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Exploring the paradoxes of inclusive growth: towards a developmental, multilateral and multidimensional approach

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About SPERI

Sheffield Political Economy Institute (SPERI) is an international research institute at the University of Sheffield committed to developing and promoting new analysis and understanding of contemporary capitalism, and of the major economic and political challenges arising from it.

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Abstract

The two decades either side of the onset of the global financial crisis have seen a staggering, sustained, and arguably still accelerating, growth in global inequality. In response many international organisations have joined efforts to promote 'inclusive growth', but efforts to move forward with this are confounded by a muddle of competing and contradictory conceptions. Even the top-line global initiative - the Sustainable Development Goals - is accused of having heterodox rhetoric while supporting orthodox polices. In this paper we argue for a shift from inclusive growth to inclusive development and propose a conception that is both multidimensional and multilateral. This eschews the conceptions that are founded on methodological nationalism and also leads to an argument that sustainable inclusive development cannot be achieved through redistribution but requires predistribution. The difficult political context in which to make the case for multilateralism is acknowledged. The paper argues that inclusive development can provide the frame and focus around which multilateralism can be re-founded, and it concludes with a call for the creation of a new multilateral compact on inclusive growth and development

The two decades either side of the onset of the global financial crisis have seen a staggering, sustained, and as yet unabated, growth in global inequality. During this period the share of wealth and income held by the richest few, both nationally and globally, has risen to previously unprecedented levels. This is despite the headline decline in income inequality between nations, when gauged in terms of median income (associated, in particular, with poverty reduction in the BRIC economies). It is hardly surprising that in this context of highly non-inclusive growth many of those who regard themselves, rightly or wrongly but certainly credibly, as the casualties of globalisation have rallied behind a number of increasingly populist, nationalist and protectionist political counter-responses. This post-crisis politics of resentment has increasingly identified transnational flows (of goods, capital and people) as the source of its discontent. As this suggests, if globalisation is to be defended it needs to be made more inclusive.

Arguably that makes inclusive growth and (as we shall argue) development the challenge of our epoch. Yet there is something of a paradox here. For whilst globalisation, almost by definition, is both multilateral and multidimensional, the debate on inclusive growth still largely privileges the national level. This is a debate that has been led by global institutions, prominently the Asian Development Bank and the OECD, but also the UNDP, World Bank, WTO and IMF (OECD, 2018; UNDP, 2017; World Bank Group, IMF and WTO, 2018)

The current inclusive growth debate, we argue is untenable, leading as it does to a kind of 'fallacy of composition' in which improvements in indices of inclusivity at the national level are taken (falsely) as evidence of growing inclusivity globally. Inclusive growth, we argue, needs to be reconceived multilaterally. But that is not all. If inclusivity is typically (and problematically) conceived in narrowly national terms, then the narrow focus on growth alone is for us no less problematic. Thus, in what follows we also argue that the term inclusive growth must be understood alongside (and situated with respect to) a broader notion of inclusive development (Klasen 2010; Gupte et al 2015). We propose that inclusive growth cannot be conceived in narrowly economistic terms but take account of the various ways in and through which people are excluded from participating in or sharing the benefits of economic growth and development. Some of these mechanisms of exclusion are specific to nation states but many are transnational in character. The broader notion of inclusive development is focused on improvements in human wellbeing and refers to economic growth and societal developments that produce improvements in the life chances of men, women and children wherever they live (*pace* OECD 2018: 3).

The aim of this paper is, then, to make the case for the multilevel and multilateral character of the challenge of inclusive development and to broaden the inclusive growth debate in particular beyond its typically national focus. We argue that to treat the national unit as the focus of analysis is methodologically flawed because it does not build on coherent social science understandings of the processes and dynamics of development in a globalised world and because it leads to a series of fallacies of composition. More specifically, greater inclusivity nationally does not necessarily result in greater inclusivity internationally. In fact, as we shall show, efforts to improve inclusivity at the national level are just as likely to contribute to the exclusion of other national economies from similar benefits, especially in the absence of a consideration of their multilateral implications. We suggest that, properly reconceived as a challenge that is as much multilateral as national, the promotion of inclusive development is a necessary condition for restoring public support for globalisation. The benefits of the development that globalisation can facilitate must be more equitably shared, both between nations and between citizens, if the latter are to be convinced again that globalisation is good (or can be made good) for them.

To further this agenda practically, we argue for a new multilateral compact on inclusive growth and development (IGD). This is rather different and more ambitious than that currently associated with the UN's advocacy of the sustainable development goals (notably SDG8). Such a compact would establish responsibility for inclusive development between institutions of governance at all levels. It would offer a range of different policy instruments and approaches through which inclusiveness can be supported and promoted. The compact would complement and deepen the SDG initiative and would serve as both the beginning of a new and genuinely multilateral conversation on inclusive growth, and as a roadmap for developing a consensual process for how globally inclusive development can be achieved. Such a compact represents an answer to the question implicit in much of the populist rejection of globalisation – how can globalisation be held to account publicly and made to deliver outcomes that favour not just the few but the many?

Finally, we argue for an unambiguous and exacting definition of inclusive growth and development. More specifically, economic growth only retrospectively rendered inclusive through redistributive fiscal transfers is not inclusive growth. As this implies, the promotion of genuinely inclusive growth and development requires a shift in our thinking and policy interventions – from *redistribution* to *predistribution*. We join with others in arguing that the broadening of the concept of inclusive growth means that predistribution must be considered in multi-dimensional terms, involving not just fiscal transfers but also improvements in education and health and in the erosion of structures of discrimination. This reconceptualization as inclusive growth and development requires internationally acceptable measures of progress and developmental success that go well beyond GDP (Costanza et al 2014). We need to track not just growth, but *just* growth and *just* and inclusive development.

Before turning to our main arguments, it is important to acknowledge directly the far from conducive global political context in which we renew the argument for multilateralism. Whilst it is not difficult to show that the principle global drivers of exclusion and inequality are transnational, and that greater inclusivity globally can only be achieved through multilateral measures, our polities remain resolutely nationally-focussed – a tendency only reinforced by the resurgence of populist nationalism in the last decade. In an era of austerity few national politicians seek votes on a promise to address challenges beyond their own borders. The current conjunction of the perceived failure of globalisation for many and the political backlash against what are seen as remote and unaccountable multilateral institutions, has created a toxic political environment. Nevertheless, the case must be made if rising inequality, and the social, economic and political conditions fostered by it are to be addressed. We argue that inclusive growth and development can provide the frame and focus around which multilateralism can be re-founded. To do so would not only demonstrate the value of multilateral cooperation in an interconnected world, but by promoting the desired outcome of greater inclusivity it would strengthen public trust in government and global institutions, not least by clarifying their respective and interdependent responsibilities.

States will rightly and legitimately always seek to express their own nationally-construed interests. Our aim is to draw theoretical attention to the missing multilateral dimension in the inclusive development debate – and, having done so, to reflect on how it might be given some substantive institutional form. We envisage a space in which leading global institutions can moderate, mitigate and align states' actions: a multilateral forum in and through which states might better promote, achieve, and manage collectively the wellbeing of their citizens.

Inclusive growth and development: terminological inexactitude

The long and complex history of the term (see especially Klasen 2000) goes a long way to explaining, and perhaps even excusing, the conceptual fuzziness that now surrounds inclusive growth – a term that means a myriad of different things to a range of national and transnational institutions. Yet within this resulting confusion, two key distinctions can be drawn. The first is between those understandings which focus on 'outcomes' and those focussed on 'processes'; the second concerns the range and scope of the concept – specifically, whether it refers solely to income inequality and the processes sustaining it or not. A process focus emphasises the opportunities that people have to participate in the growth dynamic, while an outcomes focus emphasises the extent to which the dividends of growth are shared. In order to further distinguish the idea of inclusiveness from other concepts such as 'labour-intensive growth' or 'poverty reducing growth' it is necessary to push both the process and outcome ideas further. It is not enough for process definitions of inclusive growth to stop at 'participation' in the economy but rather, we would suggest, it must be growth that involves the reduction of the kinds of discrimination that has stopped some groups from participating in the economy. On the outcomes side it is necessary for growth not just to ensure growing incomes for the poor but for it to bring a relatively greater share of incomes to the poor such that inequality is being reduced.

The recognition of a dynamic relationship between processes and outcomes quickly brings us to the argument that the concept of inclusive growth must be extended to non-income dimensions. It is clear that improvements in health and education outcomes are likely to improve the possibilities of citizens being able to participate in the economy, while consideration of the processes of participation draws attention to social, political and institutional barriers to participation.

The different international institutions line themselves up differently across this spectrum of issues. The World Bank's definition of inclusive growth focuses largely on the processes whereby people have the opportunity to participate 'productively' in the economy, paying little attention to the outcomes arising from such participation (World Bank 2009). The UNDP definition, on the other hand, is broader, encompassing both outcomes and processes (UNDP 2017). It is also attentive to the non-income dimensions of each.

In his recommendation to the Asian Development Bank as to how inclusive growth might be better operationalised, Klasen argues for a definition of inclusive growth that takes account of both process and outcome considerations. Measures of inclusivity, he suggests, must gauge "equal non-discriminatory access to growth" whilst at the same time rewarding "disadvantage-reducing growth" (2010: 3). Yet what he gives with the one hand, he appears to take away with the other – suggesting that the difficulty of extending the concept to deal with non-income dimensions is whether adequately 'hard' (empirical) indicators can be developed for them.

The remark is indicative of a more general technocratic apologism, whose implicit mantra would seem to be, "if we can't measure it, we can't act on it". It is precisely such a logic, we contend, that is so often responsible for the narrowing of the inclusivity debate to growth alone. More persuasive, both theoretically and, in the end, substantively (for reasons we will come to) is Gupte et al.'s conception of inclusive development. By this, they mean, "development that includes marginalized people, sectors and countries in social, political and economic processes for increased human well-being, social and environmental sustainability, and empowerment" (2015: 546). They reject the idea of inclusive growth because they see it as both too restrictively conceived and as too narrowly dependent on a limited set of (largely quantitative) economic indicators. Their argument highlights a key aspect of the relationship between measurement and conceptualisation. Far too often, the measurement 'cart' leads the conceptual 'pony', as the supply of available quantitative indices dictates the scope and the range of the concept with powerful and perverse policy implications (Stiglitz et al. 2009; McGregor & Pouw 2016).

Here the OECD's position paper, *Opportunities for All: A Framework for Policy Action on Inclusive Growth* (2018), is something of an exception. For although its ostensible focus is also on 'inclusive growth', its understanding of the term is rather closer to that of inclusive development. In particular, it talks of inclusive growth as a human-centric vision of development, "in which wellbeing is the metric of success" (3). Yet, here as ever, the devil is in the detail of the operationalisation. For its 'dashboard' of four sets of indicators of inclusive growth has only one element focused on human wellbeing outcomes; another set is concerned with conditions of governance, while the remaining two are focused on the more orthodox economics areas of income distribution and the functioning of markets.

In this respect, the OECD's conception of inclusive growth is very close to that set out in the SDG agenda. Economic growth is, of course, a key and core principle of the SDGs and they include a specific goal on inclusive growth.[1] But this is accompanied by a set of goals that acknowledge the multidimensional character of the development process. There is something to please almost everyone; but the overall effect is muddled. As Luebker's (2017) more detailed analysis suggests, the SDGs combine 'heterodox discourse' with 'orthodox policies'. Needless to say, the tension between the assertion of the primacy of growth (promoted through orthodox means) and the aspiration for environmentally sustainable and inclusive human wellbeing is neither acknowledged nor confronted.

[1] SDG Goal 8: "to promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all".

Inclusivity: from the national to the multilateral

Much of this muddle between the orthodox and heterodox framing of growth and progress is problematic, but arguably more problematic still, and largely unacknowledged in the existing literature, is that the inclusivity of growth, like growth itself, is invariably conceived of at the national level. It is usually seen primarily as a challenge for national policymakers to address in their own national economy. That challenge is to render one's growth, and the development model sustaining that growth, inclusive by ensuring that its dividends are more equitably shared domestically. Posed in this way, inclusive growth is concerned with the intra-national distribution of income and wealth along with the opportunity to participate in the national strategy to promote both. The principal responsibility for ensuring inclusivity of outcomes and opportunities lies with nation-states and national governments. And that responsibility or duty of care is one they owe to their citizens, and to their citizens alone.

We do not reject the commitment to inclusive growth and inclusive development at the national level, but we do problematise it. This approach displays a characteristic 'methodological nationalism' and in turn this threatens to narrow the inclusive growth debate and risks making the challenge of inclusive growth appear easier than it is (on methodological nationalism see Gore 1996; Wimmer & Schiller 2002, 2003; Hay 2010; Jeffery & Wincott 2010).

We make the case for recasting and broadening the inclusive growth agenda in two significant and inter-related ways. First, we argue for an explicitly multilevel and multilateral re-posing of the challenge of inclusive growth. In so doing, we suggest that all indices of inclusivity that are currently used to gauge national progress towards greater inclusivity be used also to display supra-national trends (gauging, for instance, the degree and trajectory of inclusivity at the regional and/or global level). Inclusivity (as a variable) can refer to the (relative) distribution of income, wealth and opportunity of any population we choose to consider. We argue that it is time that the inclusivity of growth is considered more collectively – by looking at distributional questions holistically, for groupings of nations, rather than just for individual nations.

Second, and in order to help make sense of the relationship between national and supra-level trends in inclusivity, we argue for a new approach that acknowledges the spill-over effects (positive as well as negative) of national inclusive growth and development strategies (and the labour-market regimes which sustain them).[2] The simple point here is that strategies pursued at the national level to achieve greater inclusivity can and do affect the capacity of other nations to promote and improve the inclusivity of their own growth and development. Some have positive spill-over effects; some have negative spill-over effects. For instance, a national growth strategy premised on corporate tax competitiveness (achieved through tax concessions to mobile investors) might help achieve greater domestic inclusivity (at least in the short term), but its aggregate effect on regional and

[2] The problem is, in fact, better stated in terms of interdependence. Under conditions of globalization, the wellbeing of citizens in developed countries has been increasingly dependent on the efforts of citizens in developing countries (providing, through their labour, cheap clothing, cheap food, exotic crops, minerals and fuel). In many case the production of these items results in a loss of wellbeing for people involved in producing these goods (poor factory conditions, impoverished agriculture, land grabbing, factory fishing, illegal mining and so forth). In short, interdependence means that the comparative wellbeing of people in developed countries is inextricably tied to the comparative lack of wellbeing of people in developing countries, insofar as it is a driver of the latter. It is for this reason above all that we need to move beyond a methodologically nationalist frame of reference when considering questions like the inclusivity of a growth strategy or model (see McGregor 2015).

global inclusivity is almost bound to be profoundly negative (in its propensity to render more fiscally unsustainable public spending in other economies). The negative effect is likely to take the form of the loss of jobs in – and, indeed, outward migration from – neighbouring economies that may in turn take retaliatory measures.

In a more multilateral conception of inclusive growth, states need to be held to greater account for the spill-over effects of their national growth strategies. We argue that it is time that the inclusivity of growth and development is considered in terms of collectivities at different levels: sub-national, national, and supra-national. This multi-level way of looking at distributional questions provides us with insights into the differences in distributions of human wellbeing at these different levels and how these are dynamically inter-related.[3] This provides a much richer picture than that provided by a restrictive analysis of individual nations. The final part of the paper seeks to explain how this might be achieved practically.

Because of the dominance of a methodologically nationalist approach, such questions of spill-over and multi-level effects are often marginalised in the inclusive growth debate. Economic regions, prosperous and poor alike, straddle international borders. The impacts of growth models do not stop at borders; they can have effects close to home and far away. As such the multilateral and, indeed, global responsibilities of states need be brought into, and made central to, the debate about the nature of our growth and development and the strategies to promote it. Domestic policy choices made by domestic policymakers cannot be judged solely by considering how they affect the citizens of the state in question. Rather, we need to place such considerations in the context of a wider conception of responsibility that includes a duty of care by governments and nation states to the citizens of those **other states** affected by their actions n pursuit of inclusivity of both growth and development. It is a matter for consideration as to which institutions, at which levels should be responsible for addressing this type of nationalist inclusiveness agenda and for implementing any measures required to ensure that harmful effects are not generated.

As this illustrates, it is important analytically to draw a distinction between intra-national inclusiveness (and inclusivity) on the one hand and inter-national inclusiveness (and inclusivity) on the other. The former relates to the within-nation population alone. An increase in 'within-nation' or intra-national inclusivity would imply a reduction in domestic inequality over time (e.g. a lower dispersion of pre-tax income). In the same way, an increase in 'between-nation' or inter-national inclusivity would imply a reduction of inequality of the combined populations of the nations in question.

Crucially, the former need not imply the latter: it is perfectly possible for pre-tax wage dispersion to be falling in many or even all of the constituent units of a group of nations without the income dispersion of the combined (international) population falling. Indeed, if the nations in question are

[3] One particularly valuable way of looking at such dynamic interdependence is in terms of complex systems theory (see, for instance, Akura and Kinman 2017, McGregor and Pouw 2016). In a complexity approach the global economy is understood as a system of interacting components that operate at different but interconnected levels. The components of the system are agents and processes. Agents can be conceived of as individuals, firms, local or national governments, multilateral institutions or transnational corporations that operate and act at all levels in the system from individual through community to nation and to global, and some agents have greater effect on the system than others. The processes of the complex system operate through a network of feedback loops which means that the actions of any one agent in the system have feedback, or spill-over, effects on other agents and processes. A dynamic complex system is characterised by the qualities of non-linearity, emergence, adaptation and feedback, all of which make it challenging to model formally, but which provide a more realistic representation of our condition of multi-level dynamic interdependence.

characterised at the outset by significant differences in average pre-tax wage levels, it is very likely (though by no means guaranteed) that greater intra-national inclusivity will not produce greater inter-national inclusivity.[4]

Designing inclusivity: from redistribution to predistribution

Crucial to debates on inclusivity, we suggest, is not just the familiar distinction between inclusive and non-inclusive models of growth, but also that between a growth designed for inclusivity and a growth retrospectively rendered inclusive (or at least more inclusive than it would otherwise be), through fiscal redistribution. Taking account of both processes and outcomes and the dynamic relationship between them, we should, in short, shift our focus from thinking about redistribution to predistribution (Hacker 2011; see also Chwalisz & Diamond 2015; Hacker & Pierson 2010).

Indeed, we would go one step further, suggesting that it is only predistribution that can provide a route to sustainable inclusive growth and development. Put bluntly, the use of fiscal or social policy to compensate citizens for the inegalitarian or *non-inclusive* consequences of growth cannot and should not be taken as evidence of an inclusive growth strategy domestically. Similarly, even international transfer payments designed to compensate other states for the negative and malign spill-over effects arising from the growth models of the economies from which they arise (such as EU regional transfers or aid to developing economies) cannot and should not be taken as evidence of an internationally inclusive growth strategy.

Such transfers are, of course, both highly valuable and justified, but they are retrospective responses to the non-inclusivity of growth and development, not steps in the attainment of more inclusive development per se. To fully render a growth model inclusive means to design it prospectively as inclusive from the start. This means ensuring that all citizens can benefit from strong and effective education, healthcare, regulation, competition, and environmental policies to name just some features of an inclusive development model. In short, a growth model made inclusive from the outset would not require, or would require much less, retrospective action to respond to its non-inclusive consequences. Of course, this is an idealised scenario but if we do not accept this as a first principle then the inclusive development agenda will always be playing catch up by seeking to mitigate the non-inclusive effects of inegalitarian growth. In reality, retrospective action will always be needed but over time we should seek to design them out rather than build them into inclusive growth policy and strategies (as the balance of policy shifts from the retrospective to the prospective and from redistribution to predistribution).

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[4] Consider the effects of digitalisation. This, in effect, accelerates and provides further opportunities for the extension of global value chains (GVCs) in that services previously provided close to the market of the good in question can, through digitalisation, be provided elsewhere with a marginal opportunity cost for so doing. An example might be the use by an English language publisher of copy-editing services provided in India rather than in the US or UK. Digitalisation intensifies international wage competition in sectors previously characterised by little or no such pressure, driving down unit labour costs and thereby suppressing wage levels for any 'digitalisable' service (like text-editing). If the wage levels of managers (in the home economy) remain the same, the effect is to increase wage dispersion within the multi-national enterprise (MNE) and hence globally. But it may well not have that effect domestically. For, if services are outsourced through digitalisation and relocated to a different economy this is likely to increase the inclusivity of growth in the home/originating economy and the service-providing economy whilst, at the same time, increasing global wage dispersion (by increasing wage dispersion within the MNE). This is, in fact, an excellent example of how the inclusivity of growth domestically can be enhanced whilst the global effect is to erode inclusivity. It is also a very good illustration of the need to bring MNEs into any multilateral conversation (and resulting compact) on inclusive growth (as argued presently).

If this disarmingly simple point is accepted it has important implications for how we think about and, above all, how we seek to measure the inclusivity of growth (domestically or internationally). It implies strongly that post-taxation assessments of, say, income inequality (such as the standard Gini coefficient) will not suffice. Such measures risk falsely attributing any tempering in the inequality that we might observe to a more inclusive growth trajectory when this might in fact be more accurately attributed to greater fiscal redistribution (without any underlying improvement in the structured dynamics of inclusivity).

Accordingly, to gauge the inclusivity of a growth model domestically requires, with respect to income for instance, data on salaries, wages and other human wellbeing outcomes *before* any fiscal adjustments or compensatory transfers are made. Similarly, to gauge the inclusivity of a growth model in an international context (a rather more difficult task) entails an assessment of its positive and negative spill-overs putting to one side any cross-border fiscal transfers, payments or subsidies it might make (in the context of some multilateral agreement, for instance) even where these are explicitly designed to alleviate poverty and/or reduce inequality in the recipient nation (Seers 1969; McGregor & Pouw 2016).

It is important to clarify that this is, of course, not an argument against such fiscal transfers, whether domestic or international. Indeed, in the absence of inclusive development and globally inclusive development, they might well be regarded as a moral obligation (though there is an important economic case to be made for them too that we will come to presently). But the point is that they do not render a development model more inclusive so much as *compensate* those who suffer for the non-inclusivity of the development it yields.

The underlying assumption of much of the analysis and policy debate currently cast in terms of inclusive growth has been that the inclusivity of a growth model can be improved through retrospective redistribution. This we reject for two reasons. First, growth retrospectively rendered more egalitarian in terms of its effects (through fiscal or other transfers) is not inclusive in itself. As such, it would be misleading to describe it in such terms. The second is more normative and political – we can and should strive to do better. If our goal is the sustainable inclusivity of our development (and the models and strategies therein), then there needs to be a strong preference for development designed for inclusivity, rather than for a growth dynamic which is only retrospectively rendered inclusive through fiscal redistribution. The less we design our development to be inclusive (through predistribution), the more we must act later to attempt to render that development inclusive (through redistribution). In the longer run it is better and more sustainable to seek to produce an egalitarian outcome directly from a model of development, rather than through the later use of fiscal transfers to compensate the losers of an unfair distribution of rewards, and avoid the costs and administration of redistribution.

Acknowledgement of this would, we contend, allow a clearer mapping of policy choices onto policy objectives: some policies (notably those promoting inclusive development) are predistributive; other policies (notably those compensating citizens for the non-inclusivity of growth) are redistributive. This shift, we hope, would help to recast analysis of growth models and help to encourage policymakers to answer questions about whether its inclusiveness is achieved by proactive design or by reactive redistribution.

Yet even this is not enough. For growth to be rendered inclusive it is not sufficient just to ensure, through predistribution, that income comes to be more fairly and evenly distributed over time. For this leaves entirely unaddressed the question of *wealth inequality* (especially that historically acquired), which has risen more steeply since the crisis than income inequality both nationally and globally (Killewald et al. 2017; Piketty 2014; Skopek et al. 2014; Stockhammer & Wildauer 2015). Central, then, to the inclusive growth agenda need to be strategies to reduce wealth inequalities between citizens and between economies. As with income inequality, there are prospective and retrospective elements to this. Prospectively, the link between economic growth and the asset-price bubbles so central to many growth models in the pre-crisis period (see, for instance, Hay 2013) needs to be severed; and, retrospectively, redistributive fiscal measures need to put in place to compensate the wealth-and-income-poor for the highly inegalitarian dividends of such growth models and the asset-price inflation with which it has come to be associated.

Inclusivity and inclusive development

We will now consider the implications of exposing, challenging and correcting the characteristic tendency to methodological nationalism in the current policy debate about inclusive growth. Here again our argument is simply stated.

Inclusivity is a variable that can be used to describe and categorise the development of any given unit at any given level of analysis. It is thus possible to talk about the degree of inclusivity of development sub-nationally, nationally, regionally and/or globally. This, in turn, makes it possible to think about the relationship between the inclusivity of development at different levels – above all, the degree to which national strategies for promoting the inclusivity of development are compatible with the promotion of inclusivity at higher levels (regional or global). As already discussed, strategies to achieve domestic inclusivity can have non-inclusive effects elsewhere. Our argument is that responsible strategies for the promotion of inclusive development domestically are those that are both consciously aware of, and seek to minimise, the negative spill-overs of their own inclusivity upon the capacity of others to do likewise. That responsibility, we contend, needs to be held to account in a genuinely multilateral context.

This might be seen to imply that the case for acknowledging the multilateral dimension of the inclusive development agenda is primarily or even exclusively a moral or ethical one – and perhaps even that there is an economic price to be paid for the moral imperative of inclusivity. But no such trade-off need exist. In a context of widening global inequality, above all one in which any dividends of globalisation are not perceived to have been fairly distributed, it is perhaps important to put the ethical case first and foremost, but there is an equally strong economic case to be made for the inclusivity of development and the more equitable distribution globally of both income and wealth.

That case is, in fact disarmingly simple: that the concentration of income and, above all, wealth in the hands of the few consistently and increasingly suppresses global demand and, hence, global growth (see, for instance, Sayer 2015). Put crudely, if a proportion of the income and accumulated assets of the super-rich were transferred immediately to the very poorest in our communities, demand and consumption would inevitably rise. Quite simply, the poor spend any disposable income they have, whilst the rich do not. As such, wealth transfers from the latter to the former – or development models that more equitably distribute the proceeds of development from the outset – are likely to promote aggregate demand and growth. This effect is further reinforced by the increasing disconnect between wealth and investment, in a context of unprecedentedly high levels of both public and private debt.

In developing the argument for the multilateral dimension of inclusive development it is important to clarify a distinction that we have already started to deploy – that between the **inclusivity of development** (a measurement) and **inclusive development** (a normative ambition, a goal to be achieved, an ideal to be strived for). It is, of course, inclusivity, as a variable, that is measured. But we do so in order better to gauge performance of an inclusive development strategy (a strategy designed to achieve the goal of inclusive development). As such it is important to define inclusivity (as a variable) in terms of a prior understanding of the inclusive development we are seeking to promote (as a goal). The point is that inclusive development – and hence the inclusivity of development – can be understood (and measured) differently. In other words, our economic and societal development can be (more or less) inclusive in a variety of different respects; and each of these respects might lead to different criteria for measuring inclusivity. In effect, the language we use to talk about inclusive development matters a great deal. Economies do not simply produce inclusive development by themselves; governments, cities, countries do not *do* inclusive development. But policymakers do and can act to increase inclusiveness; policy choices are taken that can affect the inclusivity of development. There is no end point at which inclusive development is fully achieved. Economic growth and societal development in all cities, regions, countries or groups of countries can always become more – or less – inclusive.

Inclusiveness and hence inclusivity (as a measure of inclusiveness) are, in other words, therefore, both **multidimensional**. Recognition of this multidimensional character enriches the debate on inclusive growth in two significant ways. The first is methodological, the second more practical. Methodologically, it implies that we cannot have a single measure of inclusivity (other than as a compound index) but that we will need measures across a range of dimensions (on the analytic dangers of compound indices see Freudenberg 2003; Lorenz et al. 2017; Munda 2004, 2005, 2008; Nardo et al. 2005). More practically, it raises the question of how we are to decide which dimensions of inclusiveness should be prioritised for measurement.

Towards a new index of economic and societal success

This question is not easily answered (see also Hay & Payne 2015). Yet the case for the replacement of Gross Domestic Product (GDP) as the dominant indicator of economic success and societal progress is clear – and has already been comprehensively made (see, for instance, Stiglitz, Sen & Fitoussie 2009; Costanza et al 2014, and for a review McGregor 2018).

It is now well understood that GDP is a simplistic and often perverse measure of economic performance, especially in a context in which the planet's very carrying capacity is being exceeded (Rockström et al. 2009) and inequalities of income and wealth are proliferating (Atkinson 2015; Dorling 2017; Piketty 2014; Sayer 2015). Typically measured at the national level, GDP encourages environmental resource depletion and rewards population growth whilst giving no consideration either to the environmental or other spill-over effects of output growth, the capacity of an economy to meet the needs of all of its citizens, or indeed, its inclusivity (McGregor and Pouw 2016).

It is widely agreed that the replacement of GDP will require a multidimensional approach to measuring progress in human wellbeing. But more than this, such a set of measures must move beyond a technical status to take the governance dimensions of measurement into account. Stiglitz et al recognise that it is important that any successor to GDP as the alternative currency of economic success should incorporate citizens' own views about their wellbeing we seek and whether it is being met by economic and social developments (2009). This entails a methodology in which indices of progress are developed in such a way as to answer to the needs and aspirations of citizens (Hall and Rickard 2013, Boarini et al 2014).

Amongst the dimensions of inclusiveness which it would seem necessary to include in any new compound index are the following: income equality; wage equality; inter-generational equality and the environmental sustainability of growth and development; gender equality; ethnic, socio-demographic and socio-cultural equality (the absence of discrimination); a range of basic development indices such as literacy rates and access to education, training and re-training. These more detailed indicators can be drawn together into a broader measurement regime that is focussed on the wellbeing of citizens (Deneulin & McGregor 2010; McGregor 2018). The OECD has, to date, been the multilateral champion of this approach to measuring wellbeing, through its Better Lives Framework. But it has the potential to be bolstered by a range of other measurement schemes (notably, the Human Development Index, Genuine Progress Indicator, Happy Planet Index, SEDA and various UN body guidelines on measuring sustainability).

As this suggests, it is possible to begin to imagine a multilateral compound index of the inclusivity of growth and development and, in parallel, nationally specified variants reflecting the different relative priorities of democratically elected administrations. Yet it is still crucial to establish a multilateral procedure to agree upon an (ideally) global index (and its constituent sub-indices). Whilst individual nations might well, in the first instance, wish to develop their own indices of inclusive development (reflecting relative differences in domestic priorities) GDP needs to be replaced as the global currency of economic success. This requires, and can only proceed by way, of a multilateral process.

Before turning to the details of such a process in the final section, it is perhaps first worth asking what might be the consequences of such a transition from GDP for 'growth' as we know it now? That will depend in part on the specific content of the index of inclusivity that is settled on. But it is important to stress that the transition from GDP to an inclusive index of development certainly does not mean an end to growth in conventional terms – even if it does mean an end to the fetishisation of such growth as a goal or objective in itself.

For many poorer 'developing' countries in Africa, Asia and Latin America to progress at all in terms of the inclusivity of their development they will need to grow in both GDP and GDP *per capita* terms – and almost certainly at rates exceeding the global average. What this implies is the need for a more equitable distribution of the dividends of global growth. Above all, it is important to ensure that all countries, regardless of their stage of development, are supported multilaterally in their attempts to pursue and further enhance the inclusivity of their development process. This must entail, in effect, a multilateral process in and through which they might take issue with, and seek recompense for, the negative spill-overs arising from others' development models insofar as these might credibly constrain or circumscribe the space for the promotion of their own inclusiveness. We return to the issues raised by this presently.

A multilateral agenda for inclusive development

Thus far we have presented a largely theoretical and analytical argument for the importance of acknowledging and, indeed, transcending the typical methodological nationalism of the debate on inclusive development. That is important. We now seek to explore and set out the immediate, substantive and practical implications that follow from such an argument.

Perhaps the most obvious of these implications is that we cannot afford to continue to view the problem of inclusive development empirically through a methodologically nationalist lens. Quantitative indices of inclusivity and, indeed, quantitative indices of the various dimensions of inclusivity, cannot be collected, presented and analysed only at the national level. Where the data permits, each and every data series that we use to capture trends in inclusivity at the national level needs also to be used to paint a similar picture at a variety of intra and transnational levels.

This entails ensuring that the OECD and other global institutions support the gathering and presentation of data on trends in the (pre- and post-tax) income and wealth of citizens, as well as data on their access to education, public healthcare provision and so forth, for groups of nations alongside that for the individual nations themselves – and that this data (some of which already exists in large part in the OECD's Better Lives framework) is placed at the heart of, and used to inform, the inclusive development debate.

This would allow global institutions like the OECD, for instance, to place national-level data on income and wage dispersion, access to welfare and so forth, in a broader context, giving it the capacity to describe more accurately the challenges of achieving globally inclusive development.

The reality, of course, is that if the challenge at the national level is already considerable, that at any transnational level and above all at the global level is all the more daunting still. But it is a challenge that needs to be faced directly. An empirical representation of that challenge is an important precondition of accepting the scale of that challenge, and one that in our view would encourage policymakers to begin in earnest a debate about the interconnectedness of development processes.

It is also likely to provide a powerful corrective to the optimism which might accompany the growing evidence that one would hope to see in the coming decade of national inclusive development strategies achieving palpable gains in reducing the domestic dispersion of income and, even, wealth. For such successes at the national level are unlikely to be matched, at least in the first instance, by equivalent or even parallel reductions in international income or wealth dispersion. That might well prove an important and chastening reminder of the intractability of global and regional inequality.

Important though this is, however, on its own it is certainly not enough. At best the empirical mapping exercise pointed to above might help provide the background data to inform a multilateral debate. But it can be no substitute for that debate. It is to the organisation of that debate that we now turn.

The key question, as we see it, is the following: **how might we establish multilaterally the conditions of existence of inclusive development at both the national and, ultimately, international levels?**

To be fair, part of this question has already been posed. We have a multilateral – indeed, an increasingly global debate (often conducted in terms of the SDGs) – about inclusive development, although thus far it has tended to privilege the national level as the principal strategic level of action. And in recent years, particularly through the convening role of the OECD, that debate has started to deal with genuinely multilateral questions requiring multilateral coordination. This is perhaps best illustrated by the OECD/G20 work on base erosion and profit shifting to tackle tax avoidance (OECD/G20, 2015). That ongoing work demonstrates how concerted multilateral action can achieve significant policy outcomes and is very much to be welcomed.

But to strengthen this work further our thinking on inclusive development needs to be taken out of its present methodologically nationalist comfort zone.

Multilateral coordination

We argue that strategies and policies to promote the inclusivity of national development models are more likely to deliver the inclusivity they strive for if the wider – multilateral and global – context in which they are implemented is coordinated collectively and effectively. In short, there are a series of well known and much studied coordination or governance challenges which present themselves at a multilateral level whose management is likely to shape profoundly the capacity of national strategies promoting greater inclusivity of development to deliver tangible gains to citizens. Examples include international cooperation to avert or mitigate global climate change, global financial market regulation and the coordination of taxation regimes to prevent offshoring, tax evasion and intense tax competition between nations. They mean that nationally inclusive development becomes conditional and dependent not just on the national strategies directly pursued to promote it but, crucially, on global governance or, at least, on multilateral cooperation.

This, of course, raises a series of profoundly difficult political questions, relating above all to the perceived democratic legitimacy of the kind of global institutions capable of exercising such a global governance responsibility. On the one hand it might be argued that inclusive (as distinct from non-inclusive) development is an unimpeachable public good and that, accordingly, even in the absence of a global democratic mandate for such governance, it is warranted in the pursuit of a benefit of unquestionable global value. But that is too simple a view. The exercise of such a global responsibility is likely to pit global governance institutions (lacking a clear democratic mandate) against (at least some) democratically elected administrations at the national level – certainly if it involves taking positions on, say, the degree and form of the regulation of financial markets, tax competition between nations and the medium-to-long-term environmental sustainability of a particular nation's development model.

It is for precisely this reason that we prefer not to think in terms of global governance or steering so much as multilateral coordination and cooperation instead. And it is above all here that we envisage a key coordinating role for a global institution (such as the OECD).[5]

Launching a multilateral conversation

The most important thing here, we feel, is simply to launch and host the conversation whilst establishing and setting at least some of the terms of the debate. This is, above all, a procedural question. Such a multilateral conversation on the international conditions most conducive to inclusive development could proceed in very different ways according to the preferences of elected policymakers. It would, accordingly, be wrong in a paper such as this to be either too proscriptive, or to seek to anticipate, the precise details and likely content of that debate. But what we can perhaps more usefully do is to set out some of its potential parameters – with the proviso that such parameters should be discussed and revisited with the participants themselves before the conversation commences.

So how might we usefully think about this? Our suggestion here is that it is potentially valuable to identify and to differentiate clearly between two objectives. The first is the sharing of best practice when it comes to national strategies for the promotion of inclusive growth. Here we suggest continuity, with perhaps greater emphasis placed on the multilateral responsibilities of nations towards one another – in particular in relation to the externalities of their growth models and their strategies for the promotion of inclusivity domestically (with the attempt to identify best practices not just domestically but with respect to managing the externalities of growth). The second is more ambitious, more innovative, though no doubt more controversial and more challenging. It is to think in terms of the production of a *compact* amongst participating states – relating principally, if not exclusively, to their mutual obligations and responsibilities to one another vis-à-vis inclusive growth. Though the two are clearly linked, and need to be developed in tandem, we will now focus on the second, more innovative, element.

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[5] Our argument is in no sense dependent on such a role being performed by the OECD – and were it to be performed by the OECD it would, of course, need to be open to non-member states. But it is undoubtedly the OECD that has done most to date to promote inclusive development nationally and it already provides an important context in which states share good practice and learn from one another. It is, then, we would contend, a natural setting for a more multilaterally focussed discussion of the impediments to inclusive development strategies nationally and more generally.

A new compact for inclusive development

The initial aim of the multilateral dialogue that we propose would thus be the production of a prospective and provisional inclusive development compact agreed between its signatories. It would be a roadmap for achieving inclusive development which might include a statement of basic principles, including an agreed definition of inclusive development itself and of some of its constituent dimensions, a statement of shared purpose, a code of conduct and good practice and, ideally, a set of procedures for both the revision of each of these items. In a way, such a compact would provide an answer to the question implicit in much of the populist rejection of globalisation – how can globalisation be held to account publicly and made to deliver outcomes that favour not just the few but the many?

To give it greater substance, it might also include a mechanism for grievance articulation and/or dispute resolution in a context in which one or more participant states were deemed to be non-compliant with the code of conduct and good practice. Such a compact might, in time, become the basis of a more globally multilateral structure, as the agreement (including, perhaps, its grievance articulation/dispute resolution procedure) expanded to include a wider set of states as well and as the conversation grew to bring in leading multi-national enterprises and other multilateral agencies and institutions.

Finally, it is important to be clear that the multilateral compact that we propose here might well be a necessary condition for the transition to a globally more inclusive development. But it is by no means sufficient. It is likely that the promotion of global inclusivity will ultimately require a global governance apparatus of some kind (again, it is possible to imagine this taking a variety of forms). But what is also clear is that there is presently little or no public appetite for an inclusive development regime at the global level. As such, we suggest, it is much better to think in terms of a multilateral process in the first instance. Whilst this, in time, might well establish the need for, and desirability of, a designated global governance architecture and begin to build international public support for it, it would be wrong to presume that such support exists already. In our view, then, it is preferable to build first a multilateral process and for that process to consider the question of global governance. This is how we would propose responding to Dani Rodrik's globalisation paradox (2012) – that economic globalisation requires global governance, but global governance is incompatible with national forms of democratic legitimacy. A global governance regime designed in this way from the bottom up and informed throughout by a genuinely multilateral conversation is, we contend, far more likely to command global legitimacy than one imposed from above (see also Kharas & Rogerson 2017).

A new compact for inclusive development would have at its core the following ten principles:

1. **A clear and unequivocal commitment.** Signatories to the compact would commit themselves publicly to inclusive development, both domestically and multilaterally. To their own citizens they would, in effect, be binding themselves publicly to the aim of distributing more equitably the proceeds of growth; and to one another they would be pledging that the domestic promotion of inclusive development would not negatively impact on the options for inclusivity of others. This double commitment we see as crucial to the perceived legitimacy of the process and to the role of the hosting institution as a multilateral guardian of the promotion of globally inclusive development.

2. **A clear definition.** But for this to work, inclusive development needs to be precisely defined so as to allow a clear (and, ideally, an empirically operationalisable) distinction to be drawn (at whatever level) between (genuinely) inclusive development strategies and models on the one

hand and non-inclusive development strategies and models on the other hand. The OECD's own definition provides a good starting point.[6] But the development of a new compact would provide an opportune moment to revisit this definition and ensure it has agreement from all participating states.

3. **Adopting approriate metrics.** A definition of inclusive development that focuses on processes of growth and development that improve human wellbeing for all and reduce inequality would also have to be accompanied by a framework of appropriate metrics. Most realistically this would entail complementing economically focused statistics with metrics that capture changes in the other dimensions of wellbeing. Because of the multilateral approach proposed here it is also important that these metrics are not developed entirely on a national basis, but instead relate to a universal framework that would enable a comparable assessment of spillover effects. The basis for these metrics, that would allow states and citizens to monitor the extent to which inclusive development efforts were in fact resulting in greater levels of wellbeing for citizens, already exists in the form of the OECD Better Lives Framework (OECD 2012, 2017). This statistical framework can be adapated to be flexible to allow for specific national needs and for specific policy purposes while still remaining consistent with the overarching universal framework (McGregor 2018).

4. **Inclusivity that is designed and not achieved retrospectively.** The compact would state that a development model rendered inclusive only through the retrospective application of fiscal, social and other transfers does not meet such a definitional standard. Although fiscal and other forms of redistribution clearly have an important role to play in securing more inclusive outcomes whilst development models remain non-inclusive, the ambition of the inclusive development agenda is to reduce the need for such redistributive measures over time as the effects of more genuinely predistributive instruments and strategies take effect (under the auspices of inclusive development).

5. **All development models can become more inclusive.** Whilst it is important to define inclusive development clearly and, ideally, to specify precisely the elements to which it should be gauged (income equality; wage equality; inter-generational equality; the environmental sustainability of development; gender equality; ethnic, socio-demographic and socio-cultural equality and wellbeing more generally), the aim is not to impose a common goal upon participating states. Accordingly, a compact would state that signatory states are encouraged to define the wellbeing they seek and to weight the relative significance of the various dimensions of inclusivity they seek to promote. In so doing, it is hoped that those states might then articulate clearly and defend publicly a national model and strategy for achieving more inclusive development. Data collated by the hosting international institution might, of course, help them measure and gauge their progress. This would allow inclusive development to be better held to account democratically at the national level.

6. **A global citizenship of states.** The compact would acknowledge that as well as their (democratic) obligations, responsibilities and duties to their own citizens, member states must also accept their obligations, responsibilities and duties to other states (and not just to other signatory states) with respect to the model and strategy of inclusive development they seek to promote. Crucial to this are the spill-over effects between different agents in a complexity based global development model.

[6] Inclusive development is a development process that creates opportunity for all segments of the population and distributes the dividends of increased prosperity, both in monetary and non-monetary terms, fairly across society.

7. **A global citizenship of multi-national enterprises.** It is not just states, however, who have responsibilities towards citizens in a world of global economic interdependence. No less significant is the role of multi-national enterprises (MNEs). For globalisation (especially when aligned to digitalisation) affords them the opportunity and, arguably, the incentive to extend and exploit for profit their global value chains – and, in so doing, create enormous wealth and also contribute to rising global inequality (See, especially, LeBaron & Lister 2015, LeBaron, Lister & Dauvergne 2017, Phillips 2013). The implication is clear. MNEs too need to be brought to the table if norms of appropriate corporate behaviour are to be established that are compatible with a global strategy for the promotion of inclusive development. Regulation of MNEs is very difficult to achieve, though it clearly has a role to play. As such, self-regulation is nearly always preferable. A major aim of the compact should be to work with those MNEs keen to take (and to be seen to take) the lead in defining and promoting standards of responsible business conduct (WEF 2017). The task for the hosting institution is to ensure that such standards are defined in terms of their contribution to inclusive and environmentally sustainable development.

8. **Avoiding the race-to-the-bottom.** The compact would state that inclusive development domestically should not and cannot be allowed to be achieved by, in effect, externalising non-inclusivity (through, for instance, the exploitation for profit of non-inclusive development dynamics in other states whether this is through aggressive tax policies, resource depletion, labour force exploitation or, indeed, the exploitative extension of global value chains). Ultimately, such dynamics can trigger powerful 'race-to-the-bottom' effects that should be avoided at all costs. Whilst these can, under certain conditions, promote development domestically, in aggregate terms their effects are perverse – accelerating widening inequality and suppressing global development (Hay 2012). Accordingly, the inclusivity of a development model needs to be assessed, evaluated and established not just by considering national-level trends in, say, the dispersion of income and wealth, but also its wider international externalities (in particular, its impact on the space available for other states to pursue autonomously their own strategies of inclusive development).

9. **Grievance articulation/dispute resolution.** Where a credible *prima facie* case can be made that the externalities of a particular development model or set of development models are significantly negative and thus constrain the capacity of other states to pursue an independent inclusive development strategy of their own, signatory states should be able to launch a dispute procedure within the terms of the compact (or, at minimum, to be able to air publicly their grievances in the context of the developing compact).[7] The ability to initiate a dispute procedure would focus policymakers to question their own development model and encourage states to acknowledge bad, or sub-standard, behaviour of others and themselves.

10. **Incentivising policy coherence.** The role and rationale for such a dispute resolution procedure is not solely, nor perhaps even primarily, to provide a mechanism for adjudicating on credible and specific violations of the principle that domestic inclusive development strategies should do no harm internationally (and should not be achieved at the expense of an increase in global inequality). It is also to provide a context in which the broader lessons of that kind of adjudication might be drawn collectively and incorporated within the terms of a developing multilateral code of conduct with respect to inclusive development. The ambition of this would be to encourage and indeed to promote and incentivise greater policy coherence between states.

[7] Dispute resolution need not necessarily take on a legal or quasi-legal nature but what is certainly required is a procedure for airing and, ideally, resolving grievances and for holding states to account for their multilateral obligations vis-à-vis the inclusive development agenda.

11. **Collective action to address globally shared concerns.** The hosting institution, in the context of its promotion of the multilateral governance of inclusive development, should establish within the terms of the compact, a series of working parties to consider a number of crucial and collective concerns whose resolution might be seen as central to the promotion of inclusive development more generally. Amongst these are the following: (i) financial market regulation; (ii) tax competition and the incentives to mobile enterprises and asset holders that taxation regimes represent; (iii) regulatory undercutting (multilateral governance to prevent a competitively engendered 'race to the bottom'); (iv) the dangers of a return to protectionism; (v) the attraction of foreign direct investment through hidden subsidies and strategies for enhancing 'locational competitiveness'; (vi) carbon offsetting and other forms of the displacement of the carbon footprint of development (Hay & Payne 2015: 33); (vii) digitalisation, robotisation and the exploitation of global value chains by multi-national corporations; (viii) mergers and acquisitions, especially by MNEs extending the global value chain; (ix) the more general question of the regulation of multi-national corporations; and (x) tax evasion and offshoring.

Conclusion

The two decades either side of the onset of the global financial crisis have seen a staggering, sustained, and arguably still accelerating, development in global inequality. During this period the share of wealth and income held by the richest few, both nationally and globally, has risen to previously unprecedented levels. Levels of wellbeing have improved considerably for some, while for others the struggle to maintain a decent level of wellbeing has become harder. As we have argued it is hardly surprising in this context that an increasingly populist, nationalist and protectionist counter-response has emerged which many of those who regard themselves, as casualties of globalisation have rallied behind. This is the unavoidable setting for the current debate on inclusive development – an urgent debate and the challenge of our age.

If globalisation is to be made to work and, above all, to be seen to be made to work for the citizens of the globe then the development with which it is still credibly associated needs to be made inclusive, not just nationally but globally too. What we need is not just development, but *just* development. To achieve a more equitable sharing of the global rewards of development, we need to focus on the globally shared responsibilities of states. It will involve, as we have sought to show, a rejection of methodological nationalism both conceptually and practically to create a new multilateral dimension to inclusive development. It will also involve embracing of notions of progress that are founded in human wellbeing and that are not conceived in a limted way, to be measured only in terms of economic production and consumption. To move from analysis to action we have called for the launch of a new multilateral conversation with the aim of establishing a new multilateral compact on inclusive development. But this process can only begin if the terms of the inclusive development debate are changed from the national to multilateral. That is the essential and urgent task at hand.

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