INCLUSIVE GROWTH – FUTURE CHALLENGES

HOW MAYORS CAN BUILD INCLUSIVE ECONOMIES FOR THE FUTURE

Think piece

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1. INTRODUCTION

Inclusive growth is a priority for national and local economic policy. ‘Inclusive growth’ has become a relatively catch-all term to describe a political desire to see the benefits of economic growth shared more equally between people and places. Across the world there is a widespread acknowledgement, from a range of political and economic perspectives, that economic growth (in output or GDP) does not automatically translate into improved employment quality and prospects or living conditions – and therefore does not necessarily benefit society at large (Stiglitz et al 2009; Lagarde 2013, 2018; Lupton et al 2018).

The overarching idea of inclusive growth is that economic prosperity should create broad-based opportunities and have benefits to all – it therefore challenges these economies where higher aggregate economic growth is accompanied by rising inequality and poverty (OECD 2019, RSA 2017, Scottish Government 2015). There is general agreement that inclusive growth must: address inequalities, exclusion and poverty; benefit the economy, as well as being an end in itself; and focus on the nature of the economy – rather than just redistributing the gains of growth through taxes and benefits (IGAU forthcoming 2019).

In the years ahead, the UK will continue to experience significant economic change, and this will have an impact on the prospects for inclusive growth. In its industrial strategy white paper, the UK government set out four ‘grand challenges’ which conceptualise some of the opportunities that will arise: artificial intelligence and data; an ageing society; clean growth; and the future of mobility (BEIS 2017). The industrial strategy clearly takes the view that increasing productivity is the principal route toward improving living standards and inclusion (ibid). It is currently unclear if the Johnson government intends to retain these grand challenges and the language of industrial strategy. However, BEIS have not paused the development of local industrial strategies in LEPs and mayoral combined authorities (MCAs) are delivering them specifically within the framework of the four grand challenges.

This think piece therefore focuses on delivering inclusive growth within the framework of the four grand challenges and local industrial strategies which LEPs and MCAs are preparing and delivering. These challenges will have consequences for inclusive growth which are rarely considered: on the one hand, they present an opportunity for the UK to create more and better jobs or develop services which are more inclusive. On the other hand, they could result in large-scale job losses, exploitation or social exclusion if they are mismanaged.

England’s mayors present a clear opportunity to help ensure these challenges are met in an inclusive way – if they have the right powers. The importance of local leadership is emphasised in the work of the OECD on inclusive growth (OECD 2015). But the UK is one of the OECD’s most centralised countries which limits the capacity of local leadership to pursue inclusive growth policies. More devolution in England could therefore enable local leaders to build more inclusive economies, and the election of new directly elected metro mayors presents an opportunity for the inclusive growth agenda. Indeed, many of these mayors are already implementing policies that support inclusive growth – they are becoming Living Wage Foundation accredited and developing employment charters for example.

Mayors already govern some of the poorest parts of the country. As figure 1 shows, mayors govern more than half (53 per cent) of the 10 per cent most deprived neighbourhoods (LSOAs) in England.
This think piece considers the opportunities for mayors to ensure growth is more inclusive as they deal with the grand challenges. This is not a comprehensive discussion of the challenges nor a detailed set of policy recommendations. We set out the nature of the challenges, provide some ideas about how this agenda could be taken forward locally, and explore how further devolution could support this.

This paper has been influenced by an IPPR North joint event with the Inclusive Growth Analysis Unit (IGAU), held at the University of Manchester in 2018. Representatives from combined authorities across the North were invited to attend to hear four presentations by experts at the University of Manchester on the four ‘grand challenges’ set out by the government’s industrial strategy (IS). Speakers at the event communicated the knowledge within their field and
its links to possibilities for inclusive growth. IPPR North has undertaken a wider literature review to complement these contributions and have also considered how mayors can address some of the challenges they raised. This paper fulfils IPPR’s educational objective by producing new thinking about policies new metro mayors could take forward, and helps to relieve poverty and unemployment by promoting recommendations for the ‘inclusive growth’ agenda.
2. THE OPPORTUNITIES FOR MAYORS TO MEET THE ‘GRAND CHALLENGES’ AND DELIVER INCLUSIVE GROWTH

ARTIFICIAL INTELLIGENCE AND DATA

Artificial intelligence (AI) and data, together with automation, will continue to change the way that we live, work and provide services. Technology has always shaped human societies and economies, but until recently even computerisation was limited to routine tasks. New developments in artificial intelligence and machine learning allow other, more complex tasks to be automated (Howcroft 2018). This means that while once automation only changed the nature of low status and low education (albeit often highly skilled) workers in industries like manufacturing, it has now begun to change the jobs of more formally educated professionals, ranging from legal secretaries to accountants. Machine learning (a subset of AI) is now enabling even more complex tasks to be automated – such as medical diagnosis and image recognition.

The threat automation poses to jobs has been well covered – and sometimes overstated. AI and automation are often misunderstood and their potential impact is exaggerated – in reality, changes tend to be incremental not dramatic, and jobs are likely to change rather than be wiped out completely (Arntz and Zierahn 2016, Howcroft 2018).

Nonetheless there is potential for job losses, increased precariousness at work and declining pay. The ONS analysed 19.9 million jobs and estimates that 7.4 per cent, or 1.5 million are at high risk due to automation, with 64.9 per cent at medium risk. Women, part-time workers, and both younger (aged 20–24, and to some extent 25–29) and older workers (aged 55–59 and particularly 60–65) are particularly represented in high risk jobs (ONS 2019). In isolation, this appears to be a clear threat – though this does not account for new job creation, new sectors emerging, or any interventions.

The economic geography of job losses and job creation in affected industries is a vital consideration. Some places’ economies are more at risk than others – for example, Tanner et al (2019) found that areas which suffered under previous waves of industrial change, and where there is a larger number of people with no skills, are more likely to suffer a negative impact from automation. This could concentrate disadvantage and heighten spatial inequalities even more so than the high level of inequality seen today.

The consequences for inclusive growth could be profound – but as ever the impact on society will be determined by the choices people make. Overall, technological change is always rooted in prevailing socioeconomic trends and subject to the decisions made by corporations or individuals (Howcroft 2018). There are many examples that illustrate this point.
• Several high-profile companies, for example, often use technology as a mechanism of control: technology has been patented, which constantly tracks and rates the activity of workers, which employees have often found demeaning and undignified (Howcroft 2018, Bloodworth 2018). Some argue that the hypersurveillance and low worker control required for such systems, tracking specific activities in such a blunt manner, often reduces real productivity.

• The use of algorithms risks magnifying human bias and error on a huge scale – as algorithms are increasingly used to make traditionally human decisions (Roberts et al 2019). For example, a machine learning algorithm used in recruitment ‘learned’ to downgrade CVs which had the word ‘women’s’ in them because it was drawing information from current employees who were overwhelmingly male (Howcroft 2018).

• The tech sector itself is disproportionately male (Runciman 2015) – even women who enter the sector often leave after a couple of years due to the culture, and some regard it as unrealistic to set a 50:50 target even by 2025 (Howcroft 2018). This is not only a problem in and of itself, but also worsens the effects such as algorithmic biases as discussed above. This problem is likely to remain, as the pipeline of future tech sector workers is also heavily skewed by gender — in 2016 women only represented 13 per cent of computer science degrees for example and only 20 per cent of GCSE computing candidates in the same year (Royal Society 2017).

However, technology offers a significant opportunity in both the public and private sectors. Technology can reduce the need for low-skilled or dangerous labour, it can help people learn remotely, create flexible jobs and increase productivity in the private sector; and it can improve the quality, responsiveness and flexibility of public services – including for inclusive growth (Mulgan 2014).

But this opportunity is often missed by both the public and the private sectors. In the public sector, while there has been some innovation, it has undoubtedly been held back by austerity – especially in local government. Meanwhile in the private sector, while there has of course been significant innovation, financialization has often held this back due to the emphasis on short-term returns to investment (ibid).

Mayors could help to address these challenges and capitalise on the opportunities of AI and data. If they had the right power and funding, and worked closely with their constituent local authorities, in the 2020s they could achieve the following.

Support new local innovations
• Invest directly in new technologies developed in local firms and universities, ensuring that their benefits are captured locally, and use the investment as leverage to ensure they are shared inclusively.
• Provide new infrastructure, spaces and financial support for start-ups and spinouts.
• Support greater collaboration between industry, universities and local colleges with Fraunhofer-style institutions – these are targeted at applied research, focused on societal needs, have strong links with education, and can support digital skills and provide pathways into research jobs for young people.

Encourage better business practices
• Set up and promote cooperative and public forms of ownership in the digital economy to ensure benefits accrue to workers and customers locally, which could potentially involve specific funding or business support schemes for cooperative or publicly owned business.
• Support good employers1 to develop in their areas through planning and investment, ensuring good employment conditions for all workers and promoting good recruitment practices.

• Prevent digital economy companies who exhibit bad practice from setting up in their areas by active market engagement, ensuring unscrupulous and exploitative working environments do not feature as an element of competition in their local economy.

• Ensure high procurement standards are in place and tender contracts only to companies who exhibit good work practices, for example by paying the real living wage, and not undertaking exploitative work practices.

Use data to enable and inform public services
• Promote AI and data as part of a way of making transport networks more efficient and accessible, widening access to work.

• Establish a local automation and AI monitoring unit, which would monitor potential job losses and market changes, in response to which it could develop interventions, help firms manage transition phases, and mitigate consequences for those who could lose their jobs or see the quality of their work degraded without intervention.

Develop digital skills
• Reform the education and skills system so that sufficient digital skills are fully embedded and aligned to local needs from primary school through to FE colleges, universities, apprenticeships and throughout working life, promoting life-long learning.

• Embed digital skills learning opportunities in diverse areas of engagement between local government and citizens, and support opportunities for community learning in digital skills.

AN AGEING SOCIETY
In the UK, as across the world, the trend is for people to live longer lives – but many older people live their later lives in frailty and poor health, creating costs for health and care systems as well as for individual and family wellbeing (OBR 2017). There are signs that increases in life expectancy in the UK may be slowing down or coming to an end, though state pension age increases are set to continue.

While there is an opportunity for some older people to live more fulfilling and productive lives (Round 2017), there is no avoiding the fact that there are severe cost implications associated with higher levels of poor health and frailty, and that these costs will be borne by a relatively smaller working population: the total cost of social care in England is expected to increase by 104.3 per cent by 2030 compared to 2015, and the OBR forecasts the cost of healthcare to rise from 7.3 per cent to 8.0 per cent of GDP by 2030 (Wittenburg and Hu 2015, OBR 2017).

An ageing population will have implications for inclusive growth in several ways. Already, many people are simply unable to afford social care in older age; this in turn can exacerbate problems of poverty and debt. This is likely to worsen as those currently aged 50–64 reach retirement age: many in this age group have a severe mismatch between the skills they hold and the needs of the economy, meaning they need to take on poor quality work – if that is even available to them. Of those people aged 50–64 who are economically inactive, an estimated 1 million have left work involuntarily, and losing a job after the age of 50 is more likely to lead to long-term unemployment or inactivity (CAB 2017). This also affects both current

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1 As defined in employment charters; see Johns et al (2019).
and future income, if workers retire later and with lower pension entitlements. The state pension age has risen and will likely continue to rise, requiring an extension of working lives. However, opportunities to work longer are not equally distributed and, if unmanaged, these changes could worsen economic exclusion (Round 2017). There are also neglected issues surrounding BAME groups and long-term poverty within communities (Phillipson 2018).

Mayors could help to address these challenges and work to include older people in an inclusive economy. If they had the right power and funding, and worked closely with their constituent local authorities, in the 2020s mayors could do the following.

**Integrate policy locally**
- Integrate housing, social care and health within their local area and develop targeted interventions to support sub-groups within the older population, to improve services for the (disproportionately poor) people who rely on them and have more complex needs.

**Deliver targeted support**
- Develop workplace-based health programmes to support older workers and encourage younger workers to develop healthy habits and preserve their health and fitness; and help to promote better health through workplace schemes.
- Develop an apprenticeship, training, and adult skills offer that meets the abilities and needs of those in mid and later life, to help prevent in-work poverty and play a role in reducing in-retirement poverty.
- Provide mid-life career reviews to get people on track for retirement, which could help increase incomes and pension entitlements later in life (Phillipson 2018).
- Develop an employment support offer, including intermediate labour markets and intensive training, for older workers who are currently out of work or want to re-enter the labour market later in life.
- Set out targeted retraining programmes for those aged 50 and older – a group which has a relatively high proportion of jobs at risk of automation and well-explored difficulties in re-skilling and re-entering the labour market once they have become unemployed – and align programmes with the demands of the local economy.
- Work locally, in partnership with organisations such as LEPs and business bodies, to address sectoral issues where working in later life may be particularly difficult (for example in jobs with high physical and emotional demands, highly specific skills or poor rates of pay).

**Make cities more inclusive**
- Design cities and transport networks so that they are accessible to older people, so that those living in poverty are better able to access both jobs and services.
- Provide or develop spaces for older people to work, network and meet so that they have a better chance of sustaining incomes and avoiding poverty in later life.
- Support innovations which are targeted at an equitable response to the challenge of ageing in the tech and digital sectors through mayoral schemes.
CLEAN GROWTH
The earth’s climate is in crisis and the world’s economy must become sustainable. Anthropogenic climate change has accelerated and is approaching a tipping point – beyond which it will not be possible to reverse its effects. The consequences are far-reaching: economic instability, large-scale involuntary migration, conflict and famine could all follow unless these issues are urgently addressed (Laybourn-Langton and Hill 2019).

There are many strong links between this climate emergency and inclusive growth (Ravetz 2018). Historically, the modernisation of the UK economy has often been abrupt and damaging, pushing people and communities into poverty – many places have still not recovered from the decline of heavy industries and mining. Though some former industrial cities have seen their city centres turn a corner with a growth in service industries, many former industrial towns and many large communities in former industrial cities have communities trapped in poverty with little economic opportunity on offer.

However, there is a significant opportunity for places – in cities and in towns and villages across the country – to undergo a ‘just transition’ and to create higher-quality jobs in green industries (Emden and Murphy 2019). Policymakers are now discussing this in the context of a ‘Green New Deal’ that could help build an economy which is both more inclusive and more sustainable. These are complex and interconnected factors and there are social, technical, economic, ecological and political domains, and a ‘synergistic approach’ could lead us “from a ‘smart’ clean inclusive growth policy (based on technical intelligence) to a ‘wise’ clean inclusive growth policy (integrating human knowledge and intelligence)” (Ravetz 2018).

Mayors could help to address these challenges and build a sustainable and inclusive economy. If they had the right power and funding, and worked closely with their constituent local authorities, in the 2020s they could achieve the following.

Shape a green local economy
• Support local green industries with capital investment and planning powers, ensuring that benefits are captured locally from new technologies and using relationships and capital investment as leverage to ensure they are shared inclusively.
• Set up or support local banks that lend to eco-friendly businesses.
• Use planning powers to ensure developments balance jobs growth and sustainability.
• Support local food production and distribution to create and safeguard local jobs while reducing carbon emissions.
• Create additional jobs in green industries and offer these to the long-term unemployed.

Build sustainable transport networks
• Develop integrated local and regional public transport networks to support a just transition – improving access to quality jobs while reducing dependency on cars.
• Consider restrictions to car access or charging mechanisms to reduce carbon emissions, improve air quality, potentially pay for public transport improvements, and encourage greater modal shift to a more sustainable transport network. This must be done thoughtfully, accounting for gaps in the available public transport networks to ensure such changes do not cut off particular groups or areas from access to jobs or services.
• Support the development and roll out of low emission vehicles, for example by providing charging infrastructure, decarbonising public vehicle fleets (including emergency service vehicles), street cleaning vehicles, school buses.
Pioneer sustainable living
• Roll out renewable energy infrastructure and retrofit buildings – creating high quality jobs and improving the quality of housing, which will help to reduce fuel poverty and health problems associated with poor housing.
• Support green modular housebuilding industries, which can reduce the cost of housing and promote housing affordability, while also helping to promote clean growth.
• Improve the management and recycling of waste.

THE FUTURE OF MOBILITY
Mobility is changing and will continue to change in the years ahead. New innovations include autonomous vehicles, ultra-low emissions vehicles, electric vehicles and alternative forms of traction for trains – such as hydrogen or battery power. Connectivity is important, but transport is not just about productivity: transport systems must address the challenges of air pollution and carbon emissions, and physical inactivity (Hodson 2018).

Mobility is closely linked to inclusive growth. Transport networks shape local economies: they determine what jobs are accessible; influence which industries develop or move into an area; and support higher productivity and growth.

As systems of mobility change, they could pose a risk to inclusive growth: for example, on-demand private transport has been seen to increase congestion, which has a particularly significant impact on the bus network – making it harder for bus users to access work and services. However, there are opportunities too: demand-responsive transport (effectively technologically enhanced ‘dial-a-ride’ services) could improve bus routes in real time, potentially improving access to public transport, improving accessibility, and helping to build a more inclusive economy.

Mayors could develop solutions for the future of mobility and support an inclusive economy. If they had the right power and funding, and worked closely with their constituent local authorities, in the 2020s they could do the following.

Build modern transport networks
• Invest in new infrastructure and travel modes such as tram-train, battery and green hydrogen powered trains, which provide new environmentally friendly transport solutions and investment which can be used as leverage to support targeted recruitment, upskilling or other measures.
• Roll out advanced and integrated public transport networks that support access to employment, so that people living in peripheral areas with poor connectivity have improved access to jobs.
• Gather big data and use this to plan transport networks that support inclusive economies, including understanding journeys made beyond commuting such as access to social and community infrastructure and retail.

Invest in mobility innovations
• Invest in and support businesses that are developing new forms of mobility – particularly if they make public transport cheaper and more prevalent, and therefore more accessible to those in poverty.
• Develop demand responsive transport solutions to improve access to jobs and services for older people, younger people and people living in badly connected areas that are often also deprived.
3. CONCLUSIONS: THE KEY OPPORTUNITIES FOR ENGLAND’S MAYORS

This paper has highlighted the great potential of devolution – and how mayors could support inclusive growth into the next decade. They are often best placed to act strategically and plan for the long term for their areas, and they are in the best position to integrate multiple complex initiatives – balancing difficult priorities over time within their city regions.

But they will need far more power to adapt. Many of the actions listed above are achievable without significant changes to governance in England. What they do require, however, is that central government relinquishes real powers, and enables mayors to act with better funding, more fiscal autonomy, and powers related to the economy – particularly over transport, skills, and education, where local knowledge, planning, and control could yield results in creating more inclusive places, and respond to those places’ unique challenges (Cox et al 2014).

Central government will of course retain an important role in establishing minimum standards across places, and policy integration is necessary between local, sub-regional, regional and national tiers of government. But many of these initiatives can and should be led by mayors and their combined authorities.

Mayors therefore need the powers and resources to adapt to the challenges of the 2020s. There are several fundamental, specific powers and resources that mayors will need to be able to take on the challenge of inclusive growth. In order to do so they will need the following.

1. **Fair funding and fiscal autonomy.** In order to adapt to change, combined authorities will need both fair funding, and the autonomy to act without having to ask for funding from central government. Free from central government short-termism, they will be able to plan strategically and sustain programmes for the long term. Local government therefore needs long-term clarity of their financial situation and the process of funding allocations must move beyond the current processes – which use up local government capacity to bid for successive rounds of short-term central government funding. The UK Shared Prosperity Fund (which is likely to succeed European Regional Development Fund (ERDF) funding) could be a mechanism to provide fair, long-term funding for economic and social development.²

2. **Devolution of key powers and budgets in innovation, education, skills and transport.** These are the areas of policy where local action will be most important for inclusive growth, and mayors should be able to take on a significant non-hypothecated grant from central government that will enable them to adapt as appropriate to local conditions. This won’t mean total devolution of all powers, but, as in other developed countries, it will need local autonomy and leadership.

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² Although this is currently an unknown quantity for local governments, who fear they could lose out in the changes; see Henry and Morris 2019.
3. **Public sector capacity.** The public sector itself needs to have people with the skills to intervene, especially after a decade of austerity, and mayors should either have personnel transferred from central government departments and agencies through secondments, or be adequately funded to build up their own capacity.

4. **Regulatory powers.** Many poor practices – with regard to employment standards and the environment, for example – could be regulated at the local level (as well as nationally), and local government could be empowered to use planning and licencing powers to regulate business practices.

5. **Access to big data and intelligence.** In order to adapt, local authorities will need better information about the changes people are experiencing, therefore central government must improve their access to data from firms in their area.
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