Second OECD/Ford Foundation Workshop

CHANGING THE CONVERSATION ON GROWTH

GOING INCLUSIVE

27 February 2014

Ford Foundation, New York City

OPINION NOTES

OECD
BETTER POLICIES FOR BETTER LIVES
FORD FOUNDATION

SECOND OECD/FORD FOUNDATION WORKSHOP

CHANGING THE CONVERSATION ON GROWTH
GOING INCLUSIVE

Ford Foundation Headquarters, East River Room

320 East 43rd Street
New York, N.Y. 10017
USA

27 February 2014

Economic growth should deliver better living standards for all, and increased prosperity must be accompanied by better social outcomes and well-being. Therefore, the benefits of stronger growth should be shared more evenly in society. Together, with the right tools and policies, we can make it happen. - ***Angel Gurría, OECD Secretary-General***

Leaders from across the world are searching for proven, evidenced-based approaches to rising poverty and inequality, and we hope this project can help point the way toward promising solutions. By working together, we can build a smarter approach to growth that taps the potential of everyone to contribute to society and share more equitably in its gains. That will strengthen all of us. - ***Darren Walker, President, Ford Foundation***

Data from the block: Inclusive growth requires better neighborhood-level information

Mark Abraham, DataHaven[1]

City leaders fill their public relations offices with press releases about business investments, lowered crime rates, and new quality-of-life amenities. While such positive news may bolster the morale of economic development officials, local residents know that citywide trends can be misleading. Even as a city improves, the conditions within disadvantaged neighborhoods may be getting worse. From 1970 to 2010, the share of US families living in "middle-income" neighborhoods dropped from 65 percent to 44 percent, as both the wealthy and the poor became increasingly concentrated. As this trend continues, the private investments and improved public services that result from positive urban growth are becoming more concentrated within a smaller number of wealthy neighborhoods.

Consider that as the inequality of wealth within our global cities has expanded, so has the inequality of violence. In the 1990s, the most dangerous neighborhoods of Chicago had about 6 times as many homicides as the safest one-third of the city, according to research by Daniel Hertz. Today that number is about 15 times. Even though homicide rates in Chicago have dropped overall, residents may not feel included in citywide progress when their neighborhoods drift further from the mainstream. Neighborhood-level data systems can make cities more efficient at solving problems like these, and empower people and organizations to lift up the fortunes of a city, one block at a time. In Chicago, efforts are now underway to analyze local-level information on the people involved in violent crimes in real time, so that public officials and service agencies can immediately pinpoint the micro-spaces that are impacted by crime hotspots, invest in safety improvements and interventions within the local social networks that are likely to be impacted by ongoing violence, and begin to close the divide.

By pinpointing the positive (or adverse) impacts of public investment, neighborhood-level data can help raise questions about resource allocation that may be challenging to leaders who are accustomed to thinking at a citywide scale. Consider the "million dollar blocks" project, which maps data on prisoners to illustrate how much money is being spent to imprison people from a single city block. In 2002 alone, Connecticut spent $20 million in one year to imprison 387 people from the Hill – a high-poverty neighborhood in New Haven that is home to just 16,000 people. What if city and state policymakers had decided to spend a matching amount on affordable housing, healthy public spaces, job access, and other ways to make the impoverished Hill neighborhood a safer place? Armed with detailed information about spending in their neighborhood, residents can advocate for the resources they need.

To make good decisions about public resources, residents must have reliable measurements at a neighborhood level. The Census Bureau provides excellent information on cities as a whole, but its neighborhood data provide a "blurry movie" at

---

[1] Mr. Mark Abraham is Executive Director of DataHaven a nonprofit organization based in New Haven, CT USA.

best, and can require a researcher's level of expertise to evaluate in context. Additionally, Census data are not always inclusive of social cohesion, health conditions, government services, civic participation, or other critical aspects of wellbeing.

Because of these gaps in our local knowledge, regional leaders concerned about inclusive growth must develop formal systems for analyzing information that is of most interest to communities. These systems can help residents make use of information created by or gathered from among their neighbors, sometimes in the form of data produced through various community-engaged research programs. For example, mobilizing residents to tell their stories by taking photographs of problematic structures in their neighborhood can be far more powerful than simply providing lists of newly-vacant properties each year. Participatory budgeting data may take the form of video interviews and workshops, enabling residents to form a more direct connection to their neighbors and better understand their priorities for public services. Local information can also take the form of objective polling, as in the case of DataHaven's neighborhood-level wellbeing surveys, which allow issues of common interest to be pinpointed to the level of a single street intersection, and can produce neighborhood-level population metrics on issues such as food affordability or bicycling infrastructure, topics which would never be available through Census data.

At the national level, building these capacities requires a robust investment in data intermediaries—organizations like those of the National Neighborhood Indicators Partnership (NNIP) that facilitate the sharing and analysis of public data across agencies and sectors. These organizations can help translate highly-complex data sources into meaningful information that can be understood by all residents. When we can measure high levels of opportunity and wellbeing in all of our neighborhoods, we will know that our cities are prepared to grasp the broadest range of benefits as they grow.

THE GLOBAL EMPOWERMENT NETWORK: HOW TECHNOLOGY IS ENABLING BUSINESSES OF ALL SIZES TO ENJOY THE BENEFITS OF THE GLOBAL MARKETPLACE

USMAN AHMED, BRIAN BIERON, AND STEFAN KRAWCZYK, EBAY INC.[2]

There is a quiet revolution taking place in the global marketplace. Traditionally, only giant multinational businesses could tackle the task of accessing markets everywhere around the world because of the tremendous capital resources required to engage in cross border trade. Now, for the first time in history, hundreds of thousands of small local businesses (often with just 5 or 10 employees) are engaged in trade directly with consumers in dozens of other countries. Technology, particularly in the form of the Internet, is at the heart of this emerging new model for global commerce. Technology-enabled businesses of all sizes are able to simultaneously maintain a local presence, contribute to the local economy, and increase revenue through access to a global consumer base. At the eBay Inc. Public Policy Lab, we have labeled this new model of direct small and medium size enterprises (SME) access to global commerce the **Global Empowerment Network**.

The Global Empowerment Network is not a dream, vision or promise of a better future through technology. It is at work today. We have conducted economic analysis on the trade patterns of technology-enabled SMEs around the world using our online marketplace service. The findings of our research are clear, unmistakable and illustrate a kind of global trade that is truly revolutionary. The trends regarding technology-enabled SME traders are global. Small enterprises using Internet platforms and services trade globally at rates unlike traditional SMEs, whether based in the US, EU, or developing countries.

Take Australia for example, where only about 2% of traditional businesses export. Over 75% of technology-enabled Australian SMEs engage in exporting, based on our Marketplaces platform data. Traditional Australian exporters reach on average 3 different markets; SMEs using our platform average 28 markets! Finally—and most relevant to the concept of a more inclusive marketplace—in Australia, the top 10% of traditional exporters account for 98% of the exports, whereas on our platform we found that the top 10% of exporters only accounted for 46% of sales. These technology-enabled merchants export at a higher rate to more countries and with less concentration than their offline counterparts. Moreover, and perhaps more exciting, **these trends held** when we looked at merchants in the Peru, Indonesia, France, South Africa, Germany, India, Chile, Ukraine, the United States, Jordan, Indonesia, and Thailand.[3]

---

[2] Mr. Usman Ahmed is Policy Counsel, eBay Inc., Public Policy Lab. Mr. Brian Bieron is Executive Director, eBay Inc. Public Policy Lab. Mr. Stefan Krawczyk is Director Associate General Counsel, Government Relations eBay Inc. and Vice Chair of BIAC's Committee on Digital Economy Policy (CDEP).

[2] For a compilation of this research: http://www.ebaymainstreet.com/commerce-3.

It is helpful to come down from the high-level statistics to a specific case study. Roberto owns a small technology-enabled business in Chile called "We Are in Chile". He sells locally manufactured books and media; 90% of Roberto's sales are outside of Chile and he has sold to consumers in China and Slovakia, among a number of others. Roberto's words demonstrate the opportunity far better than any statistic, he says:

"I have created a job for myself and I am a middle class, independent business owner with a good living standard – and I have created that for myself."

This is the Global Empowerment Network where an entrepreneur can build a "global" company instantly so long as she has access to the Internet, the services that sit on top of the Internet, and the logistics networks that help to deliver physical products globally and efficiently.

Policy is also an essential factor in creating and maximizing the value of a truly transformative Global Empowerment Network. Governments around the world need to understand that their choices have a tangible impact on the ability of small technology-enabled businesses to enjoy the benefits of the global marketplace. Policymakers must carefully consider issues like increased broadband proliferation, simplified customs regimes, robust intermediary liability protection, a balanced intellectual property framework, and a regulatory regime that enables innovation in financial services

We sit at the dawn of a new era of inclusive globalization. Instead of a global system open to only 500 global Multinational Corporations (MNCs); the Internet and mobile technology could enable **5 million, or even 50 million micro-MNCs all over the world**. The evolution of this technology-enhanced SME-driven global marketplace is good economics because it means more growth & wealth creation; it is good global politics because it responds to questions about the current state of globalization; and, it is good for society because it is a more inclusive global future. We need to make the right policy choices to help achieve this future.

BEYOND THE EQUITY VS. GROWTH DILEMMA: EDUCATING OPPORTUNITY YOUTH

MELODY BARNES, MELODY BARNES SOLUTIONS[4]

For too long policy makers have treated the issues of equity and growth as tangentially related or even mutually exclusive. But for America to successfully address critical societal challenges, we must move beyond an "either/or" frame and pursue smart opportunity policies to *drive* growth. The need is most acute when it pertains to our human capital, and a compelling place to start is with an overlooked and underutilized source of talent: "Opportunity Youth."

Opportunity Youth are 16-24 year olds—disproportionately individuals of color—who are neither in school nor the workforce. There are at least 6.7 million of these young people nationwide: one-sixth of the U.S. youth population. Many have been denied opportunities for productive social engagement due to challenges experienced in the foster care and juvenile justice systems. Many lack health care and are, or have been, homeless. These youth impose an enormous and unnecessary economic burden on the U.S. The aggregate social burden over the lifetime of these young people—including lost taxes and earnings, taxpayer paid health care, criminal justice costs and social service transfer payments—was estimated at $4.75 trillion in 2011.

Any business with assets generating such significant losses would hire new management and demand a plan for growth. America's Opportunity Youth are just such an asset: they are a vital, as yet untapped source of intellectual energy, cultural vitality, and innovation. But before we can harness the talent of Opportunity Youth, we must first help them overcome significant barriers, starting with education.

A number of programs have demonstrated success in helping level the educational playing field for Opportunity Youth, including YouthBuild, National Academies Foundation and Year Up.

For example, Year Up provides low-income young adults with an intensive one-year training program combining hands-on skill development, college credits, corporate internships and intensive supports. Most Year Up graduates go on to great success, but Year Up serves only 2,100 young adults annually.

Innovations in higher education are creating new pathways to credentials for students juggling work, family, and school. Competency-based learning for 4-year programs and higher degrees shows great promise if it's grounded in a robust intellectual and applied learning experience for students. By measuring student knowledge rather than classroom time alone, competency based education allows students to earn college degrees more quickly at less cost. The U.S. Department of Education recently approved two new programs, and at scale, this model could help hundreds of thousands of students—including Opportunity Youth—achieve educational parity with their peers.

Other innovative pilots—for example, dual enrollment and early college for high school students—should be replicated to meet the scale of our national challenges. And all must

[4] Ms. Melody Barnes is CEO of Melody Barnes Solutions.

be based on the expectation of student success and squarely focused on a goal of creating robust pathways to _**careers**_ in high demand sectors.

In order to ensure these types of programs give Opportunity Youth the best chance to participate in high growth occupational sectors and realize their full potential, we must move our policy environment beyond its current status, best described as "program rich but system poor." Program level success measures are vitally necessary but vastly insufficient to meet the scale of our national challenges. We must retool our systems at the local, state and federal level to help successful programs scale.

Why is it critical we address this scale challenge? Because Opportunity Youth need to be part of the solution to meet America's demographic driven growth challenges.

By 2030, nearly one in five Americans will be over 65. At the exact same time, populations of color will become a larger share of the workforce whose productivity will support an aging society. In fact, people of color will account for all of net workforce growth in the U.S., meaning that like other young Americans, millions of Opportunity Youth will be required to shoulder an increasing share of the costs associated with their elders.

To sustain its social safety net, make growth enhancing public investments while maintaining a competitive tax and investment environment, America will need a significant portion of the Opportunity Youth population to be at the leading edge of innovation and job creation. Even with an immigration policy that encourages talent from abroad to remain in the U.S. – something current policy very nearly outlaws – we will need to aggressively cultivate more diverse talent at home.

Opportunity Youth are a good group with whom to start. We can't demand that anyone become an entrepreneur, register a patent or write a blockbuster novel or movie. But we can ensure that every young person has the opportunity to succeed. And to do so, we must scale smart education policy by reforming systems that can propel millions of them into the vanguard of innovation, capital formation and growth.

WHERE'S THE LOVE FOR GOVERNMENTAL COLLABORATION? SUBURBAN PARTNERSHIPS NEED OUR SUPPORT

MARYSUE BARRETT, METROPOLITAN PLANNING COUNCIL[5]

In communities like Park Forest just south of Chicago, there's a natural longing for the past. Life used to seem logical in this planned community. A high school graduate could get a decent job at Hollymatic, which until 1982 -- almost 20 proud years -- manufactured the machine which made standardized hamburger patties, revolutionizing the fast food industry. A Hollymatic employee could earn enough over time to buy a home, shop at Sears at Park Forest Plaza, and even support a family.

Starting in the 1970s, the world seemed to develop a fissure, swallowing up this grand bargain. Calculated business decisions triggered a tsunami that closed plant after plant. Thousands of laid off workers quickly slid from middle-class status to barely getting by. As more jobs left and businesses closed, taxes on remaining residents and businesses climbed, becoming uncompetitive with neighboring communities.

The Great Recession of 2008 delivered another body blow to communities that never fully regained their footing during the late 90s boom. The damage wrought was physical—abandoned commercial strips, vacant industrial sites, foreclosed homes—and deeply psychological.

In this inhospitable environment, one of the most exciting experiments in collective action was born. Illinois is infamous for having more units of local government than any other state and has long subscribed to the every-town-for-itself school of economic development. But desperation can breed innovation. After south suburban towns like Chicago Heights and Richton Park saw housing values slide by more than 25 percent since 2000 and pressures on their budgets intensify, local leaders became more receptive to joining forces to pursue redevelopment.

Inspired by Seattle's ARCH venture across 15 suburbs, the Chicago Southland Housing and Community Development Collaborative today comprises 23 communities. They jointly analyze vacant property trends – in 2012, more than 7,000 Southland properties filed for foreclosure – and target limited resources, linked by shared staff.

Every step of the way, these communities have been tested. The Collaborative's theory of change is solid: that developers and investors look at markets, not individual municipalities and that smaller communities must band together to promote their shared assets. And the vision of clustering economic activity along transit, freight, and river corridors is sound. The intermodal assets of this part of Chicagoland are astounding: there are two major intermodal terminals plus four commuter rail lines with 33 stations and five freight lines that crisscross the region, attracting interest from the growing transportation logistics sector. But the resource pyramid needed to implement land acquisition and redevelopment is still shaky. Early philanthropic support launched the Collaborative. More than $450,000 in foundation support

[5] Ms. MarySue Barrett is President of the Metropolitan Planning Council.

leveraged over $26 million in public funds. Those resources are laying the groundwork for attracting private investors. However, like a triangle balanced on one point, some of those public sources have destabilized the Collaborative. One example is a $6 million dollar grant from the state that came from a disaster recovery source which limited the funds to being used in only four communities. The good news: More than 90 homes were demolished or rehabbed. The bad news: The Collaborative's hands were tied and they were unable to target those dollars in priority development corridors.

Despite challenges, the Collaborative's track record suggests that other regions could benefit from this development model. And national advocates could help remove antiquated federal formulas and other roadblocks that discourage communities from coming together and, ironically, reward competition rather than cooperation.

Collaboration is aptly referred to as an unnatural act. Our culture is so skewed to a winner-take-all mentality that the idea of joining forces requires inspired leadership. The Southland Collaborative is seeing early, promising results from a shared development fund and land bank. In the diverse community of Blue Island, the new TOD Fund has supported preservation and rehabilitation of an affordable housing development while the Land Bank has acquired a distressed condo property in the midst of their walkable downtown, halting further disinvestment.

Having tools that are up to the job of larger-scale challenges is another replicable lesson. An explicit focus on the cargo sector's potential in the south suburbs has attracted Sterling Lumber to expand their operations on a newly assembled 40-acre site in Harvey and Phoenix. The company is investing $10 million in this public-private venture and will hire 200 people.

While bootstrapping and creativity is beginning to reverse the Southland's downward spiral, the Collaborative will be difficult to sustain without federal and state policy changes. Formula funding to municipalities must be complemented by competitively-awarded, flexible allotments for interjurisdictional efforts. Innovative, locally-designed tools like land banks and development funds must be rewarded with advantageous financing terms. And federal, state, and county leaders must blend their voices with these local entrepreneurs who are clearly signaling just what reinvention looks like.

Economic growth that is more inclusive means stronger, more equitable growth

Heather Boushey, Washington Center for Equitable Growth[6]

There's growing evidence in the United States and among other members of the Organisation for Economic Co-operation and Development that there is no conflict in economic growth that is also more equitable across society. In fact, new research shows that a lack of income inclusivity can hurt overall economic growth. This is an important observation that policymakers in the developed economies of the world today need to take into account.

But let's begin with the opposite observation, that rising levels of income inequality—such as those seen in the United States and some other OECD countries over the past 30 years—can seriously crimp the growth of economies as a whole. There is evidence that rising inequality can reduce overall demand for goods and services, limit access to education and workforce development, hamper entrepreneurialism, and undermine the responsiveness of political and economic institutions to the vagaries of the business cycle and changing economic fortunes.

Rising income inequality affects how families function. How adults in families fare on the income spectrum matters immensely to our current workforce as they seek to raise families or save money to form families in the near future. And how those adults care for and nurture children, affects our future workforce. Importantly, as women increasingly move out of the home and into the workplace, a caregiving gap and a "time bind" are now clearly evident.

Income inequality adds an important wrinkle as families experience work-family conflicts in strikingly different ways based on where they sit on the income spectrum. Some families are able to "do it all" thanks to high incomes and flexible workplace standards. In these families, children are more likely to have the emotional and financial support to become productive workers and entrepreneurs when they enter the workforce. Unfortunately, too many families do not "have it all." Their work schedules conflict with the needs of their families, they often have no paid time off, and their incomes are too limited to pay someone to make up for that lack of flexibility.

Worsening income inequality also affects directly how families behave as consumers in the economy. It is well established in empirical economics that when additional income accrues to those at the lower end of the income distribution, there is a larger effect on demand than if additional income goes to those at the very top. More recent economic research also concludes that the rich spend a lower proportion of their income than do other families over a longer time horizon. This body of work shows that changes in the distribution of income have important implications for demand, and therefore for the stability and growth of the economy. What can we do to turn things around? At the Washington Center for Equitable Growth we are exploring whether and how high levels

[6] Dr. Heather Boushey is Executive Director and Chief Economist at the Washington Center for Equitable Growth, and Senior Fellow at the Center for American Progress.

of inequality affect growth and how a more inclusive economy works better for everyone. On the human-capital side, there are a variety of ways to help workers avoid conflict between their jobs and their family life. States and localities across the United States are showing the way forward for inclusive policies that support middle-class families by enacting laws allowing workers to earn paid sick days. And California, New Jersey, and Rhode Island now have statewide insurance programs in place to provide income when workers need time away to welcome a new child or to care for a seriously ill family member.

On the consumption side, it is abundantly clear we need to realign growth in productivity with growth in wages so that all workers and their families benefit as our economy becomes richer. Today, we know that an economy built on rising middle-class debt is ultimately unsustainable. The incomes of middle-income families must rise commensurately with productivity gains in order to support similar consumption growth.

More broadly, we also need a more nuanced understanding of what makes a healthy and sustainable economy. For several decades now, the dominant view in the field of economics has been that the economy is a collection of individuals pursuing narrowly defined economic self-interest, yet recent research suggests the need to take a broader view of what motivates individuals.

This is why we applaud the OECD Inclusive Growth initiative, which recognizes the need to focus on everyday people and their broad-based well-being. This is the right approach. The OECD's official measures of quality of life, such as health status, education and skills, work-life balance, and social connections, also have an effect on overall economic growth.

A growing economy that is more inclusive and thus stronger requires policies that recognize how everyday families work and live today—policies that support equitable growth by caring for workers, encouraging stable consumption, and supporting families as they raise and educate the next generation of people to power our economies forward in the 21st century. This new vision of economic growth must be a top priority.

INCLUSIVE GROWTH FOR ALL AMERICANS: HOW WILL WE KNOW IT WHEN WE SEE IT?

SARAH BURD-SHARPS, PATRICK GUYER AND KRISTEN LEWIS, MEASURE OF AMERICA OF THE SOCIAL SCIENCE RESEARCH COUNCIL ANGELA GLOVER BLACKWELL, POLICYLINK[7]

How's life in the United States? If you ask someone in the Los Angeles neighborhoods of Bel Air or Brentwood, where life expectancy is nearly 85 years and two out of every three adults have a university degree, you'd likely find that life is pretty good. Only 20 miles southeast in the South LA neighborhood of Watts, where life expectancy is twelve years shorter at only 73 and one out of every two adults never finished high school, the statistics tell a starkly different story.[8] If the United States wants to promote inclusive growth that delivers "better living standards for all" with benefits that are "shared more evenly in society,"[9] we need to know if and when we are succeeding. For that, we need measures that show *which people and places* are surging ahead and which ones are being left behind: measures that track social outcomes and well-being *directly* rather than using income measures as proxies for progress.

The standard yardstick of growth is Gross Domestic Product (GDP). This important gauge of market activity is a useful tool for economic policymaking but is silent on questions like "growth for whom," "growth for what," and "growth at what cost" that lie at the heart of inclusive growth. GDP is being used to make decisions for which it was never designed. In late 2009, GDP began to increase for the first time since the onset of the Great Recession in 2007. Yet home foreclosures were still on the rise and unemployment was nearly 10 percent. The good news of GDP growth was at odds with peoples' everyday experiences of diminishing opportunities, flat wages, and skyrocketing inequality.

What Other Measures Are There?

The disconnect between market activity and the human condition is driving a growing interest in true measures of well-being; recent years have seen an explosion of interest in "dethroning GDP" and finding new and better ways to gauge societal well-being.

At the Social Science Research Council, Measure of America developed the American Human Development Index to address two key shortcomings of GDP: its failure to measure human well-being and its silence on the distribution of well-being and access to opportunity in America's communities. The American Human Development Index is a modification of the UN's Human Development Index (HDI), an easy-to-understand measure that has become one of the most widely used indexes of well-being in the world. Like the standard HDI, the American Human Development Index measures the same three basic dimensions of health, education, and income, but it uses indicators that better reflect the U.S. context and allows for disaggregation at the state and local levels.

---

[7] Ms. Sarah Burd-Sharps is Co-Director of Measure of America. Mr. Patrick Guyer is Chief Statistician, Measure of America. Ms. Kristen Lewis is Co-Director of Measure of America.

[8] Burd-Sharps and Lewis, A Portrait of California: California Human Development Report 2011. http://measureofamerica.org/california/.

[9] Angel Gurría, OECD Secretary General.

Life expectancy at birth is used as a proxy for health; education is measured using school enrollment and degree attainment. Median personal earnings data capture material standards of living in the Index, in part because this median better reflects the distribution of the benefits of economic growth than an average or per capita income figure can.

What are some benefits of this Index in the context of today's deeply divided American political landscape?

It's less polarizing. The human development index moves away from a binary "us-them" way of looking at advantage and disadvantage, as today's poverty measure does, to one that allows everyone to see themselves along the same spectrum. In addition, the Index is made up of indicators that people across the political spectrum agree are basic building blocks of a decent life: health, education, and income.

It allows for a deep look at local geographies as well as disaggregation by race, ethnicity, and gender. The greatest gaps in well-being in America are often found *within* big cities, in neighborhoods that are worlds apart despite being separated by only ten or twenty blocks. Racial and ethnic groups living in the same county or city often have starkly differing sets of choices and opportunities. Measures that give a whole metro area or state a single score obscure dramatic differences in everyday experience and life trajectories.

It connects sectors and silos to foster the development of comprehensive solutions. Many advocacy groups concentrate on a single issue, such as school reform, affordable housing or asset building. The human development approach looks at how a host of interlocking issues act together to shape an individual's life chances. This multidimensional approach has been effective around the world in fostering understanding of, and solutions to, complex problems.

It taps into the American competitive spirit. Annual well-being rankings stimulate healthy competition and spur policymakers to prioritize improving people's lives.

Despite occasional downtowns, America's GDP has increased five-fold since 1960. The American HD Index tripled over this time, representing important though considerably less dramatic progress.[10] Growth in these two measures has become more and more divergent since the 1970s, underscoring the extent to which GDP growth increasingly does not translate directly into well-being gains for ordinary Americans. To identify policies that drive inclusive growth, we need better tools for measuring where we are and whether we're moving in the right direction. The American HD Index is one such tool that should be used alongside GDP to evaluate progress and formulate better policies to ensure that economic growth is truly inclusive and contributes to expanding well-being and opportunities for all.

[10] Lewis and Burd-Sharps, *The Measure of America 2013–2014.* www.measureofamerica.org/measure_or_america2013-2014/.

INCLUSIVE CITIES FOR INFORMAL WORKERS

MARTY CHEN, HARVARD UNIVERSITY[11]

In most developing countries, well over half of the urban workforce is informal.[12] Yet informal workers - and their livelihoods - tend to be ignored or excluded in city planning and local economic development. No amount of social or financial inclusion can make up for exclusion from city plans and economic policies. The urban informal workforce, especially the working poor, need to be recognized, valued and supported as economic agents who contribute to the economy and to society.

Consider three groups of urban informal workers. Home-based workers produce a wide variety of goods and services from their home: from garments and textiles, craft items, and prepared food, to electronic goods and automobile parts. Yet most do not have secure tenure or basic infrastructure services to make their homes into productive workplaces; and many face evictions and relocations. Street vendors provide easy access to a wide range of goods and services: from fresh fruits and vegetables to building materials; garments and crafts to consumer electronics; prepared food to auto parts and repairs. They buy goods from both formal and informal suppliers and pay for services provided by porters, security guards, transport operators and others. Many pay fees for licenses, permits or the use of public space, creating revenue for local governments. Yet most lack a fixed and secure vending site; most face harassment from local authorities on a daily basis (including demands for bribes, arbitrary confiscations of merchandise, and physical abuse); and many face the risk of eviction. Waste pickers collect, sort, and recycle waste: helping to clean city streets and reduce carbon emissions. Yet they are not recognized for their services and are often denied access to waste.

Urban renewal schemes tend to intensify the disadvantages faced by the urban informal workforce .Consider the case of India where four out of five urban workers are informal. Across India today, urban renewal schemes are undermining urban informal livelihoods. Home-based workers are being forcibly relocated to the periphery of cities. Construction workers are being displaced by machines. Street vendors are being evicted from their traditional markets. Transport workers - bicycle rickshaw drivers, horse cart drivers, cart pullers, head loaders - are banned from certain roads. Waste pickers are denied access to waste and are not allowed to bid for solid waste management contracts. In the name of modernity and growth, 80 per cent of the urban workforce in contemporary India faces economic exclusion, if not loss of livelihoods.

What the working poor in the urban informal economy need most urgently is recognition and inclusion as productive economic agents: inclusion in city planning, the allocation of urban land, basic infrastructure and transport services, and local economic development. Otherwise their livelihoods will remain threatened by the juggernaut of

[11] Dr. Martha Chen is Lecturer in Public Policy at the Harvard Kennedy School of Government, Affiliated Professor at the Harvard Graduate School of Design, and International Coordinator of the Women in Informal Employment: Globalizing and Organizing (WIEGO) Network.
[12] The data cited in this note are official national data compiled by the global network Women in Informal Employment: Globalizing and Organizing (WIEGO). The other evidence cited in this note is from a 10-city study of urban informal workers by the WIEGO network and local partners.

urban renewal. No amount of social and financial inclusion can compensate for the costs of having one's livelihood undermined or destroyed.

Recognition and inclusion of urban informal workers as economic agents is possible. In several cities in India, home-based workers have received basic infrastructure services to improve their homes-cum-workplaces; street vendors have been allocated vending sites by the local municipality; and waste pickers have received contracts from the local municipality to collect, sort, and recycle waste. Most recently, in February 2014, the Parliament of India passed a law to regulate and protect street vendors. There are similar examples from elsewhere in the world. Over 6,000 street vendors in a central market area of Durban, South Africa received infrastructure and technical support. Waste pickers in Bogota, Colombia are being paid by the municipality to collect, sort and recycle waste. And the Government of Thailand has adopted an act in support of home-based workers.

What is needed is an approach to urban planning and local economic development that recognizes the contributions of the informal economy and seeks to integrate informal workers - and their livelihoods - into urban planning and economic policies. What is needed is an approach that promotes “hybrid cities” designed to integrate and support both the informal and formal economies. What is needed is an approach that values "economic diversity": large and micro enterprises, formal and informal activities. What is needed is an approach that would promote "inclusive urban planning” by inviting organizations of urban informal workers to have a seat at the policy table. This will require a radical reappraisal of urban planning to promote the equitable allocation of urban space, urban services, and urban infrastructure in support of urban informal livelihoods, not just formal firms. This will also require that the working poor in the informal economy are organized and have sufficient voice and bargaining power to help shape the development trajectories of the cities in which they live and work.

EDUCATIONAL CHOICE, SOCIAL MOBILITY AND INCLUSIVE GROWTH

ILJA CORNELISZ, TEACHERS COLLEGE, COLUMBIA UNIVERSITY[13]

Higher education establishes technological and intellectual foundations for the economic advancement of developing regions. At the same time, the growing globalization of higher education may challenge this view by creating new avenues for international migration by those who are university educated. Online education alone enables a student in a developing region to complete a university degree from a fully accredited institution in another country without leaving their home. Not only are some potential migrants able to prepare themselves in advance to compete for jobs in a destination country, it is conceivable that regions may try to attract international talent by including a distance education at a local higher education institution (HEI) into their recruitment efforts.

Whereas people disagree on what level of income inequality is desirable for fostering economic growth, there is almost uniform agreement on the importance of social mobility and inclusive growth. Many commentators also argue that education is an important link between growth and mobility, and suggest school choice expansion as the simple means to obtain both. However, emerging results on educational choice are complex, highlight considerable risks regarding social mobility, and carry with them important policy implications.

Social mobility is seen as a prerequisite for a fair society, in which all people, regardless their background, have a chance to succeed in life. Cross-country findings, such as reported by the OECD, show an inverse relationship between income inequality and social mobility. This so-called "Great Gatsby Curve" indicates that income inequality largely coincides with poor intergenerational mobility. Policy makers would like to understand which factors within their own constituency inhibit such mobility. In their most recent effort, a group of economists at Harvard University and the University of California, Berkeley, focused on trends in social mobility over time and across regions within the US. The authors identify five main factors related to greater upward mobility. Among them is indeed "less income inequality". The others are "family stability", "social capital," "less residential segregation," and "better primary schools". For at least a few of these, educational choice can have an important impact.

Nations around the world continue to search for ways to improve schools, as a means to enhance the skills and employability of their youth and reduce inequalities in lifetime outcomes. Aiming for greater efficiency in education, governments increasingly employ a variety of market-based approaches in providing and funding education. The main argument is that educational quality would benefit both from school-level competition and from improvements in matching schools to the heterogeneous educational demands of students. Also, by providing school choice, households in poor segregated neighborhoods would be able to escape low-quality neighborhood schools, which would foster equity in education and improve social mobility. More in general, educational

[13] Dr. Ilja Cornelisz is Lecturer and Assistant Program Coordinator, Department of Education Policy and Social Analysis, Teachers College, Columbia University.

choice will unbundle housing and schooling decisions, thereby affecting housing prices and observed residential sorting.

While the conditions of educational choice are often still unresolved at the political level, choice has in practice become an integral part of the educational landscape in many countries. For OECD countries, as reported in the "*Education at a Glance 2010*" report, opportunities for school choice have generally expanded over the last 25 years, and particularly so through ongoing processes of public school decentralization and newly enacted funding mechanisms. However, some of the market assumptions on which productive gains are premised have been challenged and empirical results seem to imply choice only modestly improves performance. There is also evidence that expanding choice leads like-minded households to flock together and leave relatively integrated schools. Choice thus has the potential to increase stratification and student segregation, as has been documented for Denmark, Sweden, New Zealand, Chile and some charter school programs in the US. Such sorting can yield negative effects for the achievement of some students. The latter result is often attributed to so-called "peer effects" in education. For example, the OECD's PISA results show that the socio-economic composition of schools has an important impact on student achievement, even after controlling for individual background.

While efficiency has traditionally been an important issue in education policy reform discussions, there is an increasing concern that school systems should also seek to integrate students from a diversity of economic and racial backgrounds into each school to gain equality of educational opportunities. When expanding choice, both objectives should thus be taken into account. Whereas in theory it is possible to design educational choice in a way that addresses both efficiency and equity in education, important tradeoffs exist. For example, a system in which substantial resources are devoted to transportation and compensatory funding for minority, low-income and special-needs students, as to improve their educational opportunities and labor market prospects, cannot spend those same resources on improving overall educational efficiency. In addition, in ensuring educational equality, and to counterbalance the risks associated with choice and increased student segregation, a rich body of regulations and extensive monitoring will need to be in place regarding, for example, school information, admission policies, school fee restrictions, transportation services, and curriculum requirements.

The educational policies and regulations described above can be complex and costly to implement indeed. However, they also seem highly preferable, and even profitable, when acknowledging the importance of high quality and integrated schools for educational efficiency and equity. In fact, designing educational choice in such a way that it provides equal opportunities for individuals—regardless their socio-economic background—seems no less than essential in order to promote greater social mobility and ensure a pathway to inclusive growth.

THE GROWING GLOBALIZATION OF HIGHER EDUCATION: NEW PATHWAYS FOR MIGRATION AND THE CONSEQUENCES ON INCLUSIVE GROWTH

PETER A. CRETICOS, INSTITUTE FOR WORK AND THE ECONOMY[14]

Higher education establishes technological and intellectual foundations for the economic advancement of developing regions. At the same time, the growing globalization of higher education may challenge this view by creating new avenues for international migration by those who are university educated. Online education alone enables a student in a developing region to complete a university degree from a fully accredited institution in another country without leaving their home. Not only are some potential migrants able to prepare themselves in advance to compete for jobs in a destination country, it is conceivable that regions may try to attract international talent by including a distance education at a local higher education institution (HEI) into their recruitment efforts.

Authors Michael Barber, Katelyn Donnelly and Saad Rizvi, in their essay, "The Avalanche is Coming: Higher Education and the Revolution Ahead," outline an alternative universe of global higher education competition. They argue that universities will necessarily adopt new market strategies by focusing on research, by catering to elites, by specializing in subject matter areas, by partnering with critical regional industries, or achieving strategic national objectives. Place-based HEIs that are not able to occupy a specific niche will have to find other ways to break away from a single physical location.

All-in-all, there are at least six pathways to an international education. There are, of course, "traditional" international student programs. Also, there are many dedicated executive education programs that are time limited and require the return of the students to their respective countries of origin. International accreditations also serve to break down national barriers. Many U.S. and Canadian HEIs enjoy joint accreditation and the North American Free Trade Agreement contains language aimed at including Mexican institutions. European countries, through the Bologna Accords, have established the European Higher Education Area in order to bring about greater educational comparability, compatibility and coherence across the region.

Several HEIs are expanding their operations to overseas venues. Some are adding overseas campuses or are establishing international partnerships. Some HEI systems, such as Laureate University, are able to offer intra-system transfers, enabling a student to start a course of study at a local institution and complete that study in a destination location, even if that is in a different country.

Finally, universities are expanding their reach through online education programs such as non-credit massive open online courses (MOOCs) as well as accredited programs leading to a degree. While these programs are not designed specifically to attract international students, they are not limited by national boundaries, thereby making it possible for students to attend from anywhere in the world.

[14] Dr. Peter Creticos is President/Executive Director of the Institute for Work and the Economy.

As higher education becomes more globalized, the supply of well-educated workers will expand and the value of certain credentials may become diluted. The Global Auction: The Broken Promises of Education, Jobs and Incomes by Phillip Brown, Hugh Lauder, and David Ashton discusses the international commodification of higher education and the implications for economic mobility and regional growth. The authors make the case that a few elite institutions will continue to thrive and educate generations of leaders, however, the vast majority of higher education institutions will be relegated to turning out talent who support the operational needs of industry and government. Simply put, a four-year university education or more will be needed just to remain competitive in the workplace; only a few will realize any significant economic advantage from a university education.

Inevitably, workers will go to where there are opportunities and this may lead to various countermeasures. Countries that fear a glut of new, well-educated immigrants may elect to erect other protocols that inhibit easy entry into a labor market. Sending countries also may seek to inhibit the outflow of the best and the brightest talent who carry credentials that are recognized elsewhere.

The scale and scope of changes in the delivery of higher education services are still very much a matter of conjecture. The possible migration implications are even less well understood. At the most basic level, a new information system is required that will give a full picture of each of the modalities for obtaining an international education, including those that are intended to serve primarily a domestic market since motivated students will find ways to repurpose degree programs to meet their personal objectives. The global migration implications take the phenomenon of an international student to a different level. An early step is to monitor migration flows of internationally educated students of all types and the policy responses of receiving and sending regions, beginning with OECD countries and regions and a sample of developing countries. A broader policy challenge may be found in how educational globalization may be rationalized in behalf of inclusive growth.

How to dismantle a (ticking) time bomb? Policy solutions for a volatile South Africa

Hannah Dawson, Studies in Poverty and Inequality Institute[15]

Poverty, unemployment and growing inequality remain South Africa's greatest challenges in undoing the legacy of Apartheid. The 'triple challenge' has revealed itself increasingly in ongoing protest and strike action. Militant local protests are a frequent occurrence across South Africa with aggrieved residents protesting against poverty, corruption, joblessness and inadequate and uneven provision of public goods and services. 2012 saw an explosive strike wave in both the mining and agriculture sectors, with strikers at the Marikana mine demanding monthly pay of R12 500. The strike resulted in the killing of 34 miners by police. This unrest is significant in that those without work and workers who bear the economic and social burden of the unemployed are taking to the streets. The situation has been described as a 'ticking time bomb' by many. How, given the structural nature of the inequalities in South Africa, should we best go about dismantling this time bomb?

The broader unemployment rate in South Africa that includes 'discouraged work-seekers' is 37%. The employment challenge facing South Africa's young people is even greater. The unemployment rate amongst those under the age of 25 years is about 50 percent, accounting for 30 percent of the total unemployed. Many youth have never worked and come from families of multi-generational unemployment.

The positive correlation between growth and employment in South Africa has weakened since the 1970s as a result of a complex array of factors. A robust debate exists on the causes and solutions of this 'jobless growth' and accompanying employment crisis. Certain views emphasise that the post-apartheid period has seen growing financialisation and the internationalisation of the economy, a declining wage share of GDP and the absence of any serious reinvestment in the economy (Ashman & Fine, 2013; Reddy, 2014). Neo-classical economists, however, argue productivity is falling and labour costs are increasing which in turn makes investors avoid South Africa. Other factors that have been identified further include competition from cheap imports the post - 1994 liberalisation of the economy and economic and regulatory pressures pushing employers towards industries which are increasingly mechanized and require skilled over unskilled labour (CDE, 2010).

Fifty per cent of South Africa's work force earned less than R3030 per month in 2011. As demonstrated by the striking mineworkers at Marikana demanding R12 500 – the social and economic burden of mass joblessness is falling on the shoulders of the working poor. Steinberg (2013) describes this situation as 'redistributing from the poor to the very poor'.

[15] Ms. Hannah Dawson is Senior Researcher at the Studies in Poverty and Inequality Institute (SPII) in Johannesburg. Hannah@spii.org.za.

There is no silver bullet to bring about more equitable economic growth to solve the triple challenge. We need to stop pretending that we will achieve full employment and rather accept that the private economy is going to have to better support the unemployed. Economic growth and the creation of more and better formal sector jobs is essential but must occur alongside other strategies. Recent research by Studies in Poverty and Inequality Institute (SPII) has explored a combination of the setting of a national 'living' minimum wage, providing a basic income grant to all adults and strengthening the informal sector as strategies for ensuring more equitable economic growth and boosting the economy.

The setting of a national minimum wage tied to a decent living level will protect all low-paid workers. It will also aid a reduction in wage inequality which has risen in the post-apartheid period (Reddy, 2014), as shown in Brazil.

South Africa's social grant system prioritises the elderly, disabled and children. There is significant evidence to show that the current levels of poverty would have been starkly worse in the absence of such a roll out of cash grants (Liebbrandt et al., 2010). The current system excludes all unemployed working age people. A universal basic income grant would not only lessen the burden on those who have jobs, but help kick-start bottom-up economic activity. Evidence from across the world has shown that cash circulating from social grants is able to stimulate economic inclusion from below.

Friedman (2014) argues that the debate over creating jobs often expresses a prejudice - that 'real work' only happens in the formal economy, while in fact the majority of South Africans are active in the informal economy selling fruit, fixing cars and running hair salons. These activities (alongside social grants) are the dominant survival strategy for the poor. Instead of criminalising this sector, as witnessed in the confiscation of goods of informal traders in Johannesburg (despite a court order preventing such confiscation), we need to support and strengthen it to develop pathways to link people who are marginalised from the mainstream economy into sustainable livelihoods.

With the deep social and economic crises facing South Africa, more social and political unrest can be expected. A national minimum wage, a basic income grant and strengthening the informal economy are all strategies which when combined with appropriate macro-economic and industrial policy can bring about more inclusive growth. The coming national elections provide an opportunity for candidates to commit themselves to these and other concrete solutions for inclusive growth.

References:

Ashman, S. & Fine, B. (2013), 'The meaning of Marikana', *Global Labour Column*, No. 28, March 2013.

CDE, (2010), *A fresh look at unemployment. A conversation amongst experts*, Centre for Development and Enterprise Report, Johannesburg.

Friedman, S., (2014), 'Parties trot out the same old jobs fantasy', *Business Day*, 22 January 2014.

Liebbrandt et al., (2010), "Trends in South African Income Distribution and Poverty since the Fall of Apartheid", OECD Social, Employment and Migration Working Paper, No. 101.

Reddy, N., (2014), Wages, profits and unemployment in post-apartheid South Africa, Alternative Information and Development Centre, Cape Town.

Steinberg, J., (2013), 'Idea of jobs for all blinds us to need for welfare', Business Day, 26 July 2013.

FROM THE ECONOMIC PROBLEM TO THE WELL-BRING PROBLEM

MARC FLEURBAEY, PRINCETON UNIVERSITY[16]

In 1930, Keynes predicted that, a hundred years later, income per capita would be eight times greater and the "economic problem" would be solved. Prosperity would make it possible to satisfy material wants and would offer the freedom for most people to turn to higher pursuits, while working not more than fifteen hours a week –although he admitted that the behavior of the richest members of his society did not bode well for the higher morality he was envisioning for an affluent society.

He was roughly right about the growth of income, but should have been more attentive to the mores he observed. When people are liberated from the fear of starvation, their thirst for resources does not self-extinguish naturally. Greed is even often cited as a great evil of our times. Therefore, the economic problem does not even appear close to being solved, and the growing environmental threats give it a dramatic twist. If economics is about "managing our house", and if our house is the Earth, the great challenge for this generation and the next ones is certainly economic: find a way to meet economic needs while maintaining the planet in a habitable state. Scarcity, which includes the prevailing environmental constraints, will remain a serious concern for a long time.

Against this gloomy background, there are positive developments. Among them, the growing interest for indicators of social progress that go "beyond the GDP" can perhaps be viewed as a modest but significant omen of the evolution of goals that Keynes was hoping for his grandchildren's generation. The growth of income remains the focus of much of the policy and media buzz, but many voices, including from prominent institutions such as the UN and the OECD, call for redirecting policy goals toward the population's well-being. The Inclusive Growth Initiative of the OECD very ambitiously proposes to develop new measures of social progress and challenges economists to shift their interests from the theory of growth toward a broader (and, presumably, interdisciplinary) theory of social well-being.

Here is a concrete example of why it may matter a lot. A recent Congressional Budget Office report points out that the Affordable Care Act is likely to decrease the workers' labor supply by as much as the equivalent of 2.5 million full-time jobs by 2024, primarily among low income workers. The reason is that the subsidies provided by the law will make households less poor, less dependent on a job for health insurance, and subject to the phasing out of subsidies when they work more. In the economists' jargon, both the income effect (richer people work less) and the substitution effect (a greater implicit tax rate discourages work) will push in the direction of a lower labor supply. In the materialistic mindset, this is bad news, as it makes GDP per capita slightly lower than it would be otherwise (but still much higher in 2024 than it is today). But in terms of well-being, it is most likely to reflect an improvement in people's situation, offering them greater access to health and leisure. And this seems all the more important as it happens in the lower tier of the distribution, which has suffered from stagnating conditions for

[16] Dr. Marc Fleurbaey is Robert E. Kuenne Professor of Economics and Humanistic Studies, Professor of Public Affairs and the University Center for Human Values, Princeton University.

decades. Income is not a good proxy for well-being, and recognizing this important fact should "change our conversation", not just in general societal philosophizing, but in concrete policy debates.

Now, even if policy-makers change their goals, from GDP to Well-Being, we may still face the issue that well-being is closely tied to the population's aspirations, at the individual level. Then, if ordinary people remain materialistic and greedy, it is hard to advance their well-being without satisfying their insatiable desires. Some scholars and activists would like to believe that well-being is actually disconnected from material consumption, but this is hardly credible. The stability of human psychology is not a proof that people are indifferent to their material living conditions.

However, turning from the "economic problem" to the "well-being problem" may nevertheless be an important and promising step. In particular, if well-being at the social level is more sensitive to the plight of the poor than to the bliss of the opulent, advancing well-being is more about lifting everyone out of poverty, and providing good quality of life, than about pursuing business-as-usual growth of production and consumption.

This is where Keynes' scenario may have to be turned on its head. Arguably, the economic problem will find its solution only *after* people's goals move away from the overuse of material resources. Focusing on solving our well-being problem, at the social level as well as the individual level, may be the task of our times, and the only realistic way toward solving the economic problem.

References:

Congressional Budget Office, "The Budget and Economic Outlook 2014-2024", Feb. 4, 2014. http://www.cbo.gov/sites/default/files/cbofiles/attachments/45010-Outlook2014.pdf.

Keynes John M., "Economic possibilities for our grandchildren", 1930 (*Essays in Persuasion*, New York: Norton & Co., 1963, p. 358-373).

THE WASTELAND OF DISCARDED POTENTIAL

LADY LYNN FORESTER DE ROTHSCHILD, E.L. ROTHSCHILD[17]

In a lecture[18] in London on 3 February 2014, Christine Lagarde, Managing Director of the IMF, described the perils of neglecting inequality in the pursuit of economic growth: "In the past, economists have underestimated the importance of inequality. They have focused on economic growth, on the size of the pie rather than its distribution. Today, we are more keenly aware of the damage done by inequality. Put simply, a severely skewed income distribution harms the pace and sustainability of growth over the longer term. It leads to an economy of exclusion, and a wasteland of discarded potential."

The wasteland of discarded potential should concern us all. Nowhere is the wasteland more acute than for the youth across our societies. Recent research[19] by McKinsey reports how 5.6 million young people are unemployed across Europe, and a total of 7.5 million are neither being educated nor are they working. The OECD's Income Distribution Database[20] has also reported how the financial crisis has disproportionately affected children and young people: "Since 2007, youth poverty increased considerably in 19 OECD countries. In Estonia, Spain and Turkey, an additional 5% of young adults fell into poverty between 2007 and 2010. In the United Kingdom and Ireland, the increase was 4%, and in the Netherlands 3%. Only in Germany, one of the countries where household income grew in this period and youth unemployment did not increase, youth poverty declined by 2 points."

There are three immediate pathways that business and governments can support to reverse these trends and put inclusion and social mobility at the centre of strategies for growth:

Firstly, education is the most critical investment that any country can make in the pursuit of greater economic opportunity for all. Nevertheless, the technological revolution the world is going through means that coordination between government and business is more essential than ever to ensure that education and skills policy reflects the evolution of industry. Of the 2600 employers whom McKinsey surveyed in its research[21], 27 percent reported that they have left a vacancy open in the past year because they could not find anyone with the right skills, and employers from countries where youth unemployment is highest reported the greatest challenge to finding skilled workers. We are robbing young people of their futures if do not support them to become trained for the jobs that are being created. Furthermore, we must look to examples like the Khan Academy and the re-emergence of technical colleges in the UK to reconsider the appropriate delivery of education that reaches the greatest number of young people with the most practical outcomes and at the most affordable levels.

[17] Lady Lynn Forester de Rothschild is CEO of E.L. Rothschild.
[18] Lagarde, C. (2014), "A New Multilateralism for the 21st Century: the Richard Dimbleby Lecture", IMF, www.imf.org/external/np/speeches/2014/020314.htm
[19] Mourshed, M., J. Patel and K. Suder (2014), *Education to Employment: Getting Europe's Youth Into Work*, McKinsey Center for Government, McKinsey & Company
[20] OECD (2013), *OECD Income Distribution Database: Crisis Squeezes Income and Puts Pressure on Inequality and Poverty*, OECD, Paris
[21] IBID

Second, we must create better policies that enable more people to benefit from this age of innovation and entrepreneurship. Business and government need to support more people to start their own businesses or to gain access to employment through the breadth of a company's value chain. There are many brilliant examples of Inclusive Business at work in the developing world: Coca Cola's 5by20 initiative is one example of how a large private sector employer can create jobs, foster entrepreneurship and increase its own market share by seeking to empower five million women entrepreneurs by 2020. We must consider what Inclusive Business policies mean in a developed markets context, not least where the growing inequalities of Anglo-American capitalism have left many excluded from the system.

Finally, we must have a serious public debate on, and redefinition of, our expectations of capitalism itself. Some significant efforts have been launched that seek to challenge our understanding of economic growth and national success: Michael Porter's Social Progress Index[22] seeks to measure countries based on their capacity to meet the basic needs of citizens, to establish the building blocks that allow citizens and communities to enhance and sustain the quality of their lives, and to create the conditions for all individuals to reach their full potential. Business needs measures and targets broader than economic profit and GDP in order to assess how value is created and distributed for different stakeholders - both in the short and in the long term. PWC's TIMM framework[23] is an example of a tool that has been created to help business leaders and stakeholders understand how a business' activities contribute to the economy, public finances, the environment and wider society.

The Pope's apostolic exhortation of November 2013[24] warned how "Today everything comes under the laws of competition and the survival of the fittest, where the powerful feed upon the powerless. As a consequence, masses of people find themselves excluded and marginalized: without work, without possibilities, without any means of escape." This cannot be the legacy our generation leaves to the next. We need inclusive growth, and we need it urgently.

---

[22] The Social Progress Imperative (2014), *The Social Progress Index*, www.socialprogressimperative.org/data/spi

[23] PWC (2013), *Understanding Total Impact Measurement and Management (TIMM)*, www.pwc.co.uk/corporate-sustainability/total-impact-measurement-management.jhtml

[24] Pope Francis (2013), *Evangelii Gaudium : Apostolic Exhortation on the Proclamation of the Gospel in Today's World*, Vatican

AMERICA'S REAL ENGINE OF ECONOMIC GROWTH

ANGELA GLOVER BLACKWELL, POLICYLINK[25]

In the courtyard of the Baker-Ripley Neighborhood Center in Houston's Gulfton neighborhood, America's economic fate is being decided.

Dozens of schoolchildren buzz about. Many are children of immigrants from Central America or Mexico, others are black or Asian; several are white. They all wear brightly-hued jerseys emblazoned with the year they will graduate from college: big dreams in a community where 40 percent of children live in poverty and a third of students drop out from the local high school.

Whether they can beat the odds and succeed at school and in the workplace is not just about their individual livelihoods – it is critical to our economy and democracy. America is undergoing a demographic transformation in which Gulfton is becoming Everytown, USA. The nation's growing, diverse population can be its greatest asset in the hypercompetitive global economy – but only if its leaders make racial inclusion a national economic priority and people of color have the tools they need to manifest their full potential and contribute to growth and prosperity.

America's demographic shift is profound and unstoppable. In 1980, 80 percent of the population was white. Today, it is 63 percent white and by 2043, people of color will be the majority. Already, more than half of children under age five are people of color. This shift is happening not only in cities, the traditional bastions of diversity, but also in suburban and rural communities. Latinos, Asians, African Americans, and other people of color are fueling population growth throughout the country.

This brisk pace of demographic change stands in stark contrast to the glacial pace America is making to erase its racial divides. Millions of people of color live in neighborhoods that lack the basic infrastructure – good schools, transportation, grocery stores, and job opportunities – that everyone needs to be healthy and productive. People of color go to the worst schools, face the highest rates of joblessness, are concentrated in the lowest-wage jobs, and have the fewest opportunities to move up and enter the middle class.

These persistent racial inequities undermine our country's moral fabric and place our economy at risk. Human capital — the knowledge, information, ideas, skills, health of the population — is the driving force of economic growth. By shutting so many people of color out from meaningful economic opportunity, America is leaving some of its best human capital off the table. As former Treasury Secretary Lawrence Summers put it, as people of color become the majority, "the failure to end their economic exclusion means a failure of the American economy."

Ensuring the workforce has the skills to compete in the knowledge- and technology-driven economy is one major challenge that can only be solved by greater inclusion. Over the next two decades, half of America's 46 million new workers will be people of color. They will be entering the labor market just as some 60 million Baby Boomers – the

[25] Ms. Angela Glover Blackwell is Founder and CEO of PolicyLink.

most educated generation in history – are retiring and leaving behind many high-skill jobs. Many of the new jobs being created will also require high skills. Unless we dramatically increase the skills of those entering the labor force, America's workforce won't be prepared for the jobs of the future.

The data clearly illustrate the dilemma. By 2020, 47 percent of all jobs will require an Associate's degree or higher. Today, 45 percent of working-age whites have that level of education, but the overall rate is only 39 percent because the fastest-growing segments of our workforce have lower education levels. Only 28 percent of African Americans and U.S.-born Latinos, and 15 percent of Latino immigrants, have at least a two-year college degree.

But America's leaders are myopic to the challenge staring them in the face. While other countries are making enormous (and smart) investments in their people, America is losing the global competition to increase skills and mobilize its human capital.

Their inaction has a cost. Racial inequity is already an enormous drag on our economy. According to a recent analysis, the United States sacrificed $1.2 trillion in annual economic output in 2011 because of wide racial economic gaps. Unless the gaps are closed, the cost of inequity will grow steeply as America becomes more diverse.

On the other hand, inclusion will make the economy stronger. America's history shows this is true. When women and people of color entered professional jobs from which they were previously excluded, they helped expand the economy, accounting for about a fifth of our economic growth over the last half-century. Studies analyzing U.S. metropolitan regions find that more racially inclusive regions experience stronger and more sustained growth. And a growing body of evidence shows that companies with more diverse workers are more competitive and have stronger bottom-lines.

America's growing diversity is a gift – it is our ace in the hole in the global economy. But as a nation, we must create real pathways for people of color to become the CEOs, entrepreneurs, workers, and middle-class consumers that will lead us into a new era of shared prosperity. Community innovators across the country have figured out how to build these ladders of opportunity. It is time for public and private sector leaders to engage in a new conversation about race and America's economic future and make the bold investments and policy changes needed to leverage our diversity as an asset. Equity—just and fair inclusion of all—is the superior growth model.

Inclusiveness in NYC starts with reinventing the city's workforce development system

Maria Gotsch, Partnership Fund for New York City[26]

Today, at $657 billion in annual economic output, New York boasts the largest city economy in the world and business is thriving. But this prosperity is not universally shared: 46% of New Yorkers are living in or near poverty. Correcting this disparity will be a priority of the de Blasio Administration, but it is also a goal of the business community.

Through a public-private initiative that engages employers and job creators to help the city achieve a more inclusive economy—integrating education and skills training with the city's economic development agenda—the city can work with employers to close the gap.

The Partnership Fund for New York City, the economic development arm of the non-profit, business leadership organization Partnership for New York City, has invested in a broad range of both for profit and non-profit businesses in New York City. Securing top talent is a consistent issue across all sectors. Rarely are graduates of existing workforce development programs exiting those programs with the skills companies need. Workforce development has been autonomous and companies have not been engaged to provide feedback on current demands and trends; this needs to change.

The Partnership for New York City's *NYC Jobs Blueprint* report, published last April, showed that about a third of public high school graduates are college or career ready and just 28% of community college students enrolled in two-year programs earn a degree within six years, with 51% dropping out.

In terms of skills training, there is no evidence that the $1.4 billion in public funds and $60 million in philanthropy that are spent annually on workforce development in the city are yielding a positive return on investment. Today there are 330,000 city residents who are unemployed and looking for work, while there are 73,000 job openings that cannot be filled due to a lack of qualified applicants.

The *Blueprint* proposes that employers unite to offer the new Mayor a substantial commitment from the business community to accomplish two objectives: a meaningful increase in the pipeline of New Yorkers who are well prepared for good jobs and a robust infrastructure of public-private partnerships dedicated to inclusive economic growth that increases economic opportunities for New Yorkers who have been left behind. The specific proposals of the Blueprint are:

---

[26] Ms. Maria Gotsch is President and CEO of the Partnership Fund for New York City.

Establish a Network of Industry Partnerships in Workforce Development

The *Blueprint* observed that employers must be more broadly engaged in workforce development and career and technical education if the skills gap is to be bridged and a large-scale, system-wide program is to be accomplished. The Blueprint proposes the creation of new public-private organizations which will serve as intermediaries between industry leaders, educators and workforce service providers. These organizations would be dedicated to advancing projects and policies that result in both job creation and skills training in the industries that anchor the regional economy, including financial and professional services, health and human services, technology and innovation, the creative industries (fashion, the arts, media), industrial production (manufacturing, construction, food processing and energy), and tourism (hospitality, travel, restaurants and retail).

The deputy mayor for economic development and a new Chief Talent Officer, with oversight over all education and workforce development functions, would ensure that the activities and strategic direction of these public-private industry initiatives are coordinated with City Hall and relevant city agencies.

Transform and Elevate Career & Technical Education (CTE) in Public Schools

There are several exciting new models of industry-sponsored career and technical education programs that have been developed by employers working with the city and state Departments of Education (DOE) and the public university system (CUNY and SUNY). Working through the new industry partnerships, these programs can be replicated and scaled to serve far more students and adapted to provide skills training for unemployed adults.

One model currently being replicated locally and nationally is P-Tech, a six year high school and community college degree-granting school that has been created by IBM in collaboration with the DOE and the City University of New York. P-tech's "early college approach" is already being replicated by other employers including Con Edison, National Grid, SAP, Microsoft, the American Association of Advertising Agencies, New York Presbyterian Hospital and Montefiore Medical Center. Key to the program is employer participation in creating new curriculum and credentialing, professional development for teachers, mentoring for teachers and students, meaningful internships or other work experience and a first chance for available jobs.

Reinforce Accountability and Allocate Resources Based on Results

Last year, the Partnership lobbied successfully for legislation that enables access to Wage Reporting System data that practitioners can use to measure outcomes (jobs and wages) achieved by graduates of every state education and workforce development program. Government agencies and educational institutions will be able to track every student through data available from to the unemployment system. Once launched, this new tracking system should be used by government to see what investments are helping students get good jobs and keep them.

INCLUSION, SUSTAINABILITY, AND THE EVOLUTION OF SECTORS DEVELOPMENT SYSTEM

JOHN HECKLINGER, GLOBAL GIVING FOUNDATION[27]

One way or another, permanent global economic growth will end. At present, incentives in the global system lead public, private, and even many social sector entities to seek never-ending economic growth first, with social considerations second. Very rarely does an organization or corporation's long-term plan envision a steady, sustainable state as the desired goal. Social impact organizations generally aspire to make themselves irrelevant over time, but this end generally implies growing impact and organizational size in the process. Very few social impact organizations have effectively worked themselves out of a job. Corporations generally strive to increase size and profitability over time, not to reach a sustainable plateau of market reach and profitability.

In the future, and we can argue how distant or close that point might be, our economic, political, social, and natural environments will not keep up with the acceleration of global population growth, economic activity, and resource consumption. Without a shift in paradigm from permanent growth to permanent sustainability, we will inevitably deplete the planet's natural resources, with catastrophic effects. Such acceleration in growth may also outstrip the ability of existing social and political institutions to maintain basic order, much less social justice and inclusive economic growth. Ultimately humanity risks excluding itself from progress and perhaps even existence, as we exceed the carrying capacity of the planet and social and political institutions fail to keep up with the pace of change.

Dystopian futures feature prominently in popular culture, but in reality, paradigms are shifting in ways that make such scenarios far from inevitable. In the past, corporations were understood to have the sole purpose of generating short-term profits. Governments were understood to regulate, to foster growth, and to provide a social safety net. Social sector organizations were understood to take care of those left behind and to assert civil society's role in shaping the workings of governments and corporations.

In recent years, these three sectors have begun borrowing from each other, and new models are evolving. Social sector organizations and governments manage themselves more like businesses. Corporate charters explicitly state environmental, social, and financial bottom line aspirations. Foundations and financial institutions invest for social impact. Governments collaborate with nonprofits and investment banks to create social impact bonds. Enterprising nonprofits, like GlobalGiving, have sustainable business models but provide social, not financial, returns.

Greyston Bakery was the first corporation to register as a "benefit corporation" in the state of New York, and is a certified B Corporation. Greyston's motto nicely captures this change in orientation: "We don't hire people to bake brownies, we bake brownies to hire people." The purpose of the business is hiring difficult-to-employ workers. The brownies Greyston bakes are a means to that end. Profits support a separate foundation, but the integration of social and financial impact exists independently of that work. Financial

[27] Mr. John Hecklinger is Chief Program Officer of the Global Giving Foundation.

returns and social impact drive each other. Greyston doesn't have the size to move markets, but larger companies like Unilever are increasingly adopting an integrated approach to achieving long-term financial, environmental, and social sustainability. Unilever's sustainable living plan sets out quantifiable business goals aimed at doubling the size of its business while reducing environmental impact, improving the health outcomes and enhancing supplier livelihoods. Unilever's CEO, Paul Polman, writes:

Put simply, we cannot thrive as a business in a world where too many people are still excluded, marginalized or penalized through global economic activity; where 1 billion go to bed hungry every night, 2.8 billion are short of water and increasing numbers of people are excluded from the opportunity to work.

The impulse to achieve long-term corporate sustainability has great potential to drive inclusive growth, but only if that impulse becomes ubiquitous. Governments can provide incentives for corporations to embed this thinking into strategy. Social sector organizations will continue to assist corporations as they seek demonstrable social impact gains and will increasingly evolve sustainable business models to amplify their own social impact. Ultimately, the roles that public, private, and social sector organizations play will become less distinct, hopefully evolving new, hybrid forms that integrate successful characteristics of each. In this way, an evolving public, private, and social system has a chance to support inclusive and sustainable growth over the long term as hybrid models emerge and succeed or fail.

Reversing growing inequalities: Can post-2015 deliver the will and way?

Olav Kjorven, UNDP[28]

Member States are currently discussing the framework that will succeed the Millennium Development Goals after 2015. These goals have been instrumental in mobilizing the international community around the fight against poverty in all its forms since 2001 and have contributed to huge progress in development.

Yet the Millennium Development Goals failed to adopt an explicit focus on exclusion and inequality. As a result, reports of progress against these goals often tended to conceal disparities. And the challenges faced by marginalized groups were made invisible, "covered up" by national averages.

In a world where inequality has been rising sharply within most countries, one of the most critical questions for the post-2015 development agenda, besides environmental sustainability, is how it can drive action towards more inclusive and just societies.

A flagship publication was recently released on this topic by the United Nations Development Programme: "Humanity Divided: Confronting Inequality in Developing Countries".

This report underlines a strong paradox of our times: in spite of the impressive economic progress of the last decades, humanity remains deeply divided. The richest eight per cent of the world's population earns half of the world's total income, while the remaining 92 per cent of people are left with the other half. This resonates with the recent report from Oxfam which estimated that the share of global wealth owned by the world's 85 wealthiest people is roughly that owned by the poorest 3.5 billion. The key messages from the UNDP report are as follows.

During the last two decades, income inequality has significantly increased in most countries, whether developed or developing. More than 75 percent of the population of developing countries is living today in more unequal societies than in the 1990s.

High and growing inequality is not only intrinsically unfair. It also undermines development by hindering economic progress, weakening democratic life and threatening social cohesion.

This increase has been driven in part by globalization which weakens the bargaining position of relatively immobile labour vis-à-vis fully mobile capital. However, domestic policies - too often prioritizing fiscal consolidation over social expenditure and price stability over growth - have also played a very important role.

There is nothing inevitable about growing income inequality; the experience of numerous countries—many of which are in Latin America—shows that it is possible to reduce income inequality through policy interventions while maintaining strong growth.

[28] Mr. Olav Kjorven is Special Advisor to the UNDP Administrator on the Post-2015 Development Agenda.

And with the right measures to address the global drivers, related to trade, financial flows and migration, much more could be achieved.

In addition, within-country disparities in education, health and nutrition remain very high in many countries. Why is that the case? Income inequality remains a major driver of non-income inequality, but other factors, such as the quality of governance, social spending and social norms, matter as well. This is particularly evident for inter-group forms of discrimination, such as those based on gender, location or other identity features such as ethnicity or religion.

How should this be addressed? Moderating income inequality, at its core, requires that countries transition towards inclusive growth; that is growth that raises the incomes of low-income households faster than the average. This kind of growth can be promoted through a multipronged approach based on three pillars:

- Patterns of economic growth must be changed to ensure that market outcomes do not push households further apart, but deliver instead shared prosperity and improve the quality of life for everyone;

- Fair and effective redistributive measures must be adopted when needed to re-balance market dynamics and ensure universal access to critical services;

- Opportunities must be expanded for low-income households and disadvantaged groups to access employment and income generation options.

But inclusive growth is not enough. Reducing inequality requires also addressing inequality-reproducing cultural norms and strengthening disadvantaged groups. To achieve that, it is necessary to clamp down on discrimination and to tackle prejudice, stereotypes and cultural norms that fuel discrimination. This will empower these groups to shape their environment and the decision-making processes that matter for their well-being. Governance is a key entry point and action area. In both North and South, extreme inequality is in essence a governance failure.

It is critical that we acknowledge the importance of inequalities in debates on the shaping of a shared sustainable development agenda. It is also critical to better measure inequalities. This implies we join forces to ensure that better data can be generated, but also to ensure that these data are disaggregated so that inequalities linked to wealth, gender, ethnicity, and other factors can be explicitly targeted in the post-2015 development agenda.

The United Nations Millennium Declaration adopted by world leaders in 2000 did acknowledge equity and equality as critical values in stating among other things: "in addition to our separate responsibilities to our individual societies, we have a collective responsibility to uphold the principles of human dignity, equality and equity at the global level."

This lofty language was then largely ignored, not only in the MDGs but in policymaking in general by most governments around the world. It took growing protests and unrest, and evidence brought out by leading economists and policy think tanks to bring the problem back out in the open. The unprecedented "global conversation" launched by the UN and involving close to 2 million people on the post-2015 development agenda has helped catapult it to the center of the post-2015 discussion.

History tells us that treating rising inequality and exclusion as normal or inevitable is costly, and dangerous. The post-2015 sustainable development agenda provides world leaders and all of us with a unique chance to get it right the second time: To unleash a strong, shared effort to building a more fair and inclusive world. A set of well-crafted Sustainable Development Goals with corresponding targets and indicators can serve as a powerful catalyst.

Growth and Inclusion in the Cities: The Case of Belo Horizonte, Brazil

Marcio Lacerda, Mayor of Belo Horizonte[29]

Over the past 15 years, **Brazil is among the few emerging economies and developing countries that have managed to reduce income inequality along with sustained economic growth, low levels of unemployment and significant poverty reduction.** Yet, we remain among the most unequal societies in the world and significant challenges remain ahead toward a more resilient and inclusive society. These challenges are particularly harder to fight in the cities, where urbanization has historically grown much faster than our planning capacities. On the other hand, cities are also where a vast share of economic activity originates as well as the governmental entities that are closest to our citizens, the major implementers of public policies and, retrospectively, much better suited to identify innovative solutions to our (numerous and diverse) problems. As such, for growth to be more inclusive, policies need to be designed and implemented as much as possible from a *bottom-up* approach that includes popular collaboration, enhances accountability and ensures the buy-in from all stakeholders involved.

Within this context, **Belo Horizonte**, Brazil's 6th largest city with a population of about 2.4 million people plus another 2.7 million living in our metropolitan area, **can provide some insightful examples of ways in which cities have been able to creatively and collaboratively pursue inclusive growth over the past two decades**. Altogether, our efforts have contributed to making us the 2nd Brazilian municipality to formally receive institutional and financial support from the World Bank, through a $200 million development policy loan approved in June 2013, to help us promote inclusive urban development through innovative policies that focus on the poor and vulnerable citizens.

First, it is crucial to emphasize that we have **maintained a continued democratic governance ideology** over the past two decades **that has transcended political and electoral interests and allowed us to strengthen urban governance by broadening participatory mechanisms**. One major example of this is our collaborative management program, which reflects our commitment to a pioneering **participatory budgeting** process that has involved more than 700 thousand people over the past 20 years, and that has resulted in more than $800 million dollars committed for a total of 1,536 public investments democratically approved by the citizens themselves, prioritizing our poorest neighborhoods. Moreover, our program includes the coordination of **more than 80 regional and thematic municipal councils** that seek to actively engage multiple sector of our organized civil society in our decision-making and planning processes. As a result of this experience, in a pursuit to continue institutionalizing our inclusive democratic governance approach as much as possible, we have recently launched a **participatory regional planning program** throughout the city's 40 formally recognized collaborative management territories.

Second, as of 2009, following the successful results-based management model of the State of Minas Gerais, **we have structured our administration into medium and long-term strategic planning programs.** Our BH Goals and Results Program outlines

[29] Mr. Marcio Lacerda is Mayor of Belo Horizonte, Brazil.

the government plan into 12 areas, 40 major projects and over 500 sub-actions that are closely tracked by a permanent secretariat to ensure that we successfully meet each one of our stated goals. One of such actions involves enhancing resident ownership through our **low-income housing program** that involves developing and implementing a comprehensive model for social inclusion and sustainable livelihood, as evidenced by the institution of the Pre and Pro Morar program that has delivered more than 7,000 housing units along with access to better living conditions and basic services since 2009. Another example is the establishment of a **disaster management strategy** that has put into operation a monitoring and alert system for high rainfall events in critical areas of our city. This strategy was carried out through the implementation of a Strategic Plan of the Civil Defense,[30] the creation of a Contingency Plan for an early alert system, and ongoing activity reports from the system.

Third, given intrinsic budget and investment constraints that limit our ability for public investment at the local level, in addition to consistently trying to provide better and more efficient public services with less, **we have sought to strengthen our partnerships with the private and third sectors through strategic PPPs** as well as through stronger cooperation with the state and federal governments in major investments. As a practical example, Belo Horizonte recently innovated in this front by **forging the first Brazilian PPP in the education sector** in order to expand our Municipal Units of Infant Education[31]. In our case, the private sector is responsible for the schools' infrastructure and administrative tasks while the city government remains fully responsible for the academic expenses and keeps total pedagogic control of its schools. As of last year, we had already launched 4 schools under this arrangement that allow us to accommodate an additional 1,640 students primarily from 0 to 3 years old and vulnerable families for extended day programs into our public education system.

As described above, in Belo Horizonte, **we pride ourselves for continuously playing an active role in fighting for a more inclusive and resilient society** as well as for being **open to innovative solutions** and to mutually beneficial **partnerships nationally and internationally**. You are all welcome to come visit and consider facing our challenges together.

[30] Last year, this program was awarded the Sasakawa prize for resilient cities by the United Nations for significantly reducing the areas at risk of natural disasters from 10,650 to 2,671.

[31] As a recognition of this effort and commitment with our future, the Financial Times and Citibank considered our program one of the most innovative public practices in Latin America through the 2013 Ingenuity Awards.

NEIL LEE, LONDON SCHOOL OF ECONOMICS[32]

Inclusive Cities are the drivers of economic growth. Dense concentrations of workers, firms and entrepreneurs can help innovation, knowledge sharing and productivity growth. Policymakers across much of the OECD have been devolving powers and responsibilities to cities, with the aim of helping them achieve national economic recovery.

Yet while cities are important for economic growth, they can also be home to entrenched poverty. Even in the most economically successful cities, out of work or in-work poverty can be a significant problem. For policymakers seeking to both increase growth and reduce poverty, this raises an important question: How can economic growth in cities reduce poverty?

We address this question in a new report for the Joseph Rowntree Foundation - written by a team from the London School of Economics along with The Work Foundation, the University of Warwick and the University of Coventry. Based on econometric analysis, case studies of cities in the UK and across other OECD countries and through a review of the existing literature, we investigate how growth and poverty are linked in cities.

Our key conclusion: there is no guarantee that economic growth in a city will reduce poverty. We find no evidence of a universal relationship between economic growth and poverty reduction, in the short-term at least. Innovative, economically successful cities such as London or Oxford have experienced rapid growth but seen little reduction in poverty. In these cities, output growth has not been broadly shared across all income groups, but has been driven by rising inequality. Those on high wages have seen large gains, while those in poverty have often gained little. Because of this, the scale of economic growth is less important than its nature.

In contrast, employment growth leads to significant reductions in urban poverty. While in the short-term, growth in output did not affect poverty, in the long-term these cities often create jobs, and this can lead to reductions in poverty. Yet not all jobs are the same, and the quality of new employment is important. In-work poverty is a significant problem in much of the OECD, particularly since the crisis. New jobs need to provide decent wages and opportunities for progression.

If growth does not automatically reduce urban poverty, what is the role for cities? Clearly, many of the most important policy levers – such as the tax and benefits system – tend to be held at a national level. But cities still have an important role in a number of areas.

First, cities can help coordinate institutions to help link growth and poverty. Skills policy is vital, and cities can help steer funding to reflect the demands of employers in growing sectors of the local economy. Transport is also important and cities can help improve transport links between workers in poor neighbourhoods and those areas which are experiencing growth.

Second, cities can help address in-work poverty. In the UK, many cities have launched living wage campaigns and worked with major employers to ensure workers are given

[32] Dr. Neil Lee is Assistant Professor in Economic Geography at the London School of Economics.

reasonable wages. Public procurement can be a useful tool for ensuring local workers are given fair wages, training and opportunities for progression. Cities need to recognise that the quality of new jobs matters, and that they have policy levers which can help shape job quality.

Growth is not always unambiguously positive for local residents as it can raise prices. So a third area for cities to act is in reducing the cost of living. Cities which have experienced rapid growth, like London or Singapore, often find this is accompanied with rapid increases in prices. In particular, high housing costs can easily wipe out increases in wages for those in low-wage sectors. By ensuring housing supply is responsive to demand, cities can ensure that growth does not reduce real incomes for the poor.

But the biggest contribution cities can make is in bringing different stakeholders together. There are many local institutions which impact on those in poverty, including 'anchor institutions' - large employers which are fixed in place but have a significant footprint in a local economy. City government can help link these diverse institutions to link growing parts of the urban economy with poverty. And the benefits of a city level action in this area is that it can help new, innovative approaches develop, based on local solutions to locally specific problems.

Urban policy makers need to stop thinking about growth and poverty in silos. A new approach is needed in which city government consider the way in which growth can best address poverty. Moreover, fighting poverty can also help the local economy grow. Poverty imposes a cost on the local economy, representing a waste of resources and diverting attention away from growth enhancing measures. Reducing poverty will help increase growth, so any effective growth strategy needs to consider poverty reduction as well.

ALL FOR ONE AND ONE FOR ALL: WHAT DO WE MEAN BY INCLUSIVE GROWTH?

DANNY LEIPZIGER, THE GROWTH DIAGLOGUE AND THE GEORGE WASHINGTON UNIVERSITY[33]

It is difficult to be against inclusive growth, yet, in reality inclusivity is a vague concept at best. Is it that we expect ultimate economic outcomes to be more equal? Or is it that individuals at lower income levels or from excluded groups should gain access to opportunities? Or is that people in all walks of life should feel that they share in some measure in prosperity? What we observe is that measured income inequality is rising, even as poverty rates decline, and as average incomes converge among nations. So what we are witnessing in many parts of the world—developed and developing—are increases in relative income disparities, and the question is whether this is a good thing or not.

In his path-breaking book, "The Moral Consequences of Economic Growth," Prof. Benjamin Friedman of Harvard University argued that "Countries where living standards improve over sustained periods of time are more likely to seek and preserve an open, tolerant society, and to broaden and strengthen democratic institutions. But where most citizens sense that they are not getting ahead, society instead becomes rigid and democracy weakens." (Friedman, 2005, p.399). If Friedman is right, then we are in for some very turbulent times!

Prof. Thomas Piketty, in his recent book, " Capital in the 21st Century, " predicts that capital will continue to capture the lion's share of national income and wealth, and that only confiscatory wealth taxes can offset the burgeoning coffers of the top one-percent in many countries. What has led to this situation is which growth has become so skewed, incomes so uneven, and the outlook so bleak? These are the questions that should preoccupy us and they are, in a sense, understated with the term "inclusive growth."

Growth can certainly be defined as inclusive in the sense that all can be better off in an absolute sense. David Dollar and Art Kraay (2000, 2013) have argued that economic growth makes everyone better off, essentially in direct proportion to their position in the distribution beforehand. Others argue that this relative positioning has faltered in many countries, and that more and more income is being garnered by a few. Should we care? Joseph Stiglitz in his "The Price of Inequality," argues that high inequality makes for a less efficient and less productive economy and that it damages democratic institutions.

The debate has reached interested new heights with Nobel laureate and father of modern growth theory, Prof. Robert Solow, battling Prof. Gregory Mankiw on the notion of fairness. In their Journal of Economic Perspectives (2014) exchange, they argue about how the one-percent got where they are in the U.S. The debate could easily be extended to the .01 percent of the distribution, whose income is equally if not more skewed (see Saez, 2013). For example, it is reported that the wealth of the five heirs to the WalMart

[33] Professor Danny Leipziger is Managing Director of The Growth Dialogue, and Professor of International Business and International Affairs at The George Washington University.

fortune is larger than the combined assets of the bottom 40 percent of the US population.

Based on some rather clear diagnostics, one can see income disparities rising in some advanced economies, especially those that don't redistribute income in large measure, as do Nordic countries like Sweden. We can also see rising inequality in poorer countries due to economic capture of resource rents and outright stealing. Accurate diagnoses are useful before suggesting policy actions to try and "fix the problem." Let's take a look at four countries showing rising inequality: the U.S., Chile, Vietnam, and Nigeria and trace through what inclusive growth might mean in each case.

In the U.S., apart from entrepreneurs making their fortunes, and others sheltering their incomes and some corporations paying no taxes in their home country (e.g. GE), the problem is not so much at the top and the bottom as it is in the middle of the distribution, where real incomes have declined since the 1980s. The middle-class is suffering, as jobs are either more skill intensive or harder to secure. Geographic mobility as well as inter-generational mobility has suffered and IT related job displacement is on the rise. Solutions: more and better education, fewer tax loopholes, greater opportunity for the bottom 90 percent of the distribution, including raising the minimum wage that has fallen in real terms.

In Chile, despite impressive gains in poverty reduction and superb economic management, inequality has risen to be among the highest in Latin America and it is causing social discontent. Lack of competition, elite capture, and limited opportunities are at the core of problem. Solutions: better secondary education, cheaper universities, vigorous enforcement of competition laws, incentives for new firms, and more redistribution Nordic style.

In Vietnam, despite impressive income gains for almost all citizens over the past 20 years, greater disparities have emerged that go beyond those associated with effort or luck or even education. Gains are accruing to those with political influence, and leaders decry the rise of economic corruption. Links between provincial political entities and local firms are notorious and corrosive. Solutions: cracking down on the use of political influence to gain economic advantage by enforcing anti-corruption laws and pro-competition policies, and a reigning in of state-controlled firms.

In Nigeria, where the proceeds of past oil stabilization funds disappeared and where the current Governor of the Central Bank reported a loss of $1trillion monthly of national revenue via the oil sector, the number of Nigerians below the poverty has actually risen. Basic services are not being delivered and oil theft is common. Solutions: recapture government revenue and redirect it to public spending that benefits the many instead of the few, reasonable rules on revenue sharing, and improved across the board governance.

There is a set of "**opportunity-based solutions"** which include redirecting expenditures to the basic needs of the many, improving education for the disadvantaged (see Lewis and Lockheed. 2006, on excluded groups), and spurring job creation; these can all lead to more inclusive growth, defined as affording each citizen a reasonable chance of improving his or her economic status. Secondly, there is a set of "**efficiency solutions"** that would enable markets to function with broader economic interests as a guide, including, for example, stronger enforcement of competition laws, improved corporate governance, and aggressive financial oversight. To this set can be added a set of "**fairness solutions"** which aim to seal tax loopholes, rationalize subsidies and tax expenditures and remove financial privileges that enable the rich to get richer. Much of what is needed is better governance combined with a social concern that the benefits of economic growth not be captured by a few who have political influence and economic power. Such lessons apply with equal relevance in advanced and developing countries.

HAS GROWTH HELPED THE POOR? WAYS TO MAKE IT MORE INCLUSIVE

APARNA MATHUR, AMERICAN ENTERPRISE INSTITUTE FOR PUBLIC POLICY RESEARCH[34]

The concept of inclusive growth is based on the premise that economic growth is accompanied by an improvement in living standards and material wealth across all the different sectors and segments of society. Over the last two decades, growth in emerging market economies has resulted in a reduction in poverty levels in these countries as well as a reduction in income inequality across countries.[35] However, for many developed countries such as the United States, economic growth has not resulted in a significant decline in poverty rates.[36] At the same time, by most measures, income inequality has widened considerably since the early 1980s. What policies can these countries follow to make growth more inclusive?

Inclusive growth is consistent with an absolute, rather than a relative, improvement in incomes across different segments of the income distribution. In the United States, the debate often tends to get mired in class warfare. Statistical data from the Congressional Budget Office shows that the top 1 percent have experienced an income growth of 200% since 1979, while people in the middle and bottom 20 percent of the income distribution have experienced an average 40 percent increase in real after-tax incomes.[37] This is not necessarily at odds with the notion of inclusive growth since people at all levels have shared, albeit unequally, in the income growth. Also, consumption data points to a significant increase in material standards of living for people at all income levels as well. In research that I have done with Kevin Hassett, we find that people at all income levels are consuming more today and have access to many more devices and appliances that were traditionally considered the preserve of the rich, than at any time in history.[38]

The tax and transfer system has undoubtedly been responsible for redistributing incomes from the top to the bottom.[39] As a result, consumption inequality by most accounts is a lot narrower than income inequality. However, there is a limit to how much redistribution can be used to sustain consumption standards. Already, more than 68 percent of federal tax revenues are derived from the top 20 percent of earners, and close to $2 trillion are spent on transfer programs annually.[40] Yet, as per the U.S. Census Bureau there are more than 47 million people living in poverty in America today.[41] In

---

[34] Dr. Aparna Mathur is Resident Scholar, American Enterprise Institute for Public Policy Research.

[35] "Poverty and Inequality," Globalization Trendlab 2013 report, University of Pennsylvania. http://lauder.wharton.upenn.edu/pages/pdf/other/Global_TrendLab_2013_Poverty.pdf.

[36] Hoynes, Hilary W., Marianne E. Page and Ann Huff Stevens. "Poverty In America: Trends and Explanations," Journal of Economic Perspectives, 2006, v20(1,Winter), 47-68.

[37] Congressional Budget Office, "The Distribution of Household Income and Federal Taxes, 2010." Dec, 2013. http://www.cbo.gov/sites/default/files/cbofiles/attachments/44604-AverageTaxRates.pdf.

[38] Kevin A. Hassett and Aparna Mathur, "A New Measure of Consumption Inequality," AEI Economic Studies, June 2012.

[39] Ben-Shalom, Yonatan, Robert A.Moffitt and John Karl Scholz. "An Assessment of the Effectiveness of Anti-Poverty Programs in the United States, May 2011. http://www.nber.org/papers/w17042

[40] http://www.downsizinggovernment.org/cutting-4-trillion-budget

[41] Current Population Reports, "The Research Supplemental Poverty Measure Nov, 2013.http://www.census.gov/prod/2013pubs/p60-247.pdf

order to further enable the sharing of growth by low income individuals, other social and economic changes need to be adopted.

Inclusive growth requires that growth be inclusive of a large part of the country's labor force.[42] This is the biggest challenge facing countries today, particularly in the context of the recent recession and subsequent anemic recovery. Research suggests that changes in labor market opportunities predict changes in poverty quite well.[43] In the United States, there are more than 10 million unemployed workers, of which nearly 4 million have been jobless for longer than 27 weeks.[44] In addition, there are another 10 million who are either in involuntary part-time jobs, or are too discouraged to look for work. This has added to the problem of poverty. And when these high rates of poverty exist in an economy with low economic mobility as is true of the U.S., the problem is exacerbated.

What policies can we encourage in order to improve economic mobility and the access to high-wage high-skilled jobs that are essential for economic agents to participate in and share in the process of economic growth? Access to high quality education and schools is extremely important as an investment into children's futures. Poor quality schooling can limit an individual's earning ability over his lifetime.[45]

The labor market has been particularly challenging for youth and teenagers who face unemployment rates higher than 15 percent. Research suggests that internship or apprenticeship programs may improve employment prospects and also boost college attendance.[46] Skill-biased technological change is one of the biggest drivers of inequality in incomes.[47] Therefore producing trained, highly-educated individuals would help with moving people out of poverty.

The next challenge is getting the long-term unemployed back to work. To this end, unemployment benefit programs should be supplemented by skills training and greater help with matching workers to jobs. Federal programs that provide work incentives are far more successful than simple cash assistance programs in helping people in poverty. An example is the Earned Income Tax Credit program. The EITC arguably is one of the federal government's most efficient means of encouraging work and fighting poverty. As per the Census Bureau, the EITC lifted 5.4 million people above the poverty line in 2010.While the EITC has some disadvantages, such as the significant tax penalties on earners in the phase-out range, it has been shown to encourage labor force participation for single mothers, and has lifted millions of adults and children out of poverty.

---

[42] http://siteresources.worldbank.org/INTDEBTDEPT/Resources/468980-1218567884549/WhatIsInclusiveGrowth20081230.pdf

[43] Hoynes, Hilary W., Marianne E. Page and Ann Huff Stevens. "Poverty In America: Trends and Explanations," Journal of Economic Perspectives, 2006, v20(1,Winter), 47-68.

[44] http://www.bls.gov/news.release/pdf/empsit.pdf

[45] Martin Feldstein, "Income Inequality and Poverty." Oct, 1998. http://www.nber.org/papers/w6770.pdf?new_window=1

[46] David Neumark, 2009. "Alternative Labor Market Policies to Increase Economic Self-Sufficiency: Mandating Higher Wages, Subsidizing Employment, and Increasing Productivity," NBER Working Papers 14807, National Bureau of Economic Research, Inc. http://ideas.repec.org/p/nbr/nberwo/14807.html

[47] Claudia Goldin and Lawrence Katz, "The Future of Inequality: The Other Reason Education Matters So Much." 2008. http://ideas.repec.org/p/hrv/faseco/4341691.html

Finally, a competitive free enterprise system that creates the right incentives to invest in capital, labor and intangibles, is extremely important to address the challenges of long-term growth.

To conclude, making growth more inclusive requires addressing the problem of poverty and long-term unemployment directly through workfare programs that incentivize low income individuals to enter the labor market. It also involves investments in early childhood education, skills training and apprenticeship programs that would help youth and college-educated individuals to transition easily from school to high quality jobs. A productive and fully utilized labor force, in combination with adequate investments in capital and legal and property rights systems, would provide the right economic framework for sustained and high rates of growth that could move us towards substantial rates of poverty reduction.

GOING INCLUSIVE: FUTURE SHOCKS REQUIRE "UNLIKELY" PARTNERSHIPS AND NEW FORMS OF ACCOUNTABILITY

PAUL MILLER, CATHOLIC RELIEF SERVICES[48]

Looking out over the next few decades, development thinkers and planners have tried to predict the changes that may drastically affect the prospects for poverty reduction and especially inclusive growth. Here are some of their findings:

- More of the world's poor will be in *middle income* countries;
- *Climate change* may include more intense and frequent natural disasters, affecting more people, including in increasingly urbanized coastal regions;
- For that and other reasons, we expect *more uprooted populations* and people 'on the move';
- *Resource scarcity* in land, water and energy may increase or contribute to violent conflict, exacerbated by a burgeoning and increasingly youthful population in some places;
- This *youth bulge* in many middle income and poor countries will challenge societies to provide education and employment opportunities or risk instability;
- *Food price* spikes in the past few years hint at future crises related to agricultural production as hundreds of millions of smallholder farmers are challenged to make a living or join the exodus to the cities.
- *All of the above points indicate vulnerability to shocks* which may place more states in the 'fragile' category.

At last year's OECD/Ford workshop on inclusive growth in Paris, participants described how the recent recession accentuated a crisis of credibility about governmental and international policy-making institutions. If those who need to be "included" have no faith in institutions, then it will be difficult to face future challenges, even more to promote inclusive growth. In the development field, these predictions frame key questions about how new and old donors and developing countries should allocate limited resources and which aid models will promote sustained and equitable development. The High-Level Panel on the Post 2015 Development Agenda appointed by the UN secretary-general pointed to some of the "how" as well as the "what" of this agenda. We would do well to look deeper into the process of inclusion; here below are some recommendations.

First, <u>inclusion requires all development actors to plan for shocks by building resilience into social service, safety net and growth strategies</u>. This is especially important for the significant percentage of the world's extreme poor living in conflict-affected countries:

[48] Mr. Paul R. Miller is Senior Advisor, Catholic Relief Services.

they may be vulnerable to more frequent natural disasters which exacerbate man-made ones.

Second, inclusion requires 'unlikely partnerships' beyond traditional growth and development approaches. ODA is no longer as important as the flows of investment to the developing world from the private sector for-profit world, or remittances. In addition, there are large sums coming from foundations, non-governmental and religious organizations, among many others. Universities and other centers of innovation are increasingly connected to sustainable development work. For-profits, both local and multinational, seek "shared value" with other actors--for their business, and to improve people's lives. In my organization, we have had the privilege of working with local communities and businesses from Central America to the Philippines addressing climate change, at-risk youth, and small holder farming in ways that include all voices to promote growth, poverty reduction and a sense of hope.

We believe private philanthropic and research actors --foundations, NGOs, faith-based, university, and advocacy groups -- have proven but still largely untapped experience and capacity to facilitate inclusive processes and mitigate negative consequences of shocks. Aid and investment policies should allow these groups to more easily bring financial, technical, and human assets to partnerships with government and business, including their networks of local to global relationships, and strong constituencies in both the developed and developing world.

In addition, developed nations can implement international policies which support such inclusion. For some, this means taxes on carbon; temporary migration flows from poor countries; controls on arms sales; less support for repressive regimes; and efforts to reduce money laundering and tax avoidance.

Finally, even as it welcomes and facilitates the role of private sector and private capital investment to grow economies, the development community must consider much more 'radically inclusive' means of consultation, participation and accountability for projects and budgets. Sustainable and inclusive public -private partnerships for instance, depend on an enabling environment which encourages rather than restricts civil society. Ending extreme poverty requires the participation of those who have been left out –women, persons with disabilities, and the geographically remote. There are numerous examples of this emerging social accountability — transparency in budgets and key sectors such as extractive industries, mapping of projects and land holdings, and built-in feedback loops. These are enabled by communication and information technologies so citizens can more easily report concerns, fraud or suggestions for improvement.

Within such a context of guaranteed basic freedoms and a commitment to inclusive development, societies will have more capacity to navigate tensions arising over allocation of resources (*e.g.* land, water, aid money, revenue from natural resources). And unlikely partnerships and new forms of accountability will help make for a more inclusive and sustainable development future.

THE IMPORTANCE OF MEASURING ECONOMIC INSECURITY IN RICH AND POOR COUNTRIES

LARS OSBERG, DALHOUSIE UNIVERSITY, AND ANDREW SHARPE, CENTRE FOR THE STUDY OF LIVING STANDARDS[49]

In both rich and poor nations, fears about the economic future are important for two main reasons—they subtract from individuals' enjoyment of the present and they influence behaviors. The theme of the piece is that economic security is a dimension of economic well-being and inclusive growth in all countries that deserves to be analyzed in its own right. While economic security is related to income, it is not necessarily greatest where income is highest and lowest when income is lowest.

We define "economic insecurity" as "the anxiety produced by a lack of economic safety—*i.e.* by an inability to obtain protection against subjectively significant potential economic losses."

To avoid anxieties about the future, individuals may acquire insurance (either public or private), choose less risky options in their decision making, or build formal or informal networks of social support—but the options of formal private insurance or public social security are much less commonly available in poor countries.

Clearly, anxieties about future outcomes include many non-economic issues—we would stress from the outset that economic security refers to a subset of all security concerns. Nevertheless, we think that the economic dimensions of insecurity deserve attention—so we ask the question: "can one construct and compare an index of the level of economic security in rich and poor countries?" We believe we can.

In a forthcoming article in the Review of Income and Wealth we have constructed a "rights-based" index of economic security at the national level for eight countries and used it to compare economic security across both rich and poor countries.

The purpose of such an index is to assist in the evaluation of current policies affecting well-being as well as in the development of new approaches to promote greater economic security. In many affluent countries, in the aftermath of the 2008 Financial Crisis, greater volatility in financial markets and continued high unemployment has heightened concerns about how public policies can maintain the economic security which the institutions of the welfare state were intended to provide.

In poor countries, where such institutions are generally lacking but the risk-pooling norms of the extended family are under ever-increasing pressures from urbanization, demographic change, and modernizing social values, the question is which policies could create such a sense of economic security in the first place.

We start from a "named risks" approach, which examines four key objective economic risks named in Article 25 of the UN Universal Declaration of Human Rights (*i.e.*

[49] Dr. Lars Osberg is McCulloch Professor of Economics at Dalhousie University, Halifax, Canada. Dr. Andrew Sharpe is Executive Director of the Centre for the Study of Living Standards, Ottowa, Canada.

unemployment, sickness, widowhood, and old age), and develop estimates of economic security in each of these areas. Because our index is one of the four components of the Index of Economic Well-Being (IEWB), we refer to it as the "IEWB Economic Security Index." To reflect better the reality of developing countries, our index of economic insecurity is revised to: (1) include the volatility of food production in the risk of loss of livelihood; (2) adjust the risks of health care costs to consider the proportion of household spending on food (which is non-discretionary, and large in poor countries); and (3) add adult male mortality to the risk of divorce in calculation of the risk of single parent poverty.

It is important to note that economic insecurity is distinct from economic inequality. Although, ex post, the total variation in individual incomes can perhaps be decomposed into the sum of permanent and transitory variations in income, insecurity is about ex ante anxieties.

In affluent countries, private insurance and capital markets are well developed and the welfare state provides a set of transfers and services that help shield citizens from many of these hazards. There is no reason to think that the residents of poor nations are less conscious of the economic hazards that they face, but these mechanisms of risk mitigation are typically much less available to them. Many hazards are larger and the costs to individuals of those hazards are greater, in poor countries. Economic security thus affects well-being both directly and indirectly, in both rich and poor countries.

We present data on 70 rich and poor countries in 2007/08 but among the eight countries, four rich and four poor, which we focus on, we find that while economic security is broadly correlated with national income, it is not least in the poorest of the eight countries (Vietnam) and not greatest in the nation with highest GDP per capita (the United States). Economic security is therefore a dimension of economic well-being that deserves to be analyzed in its own right—and one which can be measured in a conceptually comparable way across countries at different levels of development.

FINANCIAL AND FISCAL INCLUSION

INDIRA RAJARAMAN, RESERVE BANK OF INDIA[50]

Financial inclusion is an amalgam of four things. It is the routing of savings of all, including the poor, through a banking system that promises security against default. It is meeting the credit needs of the poor through the formal financial system rather than through the predatory informal system that is their last- and frequently, the only - resort. It is recognition that the inverse relationship between the cost of credit and income class is driven by the inherent risk and transaction costs of lending to the poor, and that only managing and reducing that risk can achieve a sustainable reduction in the cost of credit to the poor. This in turn is possible only if the poor are offered suitable products for reducing life and event risk. Finally, it is recognition that financial inclusion is not a matter of charity but is instead, even after a flattened credit gradient, a profit opportunity for the banking sector, a means by which to raise rates of return to saving, especially savings of the poor, and most of all, a means of income and growth enhancement at lower income deciles.

To the extent domestic savings in capital-scarce EMDEs can finance domestic investment, external deficits become more manageable and dependence on foreign capital is reduced. Financial inclusion gathers the financial savings of all, including the poor, into a common pool, and thus provides an enabling platform for efficient allocation to borrowers in need of capital.

Financial inclusion poses a last-mile problem. In order that financial inclusion does not endanger the health of the banking system, it is best to unbundle savings mobilisation and lending operations, and sequence them in that order. Too high a requirement of local credit deployment could destabilise the banking network, since due diligence at spatially dispersed points is difficult to ensure. That is the reason why the natural sequence in financial inclusion calls for hyphenating deposit with payment mechanisms before the problem of local credit provision can be addressed.

Savings mobilisation through banking correspondents (BCs) or mobile telephony, or even corner grocery stores, are ways by which deposit collection and small payments can be facilitated over a spatially dispersed catchment area. Outreach mechanisms of these kinds call for a legal regulatory system that guarantees security for the depositor and bars rogue entrants from service provision, and most of all, foolproof technological ways by which depositors can be uniquely identified.

Spatial outreach, however it is done, requires road connectivity, as a pre-requisite. Thus, the last mile fuses financial and fiscal inclusion, since road connectivity is a classical public good that can only be financed through the public exchequer.

Trust, an essential pre-requisite for engagement, can only be built up if the deposits of new entrants, most of them poor, are safeguarded. Yet unless there is some fractional local credit deployment from local deposit collection, the system could work like a suction pump diverting local savings away from local credit needs. The problem of meeting small credit requirements is not confined to spatially spread rural areas. Even

[50] Dr. Indira Rajaraman is Member, Board of Directors, of the Reserve Bank of India.

in urban areas, where the density of banking outlets is far greater, small credit needs of a wide range of street service providers, from motor car mechanics to vegetable vendors, are met by informal finance, at astronomical rates of interest, because of a lack of transactional access despite close physical access. The credit rate gradient, whereby the price of credit is inversely related to the size of the loan, because of the unmanaged risk of default, needs to be flattened.

Fiscal inclusion, very similarly, derives justification from its growth-promoting properties as much as from spatial equity issues, starting with that most classical of all public goods: roads. The last-mile issue has been unconscionably postponed in EMDEs, because of fiscal constraints. An unlinked hinterland poses supply constraints which can show up in high food inflation, exactly as is happening in India today.

Likewise, other public goods (public health, sanitation) or publicly provided private goods (primary education, primary curative care) can approach universal coverage only as an eventual target over time. During this period, which can be as long as a half century, the paramount concern is to ensure that at any time, the fractional access that can feasibly be fiscally attained is spatially uniform across the country.

A state which commits itself to, and moves steadily towards, universal access to public goods is an enabling state. An entitlement state, with legislation entrenching universal legal rights to fully or partly subsidised goods and services, offers the wrong kinds of fiscal inclusion. A state has the obligation to provide subsidised goods to sections of society unable either permanently (the elderly and disabled) or temporarily (pregnant and lactating women, pre-school and school-going children) to earn their livelihood. Beyond that, universal entitlements are merely political opportunism, masquerading as fiscal inclusion.

INCLUSIVE GROWTH MEANS LINKING THE ENERGY OF EVERY CITIZEN

WILLEM REEK, NORTHERN NETHERLANDS ALLIANCE[51]

I call out to leaders around the world to "give back the power of conscious action to citizens. Thus enabling them to get in control of their life and connect to a society and ecosystem they can really associate with….just to create a better world together".

"Individual wellbeing is based on the individuals functioning in taking advantage in their own life. It is about where it leads to, not what means it takes. On the other hand: Economic rationality has to do with the choice of means, not ends. This calls for a new rationality."
Amartya Kumar Sen (Economist)

"The field [the science of complexity] is in the midst of a broad synthesis of scientific disciplines, helping reverse the trend toward fragmentation and specialization, and is groping toward a more unified, holistic framework for tackling society's big questions."
Geoffrey West (Professor at Santa Fe Institut)

The issue of inclusive wellbeing is seen as a complex matter, but part of it is that we don't have a framework that helps us to understand it and find solutions. Off course we can research the hard and soft matters of wellbeing as we perceive the issue now. How would it be if we could approach it in a different way to make it less complex and more manageable?

Human behaviour is at least partly responsible for the complexity of this world and for the complex challenges arising from that.

Somewhere in the last centuries in the economical and technological driven parts of the world we lost the connection between the development of our nature and that of our systems, which made our lives complex.

Renewed inclusion of human biology in development approaches, could reinstall this connection, making complexities bearable and enabling us to handle them.

The complexities that we produce are reflections of ourselves and most often stem from the relations between ourselves and our social and physical environment.

If we understand what drives our biology, individually and in communities of different scale, we are able to understand the parameters for complexity and eventually learn how 'we are the complexity we produce'. Only then we will discover that we can reorder complexity from our own biology, for instance to simply increase our wellbeing.

So the biology of complexity is human biology, and especially the behavioural side of it. It is the science that describes what drives human behaviour and human interaction. It

[51] Dr. Willem Reek is Lead Strategist for Innovation and Regional Transition at the Northern Netherlands Alliance.

incorporates human cognition, psychology, social science and some elements of life sciences, like aging, talent development, creativity and health.

The inclusion of the biology of complexity in the approach of wellbeing will, in my opinion, reduce its complexity to a single formula, that I call "The happy life formula".

It consists of only seven variables that form the seven natural human drives, and consciousness, potential, development opportunities and environmental quality. The seven drives in human biology are: basic provision (safety, food, shelter, health, etc.), loving, understanding, expressing, playing, creating, and developing.

Increasing wellbeing is a change process. Change is in most cases planned with high expectations, but concludes in most cases as an autonomous organic process only to be claimed by many competitors. But this 'autonomous organic change process' is in fact a human affair that we made ourselves, either consciously or not.

It is our own individual biology and our shared group biology that can be addressed to create the desired change and at the time we want it.

Talking about societal transition to a higher state of wellbeing, we just entered the notion of transition towns and innovation ecosystems. Although in those notions the role of human talents and co-creation is entering at least something human in systems theory, there is still only a tiny part of human biology in these approaches. A concept how to address all of human biology in systems theory, other than by using the old social science mechanisms as education and sociology of organization, is yet missing.

The previously mentioned "happy life formula" however enables us to put the factors of human biology in the mechanisms for raising the level of wellbeing, leading to a conscious natural growth in three steps:

First starting from the complexity 'as it is', there is a lower level of complexity to be chosen as 'a reasonable state' that allows most of us to develop ourselves upon.

Second we should then determine the minimum levels of wellbeing that will provide all of society the key to self-sustained organic growth, enabling each individual to fully live up to his own potential.

Third it is to be determined what are the variables of the biology of complexity to be addressed in a specific setting to arrive at that wished level of wellbeing. We can do it so that we find only support from that complexity, which is the case when it lends us just enough anchor points for conscious development.

Remember that complexity is only what we produce. It is something that we only need to reduce when it hinders our wellbeing.

THE THIRD SECTOR: THE FUTURE OF INCLUSIVE GROWTH

BÁRBARA J. ROBLES, BOARD OF GOVERNORS OF THE FEDERAL RESERVE[52]

My brief narrative today, centers squarely on the significance of the Third Sector to our economic recovery as we continue to learn from the aftermath of the financial crisis. Specifically, my research focuses on locating where the partnerships between the public, the private and the third sector have emerged, stabilized and grown. We need to identify and locate the research and data gaps in this evolving economic sector. We must be vigilant to the historical roots of the third sector and the present transformation it has undergone. But of equal and perhaps more telling significance is the ***role*** of the third sector as the intermediary, the mediator and the innovative 'beta' experimenter between the public and the private sectors. In sum, this sector is the foundational bridge builder that societies facing structural economic and demographic change rely on to provide continuity and mitigate volatility in distressed communities.

What is the Third Sector?

In the U.S., we have ~1.6 million tax exempt entities otherwise known as nonprofits, non-governmental or exempt organizations that form the back-bone of the third sector. Through our administrative tax data, we know that a variety of legal hybrids exists in the third sector; for example, we have cooperatives, business leagues, faith-based organizations, credit unions, voluntary employees' beneficiary associations and former mutual aid societies that transformed themselves into social and human service organizations.
Three main sources of funding are available to tax exempt entities, associations and organizations:

1. Public funding

2. Activities which generate income, including membership fees, the sale of goods and services, etc.

3. Philanthropy

The third sector is part of the non-governmental (NGO), not-for-profit, social economy sector that is growing rapidly and continues to be a source of innovation in our changing economic landscape. Empirical evidence has emerged that indicates the U.S. third sector has acted as an automatic economic stabilizer during recessionary episodes much like government social welfare programs designed to kick in during slumps (*e.g.* unemployment benefits, etc.).

In other countries, the non-governmental, charitable, and cooperative organizations display strong popular as well as local, regional and national support. These social economy/third sector entities anticipate and meet demographic, cultural, and

[52]Dr. Barbara Robles is Senior Research Liason, Board of Governors of the Federal Reseve. Note: The opinions expressed in this paper are those of the author and do not necessarily reflect the views of the Federal Reserve Board or its staff.

macroeconomic change. They partner with governments and have support from the private sector. Our current limited data capture of third sector organizations indicates that across countries and over time, the third sector has grown.

What does this mean for inclusive growth?

The third sector has a vital and long history in serving distressed populations, neighborhoods and communities. We know NGOs and the third sector work to reduce poverty, to mitigate shock and loss brought on by natural disasters and to integrate mobile populations. In recognizing that our current recovery from the Great Recession continues to be fragile, we need to harness the vitality and dynamism of the many networks that the third sector can deploy to increase employment. The third sector has performed as a consistent employer as well as a resource for re-training and learning new skills through volunteer work. By allowing both the young and the old to be fully deployed, the third sector also acts as the transmission mechanism for the 'passing-of-the-torch' from one generation of knowledge brokers to another. It is from this unique capacity to mix all the essential talents of a changing labor force that we can create opportunities where none existed before.

Let's review facts and suggest some avenues for actionable research:

Fact: Between 2001 and 2011 in the U.S., the third sector grew by 21.5%, generated revenues of $2.10 trillion, and reported $1.99 trillion in expenses (NCCS, 2013). In 2010, the non-profit sector employed over 10.7 million people (almost 10% of the U.S. workforce) coming in as the third largest employer after retail trade and manufacturing (NCCS, 2013; Center for Civil Society, 2012).

Fact: Between 2008 and 2009, the for-profit sector had a -6.2% change in annual employment while the non-profit sector had a +1.2% change in annual employment (Center for Civil Society, 2012).

Fact: Over half of all nonprofit jobs in the U.S. (54%) are in the health care field; this field is forecasted to be a dynamic job-creator given the global increase in our aging populations.

Fact: Research indicates that the higher the density of third sector organizations in a community, the higher the civic engagement, the higher the resiliency capacities of residents and the more robust the democratic institutions (Sampson, 2013).

Suggested Recommendation: Analyze the NGO/third sector as if it were manufacturing or telecommunications. We need to pay specific attention to the distribution channels and value chains associated with this growing sector.

Suggested Recommendation: Map the inclusive connections between the third sector, distressed communities and the 'below-the-radar' job creation that has emerged.

Suggested Recommendation: Identify the collaborative mechanisms the third sector deploys in order to survive and adapt while meeting increasing demand for its services and products; taking special care to identify critical turning points and circuit breakers.

Suggested Recommendation: Learn from and leverage the unique and characteristic hybrid nature of the entities and enterprises of the third sector.

References:

Pettijohn, Sarah, "The Nonprofit Sector in Brief: Public Charities, Giving and Volunteering, 2013," (NCCS, 2013: http://www.urban.org/UploadedPDF/412923-The-Nonprofit-Sector-in-Brief.pdf)

Salaman, L. M. et al. "Holding the Fort: Nonprofit Employment During a Decade of Turmoil," Johns Hopkins University, Center for Civil Society, Nonprofit Employment Bulletin No.39, (January 2012: http://ccss.jhu.edu/wp-content/uploads/downloads/2012/01/NED_National_2012.pdf).

Sampson, Robert. (2013). Great American City: Chicago and the Enduring Neighborhood Effect, (Chicago, IL: University Of Chicago Press).

OECD Report, The Social Economy: BUILDING INCLUSIVE ECONOMIES, Edited by A. Noya and E.Clarence, (2007).

MACRO-ECONOMIC STABILITY AND INCLUSIVE GROWTH

TERESA TER-MINASSIAN, INTERNATIONAL MONETARY FUND[53]

Unfortunately, there remains a fairly widespread perception, especially among politicians and non-economists of a conflict between the objective of macro-economic stability and that of social inclusion. With a view to contributing to dispel such a perception, this note revisits briefly some linkages between macro-economic stability and inclusive growth, namely: a) why minimizing macro-economic instability is good for both long-term growth and equity; b) what kind of policies can promote stability; and c) if stability has been lost, and macro-economic adjustment is required to restore it, what policies can be used to minimize the costs of the adjustment in terms of growth and inclusiveness over the short- to long-term.

There are many reasons why a reasonably stable macro-economic environment is both growth- and equity-friendly:

- Because it is well documented empirically that relatively high, and volatile, rates of inflation hurt the poor more than the rich; they also discourage all but merely speculative investments, thereby hindering sustained growth and job creation

- Because most large and protracted external imbalances eventually lead to financing crises, sharp devaluations of the exchange rate, and/or a hasty adoption of monetary and fiscal "austerity" programs to cut domestic demand in ways that often end up hurting most the more vulnerable segments of society; and

- Because both private economic agents and governments can plan better for the future in reasonably stable environments. Households have greater incentives to save and to invest in their children's education; and enterprises to invest in physical capital, in the human capital of their work force, and in innovation. Governments can forecast better their resources and fund major spending programs, including multiyear ones like investment in productive and social infrastructure, in a smooth and predictable way.

What can governments do to improve chances for sustained macro-economic stability?

- First and foremost, avoid policies that create instability, such as excessive credit or monetary expansions that fuel inflation in consumer prices or bubbles in asset prices; large budget deficits leading to a rapid accumulation of public debt; and exchange rate policies that result in significant and sustained losses of external competitiveness

- Second, develop institutions that foster policy predictability, such as independent central banks with credible inflation targeting frameworks; fiscal responsibility legislation and independent fiscal watchdogs; transparent and realistic medium-term expenditure frameworks that reduce uncertainties in budget planning and in tax policies; and arrangements that favor a constructive dialogue among the social partners; and

---

[53] Mrs. Teresa Ter-Minassian is Former Director of the Fiscal Affairs Department at the International Monetary Fund.

- Third, build buffers to withstand exogenous shocks. This may include accumulating adequate foreign exchange reserves and securing stable external credit lines; running budgetary surpluses during cyclical upturns in order to be able to maintain or even increase public expenditures during downturns; using countercyclical macro-prudential instruments (such as bank capital requirements or leverage ratios) to increase resiliency in the financial system, and avoid the risk of credit crunches.

Clearly, macro-economic stability is a necessary but not a sufficient condition for inclusive growth. Sound macro-economic policies are a complement, not a substitute, for the range of micro, structural, and social policies and reforms that are needed to pursue the various dimensions of inclusive growth (such as better jobs, income distribution, education, health care, housing, security, etc.). But, international experience has unfortunately shown that those policies and reforms are frequently the first victims of macro-economic instability and crises. Therefore, prevention of such crises should be the first priority of governments concerned with inclusive growth.

But, if a crisis occurs and macro-economic adjustment is inevitable, how can its costs for growth and equity be minimized?

- First, by ensuring that the adjustment program is as well balanced, in terms of the mix of policy instruments, as is feasible in the country's circumstances. There is little question that, if some instruments (such the exchange rate) are out of bounds, the adjustment will fall more on domestic demand and output, and will be more protracted

- Second, by avoiding measures, especially in the fiscal area, that are of poor quality and will have permanent adverse effects on the economy's growth potential, such as across-the- board spending cuts, cuts concentrated on public investments, or increases in profit taxes that discourage investment

- Third, by accompanying short-term austerity measures with structural reforms that reduce impediments to medium-term growth

- Fourth, by sheltering the most vulnerable groups of society from the impact of adjustment, through a strengthening of targeted social assistance programs, the provision of adequate unemployment insurance, and investment in the retraining of laid-off workers; and

- Fifth, by seeking financial support from the international community for the adjustment program, to spread the adjustment over a reasonable time period and help ensure that its implementation remains on track in the face of the inevitable resistances to it.

IN PURSUIT OF AN INCLUSIVE METRO MANILA

CHAIRMAN FRANCIS N. TOLENTINO, METRO MANILA DEVELOPMENT AUTHORITY[54]

Urbanization and Megacities is a global trend, becoming the drivers of economic growth of nations in the foreseeable future. In Asia, the Philippines is among countries like China, India, and Indonesia with an urban population between 25 and 50 percent of the total population.

The reforms introduced by President Benigno C. Aquino is grounded on transformational leadership geared towards the realization of the aspirations identified in his Social Contract to the Filipino People where he envisions "a country with an organized and widely shared rapid expansion of our economy through a government dedicated to honing and mobilizing our people's skills and energies as well as the responsible harnessing of our natural resources". The country adopts a development framework of inclusive growth where high growth is sustained, mass employment generated and poverty reduced[55].

We are now reaping the benefits of these reforms. In 2013, the international debt watcher Fitch raised the country's rating to investment grade while the Japan Credit Rating Agency upgraded the country one notch above investment grade. This is brought about by this administration's debt policy dynamics which is resilient to external shocks. Moody's, on the other hand, describe the country as a 'rising star' as it is poised to record one of the fastest economic growth rates in the world amid a gloomy global economy of late. In Asia, the country recorded a GDP growth rate of 7.2%, second highest to China with 7.7% for 2012-2013. The World Economic Forum increased the ranking of the Philippines in the Global Competitiveness Index, from 85th place in 2010 to 65th (out of 144 countries) in 2012—two consecutive 10-place jumps. All these accomplishments were attributed to the dynamism of Metro Manila where it accounted for more than one-third of the country's GDP propelled by the Services Sector at more than 80% contribution.

Metropolitan Manila, despite efforts of the national government to spread development in other urban areas remains to be the country's political, educational, financial and economic capital. It is also home to almost 12 million people cramping on its 636 square kilometer land area, making it a highly dense region. The growing number of urban population and the increasing rate of urban development in Metro Manila is continuously putting its toll on the environment resulting to poor air quality, problems on solid and liquid waste management, and proliferation of informal settlement, to name a few.

In the latest poverty incidence survey, Metro Manila registered an increased in the number of poor families from a prevalence rate of 2.4% in 2009 to 2.6% in 2012. In absolute terms, this translates to nearly 76,530 families or 382,650 individuals. However, self-rated poverty surveys yielded even greater number of individuals who consider themselves poor.

---

[54] Atty. Francis N. Tolentino is Chairman of the Metropolitan Manila Development Authority.

[55] NEDA, 2011: Philippine Development Plan (2011-2016)

Another concern for the metropolis is the high unemployment and underemployment rate, though decreasing compared with the 2011 and 2012 figure, but is still double-digit with an average of 10.3% and 12.1%, respectively for 2013. These could have been higher if not for the structure of the region as heavily reliant on the services industry particularly the business process outsourcing (BPO), where many of the job opportunities are readily available especially to new college graduates and even to high school graduates who have high command of the English language, and the services sector buoyed by the construction of dwellings and other real estate.

The region is also prone to natural disasters being proximate to the west and east valley fault system and located mostly in low-lying plateau which is exposed to intense flooding, landslides and storm surges making the most vulnerable group: the poor living in shanties and make-shift houses more susceptible to deeper poverty.

The growth and the macro-economic targets achieved by the country of late are on track to what the Aquino administration laid on in its first year in office but admittedly, the country lagged behind with respect to our desired social outcomes most especially in providing a trickle-down effect of growth benefits especially to the poorest of the poor.

Under this backdrop, the following are realized: a) economic growth is necessary but not sufficient for poverty reduction; b) growth strategies need to have spatial and sectoral dimensions to ensure inclusivity and; c) disasters can negate the gains and worse, push back development.

Taking all of the above in consideration, the government, with Metro Manila as the catalyst must aim for higher economic growth anchored on the following:

- Promote opportunities for socio-economic activities that are labor intensive;

- Push for infrastructure projects which will facilitate access and service delivery directly to the poor (*e.g.* housing);

- Develop competencies of human capital through quality education and skills training for decent work based on market labor demand

- Promote labor productivity and enhance competitiveness of enterprises;

- Aim for universal health care; and

- Invest on risk reduction and mitigation measures.

Striking a balance between economic growth and an overall improvement on the quality of life of the populace is quite a challenge but is attainable given proper policy support and political will to implement carefully identified projects.

INCLUSIVE GROWTH AND URBAN POLICIES: THE CASE OF BARCELONA

JOAN TRULLÉN, METROPOLITAN AREA OF BARCELONA, AND VITTORIO GALLETTO, BARCELONA INSTITUTE OF REGIONAL AND METROPOLITAN STUDIES[56]

- Barcelona has been one of the leading cities in the design of urban strategies to promote economic growth. And, as the case of Barcelona (Spain) between 1985 and 2006 shows, urban growth and increasing inequality are not inexorably linked. The relationship between the two can be broken at city level through **policies**, different types of policies:

1. **Internationalization** and market openness policies. Spain joined the European Communities in 1986: Barcelona, historically the main industrial area of the Spanish economy, started a process of expansion of its markets.

2. Demand-push policies. Barcelona is elected in 1986 to host the 1992 Olympic Games. Barcelona used the Olympic Games to transform the urban **infrastructure**.

3. **Urban planning and mobility** policies, to ensure accessibility to jobs (public transport, such as rail and metro, and private transport, such as roads and ring roads). The 22@Barcelona is a model of new urbanism based on the *knowledge economy.*

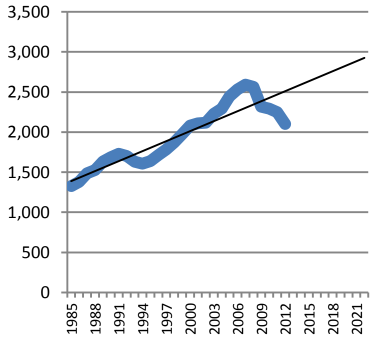
4. Educational policies increasing the stock of **human capital**.

- From 1985 to 2006, **employment** grew spectacularly in Barcelona, from 1,328,000 to 2,593,000 (Fig.1a), with more than 1.2 million new jobs, while the **functional metropolitan area** (travel-to-work area) also increased its size (Fig.2). The stock of **human capital** also increased: the percentage of the population aged 18 and over with tertiary education grew from 18.2% to 30.5% between 1990 and 2006 (Fig.1b). At the same time, **inequalities decreased** from 1985 to 2006: the Gini index decreases from 0.397 in 1985 to 0.293 in 2006 (Fig.3).

---

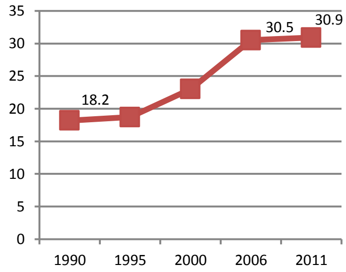
[56] Dr. Joan Trullén is Vice President of Strategic Planning, Metropolitan Area of Barcelona joan.trullen@uab.cat. Dr. Vittorio Galletto is Director of the Economics Department, Barcelona Institute of Regional and Metropolitan Studies vittorio.galletto@uab.cat.

- *Fig.1a Jobs in Barcelona from 1985 to 2012 and trend for 2022 (thousands)*



- *Source:* INE

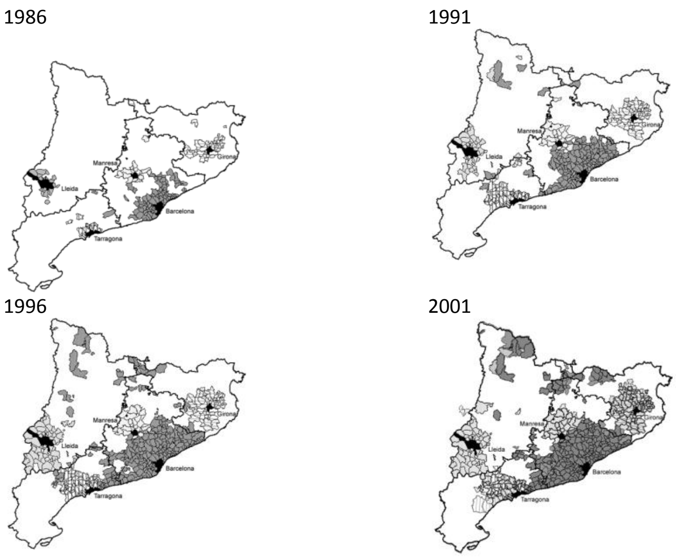
- *Fig.1b Stock of human capital. Percentage of population with tertiary education (people aged 18 and over), 1990-2011 (%)*



- Source: Idescat and IERMB, Survey on Living Conditions and Habits of the Population, 2011.

- In short, inequalities decreased at the same time as growth took place between 1985 and 2006. What happened after? As Fig.1 makes clear, the metropolitan economy of Barcelona grew firmly until the start of the global economic crisis in 2007, but then from 2008 to 2012 almost a half a million jobs were lost and **inequalities started to grow** (Fig.3). So, the crisis changed the previous trend of lowering inequality towards a less equal distribution of income.

Fig.2 The process of territorial expansion of metropolitan areas. Barcelona and Catalonia 1986-2001



Source: Trullén and Boix (2000), Boix and Galletto (2004), and Boix and Veneri (2008).

Fig.3 Gini index of equivalised disposable income, Barcelona and metropolitan area, 1985-2011

	1985	1990	1995	2000	2006	2011
Barcelona (city)	0.398	0.359	0.339	0.322	0.308	0.346
Rest of the metropolitan area	0.373	0.304	0.291	0.289	0.264	0.301
Total	0.397	0.349	0.325	0.313	0.293	0.327

Source: Idescat and IERMB, Survey on Living Conditions and Habits of the Population, 1985-2011.

- The **lesson** –again- is that inequality and growth are not inexorably linked: economic, **urban and metropolitan policies** can and must have a **role** in fostering growth while at the same time reducing inequalities.

- Also, **another lesson** drawn from the study of inequality in cities and metropolitan areas is that these are the areas in which inequalities are greatest, so limiting the study of inequality to national data or large areas may hide this reality. Actually, the focus should be what happens **inside metropolitan areas**: as Fig.3 shows, the Gini index in the centre of the metropolitan area, Barcelona (1.6 million inhabitants), is higher than the rest of the metropolitan area (1.6 million inhabitants). This fact highlights the usefulness of surveys on income and living conditions conducted on a small scale, which could be supplemented or substituted for income tax data where available.

- In conclusion, we think it is possible to identify win-win policies capable of delivering growth while reducing inequalities. Economic growth can be inclusive, while crisis is regressive. Therefore, urban economic growth policies should be designed from the metropolis to the metropolis to achieve inclusive growth. In this sense, **urban and metropolitan economic policy matters**.

References:

Trullén J, V Galletto and S Porcel (2014): "Measuring local well-being at metropolitan level: the case of the metropolitan area of Barcelona", short paper presented at the OECD Workshop "How's Life in Your Region? Measuring Regional and Local Well-being for Policy Making", Paris 23 January 2014 (http://www.iermb.uab.es/htm/noticies.asp?id=285).

Trullén J and V Galletto (2012): *Anuari metropolità de Barcelona 2011. Per afrontar la crisi: la metròpoli de Barcelona*, IERMB-AMB, Barcelona (http://www.iermb.uab.es/htm/descargaBinaria.asp?idPub=195)

Trullén J and V Galletto (2013): *Anuari metropolità de Barcelona 2012.Bases per a una nova estratègia metropolitana, econòmica i social*, IERMB-AMB, Barcelona http://www.iermb.uab.es/htm/descargaBinaria.asp?idPub=213

DELIVERING ON INCLUSIVE GROWTH THROUGH CITIZENSHIP ENGAGEMENT

EMMA WOODFORD, EUROPEAN PUBLIC HEALTH ALLIANCE[57]

- The concept of inclusive growth is based on the premise that economic growth is accompanied. There is growing recognition about the need to tackle inequality. American President Obama declared that inequality is "the defining challenge of our age"[58] and the issue was at the centre of the discussions at the World Economic Forum in Davos. At the international level, equity in the post 2015 development framework is also gaining political momentum.[59] This represents a watershed shift in the discussion from economists arguing that inequality is necessary for growth[60] or that inequality isn't that big a deal.[61] Against this back drop the discussions on "Changing the Conversation on Growth: Going Inclusive" are crucial to finding synergies between policies that drive growth and inclusiveness. The European Public Health Alliance encourages leaders to also consider people as crucial actors of change.

- Engaging citizens in policy making and in achieving inclusive growth is a win-win solution. There is emerging evidence to show that citizen engagement can lead to better results in public policy making and development interventions. This extends to monitoring performance of governments, correcting public policy, ensuring the accountability of officials and public institutions, raising awareness on what people need and value, enhancing fiscal transparency, reflecting citizen's priorities in public budgets, and evaluations suggest even reducing extreme poverty.[62] For the individual it is also a win, due to the role of social capital in creating prosperity and promoting wellbeing. Social connections and political voice improve quality of life, and are beneficial to the economy. The benefits of social connections extend to peoples' health and to the probability of finding a job. The ability to participate as full citizens, to have a say in the framing of policies, to disagree and voice concerns are essential freedoms. Political voice also reduces the potential for conflicts, helps build consensus, enhances economic efficiency, social equity, and inclusiveness in public life.

- Unfortunately the trend has not been to increase citizen engagement in policy making in Europe. Today a disenfranchised, excluded young generation is contributing to the current rise of social unrest and instability and the loss of faith in establishments. Meaningful engagement with citizens is the first step to build trust in institutions that are perceived as protecting the affluent at the expense of those who are bearing the loses

---

[57] Ms. Emma Woodford is Board Member of the European Public Health Alliance.
[58] Remarks by the President on Economic Mobility http://www.whitehouse.gov/the-press-office/2013/12/04/remarks-president-economic-mobility
[59] Equity, Inequality and Human Development in a Post-2015 Framework. http://hdr.undp.org/en/content/equity-inequality-and-human-development-post-2015-framework
[60] How Much Inequality Is Necessary for Growth?, Fuad Hasanov and Oded Izraeli in Harvard Business Review (January-February 2012)
[61] http://www.nber.org/feldstein/pi99.html
[62] Gaventa and Barrett (2010), World Bank (2013) and Wong (2012).

- After five years of economic crisis and a sluggish recovery, there is still an opportunity to prioritise well-being and social inclusion, while promoting civic participation. In May 2014, Europe's 500 million people will vote on who will represent them in the European Parliament. EPHA is using this opportunity to remind policy makers that people are more than consumers, workers and drivers of growth. Newly elected MEPs should priories a healthy population which needed for both economic and social success. At the same time, 2014 will prepare the mid-term review for the Europe 2020 Strategy that aims to promote "Smart, Sustainable and Inclusive" growth. Unfortunately due to a lack political will, the EU's first-ever social target of lifting 20 million people out of poverty is off track. The public health community is encouraging MEP candidates to commit to putting the social, employment and environmental objectives of the EU on equal footing as the economic ones.

- Economic activity should promote wellbeing, social inclusion and better health for the public. In practice, this will require a shift in the design and governance of the European economy. Investment in health promotion, disease/injury prevention and high quality health services act as a driver for sustainable development. At the same time, quality employment and good working conditions for all is vital for health, including mental health, and social equity. All segments of the economy should be supported including informal careers and flexible arrangements for people who have caring duties outside of work. We need to ensure that we shape our economy to deliver the society we want, and not shape society solely in pursuit of economic objectives.

- We must not be afraid to rethink the governance of our economies and political systems and put people at the heart of our societies. A good place to start would be to measure what we value, and not just value what we measure. For many years we have known the limits to GDP, yet far too often it is equated with wellbeing and better quality of life. Continued cooperation between the EU and the OECD can bring about to more accurate and progressive ways to evaluate progress, using criteria that are important to citizens, such as their health and well-being. There are other ways to assist the decision making process to take sustainability and social consequences into account. New ways of measuring progress and prioritizing people's needs and wellbeing in the political process can restore confidence and faith in democracy that has been lost through unemployment, cuts to social support, lack of access to finance and the impacts of austerity.