Beyond growth: towards a new economic approach

Report of the Secretary-General’s Advisory Group on a New Growth Narrative

Professor Michael Jacobs
Sheffield Political Economy Research Institute (SPERI)
University of Sheffield

Launch of the German edition, HBF seminar
15. February 2021
The Secretary-General’s Advisory Group on a New Growth Narrative

Andy Haldane, Chief Economist of the Bank of England

Michael Jacobs, Professorial Research Fellow in the Sheffield Political Economy Research Institute at the University of Sheffield

Alan Kirman, Professor Emeritus of Economics at the Aix-Marseille University and at the Ecole des Hautes Etudes en Sciences Sociales, and senior adviser to the NAEC

Nora Lustig, Samuel Z. Stone Professor of Latin American Economics in the Department of Economics at Tulane University

Mariana Mazzucato, Professor in the Economics of Innovation and Public Value at University College London (UCL), and Founding Director of the UCL Institute for Innovation and Public Purpose

Robert Skidelsky, Emeritus Professor of Political Economy at the University of Warwick

Dennis Snower, Founder and President of the Global Solutions Initiative and the Global Economic Symposium, former Professor of Economics at the Christian-Albrechts-University of Kiel; Senior Research Fellow at the Blavatnik School of Government, University of Oxford

Roberto Unger, Roscoe Pound Professor of Law at Harvard University
Why we need a new economic approach (1)

- Even before Covid-19, the world faced profound economic challenges
  - Environmental crisis
  - Technological change
  - Globalisation
  - Demographic change

- Even before Covid-19, most OECD economies have performed less well in recent years than in the past
  - Financial crisis
  - Fragile growth
  - Productivity growth stalled
  - Rising inequalities
  - Unemployment high, more insecure work
  - Living standards stagnated
  - Growing gap between richer regions and periphery

- These trends have contributed to a decline in social cohesion, empowerment and trust in established politics
Why we need a new economic approach (2)

- Conventional economic policies are insufficient to address these challenges and problems

- This has led to a widespread questioning of the dominant economic model of the past 40 years
  - Global trade integration
  - Deregulating financial and labour markets
  - Central Bank independence, inflation-targeting, constraints on public borrowing
  - Corporation tax cuts
  - Economic growth as the primary goal
  - Equity and environmental considerations dealt with ‘after the event’

- This model (the ‘Washington Consensus’) was strongly influenced by neoclassical economic theory

- We can now draw on deeper forms of economic rethinking which have flowered over the last decade

- These critiques and explorations can now be brought together into a ‘new economic narrative’
The three elements of the new approach

- **A new conception of economic progress**
  A deeper understanding of the relationship between growth, human wellbeing, a reduction in inequalities and environmental sustainability, which can inform economic policymaking and politics

- **New frameworks of economic theory and analysis**
  A richer basis of understanding and evidence on how economies work, and new tools and techniques to help policymakers devise policy

- **New approaches to economic policy**
  A wider set of policy and institutional reforms, based on the new frameworks and analysis, to achieve the new social and economic goals
Beyond growth (1)

- Economic growth has been the primary goal of economic policy for 70 years
  - For much of this period growth was associated with rising living standards, tax receipts to pay for public services, a reduction in inequality, even improvements in local environmental quality

- In recent decades the dominant patterns of economic growth have generated significant harms
  - Rising inequalities, especially between the top 1% and the rest and in inequality of wealth
  - Growth is no longer correlated with improvements in wellbeing – individual or societal
  - Environmental degradation makes present growth patterns unsustainable ion the long term

- It is the form of growth that matters – growth that contributes to wider goals
  - Going ‘beyond growth’ means neither abandoning growth altogether as an objective nor relying upon it to achieve other goals
  - It means changing the structure of economic activity to achieve the multiple goals of a more rounded vision of economic and social progress
  - ‘Inclusive growth’, ‘green growth ‘ and ‘sustainable development’ are ways of expressing the same idea – though they have not always led to sufficiently profound policy change
Four paramount objectives of policy today

- **Environmental sustainability**
  A path of rapidly declining greenhouse gas emissions and environmental degradation, consistent with avoiding catastrophic damage and achieving a stable and healthy level of ecosystem services.

- **Rising wellbeing**
  An improving level of life satisfaction for individuals, and a rising sense of improvement in the quality of life and condition of society as a whole.

- **Falling inequality**
  - A reduction in the gap between the incomes and wealth of the richest and poorest groups in society.
  - A reduction in rates of poverty.
  - A relative improvement in the wellbeing, incomes and opportunities of those experiencing systematic disadvantage, including women, members of ethnic minorities, disabled people, and those in disadvantaged geographic communities.

- **System resilience**
  System resilience – understood as the economy’s ability to withstand financial, environmental or other shocks without catastrophic and system-wide effects.
New indicators of economic and social progress

- OECD’s Better Life and Inclusive Growth initiatives have pioneered the development of new indicators
- But new indicators have to become the accepted measures of the success of economic policymaking
  - The communication of indicators is critical – by politicians and the media
- And new indicators have to be attached to policies which can affect them
  - Understanding the causal factors which determine them
  - Designing policies which can change them
Economics is changing

- Up to 2008 the dominant policy approach was underpinned by orthodox neoclassical economic theory
  - ‘Rational’ economic behaviour; individual utility maximisation; competitive markets give efficiency
  - Market failures justified policy intervention; but governments also failed
  - Macroeconomic theory and models rested on neoclassical microfoundations
    - ‘Representative agents’
    - Tendency to equilibrium; exogenous shocks
    - Public debt crowds out private investment; monetary policy should manage demand

- Since the financial crisis both theory and policy prescriptions have been modified
  - Markets acknowledged as having imperfections; policy is ‘second best’
  - Macroeconomic models now include financial sector, and various ‘frictions’
  - Policy advice has changed – eg macroprudential financial regulation, trade policy

- Over recent decades economics has been changing in more profound ways
  - New (and sometimes old) economic theories better explain how modern economies work
  - Some of these insights have begun to be accepted into the mainstream
New frameworks of economic analysis (1)

- **Economic behaviour**
  - Behavioural economics: bounded rationality, biases and heuristics
  - Ethics, caring and the ‘social human being’; social determinants of tastes and preferences
  - Insights from social psychology, sociology and anthropology

- **Markets, institutions and power**
  - Institutional economics: markets are brought into being through social and public institutions
  - Comparative political economy: markets are coordinated through different mechanisms in different countries – there are ‘varieties of capitalism’
  - Inescapable role of power in the economy – as tool of analysis and focus of policy
  - Insights from sociology and politics

- **Evolution and complexity**
  - Evolutionary economics: economic development as historical process, with central role of innovation
  - Complexity economics: economic systems as non-equilibrating, complex, adaptive systems
  - Insights from other system sciences including biology and engineering; gent-based modelling
New frameworks of economic analysis (2)

- **Finance and macroeconomics**
  - Post-Keynesian economics: the role of the financial sector in generating financial instability
  - The critical role of aggregate demand and uncertainty in the business cycle
  - New kinds of economic models, with heterogeneous agents, stocks as well as flows, information asymmetries, uncertainty, endogenous shocks

- **The natural environment**
  - Ecological economics: the economic system as a sub-system of the earth’s biophysical systems governed by laws of thermodynamics and subject to tipping points into catastrophically changed states
  - Bringing economic activity within ‘planetary boundaries’ where environmental systems can regenerate
  - Structural not marginal changes in production and consumption, using range of instruments
New frameworks of economic analysis (3)

- **Inequality**
  - Decline of ‘labour share’ of national income and increase in returns to land and wealth (faster than GDP)
  - Relative power of wealthy to take unearned ‘rents’, and of management over workers
  - Impact of inequality on social cohesion, individual wellbeing and a range of social indicators
  - Impact of international trade on generates geographic and class inequalities

- **Gender**
  - Feminist economics: gender stratification as central to economic system, importance of gender impacts of economic policy
  - Role of colonial history and post-colonial racism in explaining economic position of ethnic minorities
  - Expansion of boundaries of economics (and measurement of economic activity) to include caring work and ‘social reproduction’

- **Ethics and the role of the state**
  - Inescapable role of ethics and consideration of economic justice
  - Need to reappraise the role of the state
New frameworks of economic analysis (4)

- These developments in economics have generated important new understandings
  - Many recent Nobel Memorial Prizes in Economics have been awarded in these fields
  - Some are beginning to be incorporated into mainstream economics
  - Others require a more fundamental abandonment or revision
  - Economic policymaking can now draw upon a much richer and more empirically-based menu of academic economics and political economy

- There is as yet no synthetic theory bringing these new schools of economic thought together
  - But they are not fundamentally competing – they deal with different aspects of the economy
  - They can and are being combined to explain economic phenomena and design policy
  - Complexity economics seeks to use such wider insights; political economy explicitly draws on other social sciences

- The challenges and problems our economies face can best be addressed through these new frameworks
  - Taking further the shifts in economic theory and policy over the last decade
  - To explain what is happening in modern economies and help design better policies
New approaches to economic policy (1)

- Many new proposals for policy have emerged in last decade, reflecting two key insights

  (1) Deep challenges require profound reform – incremental changes to existing policies are not enough
  - Conventional policy approach has been based on supply side reforms and ameliorative social and environmental policy
  - The engine of the economy – the core patterns of investment and output – has been left to the private sector to decide
  - Now policy needs to improve the engine
  - This means building the economic goals into the structure of the economy, not added after the event

  (2) Policy must be made in an integrated way, not in traditional policy silos

- Economic policy has international impacts and trans-boundary issues require international coordination
  - We need new mechanisms of multilateral cooperation in eg environment, taxation, labour standards
New approaches to economic policy (2)

- **Sustainability and decarbonisation policy**
  - Giving sustainability and climate targets legal force
  - Sectoral decarbonisation plans

- **Innovation and industrial strategy**
  - Using industrial policy to steer innovation and investment into meeting major social and environmental challenges (e.g., decarbonisation, ageing, healthcare)
  - Using state investment banks to provide patient finance
  - Regional policy

- **Macroeconomic policy**
  - Taking further the shifts in economic theory and policy over the last decade
  - To explain what is happening in modern economies and help design better policies
Danke

Michael Jacobs m.jacobs@sheffield.ac.uk
@michaelujacobs