

Sustained Inclusive Growth Reexamined

A contribution of **IHDP**, the International Human Dimensions Programme on Global Environmental Change and **ICSU**, the International Council for Science.

Author: Anantha Kumar Duraiappah, Executive Director IHDP

Executive Summary

The executive summary contains 3 key recommendations and 7 key messages:

Key Recommendation 1

We recommend to establish an open, inclusive, web-based process to discuss and deliberate the scientific merits of the various concepts and terms currently used in the policy dialogue, and to identify key operating principles to guide the design of the economic framework for the post 2015 development agenda (including the SDGs).

Key Recommendation 2

We recommend that an overarching conceptual framework be designed in a manner that the various goals and targets from the three pillars of sustainable development are linked – and if needed nested – in a coherent manner.

Key Recommendation 3

National accounting systems should be revised in such a manner as to complement the present focus on flows of goods and services to include stocks of assets a country is able to build and improve. These accounting systems should maintain both physical and monetary estimates of the productive base of the economy, and should be used to keep track of the post 2015 development and sustainable development goals and targets.

Key Message 1

Sustainable inclusive growth has been suggested as a necessary and sufficient condition for achieving the Millennium Development Goals and, measured by the Gross Domestic Product (GDP), is seen as essential for the post 2015 development agenda and the Sustainable Development Goals (SDGs). This might cause problems of internal consistency leading to mis-leading results and increasing the chances of failure of achieving the fundamental goals of sustainable development.

Key Message 2

There is a profusion of concepts and terms being used in the international policy landscape with regards to sustained inclusive economic growth, many of which overlap, duplicate, and in some cases even conflict with each other, causing confusion within the policy and academic communities.

Key Message 3

Sustained inclusive economic growth embraces three distinct properties –efficiency, equity and sustainability – within a single framework. This might suggest a degree of internal inconsistency within the general definition of sustained inclusive economic growth.

Key Message 4

Several of the proposed concepts suggest the sustaining of outputs (products and services) over time for improving well-being. However, it is important to have a framework which provides information on whether the overall asset base (also called the productive base in the inclusive wealth framework) needed to sustain such outputs over time is declining over time. In this manner, policymakers can see how flow measures such as GDP should be analyzed alongside inclusive wealth stocks to offer insights into short and long run progress of economies.

Key Message 5

The social, economic and environmental pillars of sustainable development should have their own frameworks, but measures must be taken to ensure consistency across the three pillars to minimize trade-offs and maximize synergies.

Key message 6

A nested hybrid conceptual framework might be required, whereby inter-dependencies among the three pillars of sustainable development are captured explicitly, and which allows trade-offs and synergies to be evaluated in an open and transparent manner to guide policymakers in decision making.

Key Message 7

Any overarching framework developed should capture explicitly the key interdependencies among the social, economic and environmental variables, so as to allow observation and inclusion into policy making of trade-offs and synergies.

A- Context

1. The United Nations General Assembly in its resolution 65/10¹, requested the Secretary General to include in his annual report an analysis of and the necessary policy recommendations for member countries to implement a sustained, inclusive and equitable economic growth strategy towards the achievement of the Millennium Development Goals (MDGs).
2. The Secretary General's annual report to the 67th General Assembly² highlighted the negative impact the economic and financial crisis of 2008-2009 had on the success of many countries in reaching their targets. The report emphasized the strong correlation between economic growth and success in achieving the MDGs.
3. A key underlying and implicit assumption of the relationship between growth and the MDGs is that growth creates employment, and employment is a central tenet of human well-being, beyond merely as a source for income and material wealth, but also as crucial for self-esteem and dignity.
4. The Secretary General's report stresses that economic growth, although a necessary condition for achieving the MDGs, is by itself not a sufficient condition. The report emphasizes the *sustainability* of economic growth as a necessary and sufficient condition, in light of growing threats posed by climate change, economic inequality and natural resource depletion.
5. The Secretary General's annual report, although not providing a clear definition of sustained, inclusive economic growth, does implicitly define it as economic growth that: targets explicitly decent employment generation and productivity growth; is environmentally sustainable; and is coherent with trade, financial, industrial, rural development, and social policies.

Key Message 1

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B- Reviewing the landscape and basic definitions

6. The literature on growth and development is littered with various terms and definitions, in many instances leading to confusion among the policy community. Several key terms used commonly in the growth and development literature are in need of clarification and differentiation, including 'growth', 'pro-poor growth', 'inclusive growth', 'sustained economic growth', 'sustainable

¹ General Assembly Resolution 65/1. Para 81. 2010

² Secretary General Report 67th General Assembly A/67/257- Para 20

economic growth', 'green economy', 'inclusive development' and 'inclusive wealth' (see Box 1).

Box 1. Definitions

i. Growth: Growth is defined as increases in the Gross Domestic Product (GDP), which is the aggregate monetary value of all final goods and services produced in a country.

ii. Pro-Poor Growth: Growth as defined above, but which leads to in reductions of income poverty.

iii. Inclusive Growth: Growth that leads to reductions of income inequality.

iv. Sustained Economic Growth: Increases in GDP are maintained over time.

v. Sustainable Economic Growth: Increases in GDP are maintained over time without damaging the environment.

vi. Sustained Inclusive Economic Growth: Economic growth that explicitly targets "decent" employment generation, environmentally sustainable productivity growth, and which is consistent with trade, financial, industrial, rural development, and social policies.

vii. Inclusive Development: Improvement of the distribution of well-being (using a definition of well-being that goes beyond income to include indicators of health, education, and other aspects of well-being)..

viii. Sustainable Development: Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

ix. Green Economy: The green economy is one that results in improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities.

x. Inclusive Wealth Growth: The increase in the social value of an economy's productive base is maintained over time. The productive base is the aggregate sum of the social value of the natural capital, human capital and produced capital in an economy.

7. The terms presented in Box 1 show the three main strands of thoughts in the way well-being was and is being perceived and analyzed. The first strand of thought (points i to vi) emphasizes growth as measured by GDP and/or income as key for human well-being. The attention to equality, poverty reduction is basically confined within the realm of income and material prosperity. The main question we have to ask ourselves here is if these concepts are internally consistent. For example, can we achieve sustained economic growth – defined as continuous growth in GDP – and yet be environmentally sustainable?

8. The second strand of thought (points vii to ix) moves away from just focusing on growth, and instead focuses on development, broadening the notion of well-being from mere income generation to include health and education, among other aspects of well-being. There is also a greater emphasis on equality across this broader spectrum of well-being, as well as the sustainability of these outcomes across time. The question of internal consistency arises again due to the lack of a comprehensive framework underlying the concepts described in definitions vii to ix.
9. The third strand of thought (point x) shifts the attention from processes to achieve certain ends, or on the constituents of well-being, to the management of the productive base, or determinants of well-being. The notion of substitutability among the different forms of capital, which constitute the productive base, is permitted in the framework. This provides the internal consistency missing in most of the other definitions presented in definitions i to ix. The concept of equity is not reflected explicitly, but can be computed if an analysis is done at the household level.

Key Message 2

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Sustained inclusive economic growth embraces three distinct properties –efficiency, equity and sustainability – within a single framework. This might suggest a degree of internal inconsistency within the general definition of sustained inclusive economic growth.

Key Message 4

Several of the proposed concepts suggest the sustaining of outputs (products and services) over time for improving well-being. However, it is important to have a framework which provides information on whether the overall asset base (also called the productive base in the inclusive wealth framework) needed to sustain such outputs over time is declining over time. In this manner, policymakers can see how flow measures such as GDP should be analyzed alongside inclusive wealth stocks to offer insights into short and long run progress of economies.

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C- Understanding the landscape and linking the dots

10. There is no doubting the need to develop separate goals and targets by the various individual constituencies across the global policy landscape. Therefore, the environmental constituency must develop its own goals and targets, as other social constituencies such as food, employment, poverty, inequality and others develop their own.
11. Recent assessments, however, point to many inter-linkages within and among the many goals established under the Millennium Development Goals. The same will undoubtedly be true for the post 2015 development goals and the Sustainable Development Goals (SDGs).
12. However, there is a tendency for the various frameworks developed to address social, economic and environmental problems in separate silos. For example, the environmental component of the post 2015 development agenda fails to accommodate the impacts that various macroeconomic fiscal, monetary and trade policies will have on the environment. In similar fashion, poverty reduction strategies might fail to internalize the environmental externalities that accrue as growth policies are implemented with the sole objective of achieving production and employment targets to reduce poverty. For example, if MDG 1 (“Eradicate extreme poverty and hunger”) is achieved primarily through pro-poor and/or inclusive growth, then the probability of achieving MDG 7 (“Ensure environmental sustainability”) will be reduced.
13. The key challenge is developing a framework that is both flexible, as well as comprehensive, covering each of the pillars of sustainable development. The framework does not need to capture the fine details of each pillar, but to incorporate the key variables in such a manner that major interdependencies are captured explicitly.

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D- Distinctive Characteristics of an Overarching Conceptual Framework

14. **The productive base or inclusive wealth of an Economy:** The present economic growth paradigms focus on the flows of goods and services required for well-being. This, however, masks the rapid deterioration of the underlying asset base that is the basis for the supply of these goods and services. Maintenance of stocks is critical if sustainability is to be an integral part of economic planning. These stocks or assets, such as forests and biodiversity (Natural Capital), education and health (Human Capital), and buildings and roads (Produced Capital) form the basis of economic activity, and the supply of the stream of goods and services needed for improving well-being of individuals and societies³.
15. **Economic Efficiency:** Economic growth models are developed to maximize economic efficiency. This is done through social prices, and in many goods and services markets, prices serve as a relatively good proxy for these social prices. However, as social and environmental goods and services are included in the equation, it becomes imperative to change accounting systems to accommodate the true prices of the asset base used in production. This is when economic valuation is essential for the post 2015 development agenda and the SDGs.
16. **Equity:** Most of the economic concepts highlighted above use the term inclusive to refer to equity and fair distribution. However, equity is by itself not a solution that emerges from the present suite of economic concepts highlighted in Box1. Additional institutional mechanisms other than social prices will have to be designed in order to ensure the fair distribution of jobs, material wealth, food, health, education, and so on.
17. **Interdependency and consistency:** The key characteristic many of the existing frameworks are missing is the interdependency among the major social, economic and environmental variables. The inclusive wealth framework, drawing from welfare economics, goes a way toward integrating the pillars through a complex system of social prices, which are determined by the values people place on the respective constituents of well-being, as well as the growing scarcity of the asset base necessary to sustain those constituents. This allows for trade-offs and synergies to be observed and policies designed accordingly to achieve the goals and targets established.

³ UNU-IHDP and UNEP. 2012. The Inclusive Wealth Report 2012. Cambridge University Press.

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