

Editorial

Rethinking the political economy of place: challenges of productivity and inclusion

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The global financial crisis of just over a decade ago exposed longer-term systemic problems in global capitalism of which two of the most prominent are the slowdown in the underlying trend rate of productivity growth, alongside a rise in economic and spatial inequalities in many advanced economies. The Covid-19 pandemic looks set to further amplify these problems. This Editorial begins by discussing the scale of the productivity slowdown and of the widening inequalities that have emerged, particularly with regard to their spatial dimension: that is how the uneven and slow development of productivity and rise in inequalities have played out across and within regions and cities. It then briefly considers underlying factors that lie behind these trends, including financialisation / financial globalization, the diminishing role of organised labour, segmentation of the labour market favouring workers who play a key role in financialisation, together with the increasing polarisation within societies according to skill and, crucially, the impact of changing industrial composition particularly as it relates to the rise of the high-tech sectors. The Editorial then examines in what ways the slowdown of productivity and widening of economic and spatial inequalities, may be interrelated, and questions the notion of any efficiency-equity trade-off. Lastly, it considers whether the ‘inclusive growth’ agenda can potentially reconcile the two ambitions of improving productivity performance and lessening inequalities, reflecting on what inclusive growth could mean, and what it could imply in terms of policy. Thus far, it appears that an inclusive growth agenda has only gained some traction at the subnational level, which seems to reflect – at least in part – attempts by cities and regions to address gaps in policy left by national governments.

Keywords: productivity slowdown, economic inequality, spatial inequality, inclusive growth, uneven development

JEL Classifications: D31, F63, H40, O40, O18, R12

Introduction: two key challenges

States around the world currently face a daunting conjunction of crises and challenges of historic proportions, the latest of which being the disruption and distress caused by the Covid-19 pandemic. The latter, like the global financial crisis of just over a decade ago, has served to further expose and intensify certain longer-term systemic problems in global capitalism that have been developing since the 1980s. Two of these are a slowing down in the underlying trend rate of economic growth, and especially productivity growth, in many advanced economies and at the same time a rise in economic and spatial inequality within those economies. These twin problems have increasingly attracted the attention of governments and policymakers. And rightly so, for they threaten the very legitimacy of capitalism as an economic system capable of generating a rising standard of living which benefits all members of society to a greater or lesser degree.

Notwithstanding debates that surround the notion and its measurement, productivity remains of critical importance, since—in principle

at least—it enables a society to enjoy a rising standard of living, better public services and generous social support for those less fortunate in life. Although Paul Krugman’s adage may be over-quoted and over-simplified, it does contain more than a kernel of validity, namely that ‘productivity isn’t everything, but, in the long run, it is almost everything. A country’s ability to raise its standard of living over time depends almost entirely on its ability to raise its output per worker’ (1994, 11). The decline in the trend rate of growth of productivity that has occurred in recent decades in most advanced economies, though to different degrees (see Figure 1), is therefore a source of concern, since it limits the growth in real incomes, and the state’s ability to spend on skills, innovation, social and health services, infrastructure and the like, without having recourse to increased borrowing (see McCann and Vorley (2020) and Van Ark and Venables (2020) for recent overviews).

At the same time, a widening of economic inequalities is taking place within advanced economies. This is especially true for the USA. In the USA, the bottom 50% of incomes accounted for 19.9% of total income in 1980; in 2018, this

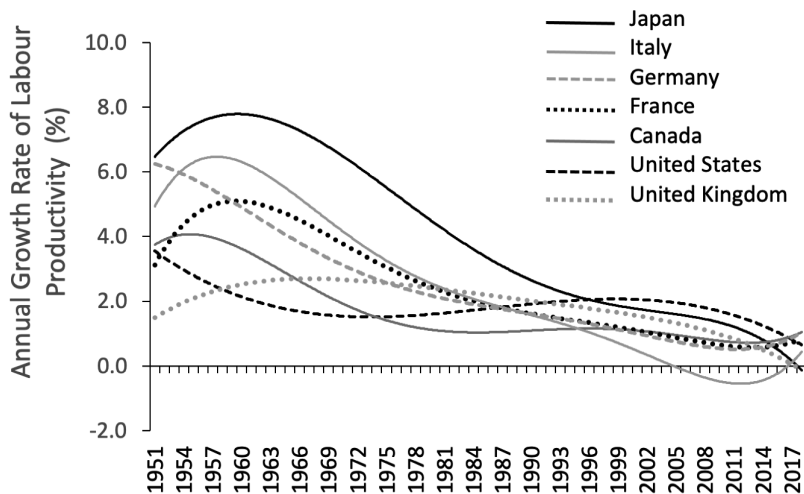


Figure 1. The secular slowdown in labour productivity growth, 1950–2019, selected countries.

Source: Conference Board Total Economy Database (<https://www.conference-board.org/data/economydatabase/total-economy-database-productivity>).

Note: Third-order polynomial trend lines fitted to annual rates of growth of output per person employed.

was reduced to 12.5%. In this same period, the top 10% of incomes saw its share rise from 34.2% to 48.0% (Piketty, 2020, 492). In Europe, the trends for this time frame are overall less stark but still perceivable: for the bottom 50%, the share went from 24.5% to 21.3% and for the top 10%, the share went from 28.4% to 33.9%. There are, however, some variations between European nations, with a somewhat greater increase of income inequalities in the UK and Germany than elsewhere in Europe (Alvaredo et al., 2018, 104; Piketty, 2014, 399–401).

The increasing concentration of wealth witnessed across the globe may be even more worrying. In the USA, the 10% wealthiest people owned 64.3% of total private property in 1980; this was 73.5% by 2015. For the top 1%, these figures are 23.1% and 38.3%, respectively (Piketty, 2020, 423). In Europe, there is also a trend towards greater wealth inequality, but less distinct so far. In 1980, the top 10% owned 54.1% of total private property; this went down to 50.5% in 1990; but rose to 55.3% in 2015. For the top 1%, there was an increase over the 35-year period from 18.4% to 21.4%. At the global scale however, the wealthiest 1% has seen its share in total personal wealth increase significantly, from 28% in 1980 to 33% in 2017; also because of increasing wealth concentrations in China, Russia and other emerging economies (Alvaredo et al., 2018; also Shorrocks et al., 2019).

The rise in income and wealth inequalities is the result of several underlying processes. The capital share in total income is increasing, while the labour share is giving way (Milanovic, 2019; Piketty, 2014; Taylor with Ömer, 2020). The owners of capital appear to be able to generate a greater return on their wealth than the overall growth rate of the economy. As a consequence, those who are already rich are able to more easily maintain their wealth and get richer still. Key processes in this context (albeit certainly not the only ones) are various forms of financialisation in combination with increasing financial globalisation (Kohler et al.,

2019; Mazzucato, 2018; Saez and Zucman, 2019). Furthermore, the decrease in the labour share may be partly due to the fact that the role of organised labour has diminished considerably, and in some countries has been actively undermined. However, also within the labour share of total income, important shifts are taking place. There is a segment of workers who benefit directly from financialisation, financial globalisation and the increasing concentration of wealth. These workers play a key role in managing the assets and economic power of the wealthy and are able to extract a high income from this, as well as often a share of the pool of wealth (Piketty, 2014, 397–423; Milanovic, 2019, 34–36). However, another important source of rising inequalities—and one that is very well-documented—is the increasing polarisation between workers who possess certain skills and qualifications and those who do not. Key developments in technology and concomitant structural changes within advanced economies, combined with accelerated globalisation, have over the past 50 years or so mainly favoured those wage-earners who are more highly educated and possess non-routine skills (Acemoglu and Autor, 2011; Milanovic, 2016; Martin et al., 2018). The same changes have in addition contributed to the decline of low- and medium-skilled jobs in production and certain segments of the service industry, which could be automated or outsourced (see Clifton et al., 2020). These changes also facilitated the growth of low- and medium-skilled jobs in personal services, retail and some business services, which could not be performed abroad or replaced by technology, but which are often not paid well and frequently precarious. Labour market policies, as well as migration flows, may either reinforce or abate these tendencies within different countries (Henning and Eriksson, 2021).

An intriguing question is whether, to what extent and in what ways, the slowdown of productivity and the widening of various economic inequalities are interrelated. Is the slowdown in

productivity growth a cause of the widening of such inequalities? —that is, is the overall slowdown in productivity growth linked to a divergence in the development of the productivity across different production factors and different economic activities? Or is the increase in income and wealth inequalities instead a factor in the lack of productivity growth? —Is there an increasing mismatch between the rewards someone obtains and his/her actual productivity, and do the increasing concentrations of corporate power and financial muscle act as impediments to economic dynamism and investment in value-enhancing activities (rather than rent-seeking and value extraction)?

The widening of economic inequalities and uneven development of productivity are also reflected in rising inter-regional and intra-regional inequalities. For much of the post-war period, up to around the beginning of the 1980s, in many advanced countries, there had been a slow, but progressive narrowing of inter-regional inequalities, a trend towards regional economic convergence (Hendrikson et al., 2018; Roses and Wolf, 2018). In Figure 2, this trend is shown for the development of average income across the 50 states in the USA. But thereafter, regional economic convergence gave way to divergence, and over the past four decades, inequalities have increased between more economically prosperous regions, cities and localities, or ‘pulling ahead places’, on the one hand, and less economically prosperous and buoyant regions, cities and localities, the ‘left behind places’, on the other (Carrascal-Incera et al., 2020; Gómez-Tello et al., 2020; Iammarino et al., 2019). Many of the latter have borne the brunt of the negative aspects of deindustrialisation and globalisation, and more recently, the austerity policies that several OECD countries introduced to reduce public debt and spending following the bailing out of the banks in the global financial crisis of 2007–2008. While the geographical patterns and specifics vary from country to country, the ‘pulling apart’ of regions and cities can be found, to varying degrees, in several OECD countries, including the USA,

the UK and various European Union states (OECD, 2018a). Figure 3 exhibits the divergence of regional output across regions for a number of European countries. According to the OECD,

Within their own borders OECD countries are witnessing increasing gaps in GDP per capita between higher performing and lower performing regions...The gaps within countries between the top 10% regions with the highest productivity and the bottom 75% has grown on average by about 60% over the last two decades. (OECD, 2016, 26).

Stark and growing economic inequalities are actually often most visible at the intra-regional level, particularly within urban areas. Indeed, the increasing inequalities within cities in different parts of the world have prompted some to proclaim ‘the new urban crisis’ (Florida, 2017). A consistent finding in the empirical literature is that the most prosperous cities are often the most unequal (Castells-Quintana et al., 2020; Glaeser et al., 2009; Lee et al., 2016; Sassen, 2018; OECD, 2018b). For example, London is seen as the UK’s economic success story. Yet, once accounting for housing costs, 28% of residents are in relative low income (a proxy for poverty), a higher proportion than any other British region (Francis-Devine, 2020). San Francisco may be the centre of the global tech industry. But it is also riven with inequality, with a labour market split between affluent tech workers and low-wage service workers in in-work poverty, a point noted by Saxenian (1994) in the 1990s and, if anything, worse today (Walker, 2018). Behind the apparent success of these cities, there is a darker problem hiding of inequality and entrenched poverty (Tonkiss, 2020).

The problem of economically and socially ‘left behind places’ has reached a point that politicians can ill afford to ignore, since in many ‘left behind’ places, local social and political disillusionment has taken hold. The voting populations in these areas either feel forgotten

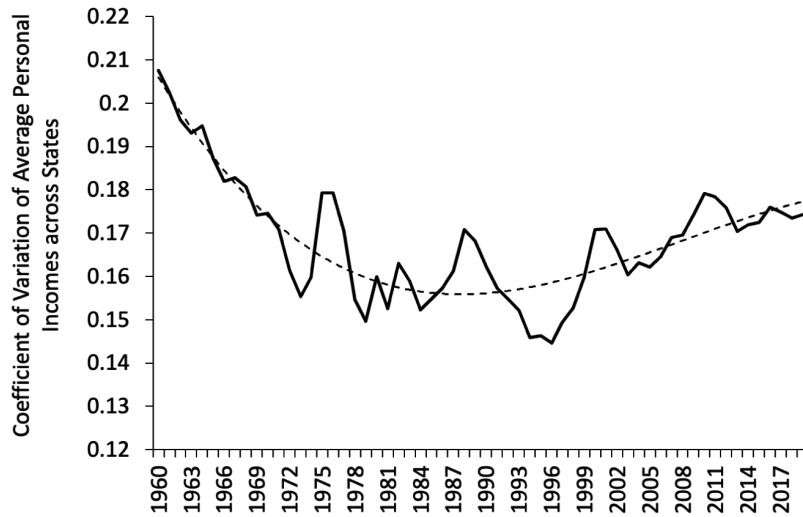


Figure 2. *The growing spatial inequality in state-level average personal incomes, USA, 1960–2019.*
 Source: US Bureau of Economic Analysis (https://apps.bea.gov/iTable/index_regional.cfm).
 Note: Fitted trend is third-order polynomial.

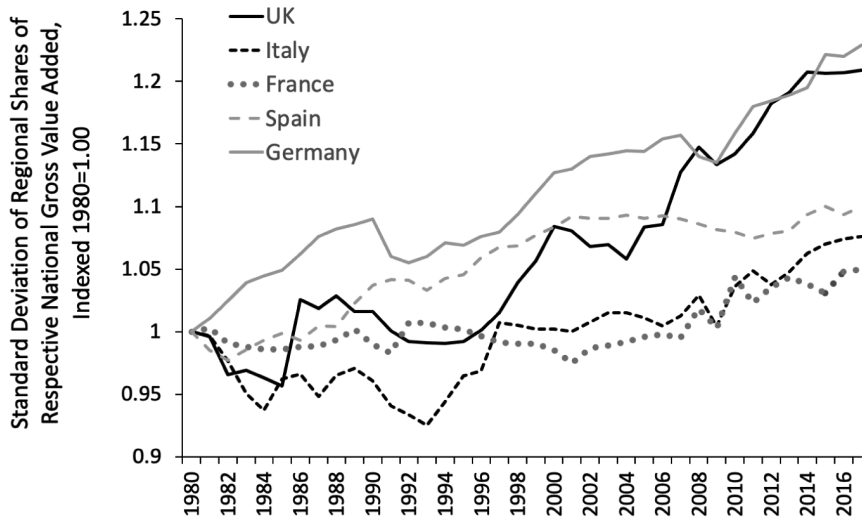


Figure 3. *The increasing inequality in regional output shares, selected European countries, 1980–2017.*
 Source: Cambridge Econometrics and Office for National Statistics.
 Note: Regional shares of national gross valued added, NUTS1 Regions. Germany refers to West Germany up to 1990 and to the United Germany after 1990 (hence, there is a discontinuity in this series).

by mainstream politicians and their policies or at worst deliberately neglected by them in favour of the more prosperous places and the geographical centres where a nation’s political and economic elites themselves are often

concentrated. While the recent rise of political populism in many countries has many causes, and has involved new movements on both the right and left of the political spectrum, there is no doubt that such movements can be seen,

in part at least, as acts of ‘revenge’ by those living in the places marginalised by the economic progress of recent decades (Rodríguez-Pose, 2018; Sandbu, 2020). In the USA, Donald Trump owed his 2016 election success in part to his playing to this ‘geography of discontent’ (Hendrikson et al., 2018), with his promises to ‘bring jobs back’ to the country’s economically lagging former industrial belt. Even though the electoral pendulum has now swung back with the recent election of Joe Biden as the new President, the geographies of economic discontent that have contributed to a divided USA, and to Trumpism, pose a major policy challenge for the new administration.

The problem is no less challenging in the UK. First the Brexit vote in 2016, and then especially the 2019 election of the Conservative Government led by Prime Minister Boris Johnson, owed much to the support of traditionally Labour-voting (‘Red Wall’) former industrial cities, towns and localities in northern England, many of which are among the country’s economically ‘left behind places’. Both the Covid-19 virus pandemic that started in early 2020, and the dramatic economic shock this has created, have also impacted unequally across the UK, with many of the ‘left behind places’ again being severely affected. Even before the pandemic, Prime Minister Boris Johnson talked of a commitment to ‘level up’ these places economically, a promise reiterated in his ‘New Deal’ plan for recovery from the post-Covid recession, the deepest on historical record:

Too many parts of this country have felt left behind. Neglected, unloved, as though someone had taken a strategic decision that their fate did not matter as much as the metropolis [London]. So I want you to know that this government not only has a vision to change this for the better. We have a mission to unite and to level up... We will double down on levelling up... We will unleash the potential of the entire country... To mend the indefensible gap in opportunity and

productivity and connectivity between the regions of the UK... We will not just bounce back. We will bounce forward—stronger and better and more united than ever before (Boris Johnson, Speech on New Deal for Britain, 30 June 2020).

Is there a trade-off between productivity and equality? The role of spatial processes

One of the recurring prominent, but pernicious, issues in economics is the question of whether a ‘trade-off’ exists between equality (usually measured by a country’s per capita income distribution) and efficiency (the country’s economic performance as typically measured by per capita output or its growth rate). The idea of such a trade-off was popularised in the mid-1970s by Okun (1975), and the issue has continued to attract debate amongst economists to this day. According to the trade-off thesis, the pursuit of greater societal equality comes at the expense of lowering the rate of economic growth, that one can have a faster rate of economic growth or greater socio-economic equality, but not both at the same time. Assuming this assertion to be true, the question then arises as to whether it is possible or feasible to allocate resources in an economy in a way that is both fully ‘equitable’ and fully ‘efficient?’ If not, then what are the combinations of degrees of equality and efficiency that are feasible? How much equality has to be sacrificed to obtain a given level of efficiency, or vice versa? What in fact is the direction of causality?

There are several empirical studies that have found that national economic performance is actually positively related to income equality, thereby refuting the notion of a trade-off (for example, Berg and Ostry, 2011; Brueckner and Lederman, 2015; Cingano, 2014; Ostry et al., 2014). However, others in contrast continue to claim the evidence supports the idea that greater income equality dampens economic

growth (Andersen and Maibom, 2016). Others have questioned the idea of a trade-off on theoretical grounds (Osberg, 1995), and still others even on philosophical grounds (Le Grand, 1990). The existence or otherwise of a trade-off is not merely of academic or incidental interest, however. It is also of political importance, since it suggests that policymakers have to make a choice between greater equality and faster growth, according to their 'welfare indifference' between different combinations of the two.

The idea of a trade-off can also be applied to the relationship between national economic growth and the level of spatial disparity. That is, is there a tension between the pursuit of national economic growth on the one hand, and the reduction of regional economic inequalities on the other? This relationship—and whether or not a trade-off exists—would reveal much about the role of spatial-economic forces and mechanisms, within the broader question of whether the challenges of enhancing productivity and reducing inequalities can be pursued at the same time.

Traditionally, the case for reducing inter-regional inequalities has been made on the basis of both economic efficiency and social equity (Martin, 2008). According to the first of these, persistent regional disparities in economic activity—for example in employment rates or productivity—are nationally inefficient, since the underutilisation and underperformance of workers and productive capacity in 'lagging' regions mean that national wealth is lower than it could otherwise be. Policies that raise the utilisation and productivity of human and capital resources in such regions will thus raise national economic performance. At the same time, according to this view, reducing regional disparities also aids national economic management. For example, national expansion can be pursued without leading to full-employment bottlenecks and overheating in certain regions whilst significant unemployment and under-employment of labour and capital still exist in others. According to the social equity argument,

a strong case can be made for regional policy on welfare grounds, irrespective of economic efficiency imperatives. The underlying motivation here is the belief that individuals should not be seriously and systematically socially disadvantaged with respect to job opportunities, housing conditions, access to public services and the like, simply by virtue of living in one region rather than another. By seeking to prevent the spatial concentration of socio-economic disadvantage, then, regional policies can help secure social cohesion and citizenship.

However, a recurring assertion in the spatial economics literature is that there is a trade-off between national economic performance and greater equality between regions. In the so-called new economic geography (NEG), for example, it is argued that regional imbalance, or the spatial agglomeration or concentration of economic activity and employment in particular regions, may actually benefit national growth, and that as a consequence, policies that seek to reduce regional economic inequalities (reduce the geographical concentration of economic activity) may in fact be nationally 'inefficient'. For example, in discussing the implications of the NEG model in a European context, Philippe Martin (2005) argues that 'spatial agglomeration of economic activities may [. . .] have positive efficiency effects and may be a welcome consequence of trade integration' (99–100), implying a trade-off between efficiency and equity. A similar line of argument has figured in UK policy thinking, as is clear from this Treasury statement:

a positive relationship exists between regional disparities and national growth, forming a policy trade-off between economic efficiency and a regionally equitable spread of economic activity . . . Theory and empirical evidence suggests that allowing regional concentration of economic activity will increase growth. As long as economies of scale, knowledge spill overs and a local pool of skilled labour result in productivity gains

that outweigh congestion costs, the economy will benefit from agglomeration, in efficiency and growth terms at least (HM Treasury 2006, 24).

Assuming for the moment that a trade-off does exist, the basic argument can be depicted in hypothetical form as in Figure 4. The convex curve PPF-1 refers to the economy's 'production possibility frontier' in terms of its objectives (national growth and regional equality). At point A on the PPF-1 curve, a national growth rate of $g1$ is associated with a level of regional (in)equality of $r1$.

An increase in regional equality (reduction in regional inequality) to $r2$ reduces the national rate of growth from $g1$ to $g2$. This is the essence of a trade-off. But consider now the 'production possibility frontier' PPF-2. The steeper slope of this curve is intended to reflect the fact that the increasing returns from greater spatial imbalance (agglomeration or regional inequality) become much less at high levels of imbalance (agglomeration), while the diseconomies arising from congestion and pollution increase. Now, the same increase in regional

equality, from $r1$ to $r2$, reduces the national rate of growth from $g3$ to $g4$, a much smaller reduction than was the case if the economy is characterised by the 'production possibility frontier' PPF-1. In other words, the degree of 'trade-off' between regional equality and national growth depends heavily on the shape and position of such a frontier.

Yet further, what if the economy is not in fact on its 'production possibility frontier', but instead somewhere inside it? Consider the point C in Figure 5. This represents a combination of national growth and regional equality that could be deemed inefficient because it is possible to increase national growth or reduce regional inequality without adversely affecting the other.

Thus, it is possible to reallocate resources so as to move the economy to point A, that is to a higher rate of national growth (from $g1$ to $g2$) without increasing regional inequality (reducing regional equality); or to point B, that is to a higher degree of regional equality (from $r1$ to $r2$) without sacrificing national growth. A movement to points between A and B, such as point D, would both raise the national rate

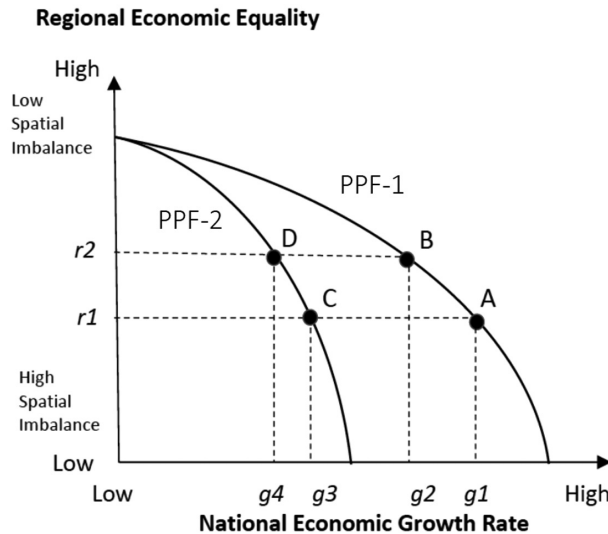


Figure 4. The relationship between national economic growth and regional economic equality with the economy at the production possibility frontier.

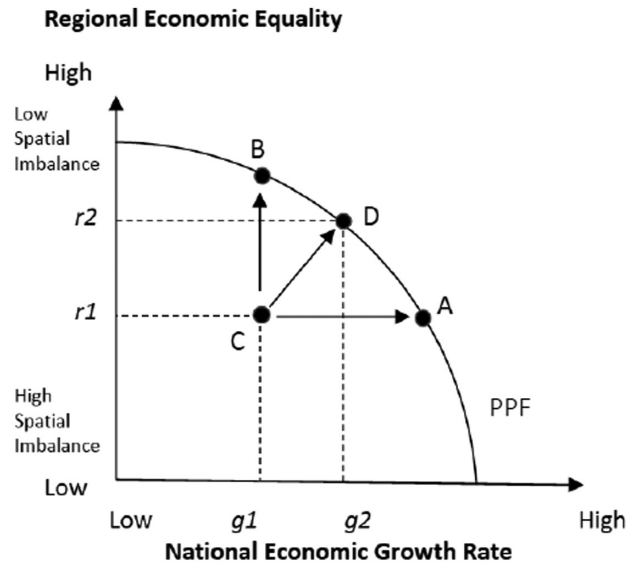


Figure 5. *The relationship between national economic growth and regional economic equality with the economy inside the production possibility frontier.*

of growth and reduce economic inequalities between regions. Points A and B, and all points in between represent efficient combinations of national growth and regional balance since it is impossible to move to any other point on the ‘production possibility frontier’ without trading off growth against regional balance. In this instance, the section of the frontier between A and B does not represent a trade-off.

The problem is that we do not know what the shape or position of an economy’s ‘production possibility frontier’ looks like, if indeed it exists in a convex form at all. Certainly, the empirical evidence for a trade-off between national growth and regional equality is equivocal. For example, in their detailed study of regional inequality across the European Union, [Gardiner et al. \(2011\)](#) find no consistent evidence that greater spatial concentration (imbalance) fosters higher national economic growth. Also recent work by [Capello and Cerisola \(2020\)](#) suggests that disparities across regions in Europe are mainly driven by an uneven distribution of production factors rather than by the effects on enhanced productivity from

spatial concentration; it is thus ‘not a matter of trade-off between efficiency and cohesion, but a matter of pursuing cohesion *through* efficiency’ (1449; emphasis in original).

Much recent empirical work in spatial and urban economics, however, has been concerned to test for a more specific relationship, namely between the agglomeration of economic activity and productivity across cities, the argument being that the greater the concentration of economic activity in a city, the higher will be its productivity (mainly because of various increasing returns and external economies effects). This claim that big cities are more productive has found an enthusiastic reception amongst many policymakers. The argument is closely related to the trade-off idea, since the implication is that the more a nation’s economic activity is spatially concentrated in its largest cities, or in a few regions, rather than more evenly dispersed spatially, the higher would be that nation’s productivity. However, most empirical studies find that a doubling of city density is associated with an increase in city productivity of between only 3% and 8%

(see, for example, the survey by [Rosenthal and Strange, 2004](#)). This seems a very modest effect. Such estimates also tend to underestimate the rise in congestion, pollution and other diseconomies that result from greater spatial agglomeration. There is also the fact that while rates of economic (and productivity) growth have been on a downward trend in many advanced economies since the 1980s, regional inequalities have at the same time tended to widen. This is hardly consistent with any simple trade-off idea: indeed, it suggests that policies that explicitly aim to reduce regional inequalities in economic performance, by promoting economic growth in those regions, cities and localities that have been ‘left behind’, would directly help to raise national growth rates.

Within regions and especially cities, there does appear to be an association between economic performance and inequality. As mentioned in ‘Introduction: two key challenges’, there is plenty of evidence that the more prosperous cities and regions also happen to be the most unequal. It should be noted that this does not necessarily imply the existence of a trade-off. There are indeed powerful tendencies in cities and regions, for strong economic performance to coincide with increasing inequalities. But it does not follow that this relationship can be characterised as a ‘causal necessity’, nor that a reduction of such inequalities will be at the expense of overall economic prosperity

Historically, inequalities within economically successful cities have tended to be starker than in other parts of a country ([Buitelaar et al., 2018](#)). But these existing inequalities seem to have widened still further in recent years. There are several mechanisms at work here. First of all, the changes that have characterised the development of advanced economies in the past decades—shift to a service and knowledge economy, globalisation, financialisation and ‘neoliberal’ policies—have coincided with an increasing concentration of high incomes and high wealth in a selected number of cities. This spatial pattern may indeed have

been strengthened by forces of agglomeration operating within the advanced services, finance and high-technology sectors ([Storper, 2018](#)). Moreover, there appear to be complementarities between the presence of people with a high income and/or large wealth, and lower-paid work in mainly personal services, retail and certain business services (such as security, facility management, catering etc.) ([Lee and Clarke, 2019](#); [Moretti, 2012](#)). Hence, certain cities and regions seem to offer good opportunities for both the top segment within the labour market, as well as particular groups at the bottom-end of the labour market. In this latter group, low-skilled immigrants have filled an important gap in advanced economies (in particular the USA and UK), as they have been willing to move into large cities and perform these jobs ([Milanovic, 2019](#); [Rodríguez-Pose and Storper, 2020](#)). Another important factor in the growing inequalities within cities and regions are housing market dynamics. It is hard to increase the supply of housing in the short-run; house prices have thus increased very considerably in successful cities. This has led to especially middle income groups being squeezed out ([Buitelaar et al., 2018](#)). Low-income groups find it easier to maintain a foothold in economically successful cities and regions, as a certain share of housing is assigned to them through social housing and/or they are willing to put up with poor living conditions ([Rodríguez-Pose and Storper, 2020](#)). These housing market dynamics also feed into—and are fed by—processes of financialisation and financial globalisation, further fuelling inequalities in wealth and income.

From a dynamic point of view, geographical inequalities across and within regions and cities, may be self-perpetuating and contribute to a further increase of inequalities. Living in a high-poverty place can have a significant impact on an individual’s long-term life outcomes. Until recently, the idea that neighbourhood or local characteristics mattered for individual outcomes was challenged by sceptics who argued that the evidence for this was ‘thin’ (for

example, [Cheshire, 2007](#)). Yet a series of studies by Raj Chetty and collaborators has shown that place has an important and causal impact on individual outcomes (for example, [Chetty et al., 2014, 2016](#)). Using administrative data on more than 40 million parents and children in the USA, [Chetty et al. \(2014\)](#) show that upward social mobility varies significantly across US Commuting Zones, a proxy for local economies. A child whose parents are in the lowest quintile of parental income in the CZ with the highest upward mobility, Salt Lake City, has a 10.8% chance of reaching the top quintile of income themselves ([Chetty et al., 2014](#)). However, a child in the worst performing CZ—Charlotte—has only a 4.4% chance. While critics of the idea that geography matters have suggested that these might be simply associations, rather than a causal relationship, Chetty's later work has drawn on the historic Moving to Opportunity (MTO) programme, which provided a randomised experiment in moving families in poverty into less disadvantaged neighbourhoods ([Chetty et al., 2016](#)). While early studies on MTO found few effects, Chetty's better data shows that moving from a high-poverty neighbourhood to a lower-poverty one has a significant impact on life outcomes.

Importantly, these results suggest that there is no trade-off here between policies which increase equity and those which increase efficiency: anti-poverty policies can pay for themselves, as individuals pay more tax and are less reliant on the state. Chetty's work shows that moving a child from a high-poverty to a low-poverty neighbourhood when young increases their lifetime earnings by an average of \$300,000 USD, far outstripping the cost of the programme, 'reducing the intergenerational persistence of poverty and ultimately saving the government money' ([Chetty, 2016](#), 860). In short, geography matters for poverty and disadvantage—and efforts to reduce spatial inequality can themselves increase economic efficiency.

Inclusive Growth: a way forward?

Inclusive Growth has emerged in the past decade or so as a concept and agenda that could potentially reconcile the two ambitions of improving productivity performance and lessening inequalities. It is thus presumed that there is no inherent trade-off between growth and greater equality. Inclusive Growth combines a concern both for the pace of growth and for the equity of its distribution. It actually represents a departure from the traditional view of 'grow first, (re)distribute later' and aims to realise the objectives of growth and equity simultaneously. Inclusive Growth has become one of the most widely, if erratically, used concepts in economic development. At an international level, the World Bank ([Ianchovichina and Lundstrom, 2009](#)) has used the term, as has the [European Commission \(2010\)](#), and the [OECD \(2014a\)](#). The idea is part of the Sustainable Development Goals, with Goal 8 aiming to 'Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all' ([United Nations, 2015](#)). The agenda has gained traction in various countries, in particular the USA and UK ([Benner and Pastor, 2012, 2015](#); [Pike et al., 2017](#); [RSA Inclusive Growth Commission, 2017](#)).

Inclusive Growth can—for now at least—be classified as a 'fuzzy concept' in the sense described by [Ann Markusen \(1999\)](#) in her classic work: different people use it to mean different things, often reflecting their preconceived ideas of what is important, rather than a shared conception. The strength of the concept is that it is politically appealing (few people oppose such vague and positive terms as 'inclusion' or 'growth'), but this vague positivity means that it avoids the difficult and messy challenges of government, which inevitably requires hard choices to be made ([Lee, 2019](#)). As soon as the concept is operationalised and implemented, these choices will come to the fore ([Ranieri and Ramos, 2013](#)). Choices will have to be made

about whether ‘inclusion’ should refer to—for example—an increase of opportunities for currently disadvantaged people to participate in the economy, a reduction of actual economic inequalities in terms of income and/or wealth, a decline in the incidence of poverty, or the political empowerment of people. And whether ‘growth’ should refer to growth of value-added per capita, total factor productivity, employment, or more broadly to overall standards of living. More fundamentally, a choice will have to be made between two ways of understanding Inclusive Growth.

The first way of understanding Inclusive Growth may be labelled ‘Growth Plus’ (Lupton and Hughes, 2016, 7). In this conception, the main challenge is to ensure that the benefits of growth are more widely shared within society. In terms of policy, this means that policies should not only be aimed at promoting growth, but should also address how disadvantaged groups will gain from this growth. This may be done, for example, by interventions focused on the supply-side of the labour market, leading to an upgrading of skills and greater labour market participation; by policies aimed at spreading the adoption of productivity improvements and innovation across the economy; and by investments targeted at unlocking the growth potential in lagging areas and regions (see e.g. OECD, 2018c, 2018d; Sissons et al., 2019; Trullén and Galletto, 2018). Within this understanding, it is commonly held that policies addressing inequality and disadvantage will actually reinforce the aim of growth, and thus should be seen as an economic opportunity. A good example of this line of thinking comes from Angel Gurría, Secretary General of the OECD, when he launched an ‘Inclusive Growth in Cities’ campaign with the argument that: ‘When the poorest are unable to fulfil their potential, we all lose out!’¹ Within this conception of Inclusive Growth, the existing economic development model is taken as the starting point, and the central importance of the aim of economic growth is thus acknowledged. But it

is emphasised that the proceeds of future economic growth need to be more fairly distributed. This may nevertheless represent a step forward, as economic development policy has typically paid little attention to distribution and disadvantage (Gordon, 2005).

The second understanding of Inclusive Growth can be termed ‘Inclusive Economy’ (Lupton and Hughes, 2016, 7). Neil McInroy and David Burch describe an Inclusive Economy as:

An economy intrinsically married to social goals (...). Where there is an intentional desire to reorganise the economy, with wider ownership and where the economy functions naturally to produce social and economic justice, environmental sustainability and prosperity for all (Burch and McInroy, 2018, 4)

Within this conception, it is believed that greater equity will only be possible if a comprehensive restructuring takes place of the prevailing economic development model. Hence this understanding highlights the need for institutional changes, so economic power is distributed much more equally across society, and by its very design, every citizen shares in the wealth that is being—and has been—generated within the economy. This means a rethinking of the existing principles and structures of corporate governance, land ownership, intellectual property rights, money creation and taxation (for example, Gibson-Graham et al., 2013; Jacobs and Mazzucato, 2016; Raworth, 2017). But a more practical starting point may be provided by the notion that the role of the public sector should be reworked, in a way that sees government as part of the solution, rather than as part of the problem. The powers of the public sector are to be leveraged, so that wealth is generated in a way that is not extractive and volatile, but generative and rooted (Burch and McInroy, 2018). In this context, the ‘Foundational Economy’ approach offers a particularly rich

set of ideas of how public policy and public service delivery could support better-living standards and more equitable outcomes (Bentham et al., 2013; Foundational Economy Collective, 2018). This approach stresses the need to shift the focus of development policy away from high-productivity sectors such as Knowledge-Intensive Business Services and advanced manufacturing, to the foundational economy. The foundational economy is ‘the part of the economy that creates and distributes goods and services consumed by all (regardless of income and status) because they support everyday life’ (Bentham et al., 2013, 7); it encompasses among others, housing, food and drinks, health care, education, utilities, communication and transport.

The Inclusive Economy understanding not only underlines the need for significant institutional changes within the current model to achieve more equitable outcomes, it also questions the normative ideal of economic growth itself. It hence links the Inclusive Growth agenda to the so-called Well-being agenda. According to this agenda, economic growth should no longer be considered as the be-all and end-all of development, and hence, we should go ‘beyond GDP’ to incorporate a much wider set of concerns when understanding and measuring economic performance and social progress (Fleurbaey and Blanchet, 2013; Raworth, 2017; Stiglitz et al., 2009, 2018). Hence there is an observable trend to consider economic prosperity not only in the light of social justice—which is at the core of Inclusive Growth—but also in the light of well-being and sustainability.² The Well-being agenda has taken hold in recent years and has resulted in new international statistical guidelines (OECD, 2011; UNECE, OECD and Eurostat, 2014). Moreover, this agenda has entered the debate about development at the subnational level, as many factors that determine people’s well-being operate at the regional and urban level, and the conditions for well-being vary considerably across regions and cities (see Calafati et al., 2021; Froud et al.,

2018; Morrison, 2014; OECD, 2014a, 2014b; Tomaney, 2017).

The politics of Inclusive Growth and the scope for policy

One would expect the Inclusive Growth agenda to have considerable purchase at the national scale, as it could provide a way forward to address the twin challenges of slow productivity growth and increasing economic and spatial inequalities within countries. Yet in terms of actual policy, so far the agenda has mainly been taken up at the subnational level. Within the UK for example, the Scottish government, as well as the councils of Leeds, London and Belfast have implemented Inclusive Growth strategies or put the concept at the heart of their economic development strategies (see Deas et al., 2021; Houston et al., 2021; Lee, 2019). This paradoxical situation may be partly explained by the ‘rescaling of the state’ and marked trend towards decentralisation, which has taken place in many countries since the 1990s (Brenner, 2004; Keating, 2000; OECD, 2019; Rodríguez-Pose and Gill, 2003; Rodríguez-Pose and Sandall, 2008). Cities and regions have gained importance as the loci of development, and subnational territorial levels have been provided with additional powers and resources to promote and oversee their own development. As a corollary, cities and regions have also opened up as political sites in the struggle for social justice and as spaces for progressive politics (Donald and Gray, 2019; Fainstein, 2010; Harvey, 2012; Israel and Frenkel, 2018; Soja, 2013; Tonkiss, 2020).

Yet as described in sections ‘Introduction: two key challenges’ and ‘Is there a trade-off between productivity and equality?’, the causes of rising inequalities and the slowdown in productivity growth operate mainly at higher levels of scale: at the global level, but importantly conditioned and regulated by national and supranational institutions and policies. As big-tech firms assume near-monopolistic

positions and the pervasiveness and power of finance expands ever further, profits are made internationally, but the wealth created is concentrated in a small number of cities (Feldman et al., 2021). In response, many subnational governments have attempted to develop their own economies around high technology, finance and advanced business services—a difficult challenge given the geographical concentration of these activities. Those cities which actually are primary or secondary nodes within these sectors often face challenges of overheating local economies (Kemeny and Osman, 2018; Lee and Clarke, 2019), or have seen growth bypass disadvantaged neighbourhoods (Hughes, 2021). The failure in both cases is partly of national policy—around regulation of new digital technology firms, finance, and capital flows—rather than failures at the local level. Major economic challenges are not being addressed by national government and so the problems are trickling down to the local level. Moreover, the playing field for subnational governments is becoming even more complicated by several recent developments, which concern how the low growth in real incomes for many segments of the population, combined with the evident rise in economic inequalities, has impacted democratic politics.

The lack of responsiveness at the national level may be partially explained—at least in the case of the USA—by the fact that high levels of inequality also shape the nature of democracy and, in doing so, perpetuate inequality. Stiglitz (2012), for example, argues that the rich in the USA were able to gain power over democratic processes, using them to shape policy in their own interest but against the interests of the masses. These problems are acute and, in some cases, worsening. In his book ‘The Great Reversal’, Thomas Philippon (2019) shows the decline of markets in the USA—corporate lobbying and campaign contributions have led to increased barriers to market entry and weak enforcement of antitrust legislation. A lack of competition means that major companies are

able to make excess profits. Meanwhile, the US economy is less dynamic, productivity growth is lower, and the US consumer faces higher prices. These problems of corporate capture are not just national but, in the heavily devolved US system, they are local. Corporate influence in state politics can hold back wage growth, making growth less inclusive (Xu and Warner, 2021). These problems are exacerbated where technology firms can create near-monopolies, concentrating wealth from multiple locations into a smaller number of high-tech cities (Feldman et al., 2021).

Furthermore, the recent experience of populism suggests another way in which inequality can subvert a political economy that would be conducive for Inclusive Growth at the national level. The recent resurgence of populism was driven in large part by voters in lagging regions who were persuaded to vote in a way which challenged the system (Rodríguez-Pose, 2018). Yet the populists they voted for have no solutions for the problems faced by these regions and in many cases are offering policies that will deepen and entrench regional divides. The example of Brexit is a good case here: voters in declining regions were more likely to vote to leave the European Union (Lee et al., 2018), yet the best academic evidence suggests that this will worsen regional disparities (Thissen et al., 2020). Even if the current wave of populism subsides, these dynamics are not yet over. The problems faced by advanced economies over the last four years have deep roots. In some respects, the problem of inequality represents a development trap—a self-perpetuating equilibrium from which it is hard to escape (however, compare Iversen and Soskice, 2019).

Given these trends and circumstances, governments at the subnational level are looked upon to try to address increasing inequalities while also continue to foster economic growth. Yet there will clearly be considerable limitations to what urban and regional governments will be able to do (Turok, 2010). There are however also some areas in which urban and regional

governments can make a real difference in effectuating the Inclusive Growth agenda (Benner and Pastor, 2012; Biggeri et al., 2021; Houston et al., 2021; Lupton and Hughes, 2016; Shafique et al., 2019). It cannot be assumed that there will be simple ‘trickle-down’ benefits from a particular economic activity, but instead there need to be policy efforts directed at ensuring that growth reaches lagging places and disadvantaged communities. There are many examples of policies that help to do this, also at the subnational level. These include measures to ensure disadvantaged neighbourhoods share in the benefits of resurgent city centres (Hughes, 2021; Waite et al., 2020) and, in so doing, help raise overall economic performance. Social policy measures which allow people to participate in the labour force, such as the Scottish Government’s consideration of the importance of childcare, encouraging inclusion while expanding employment opportunities (Houston et al., 2021). Similarly, while labour market polarisation is an important concern across many regions in the ‘advanced’ world (Henning and Eriksson, 2021), policies such as career ladders can help upgrade low-wage, low-productivity jobs, and in doing so addressing the twin concerns of productivity and inclusion (Green et al., 2020). Subnational governments also have a key role in making sure basic services and amenities are available for everyone in a city or region, and equality of opportunity is not just a formal ideal, but is actually given substance through targeted interventions in the circumstances in which people live (Tonkiss, 2020). While we should not pretend that these policies are easy to design or inevitably successful, there are multiple examples of policies, which break down the apparent trade-off between economic performance and inclusion.

This Special Issue

The theme of this Special Edition inevitably provoked a rich and diverse range of contributions from scholars.

Focusing on evidence from the USA, Feldman et al. (2021) observe a pattern of rising inequality between places, with regional policies having only relatively limited success. Their interest is in ‘the interaction of monopoly power, agglomeration economies in technology clusters, and the power of financial sector actors over non-financial firms’ since the 1980s. They argue that the industries of the increasingly *tech*-focused economy of the West have relatively strong intellectual property protection, giving them extensive monopoly power. These sectors are also characterised by a tendency to cluster in certain places to realise the increasing returns provided by agglomeration economies. Such clusters, once established, tend to act as magnets for new start-ups in the tech sector, thus further reinforcing concentration in particular places. It is argued that reforms to governance in the financial sector, particularly as it relates to pension and corporate governance, together with greater concentration in the financial sector itself, has advantaged lending to the tech firms relative to firms in other, more traditional sectors, many of which are not as geographically concentrated.

They make some interesting observations beginning with the changing geography of prosperity. As they observe, a mere 40 years ago in the USA, two of the highest concentrations of paid workers were in Indiana (a centre of steel production) and Detroit (auto manufacturing). Some 40 years later, they are now in the high-technology locations of San Jose and the Research Triangle. A general resurgence of monopoly power in the USA finds one of its clearest expressions in the so-called ‘platform businesses’ of which Amazon and Facebook are prime examples. As Kenney and Zysman commented, ‘platform owners are seemingly developing power that may even be more formidable than that of the factory owners of the early industrial revolution’ (Kenney and Zysman, 2016, 62).

A key message is that increases in monopolistic power associated with sectors like

high-tech, combined and reinforced by financial concentration and rent-seeking behaviour, has led to considerable spatial inequality. Conventional economic development policies are unlikely to change things significantly and may even, in part, be reinforcing some of the trends observed. In the face of this, the authors conclude that certainly in the USA ‘investments made in lagging places will not have the desired effects until the forty-year rise of monopoly power is reversed and the financial sector is regulated’.

Warner and Xu (2021) again examine evidence from the USA to understand more about how the relationship between the growth of productivity and returns to labour at the subnational level is influenced by political factors like the corporate lobbying process, unionisation and the degree of Republican control. As they argue, while it is widely acknowledged that in the USA variations in economic and social policy contribute to economic divergence, hitherto little has been known about the role of the American Legislative Exchange Council (ALEC) in promoting corporate interests. It is clearly desirable to know more about such effects because, as the authors discuss, over the period 1973–2013 overall productivity in the USA increased by 74% but compensation for a typical worker by only 9%. Analysing data for counties in 2012 the authors find that the return to labour is highest in states with more unionisation, but lower in states with Republican control and more apparent corporate lobbying (as measured by ALEC sponsored bills). They consider that ‘the key to inclusive growth may rest with more balanced power between corporate and labour interests at the state level’. Their research reinforces the view of other researchers (Turok, 2010) that the balance between corporate and labour interests will vary according to the scale, or level, of governance, with important implications for the state re-scaling debate (Brenner, 2004).

Henning and Eriksson (2021) are concerned to understand more about the factors

that have led to labour market polarisation across Swedish Municipalities over the period 2002–2012, against a background of increasing regional divergence. They observe that the geography of labour market polarisation is of particular interest in the case of Sweden where the labour market model is usually considered to be driven by a focus on job-upgrading and less on encouraging labour market ‘flexibility’. The expectation might thus be for a lower likelihood of the labour market polarisation tendencies observed in other countries. They find evidence for polarisation in clusters of previously manufacturing-dominated municipalities associated with low- and medium-skilled production as well as in the fast-growing top-tier metropolitan regions. The authors consider that the polarisation in municipalities with high shares of manufacturing activities is likely the result of firms seeking to use less relatively low-skilled workers in the face of technological change. As the authors note, while polarisation and restructuring seem to be closely related, there are substantial differences in the precise regional experience observed and this points to the need for differentiated and customised policy responses.

Bianchi et al. (2021) assess how an integrated industrial policy can help to shape regional development outcomes that reflect productivity and value-added improvements but which also deliver greater inclusiveness and social cohesion. They articulate their discussion around the four pillars of the Sustainable Human Development framework (productivity, equity, participation and sustainability) and introduce a ‘people-centred and place-based perspective’. Recognising the diversity of interests, needs and ideas underpinning change at the local level, their place-based approach considers the interactions among individuals and organisations embedded in multi-layered systems. Crucially, the development of spatial industrial policy has to reflect a ‘whole-of-government’ approach where ‘synergies and coherence among policy areas are consistently

levered towards a unifying vision? They use the case study region of Emilia-Romagna to illustrate how transformative change towards Sustainable Human Development can be operationalised, building on an integrated industrial policy approach.

Calafati et al. (2021) consider another important element in understanding the inclusion challenge facing many places. Building on a Foundational Economy approach the researchers provide new calculations of household income after allowing for the costs associated with housing, transport and utilities. Using data for the English and Welsh regions, they find considerable differences in real incomes both within and between the areas examined. In the light of this, they argue that traditional measures based on gross value added often used to categorise ‘left-behind’ places, provide a poor guide, and can mis-direct the focus of policies that seek to ‘level-up;’ and divert attention from the issues around quality and access to essential services for those in greatest need. They argue that a central plank of any social inclusion policy should be to ensure that all citizens have access to quality housing irrespective of income and tenure.

Hughes and Lupton (2021) provide further insight into the challenge of securing more inclusive growth at the neighbourhood level. They draw on a typology of residential mobility and population-level indicators of economic and social change to consider how deprived neighbourhoods in three English city-regions are linked to their wider economy. Their typology reflects the type of residential household move and helps to understand more about the mechanisms behind change at the neighbourhood level and the implications for relative deprivation. The overall analysis suggests that since 2001 there has been some improvement in some of the most deprived areas examined in London, Greater Manchester and the Leeds City Region, but the authors emphasise the need for caution in interpretation for a number of conceptual and methodological reasons.

Monastiriotis et al. (2021) investigate another aspect of labour market inequality which appears to have been relatively poorly researched; namely the extent to which those who manage to stay in employment during economic downturns by moving down the occupational ladder manage to regain their past occupational positions when better economic conditions return - in other words to bounce back. They use the UK Household Longitudinal Study over the period 2007–2016 and find limited evidence of ‘bounce-back’ for those adversely affected by the financial crisis with the exception of London. The reasons for this do not appear to be associated with variations in broad economic prosperity across regions but with more nuanced regional specificities. They point to a role for customised policy interventions to overcome permanent labour market scarring. Their findings are obviously of great significance in the light of the current Covid-19 crisis.

Deas et al. (2021) examine the changing scalar political relations underpinning regional governance and the impact this has had on the recent discourse on inclusive growth. They focus on Greater Manchester and the contrasting experiences of Oldham and Trafford against the backdrop of increasing dissatisfaction with the city-centralist agglomeration model that has featured so strongly in the development of local economic development policy in the city-region. They argue that political consensus around the agglomerative growth model began to ‘unravel as city-regional democratic politics re-emerged, linked to the election of Greater Manchester first metro-mayor, and as national political concern began to focus on “left-behind” places seemingly most affected by austerity and least able to capitalise on new urban economic growth.’ Their analysis provides valuable insight into what happens when growth coalitions ‘evolve, extend and formalise.’

Houston et al. (2021) seek to understand more about the factors that have influenced the development of Inclusive Growth policies in Scotland in recent years. Scotland is fertile

ground for interest in the Inclusive Growth concept in the light of its increased civic nationalism. The authors argue that if the model is to be of real use then it has to demonstrate what it can add to conventional approaches and be able to ‘develop realistic policy frameworks and recommendations, particularly at local and regional levels’. Building on areas that resonate with the Foundational Economy, they emphasise the need to consider who benefits from key policies, with a particular focus on bus transport, training, childcare and health of the workforce. Action in all these areas can influence participation in education, training and employment and thus, ultimately, productivity and relative earnings.

Endnotes

¹ This reflects the position of the OECD more generally that there is a synergetic relationship between economic growth and greater equity: the aim is ‘to broaden the productive base of the economy to generate strong and sustainable future productivity gains that everyone is empowered to contribute to, whilst also ensuring that productivity growth benefits all parts of society, in terms of improved living standards and opportunities’ (OECD, 2018d, 14).

² ‘Well-being’ refers to the overall state of someone’s life and is equivalent to one’s ‘quality of life’. This is determined by a range of factors, of which material prosperity is an important one, but also encompasses, for example, health, housing, availability of amenities, mobility, safety, social cohesion, environmental quality and subjective happiness. Sustainable development is famously defined as ‘development that meets the needs of the present without compromising the ability of future generations to meet their own needs’ (WCED, 1987).

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