

# **Beyond growth: towards a new economic approach**

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

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# The Secretary-General's Advisory Group on a New Growth Narrative

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# 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 in 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; agent-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 (eg 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
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# Danke

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For more on paradigm shifts see Laybourn-Langton, L. and Jacobs, M. (2018), 'Paradigm shifts in economic theory and policy'. *Intereconomics: Review of European Economic Policy* 53 (3): 113-18