland (the Commission):-

1. **Delivering sustainable inclusive economic growth** across Scotland
2. Managing the transition to a more resource efficient, lower carbon economy
3. Supporting delivery of efficient, high quality, modern public services
4. Increasing industry competitiveness, whilst tackling inequality
5. Enhancing societal living conditions now and in the future
6. Ensuring alignment with the new National Planning Framework

In recognition of this key role, the Commissioners have identified the development of an *inclusive growth*, low carbon economy as central to establishing the 30-year vision. This paper pulls together: some of the history of the language; alongside current thinking on IG; measures being used; any evidence on the infrastructure link to inclusive growth; and therefore, proposes a framework for the Commission to consider IG and outline of potential further areas of research that may be undertaken.

2. The origins of Inclusive Growth

2.1 Development Economics / Growth Commission & World Bank

The language of IG originated in development economics[1], in the 2000s when organisations such as the World Bank realised their economic predictions were proving inaccurate. The 2008 Growth Report, published by the Commission on Growth and Development, focused on developing nations primarily and introduced the language of inclusive growth within an overarching ambition for shared prosperity and fairness. The report highlighted that over the preceding decade, inequality had been rising including within industrialised countries[2].

In a subsequent 2009 paper[3], the World Bank sought to define Inclusive Growth. The paper sets this within the pro-poor debate and in particular relative versus absolute poverty reduction. Absolute poverty reduction is suggested as requiring redistribution of income which developing nations, with general low-income levels, aren't in a position to do. As noted at 1.2.2 the Scottish Government's IG definition appears to include redistribution polices and current poverty-reduction policies have both absolute and relative measures as targets[4]. For the World Bank however, perhaps unsurprisingly it ultimately opts for absolute definitions, focusing on a longer-term prioritising of productive employment. Structural changes are part of this i.e. both institutional and economy changes. The paper defines inclusive growth as being about:

> **Rapid and sustained poverty reduction requires inclusive growth that allows people to contribute to and benefit from economic growth:**
> Rapid pace of growth is unquestionably necessary for substantial poverty reduction, but for this growth to be sustainable in the long run, it should be broad-based across sectors, and inclusive of the large part of the country's labour force.

There are a number of themes which the paper highlights leading to this definition: -

- A difference between pro-poor and inclusive growth is that the pro-poor approach is mainly interested in the welfare of the poor while inclusive growth is concerned with opportunities for the majority of the labour force, poor and middle-class alike.
- Economic growth is necessary for poverty reduction. The paper refers to evidence that the poorer the country, the more important growth policies are: with 70% of all poverty reduction in the short term due to rising income levels, which rise to 97% long-term. Redistribution policies mainly allow for the remaining impacts.
- Sustained high growth however requires expanding sources of growth and increasing labour market engagement. Considering the breadth of labour supply issues such as skills as well as demand issues such as the sectoral diversification.
- Considers pace and pattern of growth, so that the type of growth generated creates more inclusion;

1 https://www.jrf.org.uk/blog/what-inclusive-growth-and-why-does-it-matter?gclid=EAIaIQobChMI3ueChOzj4QIVzZPtCh2KhAuLEAAYASAAEgLkDfD_BwE [online] accessed 3rd May 2019

2 The International Bank for Reconstruction and Development / The World Bank on behalf of the Commission on Growth and Development, 2008, The Growth Report: Strategies for Sustained Growth and Inclusive Development pp 131 [online] accessed 3rd May 2019

3 The World Bank, 2009, What is Inclusive Growth https://siteresources.worldbank.org/INTDEBTDEPT/Resources/468980-process.1218567884549/WhatIsInclusiveGrowth20081230.pdf

4 https://nationalperformance.gov.scot/measuring-progress/national-indicator-performance [online] accessed 3rd May 2019

- Inclusive growth requires market-driven sources of growth, often generated by the government; however, encouraging broad-based and inclusive growth does not imply a return to government-sponsored industrial policies, but instead puts the emphasis on policies that remove constraints to growth and create a level playing field for investment
- Employment generation or income distribution are outcomes of inclusive growth, not targets;
- The growth determinants are influenced by income levels, poverty, asset inequality and a number of other country-specific factors and policies.

This approach takes an ex-ante analysis of the sources and constraints to growth for all groups, including the poor, to make labour more productive; whereas traditional poverty-reduction was often ex-post and measured the impact of growth on those poverty measures, designing interventions appropriately. A number of diagnostics have been developed, focusing on the individual, similar to the one developed by the Scottish Government. The wider question of this approach is the appropriateness for a developed economy.

3. Scottish Government

3.1 Scottish Economic Strategy 2015

The use of the language of inclusive growth first appeared in Scotland's 2015 Economic Strategy[5]. The strategy has the 4 priorities of inclusive growth, internationalisation, investment and innovation, however summarised the approach through the two pillars of increasing competitiveness and tackling inequality.

At that point sustainable economic growth was commonly used language, however IG was introduced with a range of terms throughout this document:

- **Reduce inequality**
- **A more productive, cohesive and fairer Scotland**
- **Ensure the benefits of economic success are shared by all**
- **Creating greater prosperity and fairness is a shared national endeavour**

In addition, there was a clear action plan to promote IG, including: -

- Promote Fair Work and build a labour market that provides sustainable and well-paid jobs;
- Address long-standing barriers in the labour market so that everyone has the opportunity to fulfil their potential;
- Tackle cross-generational inequality through, for example, improved child care, boosting attainment and early years interventions that give every child a fair start in life; and
- Realise opportunities across Scotland's cities, towns and rural areas, capitalising upon local knowledge and resources to deliver more equal growth across the country.

While no definition of IG was provided in this document, the above suggests it includes: Fair Work; access to the labour market; equity, including spatial equity.

The focus on IG is identified as being driven by the principle that "delivering sustainable growth and addressing long-standing inequalities are reinforcing – and not competing – objectives" and that "there is growing international evidence that promoting competitiveness and addressing inequality are important interdependent ambitions."[6] In addition, "the IMF found that lower income inequality is correlated with faster and more durable growth. Work by Professor Joseph Stiglitz also concluded that countries which are more unequal, grow more slowly and are less stable."

5 Scottish Government, 2015, Scotland's Economic Strategy, March 2015 [online], Edinburgh: Scottish Government [viewed 22nd April 2019] Available from: https://www.gov.scot/publications/scotlands-economic-strategy/
6 Scottish Government, 2015, Scotland's Economic Strategy, March 2015 [online], pps 7 & 22, Edinburgh: Scottish Government [viewed 22nd April 2019] Available from: https://www.gov.scot/publications/scotlands-economic-strategy/

It is suggested that while the text of this 2015 strategy specifies the actions to achieve inclusive growth and the interdependence of growth and inclusion; understanding the process to manage this interdependence and how it is different to what is already embedded in wider policy implementation, is less clear. The work of the Scottish Government's Scottish Centre for Regional Inclusive Growth (SCRIG) is one route through which Scottish Government have sought to provide practical help in understanding IG, thereby building capacity.

3.2 Scottish Centre for Regional Inclusive Growth (SCRIG)

SCRIG has become the central source for Scottish Government's inclusive growth resources. Established in 2018, it has an interim steering group and has recently developed an academic network which it is hoped will help fill the knowledge gap, supporting IG.

There are two key resources held by SCRIG:

1. inclusive growth diagnostic, developed by Scottish Government and so-far piloted with the Ayrshire authorities, as part of their regional deal development;
2. The Inclusive Growth Outcome Framework

The Inclusive Growth Diagnostic provides Scottish Government's definition of IG: -

> Growth that combines increased prosperity with equity that creates opportunities for all and distributes dividends of increased prosperity fairly

This definition could be interpreted as being interested in both ex-ante and ex-post activities to influence inclusion i.e. creating opportunities through growth policies, but also with a redistributive element. This point will be picked up later.

The diagnostic sets out that IG: -

- Incorporates traditional growth policies: investment, innovation, internationalisation, labour markets and employment;
- Is multi-dimensional: it includes social inclusion, well-being, participation, environmental;
- Tackles inequalities in outcomes but also inequalities in opportunities; and,
- Promotes more equal growth across cities, regions and rural areas, and recognises importance of place/community in delivering this.

The diagnostic predates the outcome framework and has clearly informed it; however, both are proposed as tools to help stakeholders understand what successful inclusive growth looks like. The diagnostic tool helps authorities and collections of authorities to understand the barriers their citizens face to full engagement in society; alongside prioritising what is important to them. It requires both quantitative analysis of key economic and social data, followed by social research to interpret and refine the data. The availability of quality local and regional data is posed as a particular challenge in delivering on this activity, which the Scottish Government is currently reviewing. The type of challenges the diagnostic reveals is the role of childcare, transport etc; many issues that have prevailed throughout Scotland as barriers to employment or inclusion. The diagnostic has been used by a number of public bodies, most notably with the Ayrshire's pilot project[7]. Conversations with authorities involved in the pilot have considered the toolkit a valuable methodology to review issues in a consistent manner and prioritise interventions.

7 http://www.inclusivegrowth.scot/wp-content/uploads/2018/06/SCRIG-Content-North-Ayrshire-Inclusive-Growth-Diangostic-FINAL-1.pdf [online] accessed 6th Mary 2019

The IG outcome framework is based on 5 Ps: -

- **Productivity** – economic growth is resilient, sustainable and inclusive
- **Population** – Scotland's population is healthy and skilled
- **Participation** – inequality of opportunity to access work is addressed, jobs are fulfilling, secure and well-paid, and everyone is able to maximise their potential
- **People** – economic benefits and opportunities are spread more widely across Scotland's population, with lower poverty levels
- **Place** – more equal economic opportunities across Scotland's cities, towns and regions and rural areas, ensuring sustainable communities

Sustainability is a further prism through which the framework needs evaluated. Infrastructure is not explicit although could be seen to be relevant in many of the 5Ps.

The framework is intended as a tool and it is noted there will be no separate inclusive growth monitoring report for Scotland, instead the National Performance Framework (NPF) indicators are considered to provide sufficient guide on measuring IG progress. Overall the emphasis of SCRIG appears more pragmatic, providing tools and frameworks. It doesn't explicitly discuss trade-offs or whether inclusive growth is a discussion taken prior to or post investment; a point that will be picked up in reference to the RSA Inclusive Growth Commission. The diagnostic and the Outcome Framework are being reviewed and refined, with update anticipated during 2019.

3.3 National Performance Framework (NPF)[8]

The NPF is Scottish Government's performance management tool and has 11 outcome areas and 81 indicators. Aligned with the UN Sustainable Development Goals it "…aims to reduce inequalities and gives equal importance to economic, environmental and social progress". As such it seeks to:

- create a more successful country
- give opportunities to all people living in Scotland
- increase the wellbeing of people living in Scotland
- create sustainable and inclusive growth

Indicators that would support IG, using the definition at 1.3.2 are present throughout the NPF: of the 10 economy indicators, only income equality is clearly reflective of equality priorities; Fair Work and Business has nine indicators, many of which reflect inclusive growth priorities e.g. pay gap; and Poverty has 7 indicators, with wealth inequality the most relevant. Interestingly, while spatial equality is a goal, there is no clear indicator in the NPF. Infrastructure only appears explicitly in the NPF in the context of the condition of historic and protected nature sites, perhaps recognising its primarily enabling role in achieving other indicators.

The NPF highlights that while inclusive growth is a policy objective, it is cross-cutting. Conversations with Scottish Government colleagues also confirm this is not a policy objective that is owned by a single portfolio.

8 https://nationalperformance.gov.scot/ [online] accessed 3rd May 2019

3.4 Evolving Scottish Government Developments

Conversations with colleagues in the Office of the Chief Economic Advisor (OCEA,) who developed the SCRIG resources, recognise that the language of IG has evolved and there is a need to acknowledge the potential trade-offs between inclusion and many other themes, including competitiveness. The importance of beginning with a framework that understands fully the IG issues in a measurable way, is a first step to then make clear decisions, including any trade-offs. In discussing IG and the role of infrastructure, there are still ambitions to develop greater clarity in this area during 2019/2020: -

- There has been some work undertaken in terms of understanding the regional constraints to IG;
- The next step is reflecting this against infrastructure and to what extent infrastructure can enable greater IG. While high-level thinking has been developed, this needs set within an evidence framework;
- Identifying what steps could be taken to address these.

4. Other Research

4.1 RSA Inclusive Growth Commission

The independent Inclusive Growth Commission published its final report, Making the Economy Work for Everyone[9], in March 2017. The Commission's definition of IG is:

> Enabling as many people as possible to contribute and benefit from growth

The report illustrates the IG challenge: -

- In work poverty - of the 13.5 million people in poverty in the UK 7.4 million (55 percent) are in working families
- Deprivation and productivity - across the 10 UK Core Cities (outside London) 38 percent of the gap between their combined average productivity and that of the UK average is associated with deprivation. Closing this productivity gap alone would deliver a further £24.4bn a year to the UK economy.
- Low Productivity - two-thirds of the United Kingdom's workers are employed in businesses with productivity that falls below the industry average.
- British cities are lagging-behind on productivity - Compared to the 10 UK Core Cities combined average productivity, Munich is 88 percent higher, Frankfurt 80.7 percent higher, Rotterdam 42.8 percent higher and Barcelona 26.7 percent higher.

The issues raised reflect those prioritised by Scottish Government, whether through the Economic Strategy or the IG Outcome Framework. The report does more explicitly detail the reasons for inclusion, in relation to the productivity gap: both deprivation link and the unexploited potential. The solution is also articulated differently, whereby a move from the current model, suggested as "grow now and redistribute later" believed to create a divided society and poor productivity issues; to a new model which combines as many people as possible contributing to and benefiting from growth, with investment in "social infrastructure" a key driver of growth. Importantly the social infrastructure referred to are soft skills as opposed to physical infrastructure such as schools and hospitals. Both the new and old models are intended to tackle place-based and social inequalities. The new model sees social and economic policy integrated locally and centrally: -

- Social infrastructure – investing in education, skills and employability support, mental health, affordable childcare
- **Physical infrastructure – connecting people to economic assets and opportunities *(via housing, transport, digital)***
- Inclusive industrial strategies – long-term commitment to key sectors, clusters and technologies, including in low-paid sectors (e.g. retail, care, warehousing and logistics)
- Business-led productivity and quality jobs – firms moving up value-chain, creating quality jobs (fairly paid, scope for progression and autonomy, family friendly and flexible)
- Macro environment – creating a culture of enterprise, inclusive legal/financial institutions (e.g. regional banking) competitive fiscal and monetary policy and appropriate labour market regulation.

The proposal feeds through to 4 proposals which include issues such as a new system of integration, led by an understanding of the social infrastructure gap and tools to analyse investments through the prism of inclusive growth. The proposal is interesting in explicitly including physical infrastructure.

9 https://www.thersa.org/globalassets/pdfs/reports/rsa_inclusive-growth-commission-final-report-march-2017.pdf [online] accessed 3rd May 2019

It is suggested that the key difference in this report is the wrap-around narrative and focus on whole-model changes. While the interventions are not markedly different, they are proposed to be integrated ex-ante as opposed to ex-post, which is often but not always, the approach. Also, the proposals are not necessarily considered an issue of inclusion alone i.e. business-led productivity is good for the economy, but this analysis re-asserts its value for creating Fair Work. This focus suggests productivity gains should be focused at those lower-value sectors. Also, integrating IG considerations into the decision-making framework for public sector investment decisions, pre-empts issues but also generates opportunities. The authors note however that there is a gap in the investment appraisal and measurement tools to support this approach. As noted already, does this mean the public sector should prioritise investment that is inclusive, over higher-growth but less immediately inclusive investment i.e. the new model versus the old model, in RSA language? Understanding trade-offs would be an important part of the decision-making.

4.2 Joseph Rowntree Foundation (JRF)

JRF has used IG language since 2016, publishing a number of documents, although it can be argued this has always been integral to their anti-poverty work. Their contribution to the RSA IG commission is particularly valuable[10] as it helps to focus in on what the most important considerations may be to generate IG, including their narrative on infrastructure.

Some key points made by JFR are[11]: -

- City regions provide the best opportunity for inclusive growth but, outside of these principal urban areas, the challenge of economic inclusion is even greater. This primarily sees the opportunities that regions bring, to address spatial inequalities. There are 4 related themes of: setting an inclusive growth agenda; education and skills system; shaping a more inclusive economy; and connecting people to economic opportunities.
- A more interventionist approach is required in order to address the following priority issues: the geographic unevenness of economic growth; the education and skills attainment gap; and low productivity, particularly in low pay sectors.
- Policy responses need to be both economic and social. In the economic sphere, seeking to influence the location of jobs over the long-term through levers such as strategic land use planning and infrastructure investment.

Infrastructure is therefore is seen to have a place in achieving IG. Housing and Transport are particularly highlighted as helping connect people to economic opportunities: housing security, quality and cost are all highlighted; while transport to link people in poverty to employment opportunities continues to be emphasised, with availability in deprived communities as well as cost the key issues, primarily as a result of suggested flaws in transport modelling.

The JRF response is clear that there is a trade-off in achieving inclusive growth.

10 https://www.jrf.org.uk/report/rsa-inclusive-growth-commission [online] accessed 3rd May 2019
11 https://www.jrf.org.uk/report/rsa-inclusive-growth-commission [online] accessed 3rd May 2019

4.3 Inclusive Growth Analysis Unit[12]

JRF funds the Unit, based within Manchester University, established in 2016 to support the integration of poverty reduction, in economic growth and devolution policies in Manchester; as well as to research, analyse and comment on IG in other UK cities. The unit has developed the IG Monitor for Local Enterprise Partnerships in England and monitor English progress against these. They are consistent with previous themes, with 6 dimensions and 18 indicators. The two themes are Economic Inclusion and Prosperity, while the 6 dimensions are: -

- Income
- Living Costs
- Labour Market Exclusion
- Output Growth
- Employment
- Human Capital

Economic inclusion is mapped against prosperity, indicating equity is at the heart of this approach.

4.4 Centre for Progressive Policy (CPP)

In a 2018 essay[13], the CPP, an independent think tank, advocate that not only growth but quality growth is important, expressed through the impacts of growth and its distributional impact. This is staged as: despite being the third richest in the EU in GDP terms, the disposable household income per resident in over half of the UK sub-regions is below the EU average. The IG agenda is suggested to have gained interest, due to the shift from "poverty due to unemployment", to "poverty due to employment" paying too little; and the resultant debate around corporate shift of commercial risk to their staff, ultimately subsidised by the state.

Similar to international bodies such as the World Bank, the CPP emphasise that Inclusive growth is not the abandonment of economics, or a push for old-fashioned redistribution. Instead it is an ex-ante approach which seeks to tackle inequality and poverty as an integral part of achieving more sustainable, quality growth; not a grow now and redistribute later approach.

The paper highlights issues of measuring IG undermined by GVA and GDP, despite the OECD's Better Life Index, the Stiglitz-Sen-Fitoussi (2009) Commission on the Measurement of Economic Performance and Social Progress, and the ONS General Wellbeing measure all seeking to address the limitations of these measures on wider societal and distributional benefits.

The paper concludes with a call to action:

- **Understanding the specific barriers** to inclusive growth in their place using data-driven analysis
- **Investing in inclusive growth** by finding ways to raise, pool and channel new/existing resource, developing appropriate financial vehicles, governance arrangements and central/local accountability mechanisms.
- **Devising long term, system-level actions** rather than standard tools and solutions that have not yielded significant results.
- **Driving change through anchor institutions**, such as hospitals, schools, colleges, universities and major employers, raising the bar for other players – across the public, private and social sectors

12 https://www.mui.manchester.ac.uk/igau/ [online] accessed 2nd May 2019
13 Charlotte Alldritt, 2018, Inclusive Growth, why it can rekindle progressive politics, Centre for Progressive Policy, London

- **Integrating economic and social policy programmes** so that each are the flip sides of the same coin, driving productivity and broader-based prosperity.
- **Measuring progress, going beyond GVA** uplift in headline terms and at a more granular programme/project level to track distributional impact upon people and places within their locality

4.5 Wellbeing Economy Alliance / National Enterprise Board

The Wellbeing Economy Alliance is a "collaboration of organisations, alliances, movements and individuals working together to change the economic system to create a wellbeing economy: one that delivers human and ecological wellbeing. It is registered as a UK Trust, hosted by registered English charity The Equality Trust"[14] The WEA has been involved with the National Enterprise Board to support their work on understanding. Unfortunately it wasn't possible to arrange a meeting with WEA in advance of this paper submission, however in reviewing their website, it is clear that they advocate for a new approach that moves from the narrative of increasing growth, to one focused on quality of life and sustainable economics.

4.5.1 Measuring Inclusive Growth

a. Inequality and Deprivation Indices

Scottish Government Index of Multiple Deprivation

The Scottish Government's Scottish Index of Multiple Deprivation[15] (SIMD) is a relative measure, which ranks small areas (called data zones) from most deprived (ranked 1) to least deprived (ranked 6,976). The index has seven domains of employment, income, crime, housing, health, education and access. Deprivation stats are available collectively or individually by data zone or collections of data zones; as well as by individual domains or an overall deprivation statistic. It does not provide the why of the stats, however for policymakers it can provide a starting point for further investigation and also to prioritise funding. An interactive tool is available to support the system.[16]

Gini co-efficient

The Gini co-efficient was introduced by the OECD as a relative measure of inequality, by comparing the income or wealth distribution of countries. The approach uses a distribution curve, therefore there can be challenges in interpretation, with the same outcomes being seen from varying curves, often due to demographic differences. Similar to the SIMD however, the approach can be used for a range of areas of interest, including education and social mobility. The coefficient shows increasing worldwide inequality.

The UN Human Development Index and related inequality-adjusted HDI is commented on below.

Both the SIMD and Gini index, while useful guides, are relative measures, therefore have their limitations - indeed the Gini has been criticised on that basis. Both however indicate a desire to understand and thereby target issues of deprivation on an area-basis.

14 https://wellbeingeconomy.org/how-will-we-change-the-system [online] accessed 6th May 2019
15 https://www2.gov.scot/Topics/Statistics/SIMD [online] accessed 5th May 2019
16 http://simd.scot/2016/#/simd2016/BTTTFTT/9/-4.0000/55.9000/

5. Infrastructure Commission for Scotland Engagement

b. Wellbeing Index

OECD Index of Wellbeing

The OECD also has an index of wellbeing. The OECD identify the challenges of using macro-economic statistics, such as GDP, to provide information on the living conditions that ordinary people experience. Societal progress is suggested as being about improvements in the well-being of people and households and assessing such progress means looking not only at the functioning of the economic system but also at the experiences and living conditions of people. The OECD Framework for Measuring Well-Being and Progress shown is based on the recommendations made in 2009 by the Commission on the Measurement of Economic Performance and Social Progress (also known as the Stiglitz-Sen-Fitoussi Commission), as well as earlier initiatives which the OECD was involved with.

The OECD Framework for measuring wellbeing and progress has two overarching strands: -

- Current wellbeing – split into quality of life (health status; work-life balance; education and skills; social connections; civic engagement and governance; environmental quality; personal security; subjective well-being) and material conditions (income and wealth; jobs and earning; and housing)
- Resources for future well-being (natural capital; economic capital; human capital; social capital)

The OECD emphasise the need to bring well-being measures into policy decision making; as well as to improve upon available data and metrics. From this framework emerges the Better Life Index where the eleven measures (*material living conditions* (housing, income, jobs) and *quality of life* (community, education, environment, governance, health, life satisfaction, safety and work-life balance) provide an educational tool for citizens to be more informed on the policies that influence their lives. For each indicator you can also compare results for men and women and see how much your social and economic status affects results. It is also anticipated that in the future, those indicators reflecting current material living conditions and quality of life will be complemented by indicators describing sustainability of well-being over time.

The Better Life framework has also been criticised, primarily for a suggested limited range of measures; the inability to be suitably precise in the measures; and again due to the relative measure being used.

UN Human Development Index

Similar to the Better Life Framework, the UN Human Development Index[17] (HDI) was also developed to support an emphasis on people and their capabilities as the key criteria for assessing the development of a country, not economic growth alone. It has been paraphrased as a measure on whether people are able to "be" and "do". It is a summary measure of average achievement in key dimensions of human development: a long and healthy life (life expectancy at birth), being knowledgeable (expected years of schooling and mean years of schooling) and have a decent standard of living (GNI per capita). This provides three indices from which the HDI is the geometric mean. It does not reflect on inequalities, poverty, human security, empowerment, etc. The Human Developments Reports Office[18] gathers data on a number of these other areas of interest, including an inequality-adjusted HDI. The UK ranked 14th in this measure in 2018.

The HDI has been criticised primarily for not considering technology; an over-emphasis on ranking; errors in calculations; and interestingly on a focus on external measures, as opposed to working directly with citizens to understand their views.

17 http://hdr.undp.org/en/content/human-development-index-hdi [online] accessed 5th May 2019
18 https://data.humdata.org/organization/undp-human-development-reports-office [online] accessed 5th May 2019

c. Other Measures

Scottish Government IG Outcome Framework

As noted above, the Scottish Government have both the overarching IG Outcomes Framework and the IG Diagnostic. The Outcomes are:

- Productivity
- Population
- Participation
- People
- Place

Sustainability issues are also central to the framework. Under each outcome, there are at least 2 indicators that can be used; however, the framework is intended to be flexible, identifying indicators that matter to the users. The framework is currently being updated.

Scottish Government IG Diagnostic

The diagnostic is currently being updated, however it takes users on a 6-step journey: to identify the issues across the 5 areas of the outcome framework; followed by an assessment of the drivers of performance; identifying a vision for IG; assessing evidence and impact which recognises trade-offs and stakeholder views, through a prioritisation matrix of "impact" and "what we care about"; reviewing this against national, regional and local priorities; finally monitoring and evaluation.

The diagnostic is therefore both founded in data but also the views and priorities of people. The challenge is the subjectivity of information and availability of evidence to help prioritise and agree any trade-offs. Usefully the tool can be used at any spatial level.

ONS Measuring National Well-Being

In 2010, ONS established the Measuring National Well-Being programme[19] which developed the national wellbeing measures dataset. There are 43 indicators overall split into the ten domains of: personal well-being; our relationships; health; what we do; where we live; personal finance; economy; education and skills; governance; and environment. The measures include both objective data and subjective data. The data appears only to be available at a UK-level and can be viewed as a dashboard, showing percentages against the measure and recent changes.

ONS Personal and Economic Wellbeing

In February 2019 ONS launched a new series on "people and prosperity"[20], as part of the "beyond GPD" series: Personal and Economic Wellbeing bulletin[21]. This series acknowledges the issues with GPD in indicating wellbeing and living standards; however, suggests it is not the role of GDP to be a proxy for wellbeing and instead other measures are needed alongside GDP. The blog notes that should appropriate data be available to policymakers, then decisions may be different. There are 12 measures, including the gini-coefficient; disposable income measures and happiness ratings. Again, indicators are both objective and subjective data. The new measures are intended to help understand whether economic changes are reflected in incomes, life-satisfaction and other measures. ONS acknowledge current data issues, however set out plans to continually improve upon this.

This measurement journey suggests that GDP cannot be the only measure of a successful economy as it doesn't reflect IG ambitions. Instead a new measure is needed that tells the combined story of what is important for the economy and society.

19 https://www.ons.gov.uk/peoplepopulationandcommunity/wellbeing/articles/measuresofnationalwellbeingdashboard/2018-09-26 [online] accessed 5th May 2019
20 https://blog.ons.gov.uk/2019/02/04/beyond-gdp-how-ons-is-developing-wider-measures-of-well-being/ [online] accessed 5th May 2019
21 https://www.ons.gov.uk/peoplepopulationandcommunity/wellbeing/bulletins/personalandeconomicwellbeingintheuk/april2019 [online] accessed 5th May 2019

6. Infrastructure & Inclusive Growth

6.1 National Performance Framework

As detailed above, IG is clearly embedded within the NPF, however discussions with Scottish Government colleagues has highlighted the difficulty in linking NPF to infrastructure and the enabling role of infrastructure. This is a piece of analysis that is anticipated to be pursued, however is not at this time available. The infrastructure indicators included within the NPF relate to natural and cultural assets with no explicit IG link.

6.2 Joseph Rowntree Foundation

As noted above, JRF proposals suggest that housing and transport have a particular role in IG. Further work is required to review the source documentation they refer to in their report.

6.3 Scottish Government: Exploring the Economic Rationale for Infrastructure Investment[22]

The Scottish Government published a report in December 2018 on the rationale for infrastructure investment, within the context of the National Infrastructure Mission, which seeks to increase annual investment in infrastructure by 1% of current GDP by the end of 2025-26. This report suggests studies on infrastructure and the economy show a causal link between infrastructure and economic output (but not explicitly inclusive growth); and that the OECD analysis shows the infrastructure stock in all countries (bar Japan) would see positive returns from increasing annual investment in terms of long-term growth and labour productivity. Studies quoted show a positive relationship between transport and electricity infrastructure and economic growth long-term, assuming there is no overprovision. The economic system however is a determinant of these impacts i.e. by the degree of economic slack; the efficiency of public investment and the method of financing.

The report subsequently identifies the ways in which infrastructure enables IG and sustainable growth through:

- Supporting the foundations of economic activity – economic resilience is discussed as part of this e.g. flood defence
- Stimulating demand in the economy in the short to medium term
- Improving the supply side of the economy in the longer term (through enhancing productivity and productive capacity)
- Improving the efficiency of markets (through facilitating the development of key sectors and technologies, unlocking private sector capital, improving private sector competitiveness)
- Improving social and environmental outcomes (through reducing regional disparities, reducing emissions, improving environmental quality and health and wellbeing)

This is expressed through a diagram, showing the interaction of market impacts, social and environmental impacts, demand side economy impacts and supply side economy impacts; all to support the foundations of economic activity and inclusive and sustainable growth.

Reflecting upon the other research investigated in this paper, it is seen that while IG and infrastructure are not explicitly discussed in this report, both spatial equalities and labour productivity and a sectoral focus are part of the model analysis, raised by others as of particular importance. There is no prioritising of approaches discussed, in order to make investment inclusive, either ex-ante or ex-post.

22 Office of the Chief Economic Advisor, Scottish Government, 2018, Exploring the Economic Rationale for Infrastructure Investment, Scottish Government

6.4 Glasgow Connectivity Commission

The Commission recently published Connecting Glasgow: Creating an Inclusive Thriving, Liveable City[23]. The report builds on an initial report of the same name[24] which provided proposals which were within the control of the City Council, whereas the second report proposals are within the jurisdiction of other agencies. Alongside a range of proposals, the first report suggests a connection between poor connectivity and poor engagement in the economy, within a context of connectivity being at the heart of any socio-economic system: carrying goods, services and people around the places where we live, work and play; as well as influencing the quality of life, design and type of economic activity it supports. Expansion of the city and job growth is suggested, with evidence from the Centre for Cities. It is not possible from this reference to know if this is a displacement of jobs, or real increases in employment.

The second report identifies a range of transport investments to achieve economic growth, also through potential agglomeration effects, by connecting the city centre more effectively to peripheral areas; expanding the economic activities to connected sites; and onward to other UK cities. It does also however identify that the most deprived areas of the city are poorly served by the rail network. It has suggested this as a result impacts on the access to city centre employment, by reducing the possible Travel to Work Area and the overall productivity of the city.

Neither of these reports are academic in their detailing of the role of transport, probably in a desire to keep the reports focused, therefore the statements on the role of transport for economic growth and for inclusion are not heavily evidenced. The commentary on labour productivity is however aligned with other reports detailed above.

6.5 Regionalisation Research

Scottish Futures Trust in partnership with SCRIG recently commissioned research into understanding the focus on regions, in the context of inclusive growth and infrastructure. While the report has not yet been published, there are some key messages that are useful to consider: -

- Generally sound reasoning behind the spatial basis of regional policies and partnerships, however….
- These are not rigidly defined: natural geography, sectoral structures and patterns of economic growth could drive partnership working
- There is a lack of data to identify and support 'optimal' functional economic areas
- Taking a pragmatic approach: what is the shape of future partnerships?
- No 'off the shelf' approach to inclusive growth: however, there is learning
- A need for leadership, common purpose and resource: matching delivery to needs
- A strategic focus – determining what matters (prioritisation) and maximising the wider benefits
- Generally, the impact of infrastructure on its own is limited: a need for coordinated education, skills, support into employment, etc to sit alongside this
- Develop appropriate governance – no 'one size fits all'

The study included a number of case studies. These often contrasted areas where inclusion was a clear policy priority and infrastructure (Denmark), in particular transport, was seen as a tool to support inclusion; whereas other areas were focused on growth and the infrastructure that could support inclusive practices wasn't developed and therefore there were high levels of exclusion (San Francisco Bay Area).

23 Glasgow's Connectivity Commission, 2019, Connecting Glasgow: Creating an Inclusive, Thriving, Liveable City,
24 Glasgow's Connectivity Commission, 2018, Connecting Glasgow: Creating an Inclusive, Thriving, Liveable City,

7. A Summary

All of the definitions of IG would agree that IG is about tackling place-based and social inequalities. As the SCRIG Outcome Framework highlights, much of this incorporates traditional growth policies; is multi-dimensional; tackles inequalities in outcomes and opportunities; and seeks more equal spatial growth. The drivers for focusing on IG have varied however, with some based more on issues of fairness versus a need for growth to be inclusive, which therefore generates more growth. Some of the key themes that have emerged on Inclusive Growth are: -

- A need for ex-ante appraisal of the constraints to growth, from which investment decisions can be made.
- Inclusive growth requires to be responsive to the country-specific issues, therefore an understanding of constraints is necessary, which may vary by region.
- The role of under-utilised labour and raising productivity either through engagement in the labour-market, or through raising skills and productivity within poorer paid/lower productivity sectors. This may be through an appropriate industrial strategy.
- The role of a reduction of inequality and measures of poverty, for overall social cohesion and wellbeing. This includes in outcomes and opportunities.
- Inclusive growth is not just about the traditional poor, but access for all groups and considerations such as spatial equality.
- Relative versus absolute measures of poverty reduction – understanding what the aims are as both are believed to reduce poverty, however in developing countries absolute measures are often more appropriate. Yet, where inequality prevails, a different approach may be taken, potentially trading off growth in order to make it more inclusive.
- The importance of considering the breadth of labour supply issues such as skills as well as demand issues such as the sectoral diversification.
- Consider pace and pattern of growth, so that the type of growth generated creates more inclusion;
- We may not have the right data or measures to sufficiently understand, target, address and prioritise inclusive growth. This includes the limitations to standard measures such as GDP/GVA to inform decision-making on IG.
- Scotland has an evolving approach to the measuring of inclusive growth, with the diagnostic providing a tool to prioritise growth against what is important to people.
- The link between IG and infrastructure is not sufficiently understood, although some infrastructure may have a greater role in achieving IG i.e. connecting people to economic assets and opportunities (via housing, transport, digital) as well as influencing the location of jobs over the long-term through levers such as strategic land use planning and infrastructure investment.

8. Conclusions & Next Steps

The research has identified some broad coherence on the definition of Inclusive Growth, although it is still an evolving area of development. There is also some degree of commonality in terms of IG outcomes being sought and ways in which those outcomes can be measured, however this again is still evolving. Finally, the link between infrastructure and economic output growth (GDP) and related measures such as productivity, appears to be broadly evidenced, although an element of this is situational dependent. The link to Inclusive Growth specifically, appears to be more implicit, and the evidence-based research directly attributing the link is less-well established than the link to economic output (GDP). The available evidence has a focus on access to the labour market, with transport, housing and digital mentioned. The extent to which this research is robust is again less clear.

Ultimately there are no easy answers. In summary, in the context of the Commission's activity, there are two interlinked areas where greater clarity would be useful:

- The measurement framework for Inclusive Growth
- Understanding more clearly the link between IG and infrastructure.