Inclusive growth: The challenge of our times

Colin Hay

▶ **To cite this version:**

Colin Hay. Inclusive growth: The challenge of our times. Liam Byrne; Michael Jacobs; Gabriela Ramos; Rick Samans. Inclusive Growth: The State of the Debate 2017, All Party Parliamentary Group on Inclusive Growth, pp.9 - 11, 2017. hal-02286831

HAL Id: hal-02286831

https://hal-sciencespo.archives-ouvertes.fr/hal-02286831

Submitted on 13 Sep 2019

HAL is a multi-disciplinary open access archive for the deposit and dissemination of scientific research documents, whether they are published or not. The documents may come from teaching and research institutions in France or abroad, or from public or private research centers.

L'archive ouverte pluridisciplinaire **HAL**, est destinée au dépôt et à la diffusion de documents scientifiques de niveau recherche, publiés ou non, émanant des établissements d'enseignement et de recherche français ou étrangers, des laboratoires publics ou privés.

INCLUSIVE GROWTH: THE CHALLENGE OF OUR TIMES

Professor Colin Hay

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

George Orwell, Animal Farm, 1945

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

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

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

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

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

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

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

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

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