POVERTY AND INEQUALITY COMMISSION

DELIVERING INCLUSIVE GROWTH IN SCOTLAND

June 2019

By Rachel Statham and Russell Gunson

A report by IPPR Scotland, in partnership with Mark Diffley Consultancy and Research, for the Poverty and Inequality Commission.

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About the Poverty and Inequality Commission

The Poverty and Inequality Commission was established by Scottish Ministers, initially until 30 June 2019. From July 2019 a statutory Poverty and Inequality Commission will be established through the Child Poverty (Scotland) Act. The Commission's main role is to provide independent advice to Scottish Ministers on reducing poverty and inequality in Scotland and to monitor the progress that is being made.

Acknowledgements

We would like to thank our research participants across our interviews and research events in Scotland, and in Belgium and Canada. Their contributions were crucial to undertaking the work and in developing our findings. We would like to thank the Poverty and Inequality Commission secretariat and Commissioners for their support and feedback on earlier drafts, alongside Jack Fawcett and other IPPR colleagues. Most of all we would like to thank Mark Diffley and Sanah Saeed Zubairi of Mark Diffley Consultancy and Research who led on the qualitative work for this report and provided crucial support in developing the findings, and the report itself.

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Executive Summary

The principle of inclusive growth was adopted as part of the refreshed Scotland Economic Strategy in 2015. In the last few years inclusive growth has become a widely used term across government and beyond. However, what is meant by inclusive growth, what the aims of inclusive growth are, and how policy-makers and practitioners can deliver against those aims, is often blurry and ill-defined. This has raised questions as to whether the adoption of the inclusive growth agenda simply signals progressive intent, or if it is delivering real change for people in Scotland.

Supporters of inclusive growth argue that it could have a transformative impact on social justice in Scotland. In 2017, the Scottish Parliament unanimously agreed to set new statutory targets for reducing child poverty by 2030. Meeting these ambitious targets is likely to require reform beyond tax and social security changes, and beyond government action alone. Only by reshaping the economy to tackle inequality and designing economic growth that delivers greater fairness, are we likely to see the progress we wish to in relation to poverty and inequality in Scotland. In many ways, inclusive growth promises that progress.

We undertook desk-based and face-to-face research with strategic leads and practitioners in Scotland, and in our two international case studies of Belgium and Canada. Through a series of in-depth interviews and roundtables, we sought to understand the background to inclusive growth, the progress made so far, and potential ideas to help deliver inclusive growth in Scotland in the future.

We found that inclusive growth is a contested term, not just in Scotland, but across the world. However, at its core, inclusive growth is about delivering an economy that combines fairness and prosperity and about economic growth that narrows inequalities by design. This marks a significant departure from previous thinking around the economy. Rather than being blind to the shape and direction of growth, inclusive growth prioritises strengthening the economy in a way that tackles economic inequalities and considers the distribution of prosperity across society *before* government intervention in the form of tax and transfers.

In Scotland, we identified four key elements to inclusive growth that can reduce poverty and inequality:

Firstly, inclusive growth recognises that a fairer economy is a stronger economy. There is now a great deal of evidence from across the world that high levels of inequality weaken economic performance. By addressing inequality, we can deliver stronger growth. To realise inclusive growth, you need to see both growth and greater inclusion – not one or the other, and not in sequence.

Secondly, inclusive growth is about narrowing inequalities through the process of economic growth. There are many policy interventions that narrow inequalities through other means, but inclusive growth is focused on narrowing inequalities through economic means.

Thirdly, at its core, inclusive growth is aimed at benefiting poorer people or the least wealthy. It is likely that place-based approaches will be an important means to this end. Likewise, inequality cannot be successfully tackled without an understanding of structural inequalities experienced by particular groups. With these dimensions in mind, inclusive growth’s success ultimately depends on its ability to tackle levels of income and wealth inequality in Scotland.

Fourthly, it is clear that inclusive growth requires sustainability. This includes sustainability from a climate change and environmental perspective but also sustainability in the sense of delivering lasting, entrenched and long-term change.

These four aspects of inclusive growth are not yet fully reflected in the applications and interpretations of inclusive growth we encountered across policy-making in Scotland. Whilst we found strong evidence of intent to take a more inclusive and progressive approach to economic policy-making, there was limited evidence of inclusive growth making a tangible difference to people's lives in Scotland, or to Scotland's economic performance more broadly, since 2015.

Amongst strategic leads and practitioners, across government and beyond, we found clear buy-in to the idea of inclusive growth. We also found a commitment to making inclusive growth work, and emerging partnerships developing offering new opportunities to collaborate to do so. This was reflected in the centrality of inclusive growth to key strategic documents and guidance across government. However, we also found significant levels of confusion, particularly at the practitioner level, as to what inclusive growth looks like in practice and how best to deliver it. This reflected a broader difficulty in translating national ambitions into designing local interventions. Equally, there was not always a recognition that inclusive growth, by definition, requires a change in approach - not just for in specific policy areas, but for themselves, their organisations and across the breadth of government and beyond.

There are, however, clear avenues through which to embed inclusive growth across the full spectrum of economic and social policy-making in Scotland, and translate inclusive growth into a tangible reality. Despite being only a few years old, we found evidence that the inclusive growth agenda has already offered a unifying aim for a number of core policy initiatives. The Scottish Government have identified a broad platform of 'inclusive growth' initiatives since 2015, ranging across fair work, enterprise and skills reform, early years expansion, initiatives to narrow the attainment gap and promote fair access to higher education, and Fair Start Scotland. What is missing, as of yet, is clear and measurable outcomes against which these major areas of policy action are assessed. Whilst these initiatives offer convincing evidence of how they could contribute towards realising inclusive growth in Scotland, evidence of progress – or indeed what exactly progress might look like - is still lacking.

New initiatives such as the Scottish National Investment Bank, the Scottish Centre for Regional Inclusive Growth, and the Scottish Government's pledge to significantly increase infrastructure spending by 2026 offer new opportunities to drive the inclusive growth agenda – but it is important that these opportunities are realised through the application of clear and consistent inclusive growth objectives, and measurement against these objectives. Equally, we found evidence that much more can be done to inclusive-growth proof existing spending, across government and beyond.

From our research looking at inclusive growth experiences in Canada and Belgium, our chosen international case studies, we found a cross-government approach is considered key to realising inclusive growth. We also found strong evidence of labour market interventions aimed at supporting people into work and strengthening pay growth were key to holding against rising inequality across developed economies. In Belgium, a social partnership approach was found to be critical to containing inequality over the last ten years.

If inclusive growth is to have a significant impact on levels of poverty and inequality in Scotland, the scale of change must match scale of ambition. Though progress has been made, the inclusive growth agenda in Scotland does not yet pass this test.

Findings

1. **Further developing a social partnership approach to Scotland's economy could provide strong foundations for inclusive growth**

In many ways, delivering inclusive growth is about transforming how government and business approach Scotland's economy. Setting clear principles around cooperation between government, employers and employees, and providing formal structures to encourage this, could be crucial to delivering culture change and shaping a more inclusive economic model in Scotland. The Scottish Government could further embed a social partnership approach in Scotland, bringing industry, employers and workers together with government in new advisory bodies to help to shape recommended wage floors, wage increases, career structures and progression, and wider joint working. These partnership bodies could work together to target skills investment, boost productivity, tackle in-work poverty, narrow gender gaps, and boost exports.

2. **Scotland's economic strategy could develop a clear focus on the 'everyday economy', where most people work, to deliver inclusive growth**

To make a success of inclusive growth, it is clear from international research, and our literature review, that focussing on the right areas of the economy can make a big difference. Greater economic inclusion depends on broadening the focus of our economic strategy to include the 'everyday economy' of ordinary companies where most people work, including large low-pay sectors such as retail, care, tourism and hospitality. The Scottish Government's Enterprise, Innovation and Economic policy could focus more specifically on improving job quality and progression opportunities within low pay and low productivity sectors, broadening the focus of economic strategy beyond 'growth sectors'. This may also require a change in skills policy within which to provide new skills provision for those in lower-paid work, across the age spectrum. This could help to drive up pay and increase progression opportunities for those on lower incomes, in turn driving more inclusive growth.

3. **Public spending and investment could be better inclusive growth-proofed**

While we found evidence of high-level emphasis on inclusive growth through government policy documents, guidance letters to agencies, and strategic plans, we did not see significant evidence that a systematic approach to inclusive growth-proofing public spending was in place in Scotland. The Scottish Government and its agencies could ensure its spending is inclusive growth-proofed. At the very least, every decision about significant public investment could consider key questions around inclusive growth. A step further could see an inclusive growth impact assessment, by organisation, and for each budget, against key inclusive growth measures.

4. **Government could take a more pro-active approach to embedding inclusive growth practices across Scotland's economy**

The inclusive growth agenda currently lacks teeth. While delivering an inclusive growth economy is likely to depend on culture change over the longer-term, there was a clear view from our research participants that more should be done to consider what tools and levers, at the national, regional and local level in Scotland, could be used to incentivise businesses and employers' inclusive growth practices (or disincentivise poor practices). The recent announcement of a 'fair work first' approach to business development funding was cited as a positive example. If government is to play a full role in embedding inclusive growth practices across Scotland's economy, this will not signal the high-point of ambition, but an important first step. Furthermore, with devolution of new powers, the government's new powers over tax and social security could be important pieces of the inclusive growth puzzle, alongside existing powers around local tax and local government, economic development, enterprise, skills and education. Government could consider how its national and local powers in relation to tax and social security could be used to develop new ways to drive culture and behaviour change in relation to inclusive growth, considering how to give the Fair Work, Business Pledge, and, more broadly, inclusive growth agendas teeth.

5. To deliver impact from the inclusive growth agenda, Scottish Government could better develop a clear, consistent and applied definition of inclusive growth

Many of our research participants felt they were unclear as to what inclusive growth means, both in theory and practice. Some of this confusion stems from the broad definition of inclusive growth adopted in Scotland, with a sense that if inclusive growth includes everything then it is unlikely to deliver meaningful change. Equally, there was a potential conflict between working definitions that prioritise a place-based approach, a population group-based approach, and an approach that prioritises the narrowing of socio-economic inequalities. To be successful, inclusive growth interventions will need to deliver first and foremost against socio-economic inequalities, through approaches that recognise the distinct place-based and population-based dimensions of socio-economic exclusion. We found, however, that this logic was not always accepted or understood. The Scottish Government and its agencies could consider how it can use a clear, consistent definition of inclusive growth, and demonstrate how this applied definition translates into practice. Equally, this definition needs to be brought to life, through evaluated case studies, and a wider bank of successful projects and their key elements. An online bank of successful inclusive growth projects may be one of the best ways to clarify what inclusive growth is, how it can be achieved, and to learn from what works.

6. Measurement and evaluation of inclusive growth activities could improve

A common theme across our research has been a difficulty in measuring progress against inclusive growth at the national and sub-national level, and a lack of evaluation of individual projects against inclusive growth aims. The Scottish Government, and its agencies, could better set clear and measurable inclusive growth outcomes, against which key policy agendas and interventions are measured. This could include major areas of government investment such as childcare, growth deals, and future infrastructure investment.

7. Inclusive growth interventions could helpfully share a policy framework to push in the same direction

We found that a broad range of inclusive growth definitions in use were leading to varied and sometimes conflicting interpretations, and unhelpfully broad interventions. In identifying large population groups, or whole places (e.g. rural or deprived areas) that could benefit from inclusive growth, and choosing to prioritise these groups or areas, there is a risk that some inclusive growth strategies seek to prioritise almost everyone at once, and in doing so prioritise no one. To deliver impact on inclusive growth quickly, there is likely to be a need to make informed choices, both in closer targeting of excluded groups and within broad geographical categories. The SCRIG could work with users of the Inclusive Growth Diagnostic Tool to improve targeting of inclusive growth initiatives at the local level. This could include closer prioritisation of target groups, develop more focused aims, and more closely work with those working within the inclusive growth agenda to design impactful local projects and activity.

8. Realising inclusive growth will take collaboration and culture change

A number of participants expressed a view that the inclusive growth agenda had already been useful in bringing previously distinct areas of policy, and people working within different areas of policy, closer together. While there were existing attempts to foster greater collaboration, particularly at the strategic level, those that we spoke to at the practitioner level expressed a view that structured and sustained efforts would be required to realise effective joint working across areas and layers of government. At the practitioner level there was a clear demand for greater collaboration and networking across organisations and across policy areas. To help to address this the SCRIG could further develop regional networks, or Regional Inclusive Growth Collaboratives, for practitioners to come together and learn across policy areas and geographies to understand best practice in given contexts.

Chapter 1 - Introduction

The concept of inclusive growth has been rising on the political agenda for a number of years, in Scotland, across the UK and across the world. Since the 2007/08 financial crash and resultant Great Recession, we have seen over a decade of stagnating living standards and rising levels of poverty and inequality in Scotland and across the UK, with similar, though less pronounced, economic challenges in many other parts of the world.

New statutory targets to reduce poverty levels in Scotland by 2030 were introduced in 2017, alongside the creation of the Poverty and Inequality Commission. With further new powers devolved to the Scottish Parliament from 2016, in particular around income tax and social security, these have gained a significant prominence in how Scotland can work to meet its new poverty targets. However, in addition, to meet Scotland's poverty targets, we are likely to need to see more than changes in taxation and increases in social security spending. Indeed, a reshaped economy and a new more inclusive economic model, alongside tax and social security changes, will be crucial to delivering the sustainable increases in incomes that will deliver long-lasting decreases in poverty levels.

The Scottish Government recognised this as part of its 2015 Economic Strategy. The concept of inclusive growth was placed at the heart of the strategy, with an aim of reducing inequalities while increasing competitiveness in Scotland. However, it is unclear as to what has changed since the adoption of inclusive growth, and what can be done to deliver faster progress on reducing levels of poverty and inequality in Scotland.

The Poverty and Inequality Commission commissioned IPPR Scotland, in partnership with Mark Diffley Consulting and Research, to undertake this research to understand what is being done differently in Scotland as a result of this focus on inclusive growth. The project began in October 2018 and completed in March 2019 with a mix of desk-based and qualitative research methods across three stages:

- **Stage 1** – Review of academic literature on inclusive growth and literature relating to inclusive growth in Scotland, including document review of key government strategy documents, qualitative in-depth interviews with senior strategic leads inside and outside of government and a roundtable event with policy-practitioners whose day-to-day work involves delivering on the inclusive growth agenda.
- **Stage 2** – Review of international literature and data, and qualitative in-depth interviews with international stakeholders in two country case studies
- **Stage 3** – ideas and recommendations development, including an 'ideas lab' event with key experts and stakeholders to test and generate recommendations for the taking the inclusive growth agenda forward.

Chapter 2 - What is inclusive growth?

2.1 What is inclusive growth and where has it come from?

Throughout the latter half of the 20th century, a belief that economic growth should be the overriding aim dominated approaches to economic policy. The level of economic growth was the most important factor, and the shape and direction of growth less of a priority, if a priority at all.

Neo-liberal 'trickle-down' economics, which was the most notable of these approaches to the economy, with its belief that 'a rising tide lifts all boats', was adopted across the world through the 1980s and early 1990s. However, it became largely discredited in the face of mounting evidence of rising inequalities developing alongside rising rates of economic growth, both in developed and developing countries. This economic consensus gave way to what became known as 'third-way' economics through the mid-1990s and early 2000s. This was the idea, in broad terms, that policy-makers could afford to be blind to the shape and direction of economic growth so long as government taxed the proceeds and redistributed them. Following the 2007/08 financial crash, and in the face of vanishing tax revenues, it became increasingly clear that without a focus on developing a fairer economic model, redistributive tax policies alone, would not be sufficient to deliver the levels of equality needed.

Inclusive growth has been seen as an alternative economic approach that fosters a more sustainable model of economic growth, with equality at its heart. Against this backdrop, inclusive growth has become something of a rallying cry for governments of major economies and multilateral organisations including the OECD, the IMF and the World Bank (Nolan, 2018; OECD, 2015; IMF, 2017).

What inclusive growth is, how you define and measure it, and, most importantly of all, how you deliver it, has been the centre of a great deal of attention in recent years. Existing research has described inclusive growth as a 'fuzzy' concept that has been imprecisely and inconsistently defined, often signalling progressive *intent,* but supported only by limited evidence from implementation (Lee, 2018). Whilst our research finds a lack of definitional clarity across policy-making in Scotland, the literature shows that this clarity is lacking in contexts across and beyond the UK, too.

However, there are a number of common threads across the literature, when it comes to inclusive growth that can reduce poverty and inequality. We have identified four key aspects of inclusive growth as a policy tool.

Firstly, inclusive growth recognises that a fairer economy is a stronger economy. To realise inclusive growth, you need to see both growth and greater inclusion – not one or the other, and not in sequence (i.e. growth first, inclusion second or vice versa). Equally, inclusive economic recession is not inclusive growth. There is a great deal of evidence that shows that excessive inequality tends to lead to weaker economic performance. Research from the OECD and the IMF has found that economies with a more equal distribution of wealth and narrower income inequalities have stronger and more sustained economic growth than those with greater inequality (Ostry, Berg, & Tsangarides, 2014).

Secondly, inclusive growth is about narrowing inequalities through the process of economic growth. There are many policy interventions that narrow inequalities through other means, but inclusive growth is focused on narrowing inequalities through economic means. This is a different logic from both the 'trickle down' growth model, and 'third way' economics that in many ways sees economic growth as quite separate to reducing social inequalities. Trickle-down models of growth hinge on the assumption that the effects of growth will be experienced in sequence with the benefits of growth first felt by the already-wealthier parts of a society, meaning the rich will get richer first, before the benefits of that economic growth trickle down to the poor. ‘Third way’ economics is characterised by its ambivalence to the shape of growth, but commitment to redistribution of the gains of growth through tax and social security. The point of difference that marks inclusive growth agendas apart from the third-way is the clear aim of reducing inequalities *prior* to taxes and social security interventions, meaning the most significant promise posed by inclusive growth lies in the shaping – or re-shaping – of economic policy in such a way that necessarily considers distributional outcomes (Green, Froy, & Kispeter, 2017).

Thirdly, there is a great deal of debate around what types of inequalities should be the main focus of inclusive growth. This can often lead to the lack of definitional clarity making it difficult to develop measures of success and to design local interventions to achieve inclusive growth. At its core, inclusive growth is aimed at benefiting the poorest or the least wealthy, and as such growth which is aimed to benefit low income/wealth households, and successfully does so, would meet the definition. However, broader definitions see it include growth aimed to benefit whole population groups, for example in terms of gender, age, race or disability (regardless of income etc.). Others have argued that inclusive growth is growth aimed to benefit whole geographical areas (such as rural areas or deprived areas). However, from a poverty and inequality viewpoint, inclusive growth is likely to require a focus on benefiting people that are experiencing socio-economic inequalities – such as income inequality, or poverty - within population groups and geographical areas.

Fourthly, and finally, it is clear that inclusive growth requires sustainability. This includes sustainability from a climate change and environmental perspective but also sustainability in the sense of lasting, entrenched and long-term change. This is likely to mean an approach that ensures the people, families and neighbourhoods we are hoping will benefit from more inclusive growth feel and have ownership of the inclusive growth interventions, and that those interventions receive wider support among the general public in order for change to be sustained over the long-term.

The central challenge put to inclusive growth’s practitioners is how far it can translate into a genuine difference in policy approach, as opposed to the continuation of existing policies under a banner signalling more progressive intent. To deliver economic growth that is materially different in structure to that seen in the past, will require materially different interventions, and culture-change across the economy. Quick wins on jobs or growth will need to be sacrificed for short or long-term wins in terms of higher quality jobs and growth that narrows inequalities across Scotland.

Through this research we have sought to understand how inclusive growth has changed economic development in Scotland, and how we can deliver inclusive growth to help to reduce poverty and inequality in Scotland.

Chapter 3 - The Scotland experience so far

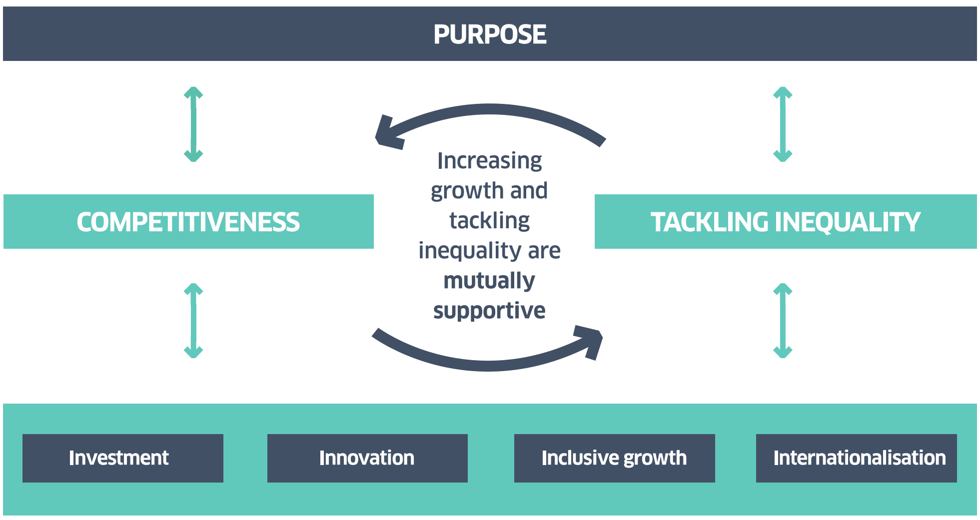
3.1 Introduction

The Scottish Government adopted inclusive growth as a key priority through Scotland's Economic Strategy (SES), published in 2015. The SES defines inclusive growth as "growth that combines increased prosperity with greater equity; that creates opportunities for all; and distributes the dividends of increased prosperity fairly". Inclusive growth sits alongside three other economic policy priorities of international, investment and innovation and together form the four 'Is' of Scotland's economic strategy (see Fig 1). Each of these pillars is identified as contributing to the mutually reinforcing objectives of 'tackling inequality' and promoting increased 'competitiveness' in Scotland's economy. However, for many inclusive growth has become the most significant of the four Is. A senior government official working on economic policy explained in interview that inclusive growth "*sits on top*" of the other three of the four I's as an overarching agenda.

These priorities have been adopted against a backdrop of increasing income inequality across the UK and many of world's developed economies (Stiglitz, 2016). Scotland's economy has not been insulated from these trends. In 2015/16, the richest 10% of Scotland's population held 38% more income than the bottom 40% combined (Gillespie, 2016).

At the core of the Scottish government's definition of inclusive growth is a recognition that efforts to tackle socio-economic inequality and efforts to strengthen Scotland's economic performance in terms of traditional metrics, such as international competitiveness, go hand in hand. Through narrowing inequality, Scotland's economy will become more competitive, generating greater prosperity that will be shared more broadly across Scottish society. The Scottish Government offers a 'multi-dimensional' concept of inclusive growth, with a stated focus on social inclusion, well-being, economic participation, and environmental sustainability.

Figure 1: Scotland's Economic Strategy framework (2015)



Source: Scottish Government, 2015. Scotland's Economic Strategy.

Ambitions attached to Scotland's inclusive growth agenda are clearly high. What is less clear, however, is how the Scottish Government can translate theory on inclusive growth into a clear vision and successful delivery of more inclusive growth in practice.

3.2 The broader inclusive growth policy agenda in Scotland

Since the adoption of inclusive growth within Scotland's economic strategy we have seen a number of emerging or developing policy initiatives which have been argued to be within Scotland's broader inclusive growth agenda. The SES highlights four broad policy objectives under which sit the Scottish government's core inclusive growth initiatives. Below we have outlined some of the government policy initiatives that Scottish Government has identified as being within each of the four objectives, plus a fifth category of cross-cutting policy areas of relevance to the inclusive growth agenda and beyond:

i) to promote Fair Work
ii) to address barriers to labour-market participation
iii) to tackle cross-generational inequality through early years interventions; and
iv) to realise opportunities across Scotland's cities, towns and rural areas.
v) cross-cutting policy areas

i. Fair Work

Fair Work Convention

The Fair Work Convention, created in 2016, brings together key social partners in Scotland – trade unions, employers and government – to develop action to promote fairer work in Scotland. It sets out a vision for fair work in Scotland, and puts forward the case for how fair work can drive greater prosperity for individuals, workplaces and Scotland as a whole.

The convention has developed a 'Fair Work Framework' which sets out five dimensions of the Scottish Government's vision of Fair Work: effective voice; opportunity; security; fulfilment; and respect. In seeking to realise these ambitions, the convention sets out evidence, advice and support for employers to make progress on each dimension. Since the publication of the Fair Work Framework, the government has created a fair work action plan, and the priority of fair work has been adopted across government policy areas.

Most recently, the Scottish Government announced a 'fair-work-first' principle whereby employers would only gain access to public funds and support if they could show they were a fair work employer.

Business Pledge

The Scottish Business Pledge was created in 2015 bringing government and business together to attempt to boost productivity, competitiveness, sustainable employment, and workforce engagement and development. The business pledge is a voluntary code for employers which aims to encourage employers to pay the living wage, engage and balance their workforce, invest in young people and local communities, focus on innovation and internationalisation, pay suppliers promptly and reject zero hours contracts. However, as of April 2019, only 624 businesses in Scotland have so far committed to the pledge, which has been positioned as the most visible inclusive growth focus of Scottish Enterprise.

Living Wage sectors

Since October 2016, the Scottish Government has provided funding to local authorities to pay care workers providing direct care and support to adults to be paid the living wage and from 2018/19 this was expanded to include overnight care workers. As part of the Scottish Government's expansion of free early years entitlement (see below) for three and four-year olds, and some two-year olds, the Scottish Government has also pledged to provide funding to ensure all childcare workers delivering the new 1140 hours entitlement will be paid the living wage by August 2020. The Scottish Government states that this will see 8000 existing childcare workers and all additional childcare staff paid the living wage.

(ii) Barriers to labour market participation

Fair Start Scotland

Some employability services were devolved to the Scottish Government in 2017. In April 2018, Fair Start Scotland replaced Work First Scotland and Work Able Scotland as a Scottish employment and support service, with a budget of £94m per year and the aim of supporting 38,000 people annually. The service aims to support disabled people, the long-term unemployed and those who are disadvantaged in the labour market to move into sustained fair work. To do this it states that it provides 'whole-person' support that seeks to fit people's individual needs and circumstances. It does this by providing support in terms of help with job applications, mentoring, courses and training, personal development and specialist support for disabled people and people with severe and enduring mental health problems, including through supported employment and individual placement support. Participation in Fair Start Scotland services is voluntary, marking a clear break from UK government practice.

Enterprise and Skills Strategic Board

In 2017, the Scottish Government created the new Enterprise and Skills Strategic Board to provide strategic overview to Scotland's four (and soon to be five) enterprise and skills agencies. In late 2018, the Board published its Strategic Plan which aimed to outline how these key government agencies can work collectively to deliver productivity increases in Scotland, and promote equality, well-being and sustainability (Enterprise and Skills Strategic Board, 2018). At the core of the plan the aim is to see increases deliver productivity and inclusive growth through fair work and it sets out four 'missions' to do so, around: Business Creation and Growth; Exporting; Business Models and Workplace Innovation; and Future Skills Needs.

Early learning and care (ELC)

The Scottish Government is committed to delivering 1140 hours of free available childcare per year to every three- and four-year old in Scotland, and increasing portion of vulnerable 2 years olds (based on free-school-meal eligibility), by August 2020. The commitment was made a few months prior to adoption of inclusive growth by the Scottish Government, and confirmed and developed following the 2016 Scottish Parliament elections. One of the stated aims of ELC investment is to support inclusive growth through supporting more parents into work, training or studying. The Scottish Government has also sought to improve ELC quality through investing in a skilled ELC workforce alongside committing to pay the Living Wage to all childcare workers by 2020 (as outlined above). However, it is less clear that ELC expansion has retained a clear focus on inclusive growth in how it is rolled out and in terms of the full range of its potential impacts (including for example the potentially differing impacts felt by parents, children (over time), and childcare workers).

(iii) Tackling cross-generational inequalities

Early years

ELC investment, outlined above, has been positioned by Scottish Government as a key mechanism through which to tackle the inter-generational transfer of inequality in Scotland, improve outcomes, and tackle the education attainment gap.

School Attainment Gap

The Attainment Scotland Fund was first announced in February 2015, with the objective of narrowing the poverty-related attainment gap in nine targeted 'challenge authorities' identified as areas of concentrated deprivation. The Fund has been invested in Pupil Equity Funding allocated directly to schools and the Care Experienced Children and Young People Fund. It is underpinned by the National Improvement Framework, Curriculum for Excellence and Getting it Right for Every Child strategy, and supported by Regional Improvement Collaboratives aimed at providing support, best practice and regional collaboration across schools. Narrowing the attainment gap has been seen to be within the inclusive growth agenda as if the attainment gap is successfully narrowed, economic chances can be improved for children from poorer backgrounds.

Fair Access to Higher Education

The Scottish Government set clear targets around delivering fair access to higher education by 2030, in response to the final report of the Commission on Widening Access. It appointed a Fair Access Commissioner in December 2016 and (at time of writing) are currently developing an online toolkit and community of practitioners, and a Fair Access Framework is due for publication this year, which will be used by schools, colleges, universities and the third sector. This builds on the creation of outcome agreements, agreed between universities and college regions and the Scottish Funding Council (SFC) which include ambitions to deliver fairer access. This policy agenda has used the language of inclusive growth less, but again if successful could lead to greater economic prospects for people from poorer backgrounds and more deprived communities.

(iv) Realising opportunities across Scotland's towns, cities and rural areas

City deals and growth deals

City Region Deals in Scotland are funded jointly by the UK and Scottish Governments, so far involving 16 councils and various partners including the private sector, universities and Transport Scotland. City Region Deals have been agreed in Glasgow, Aberdeen, Inverness and Highland, Edinburgh and South East Scotland regions, with further deals in Stirling and Clackmannanshire and Tay in development. Alternative agreements, known as Growth Deals, are being worked on by the remaining 11 councils across Scotland, with the UK government announcing £100m for the Ayrshire growth deal in January 2019. The Scottish Government has committed to match UK government funding, following the precedent set by the City Deals. The Scottish Government has argued that these deals have inclusive growth dimensions, but the reality of this is discussed in greater detail below.

Regional Economic Partnerships

The 2016 Enterprise and Skills Review committed to developing Regional Economic Partnerships. These have developed from the bodies that came together to deliver the first City Region Deals in

Scotland, and reflect a commitment to economic policy-making in Scotland that attempts to reflect localised challenges and opportunities. So far, Regional Economic Partnerships have included formal roles for the Scottish and UK governments, Scottish Enterprise, Skills Development Scotland and representatives from industry. Regional Economic Partnerships have been positioned as a key vehicle for delivering the Scottish Government's ambition of place-based inclusive growth, including the 'Ayrshire pathfinder' through which the Ayrshire Growth Deal is developing. The emergence of region-based Growth Deals in addition to Scotland's City Region Deals are closely tied to Regional Economic Partnerships.

(v) Cross-cutting policy areas

Equality impact assessments

The Scottish Government introduced Equality Budget Statements (EBS) in 2009, with each subsequent draft budget brought forward accompanied by an assessment of the equality impact of spending decisions. From the 2016/17 budget onwards, inclusive growth emerged as a top-line priority, brought to life through investment in tackling Scotland's educational attainment challenge and located 'at the heart' of the Glasgow and Clyde Valley City Deal (Scottish Government, Equality Budget Assessment 2016-17, p.22). The 2018/19 EBS seeks to demonstrate the progress already realised in delivering 'the Scottish approach to inclusive growth', and states unequivocally that City Regional Deals 'are central to our delivery of inclusive growth across all parts of Scotland' (Scottish Government, 2018, p.41).

At this early stage, whilst investment in inclusive growth *initiatives* is evident, evidence of how this investment is supporting the delivery of inclusive growth *outcomes* is yet to be seen. Commitment to a sustained focus on inclusive growth is linked to evidence demonstrating that 'increasing diversity and removing barriers to participation [is] not only a social benefit but also drives economic growth' (Scottish Government, 2018, p.24). This language is strengthened in the 2017-18 EBS, which sets out an ambition for an economy which 'wherever possible advances equality' (Scottish Government, 2017, p.3) and acknowledges further evidence that inequality acts 'as a constraint on growth', with the need to ensure the proceeds of growth are widely shared.

Scottish National Investment Bank (SNIB)

Plans to establish a Scottish National Investment Bank (SNIB) were announced in the Programme for Government 2017-18, with an implementation plan published in early 2018. Legislation to set up the Bank was published in February 2019 with the stated aim of having the Bank up and running by 2020 with plans for the SNIB to have social 'missions' which will be chosen and outlined in due course. As of yet there has been no dispensation agreement with HM Treasury that would be required to establish a fully-functioning publicly owned bank, as opposed to a government investment fund.

Infrastructure investment pledge

The Scottish Government's 2018 Economic Action Plan pledged to invest in infrastructure and improve digital connectivity across Scotland, followed by the appointment of an Infrastructure Commission in February 2019. The Commission will look at a 30-year strategy for Scotland's infrastructure needs, with aims of boosting inclusive economic growth, improving services and supporting the delivery of the Scottish Government's low-carbon objectives.

The Scottish Centre for Regional Inclusive Growth (SCRIG)

The SCRIG is an ‘interactive platform’ hosted by the Scottish Government, which aims to bring together government, industry and academia to design, develop and deliver inclusive growth in Scotland’s regions. Resourced by the Office of the Chief Economic Adviser and the Directorate for Economic Development at the Scottish Government, the SCRIG’s core function so far focusses on providing analytical capability to regional and local policy-makers in Scotland in order to better facilitate inclusive growth.

The SCRIG Diagnostic Tool aims to help policy-makers at regional and local level develop and apply inclusive growth strategies. The tool benchmarks local economic performance, which informs the identification of high-level areas of achievement and challenge, with the aim of expanding policy-makers’ focus beyond “*traditional measures of economic success*”. It then identifies key areas for inclusive growth interventions by assessing local and external conditions that might impact growth and inclusion, and social factors “*which act to compound on individuals’ experience of inclusive growth*”. This exercise identifies ‘excluded’ groups with shared characteristics and particular experiences of exclusion from the benefits of growth, and key areas of weakness to tackle. The SCRIG Diagnostic Tool has been developed and tested through a piloted project with North Ayrshire local authority since 2016.

National Performance Framework (NPF)

The Scottish Government introduced a refreshed National Performance Framework in 2016, with the aim of providing an ‘outcomes-based’ framework for national wellbeing in Scotland. Inclusive growth is a core aim of Scotland’s National Performance Framework. Many of our research participants described inclusive growth outcomes as embedded within the framework, which includes a wide range of indicators spanning wellbeing, inequality and more traditional measures of economic performance. On economic growth, the NPF gauges Scotland’s performance to be worsening, whilst income inequality is ‘maintaining’.

As this broader inclusive growth agenda shows, many of the ‘inclusive growth’ initiatives promoted by the Scottish Government are new and have been developed in the last few years. Evidence of impact, therefore, is difficult to see so far. However, as discussed in more detail below, it is unclear whether the reality of these policy initiatives match the ambitions of inclusive growth. What is more, it also remains unclear how government intend to measure many of these initiatives to gauge how successful they are in realising inclusive growth. For inclusive growth to be realised in Scotland, many of these policy agendas will need to deliver stronger impact over the coming years than they have in the first few, in line with a stated vision for what inclusive growth success would look like for each initiative.

3.3 The experience so far – progress and tensions within inclusive growth in Scotland

Alongside a developing broader inclusive growth policy agenda in Scotland, our research has focused on the experience so far for those working within the inclusive growth policy area. While the government has developed new policies, and there is little evidence of inclusive growth impact in these early stages, we wanted to know how far these policy initiatives have begun to impact on practice. Through our desk-based and face-to-face research we identified a number of key themes in relation to progress so far.

Multiple definitions and multiple outcomes of inclusive growth

There are a number of differing definitions of inclusive growth in use in Scotland. While some are complementary others run the risk of introducing incoherence and confusion into delivering inclusive growth that reduces poverty and inequality in Scotland. We identified definitions of inclusive growth that ranged from ambitious and multi-dimensional understandings of socio-economic inequality to vague commitments to greater inclusion.

For inclusive growth to successfully tackle poverty in Scotland, policy-makers will need to ensure an understanding of how different groups experience poverty is built-in to inclusive growth. This includes policy-making with lived experience at its heart, and a proactive approach to designing policy interventions that reflect these differences. This is critical to the delivery of growth that reaches groups at the furthest margins, by identifying the particular barriers facing BAME families experiencing in-work poverty, or disabled women in the job market, and policy interventions that would respond to these particular challenges.

Understanding who is currently excluded from growth

Whilst the first concern of inclusive growth from the perspective of poverty and inequality is with reducing income and wealth inequality, this can only be achieved by recognising the multiple dimensions through which inequality is experienced and can be tackled - including through reducing regional and local inequality, and reducing inequality related to gender and ethnicity.

Whilst policy-makers who grasped this complexity were able to offer the most compelling visions of inclusive growth and a range of tangible examples of progress, we found considerable confusion at both strategic and practitioner level. This was particularly clear through participants' reflections on protected characteristic groups, who were often referenced in acknowledgement of their collective experience of economic marginalisation. Whilst there was some degree of understanding of why an inclusive growth agenda needed to deliver better opportunities, for example, for disabled people to access employment, there seemed to be a limited understanding of how inclusive growth interventions at the local level, or within particular government agencies, might deliver these outcomes.

What's growth got to do with it?

At practitioner level, this confusion was in some instances compounded by a lack of understanding of how greater economic inclusion related to economic growth. When asked to give an example of inclusive growth in practice, one participant cited changing public attitudes towards same-sex marriage, indicating some confusion in differentiating between policy that promotes greater social inclusion, and policy that promotes inclusive *growth*. Amongst the best-understood examples of a local inclusive growth initiative in action was Glasgow City Council's *In-Work Progression Pilot*, which combines business support aimed at boosting productivity within firms with support in developing progression opportunities for staff. One policy practitioner described the importance of measuring the economic impact of social policy interventions, and "not seeing the economy in isolation".

Whilst we found evidence of economic policy-makers taking on a more social and multi-dimensional approach to the economy, an equivalent change within social policy, to bring economic considerations into traditionally 'social' policy areas, was less consistently apparent. In many ways it is more challenging to identify social policy interventions – in areas such as housing, childcare, and education - as definitively delivering inclusive economic growth. For policy practitioners working in social policy, there were more varied interpretations of inclusive growth, and a less-focused objective on shaping economic growth itself. For policy-makers working on these social policy areas, there is a need for a clearer vision of how their work contributes towards inclusive growth in Scotland, and how the decisions they make in their day-to-day work can help progress this vision.

Trade-offs – a case study from our research event

In one of our research events we asked attendees in groups to consider the potential inclusive growth outcomes of a series of hypothetical policy scenarios. One scenario described a local childcare provider delivering the expanded free available hours offered by the Scottish Government through a flexible-hours provision model. Participants were asked to outline the potential inclusive growth outcomes from doing so.

Participants offered a vast range of potential inclusive growth outcomes including increased parental employment rates, increasing job quality for parents, long-term educational benefits for children, and the creation of local jobs in the female-dominated childcare sector, which might in turn help more women into secure paid employment. However, it became clear that even in this example there were more and less inclusive ways of delivering a flexible childcare model. It was therefore not seen by everyone as being intrinsically within the realm of inclusive growth, but instead depended on how it was delivered and which beneficiaries were focused on.

For example, a flexible childcare model may help to deliver inclusive growth outcomes for parents who use the service, but may do the opposite for staff. Equally, without knowing which parents were accessing the provision, and their backgrounds and circumstances, it may not be possible to know if it is helping to narrow inequalities or not among the families served. Likewise, without measuring quality of care, or the outcomes for children over the long-term (and the children's backgrounds) it may not be possible to understand the potential implications for narrowing the attainment gap and life chances post-compulsory education.

These points demonstrated both the value and the challenge of policy-making under the inclusive growth agenda. The scale of ambition demands multi-dimensional policy interventions, but without clear direction, monitoring and evaluation, and without being clearer as to the aims of inclusive growth in general, and more specifically for local interventions on the ground, there is a risk that opportunities may be lost to maximise the potential of delivering inclusive growth.

Measuring inclusive growth

Participants we spoke with consistently acknowledged that measurement was a key challenge yet to be fully grappled with. We heard a wide-range of views on how inclusive growth might best be measured. This included aggregate economic indicators, such as rates of employment or economic inactivity, the number of people claiming in-work benefits, or levels of in-work poverty. Other participants spoke of more holistic measures of inclusive growth, ranging from qualitative measures of lived experience that might trace individual's quality of life to more data-driven measures such as wellbeing statistics.

A clear challenge that emerged from our research was how individual projects or initiatives might set and measure inclusive growth objectives and outcomes. There was also concern expressed as to how traditional metrics of economic performance might fail to capture the particular challenges of Scotland's rural economy or provide a sufficiently localised picture. A participant in North Ayrshire explained that the area's forthcoming Inclusive Growth Action Plan was prioritising locally applicable outcome metrics to reflect local priorities. However, they saw a lack of available data at the local level to help to inform local-level priorities and to measure related outcomes.

The Scottish Government's Inclusive Growth Framework tool aims to support a multi-dimensional concept of inclusive growth that combines the dimensions of population, people, place, productivity, participation and sustainability. In practice, however, we observed policy practitioners struggling to use the tool effectively. Whilst there was a clear demand for support in designing and measuring the success of inclusive growth interventions, we heard mixed views on the SCRIG Diagnostic Tool. Criticism was sharpest in relation to the tool's limited usefulness for assessing how effective particular policy interventions are likely to be in delivering inclusive growth for identified priority groups.

Place-based approaches

In Scotland inclusive growth has developed as a feature of place-based agendas with an increasing emphasis on cities and regions as economic and political actors. Geographical inequalities in the UK are growing in a number of ways. UK economic opportunity clearly remains skewed towards London and the South East (IPPR, 2018) and clear regional inequalities within Scotland persist (Scottish Government, 2015).

A number of our research participants spoke of using place-based approaches to tackle geographical inequalities in Scotland. Those working in policy roles spoke of the need for inclusive growth efforts to be driven by local needs, and responding to local challenges, recognising there was no one solution that would realise inclusive growth across all corners of the Scottish economy. One stakeholder working on economic policy expressed the view that Scotland's economy is best understood as dozens of local economies with distinct characteristics, opportunities and challenges, and suggested that inclusive growth supported an economic policy approach that sought to recognise and respond to these differences.

However, different interpretations of inclusive growth offered drastically different aims, particularly in whether an inclusive growth agenda ought to prioritise a reduction in inequalities *between* places, or *within* places themselves. For example, there was disagreement amongst participants as to whether it would be enough to drive economic growth that benefited poorer areas in general regardless of whether that growth benefited those on higher or lower incomes in that area, or whether for growth to be inclusive it needed to benefit poorer people within those areas to a greater extent than the better-off.

North Ayrshire: an inclusive growth incubator?

North Ayrshire has served as something of a laboratory for developing and testing a local inclusive growth agenda. Having served as the partner to the SCRIG on the development of the Inclusive Growth Diagnostic Tool, and as a key partner of the developing Ayrshire Growth Deal, North Ayrshire has emerged as a key location for the development of inclusive growth in Scotland. Ayrshire's Growth Deal was described by some participants as "the first deal to put inclusive growth as its priority", built into projects through a series of measures.

The first measure is an inclusive growth 'logic chain' built into policy-makers' business cases, through which they must demonstrate how initiatives or investments will deliver against inclusive growth outcomes. The second is Ayrshire's Inclusive Growth Action Plan, which outlines how the growth deal intends to deliver against inclusive growth outcomes, with a focus on greater and more widely shared employment opportunities. The third is the cross-deal Inclusive Growth Monitoring Framework, which is currently under development and set to be applied to each of Scotland's Growth Deals (Scottish and UK Governments, 2019).

North Ayrshire has attempted to develop local-level partnerships to support the delivery of inclusive growth. Participants we interviewed spoke of joint working with local NHS partners to jointly apply the SCRIG Diagnostic Tool. Equally, North Ayrshire Council is spearheading joint working with Scottish Enterprise and Skills Development Scotland, with clear commitment from each agency to develop clearer regional measurement and reporting, the creation of a regional business forum, and to further developing the area's Regional Skills Investment Plan (North Ayrshire Council, 2018). The Heads of Terms Agreement for the Ayrshire Growth deal includes a commitment for up to £3million towards a Community Wealth Building Fund, perhaps signalling new directions for inclusive growth policy.

With other growth deals still in development, it will be particularly interesting to see how regions without Ayrshire's exposure to the inclusive growth agenda fare.

People-based approaches

Policy practitioners in particular emphasised the importance of citizen participation in developing inclusive growth initiatives, and inclusive solutions. Community consultation was repeatedly identified as core to successful "*place-making*", and "*community led*" policy-making, with outcomes shaped in collaboration with local representatives and civil society. A participatory approach was identified as key to the success of long-standing urban regeneration initiatives, such as Clyde Gateway, in delivering inclusive growth.

However, research participants spoke of a "*fragmented*" policy shift across Scottish government, with "*gender here, mental health over there*", contributing to an "*overwhelming*" policy picture for practitioners on the ground. Another participant expressed concern that inclusive growth might be misrepresented as promising "*all things to all people*", identifying the need for greater focus within inclusive growth initiatives, with clear lines of responsibility for delivering stronger and more inclusive economic performance.

Where people-based approaches were identified as being successful, they incorporated a matrix approach to evaluating the dimensions of challenge a particular group or individual might experience that contributes to their exclusion from economic growth.

The challenge of who inclusive growth seeks to include emerged firstly in prioritising which groups to target through inclusive growth initiatives, and secondly in designing policy interventions that would effectively target groups that stand to benefit from greater economic inclusion. Whilst there are clear efforts to identify marginalised groups at both national and local level, the tools available do not yet appear to be consistently supporting the design and delivery of focussed interventions. In North Ayrshire, the SCRIG Diagnostic tool identified young people, those with long-term health problems, those in in-work poverty, and females as target groups for inclusive growth interventions. Whilst these insights have clearly informed the development of targeted interventions, including successful local partnership working with the NHS, it raises questions about the breadth of inclusive growth ambition. Taken together, the target groups identified likely account for the vast majority of the local population in North Ayrshire, who presumably cannot be reached at once as a priority for greater economic inclusion.

A tangible understanding of inclusive growth at the local level

There was a lack of clarity regarding how national objectives could be translated into local strategies. The SCRIG's Inclusive Growth Diagnostic Tool was referenced frequently as a dedicated tool to support the development of local inclusive growth strategies and interventions. We found mixed views on how useful the tool had served to be to local policy-makers, and clear demand for greater guidance. An interviewee in North Ayrshire, the local context in which the diagnostic tool has been developed and tested, assessed the tool as "*useful in prioritising key opportunities to focus on*". However, other participants struggled where the Diagnostic Tool stops: in translating an understanding of local challenges and experiences of economic inclusion into effective inclusive growth interventions (moving from the 'who' to the 'how'). We found the SCRIG was not yet supporting local policy-makers to narrow priorities in line with limited local resources, support multi-directional collaboration between local and national actors, or support the development of local policy solutions - each of which were identified by participants as an important next step in realising inclusive growth at the local level.

Voluntary vs. compulsory action

A number of participants referenced commitment to paying the real living wage – a core commitment of the Business Pledge - as an example of inclusive growth policy, demonstrating the centrality of the Scottish Government's fair work agenda to understandings of inclusive growth in practice. Low pay was also a core concern amongst local policy-makers, with in-work-poverty cited as a challenge that the inclusive growth agenda must ultimately deliver against. There was, however, a limited picture available to policy-makers of how far the inclusive growth agenda had so far delivered progress on delivering good quality work with fair levels of pay – or indeed, if the inclusive growth agenda was so far offering any faster progress than what might have come before. Some participants linked this to the non-compulsory nature of the policy instruments encouraging employers to pay the living wage. The new *Fair Work First* approach, which promises to extend Fair Work criteria to 'every type of grant, funding stream and business support budget' open to government, presents an avenue for exploring whether a more contingent approach to government will be more impactful. Equally, government procurement practices were identified as a key policy lever for realising Fair Work practices more broadly across Scotland's economy by a number of research participants.

Scale of ambitions vs. scale of delivery

Amongst a number of the policy-makers and practitioners we interviewed, there was a lack of connection between the scale of ambition attached to the inclusive growth agenda, and the challenges of translating those ambitions to fit what were often hyper-localised policy contexts. Our research found a lack of clarity on the unit or level of locality at which delivering inclusive growth is either feasible or most effective. Multiple participants working at local-authority level expressed the view that inclusive economic development “can’t be done [by local authorities] alone” and needs to be reinforced by national-level policy action. Academic researchers have emphasised the limited powers available to devolved and local policy-makers to directly address inequality as an inherent challenge of a place-based inclusive growth agenda, arguing that local economies are not insulated from the effects of national or supra-national economic policy (Lee, 2018) (Glaeser et al., 2009).

Our research participants were often expressly aware that local-level policy makers, and even Scotland-level policy makers, only have limited powers to address inequality directly and are not insulated from the effects of UK or global economic policy. The level at which inclusive growth architecture is effective, or appropriate, remains under-examined. The existing evidence-base for inclusive growth programmes has so-far been heavily focussed on urban contexts, meaning there is limited evidence that might shed light on potential longer-term outcomes from Scotland’s inclusive growth agenda, which has seen a heavy focus on rebalancing economic opportunity between regional economies, and rural and urban communities.

Embedding inclusive growth

We heard mixed experiences of whether inclusive growth had gained effective levels of buy-in. Whilst some social policy makers described the inclusive growth agenda as having had a “*transformative impact*” within the Scottish Government itself, others held the view that “*culture change*” was still needed to support better cross-agency working. Cross-agency working was presented as a persistent challenge by a number of participants, particularly those working in the remit of skills, who cited technical and logistical barriers to collaboration.

Research participants sometimes struggled to relate multi-faceted ambitions of the inclusive growth agenda to their particular work remit. Place-based initiatives often offered the most readily available examples of the potentially transformative impact of inclusive growth’s broad ambition, with long-term urban regeneration projects including Clyde Gateway cited as examples of inclusive growth in practice. What was not clear, however, was that this success was attributable to an inclusive growth approach to economic development across government in Scotland. Notably, these successes were linked to social partnership approaches, involving collaboration across councils, central government, employers and private sector organisations. Whilst participants acknowledged the challenges of joined-up working across areas and of government and a range of policy specialisms, ambitions were consistently high, and advocates spoke of progress towards the “*system-wide approach*” required to match this level of ambition.

Sustainability in inclusive growth

We found that whilst ‘sustainability’ in an inclusive growth context more often refers to the pace of growth, the sustainability of natural capital and the decarbonisation of growth is also within the scope of an inclusive growth agenda. Efforts to meet Scotland’s ambitious climate change targets, set in 2009, have adopted an inclusive growth framework, with the most recent progress report published by government setting decarbonisation of the economy firmly within the government’s inclusive growth framework (Scottish Government, 2018). A focus on sustainability through the shape of growth itself is evident in the government’s stated vision for the Scottish National Investment Bank, which focusses on the provision of long-term ‘patient capital’ to businesses, emphasising the benefits of longer-term approaches to government investment.

3.4 Inclusive growth opportunities in the near-term

City Region Deals: a key vehicle for realising inclusive growth?

City Region Deals have emerged as particularly visible platforms for efforts to realise inclusive growth in Scotland. Whilst inclusive growth is a consistent feature of the policy rhetoric surrounding city region deals, the extent to which inclusive growth efforts are embedded in approaches to delivering inclusive growth varies considerably between each deal. We undertook a grey literature review of the City Deals agreed and in development in Scotland, and interviews with stakeholders working within and closely with city deals, to understand the priority they have placed on inclusive growth.

Glasgow City Region holds the longest standing deal which, having been signed in 2014, pre-dates the Scottish Government's adoption of an inclusive growth strategy by a few months. Nonetheless, the Glasgow City Region shows signs of having been shaped by an inclusive growth agenda, with greater evidence of embedded inclusive growth approaches than some the more recent city-deals in Scotland. The 2017 review of Glasgow City Region's deal sets out a clear commitment to 'support the delivery of genuinely inclusive growth in the City Region' and cites ambition to establish a framework for 'embedding Inclusive Growth in all that we do'.

The Glasgow City Deal includes the In-Work Progression Pilot referred to above. The pilot has been highlighted throughout this research, both in our desk-based and face-to-face research, as an example of inclusive growth in practice, with interventions designed to benefit both the company and the individuals that work for it. The Barclays investment project with Scottish Enterprise, which is generating 7000 new jobs with a proportion reserved for people from disadvantaged backgrounds, was also cited as a key example of how government agencies could work with business - and the financial sector particularly - to 'inclusive-growth proof' investment and expand economic opportunity.

However, whether this would have happened or not without the adoption of inclusive growth by the Scottish Government is less clear. A senior policymaker close to the Glasgow City Region deal reflected that in their view inclusive growth had been central to Glasgow City Council's approach for years – citing the 'poverty proofing' of policies across the span of health, education and labour market participation.

The Edinburgh and South-East Scotland deal is relatively young but has so far indicated intent to act as 'a mechanism for accelerating economic and inclusive growth in the City Region', with a focus on boosting greater inclusion in the region's prosperity through addressing barriers and creating opportunity through 21,000 new jobs. The Edinburgh and South-East deal includes 'accelerating inclusive growth' as one of five key thematic interventions, with policy levers to deliver greater inclusion highlighted through each of the other themes. The deal also promises a framework for measuring inclusive growth outcomes, developed to complement the SCRIG Diagnostic Tool. As this deal develops further and begins to see further action on the ground it will become clearer as to how much of the rhetoric around inclusive growth becomes a reality through the city deal in Edinburgh and South East Scotland.

By contrast, the developing Stirling and Clackmannanshire and Tay Cities Region deals have offered less commitment to inclusive growth within the range of formal documents agreed so far. Stirling and Clackmannanshire offer an emphasis on digital inclusion and a focus on skills and transport infrastructure, but is overall less explicit in its commitment to inclusive growth as an overarching framework to shape the deal. The focus of the Tay Cities deal does include raising productivity and participation, but is so far less developed in terms of designing specific inclusive growth interventions.

Likewise, Inverness and Highlands City Region deal documents have less detail on inclusive growth implementation: whilst there is the same commitment to the SCRIG diagnostic tool common across the deals, there is limited evidence of inclusive growth being embedded into the city-region's growth strategy. This perhaps reflects the tension in defining inclusive growth outlined above: some see economic growth in some broad geographical areas, such as rural areas, as inclusive growth by default.

Amongst senior policy-makers working close to City Region Deals there were competing definitions of inclusive growth offered. When discussing inclusive growth levers, policy-makers struggled to point to tangible examples of inclusive growth in action. Whilst we found clear evidence that inclusive growth is on policy-makers agendas to a considerable extent, there was less clarity on what delivering on inclusive growth would look like in practice beyond the relatively longer-standing Glasgow City Region Deal. There were also concerns about the feasibility of delivering inclusive growth in the context of ongoing 'austerity' and considerable budget pressure at local authority levels.

The Aberdeen City Region Deal's 2018 annual report reflects limited prioritisation of inclusive growth: amongst four references, the closest interventions are 'new employment opportunities' and development of the 'right skills', with no reference to if or indeed how these opportunities will seek to widen economic inclusion. In light of the recent economic downturn in the oil and gas sector and the shadow it has cast of the city region's economy, this raises particular concerns regarding the resilience of inclusive growth strategies to economic challenges.

Existing work on inclusive growth has referred to particular tensions emerging from the matched funding of the UK and Scottish governments that characterises the city deals. This is located by commentators – whose concerns were reflected by policy-makers we interviewed – in the often-times contradictory aims and messages from the GDP/GVA-raising focus of UK government's agenda on city deals, and the inclusive growth focus of the Scottish government. One participant explained that the diverging objectives of the UK and Scottish governments presented a particular challenge for policy-makers working to deliver City Region Deals, suggesting that the UK government's criteria would support investment at odds with the Scottish government's criteria.

Scottish National Investment Bank: A catalyst for inclusive growth?

The Programme for Government 2017/18 outlined Scottish Government plans to establish a Scottish National Investment Bank (SNIB). Since then, an implementation plan has been designed and progressed, with legislation to set up the bank published in February 2019. The SNIB has been described as a future 'cornerstone in Scotland's economic architecture' by Finance Secretary Derek Mackay, with a main role of making longer-term investment available to Scottish firms. The bank has also been positioned as a vehicle for tackling inequality in Scotland, with the SNIB Bill presented to Holyrood in February describing the first objective of the Banks as "investing in inclusive and sustainable economic growth" (Scottish Parliament, 2019).

Although the establishment of the SNIB is still at an early stage, and if and when the bank is established its direction is yet to be set in stone, we found particularly strong commitment to the inclusive growth agenda amongst government officials working on its establishment. Officials described a vision for the Bank as "an instrument of inclusive growth policy', whose 'purpose' is to work towards realising inclusive growth.

Senior policy-makers close to the SNIB were explicit in their acknowledgement that the direction of growth matters, citing globalisation, new technology, changing rules of capitalism and the growth of the ‘super rich’. These, they argued, contribute in turn to rising inequality and particular challenges for rural areas excluded from the gains of growth. These effects are then compounded as the inequality gap widens.

The SNIB’s planned investment criteria will serve both a public and commercial purpose, with the aim of nudging investment towards areas including low-carbon energy, affordable housing, place-making, and providing for an ageing population. The SNIB has been positioned as having a key role in delivering inclusive growth, including through developing a social impact framework to monitor the public benefit of bank investments. The role of SNIB is envisaged as working closely with Scottish Enterprise and City Region Deals.

3.5 What’s missing from Scotland’s Inclusive Growth Agenda so far?

Growth sectors vs the ‘everyday economy’

Throughout the literature on inclusive growth there are key themes in relation to how to deliver more inclusive growth. In particular, as described above, inclusive growth marks a departure from growth at all costs economic strategy towards one that builds equality into economic growth. Therefore, inclusive growth is likely to need to see economic strategy which aims to benefit those experiencing economic inequalities. However, it is not clear that Scotland’s economic strategy fully reflects the adoption of inclusive growth.

Scotland’s Economic Strategy prioritises six ‘growth sectors’ – also known as key sectors – of Creative Industries, Energy, Financial and Business Services, Food and Drink, Life Sciences and Sustainable Tourism. These sectors are identified as key prospective drivers of Scotland’s economy and sectors where Scotland has or could gain a competitive advantage.

However, a closer look at the workforces making up each of these sectors reveals a clear skew towards high-skill, higher-pay sectors – with sustainable tourism as the notable exception given its low levels of median pay. This could be argued to show a lack of focus on inclusive growth in this part of the strategy, given these sectors are already, in the main, higher-paid sectors. It would take unprecedented employment growth in higher paid sectors to deliver inclusive growth in this way. It would take explicit efforts, including in new skills provision aimed at people in lower-paid jobs and in lower-paid sectors, to ensure expansion in employment in these sectors benefited people from lower-income backgrounds. We did not hear evidence of this being a clear focus in terms of the government’s approach to growth sectors, nor an explicit aim of the skills agencies, beyond efforts to deliver fair access to higher education, or to address inequalities in participation in Scotland’s skills system more generally.

An inclusive growth strategy may require a focus on sectors where economic development could have the greatest impact on inequalities, such as lower-paid sectors in what has been called the ‘everyday economy’ of ordinary businesses and services, where most people in Scotland work – including low-pay, high employment sectors. We found little evidence of a focus on lower-paid sectors of the economy through Scotland’s current economic or skills policy. This could be a crucial gap in the inclusive growth agenda in Scotland.

Chapter 4 - International experiences of inclusive growth

4.1 International perspectives

We considered a number of international countries as part of this research in order to understand the experience of other countries in delivering more inclusive economic growth. In considering international examples we looked at post-crisis economic growth trends mapped against levels of income inequality over time.

As stated above, given one of the key distinctions of inclusive growth from other forms of economic growth is that equality is structured into economic growth, we were particularly interested in looking at income inequality before government intervention (before policy mechanisms such as benefits, tax credits etc. are introduced) as well as post-transfer income inequalities. We then mapped both this pre-tax and post-tax and transfer measures of income inequality against GDP growth over time, as a proxy for how inclusive each country's growth had been in recent years.

The UK ranks among the highest levels of inequality on all three measures (gross income inequality, labour market income inequality, post-transfer income inequality) within the countries we considered, particularly in the case of gross income, including income from wealth.

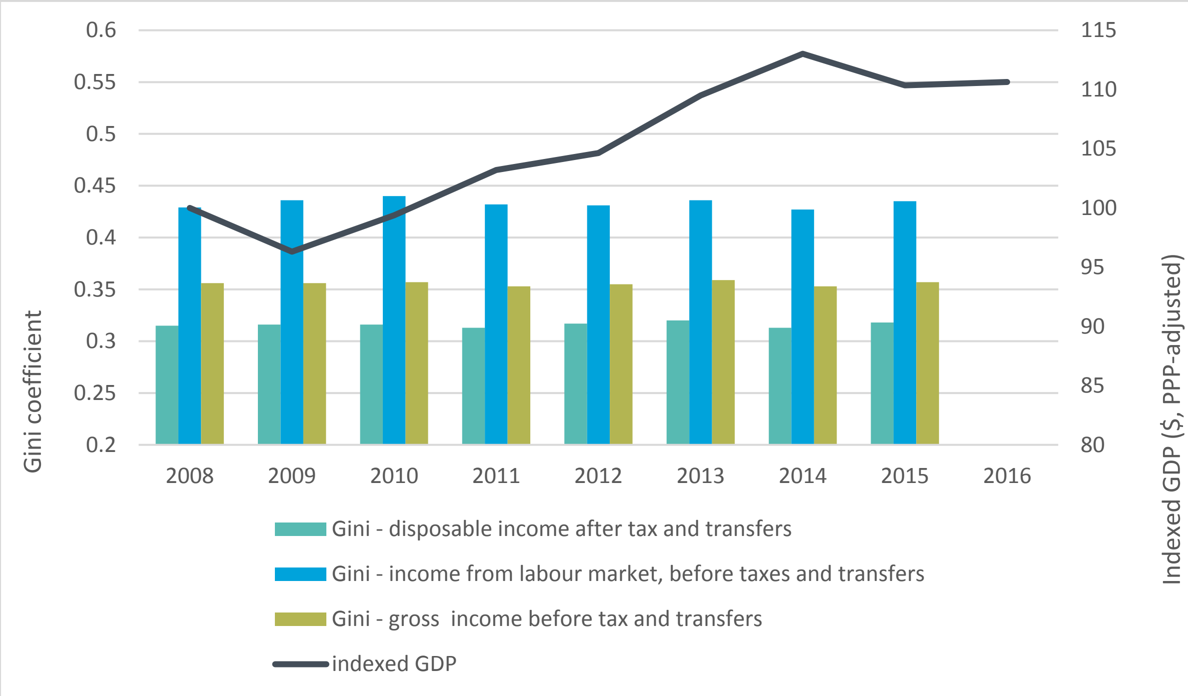
Amongst OECD countries, there is limited evidence of inclusive growth in practice. Big-picture trends show income inequality increasing, certainly pre-transfer income from the labour market, with current levels of inequality at their highest in the last half a century (OECD). While post-crisis growth performance has recovered, the gains of this growing prosperity do not seem to be being distributed evenly. However, we can observe a country's levels of success in holding against the worsening of existing inequality.

From the full range of OECD countries we looked at we chose two case studies. We chose Canada as a case study, as it is a country that has adopted the language of inclusive growth. We wanted to understand what lessons could be learned from the Canadian experience of doing so. We chose Belgium as our second international case study as, from the evidence we looked at, it has been able to deliver economic growth that has avoided widening income inequalities. In addition to data analysis, international insights were drawn from a series of in-depth interviews with policy-makers and practitioners across Belgium and Canada.

4.2 Canada's inclusive growth experience

Canada has demonstrated considerable commitment to an inclusive growth agenda in recent years, with the current Trudeau government and key institutions such as the Bank of Canada driving efforts to make Canada's economy more inclusive (Wilkins, 2018). Although Canada is one of the few OECD countries in which inequality did not rise through the 2000s, income inequality persists at a comparatively high level (OECD, 2017b). As figure 2 demonstrates, Canada has experienced a strong post-crash recovery whilst maintaining (and crucially not exacerbating) pre-transfer income inequality. Canada's income inequality levels have (almost) held constant over 2008-2016, whilst growth performance in recent years has been particularly strong.

Figure 2: Canada Inequality by indexed GDP growth (2008=100



Source: OECD, 2019c

Learning from the Canadian experience

Before 2015, our research participants described a lack of political momentum behind poverty reduction and reducing inequality in Canada – efforts that were seen as one and the same. For some, 2015 marked a clear shift, with the introduction and expansion of an "*aggressive policy commitment*" to tackling inequality. Canada's first ever anti-poverty strategy was published in 2018, and despite the significance of this new and energetic initiative, participants explained that many of the measures have not yet come into effect, and indeed that there is a widely-held feeling across civil society actors that the measures presented in the strategy do not go far enough towards reducing poverty.

Economic policy-makers in Canada offered a comprehensive definition of inclusive growth. One research participant explained that inclusive growth was about "*equality by economic design*" and meant recognising the role of the economy in reducing poverty and inequality, rather than relying on redistributive policies to create more equal outcomes. Interviewees highlighted persistent issues with affordable housing, education, and jobs, pointing to these as key remits for inclusive growth initiatives within which limited progress had yet been made. There were however indications of progress in the form of developing government policy aimed at delivering more affordable housing and strengthening public transport infrastructure.

In the Canadian context, too, a pay floor was also seen as a key mechanism for realising inclusive growth. Whilst growing incomes at the lower end of the income spectrum was presented as the core objective of inclusive growth, multiple participants expressed concern about growing work insecurity that also affected middle-class jobs and wages through the "*hollowing out*" of mid-skill jobs in the Canadian workforce.

Living costs were identified as a key measure of inclusive growth in Canada. In 2016, the Government of Canada introduced a new child benefit payment, indexed to the cost of living. The payment is tax-free and targeted on low and middle-income families, who receive a more generous payment than those with higher incomes. Higher income families now receive a lower monthly payment than under the previous child benefit system. The benefit has been met with some criticism, with participants suggesting it constituted a single-dimensional approach to tackling high levels of poverty. A policy-maker working on poverty reduction described the benefit as a "*piecemeal*" initiative that provided too low an income supplement that failed to adequately address the significant costs of raising a child in low-income households in. Childcare was identified as a key frontier of the inclusive growth agenda, with high costs identified as a barrier to poverty reduction.

Place was identified as an important dimension of realising inclusive growth, too, as regional inequalities persist. One stakeholder described "*have and have-not provinces*", and referenced efforts to equalise regional economies through the introduction of inter-regional transfers. It was felt, however, that further efforts would be needed to lessen place-based inequality.

Another key dimension of socio-economic inequality in Canada is indigenous communities, who still face staggering levels of inequality concerning access to clean water, core public services and participation in Canada's workforce. Our research participants argued there was a clear need to deliver a tailored approach to reducing poverty and inequality in indigenous communities, with existing efforts not going far enough.

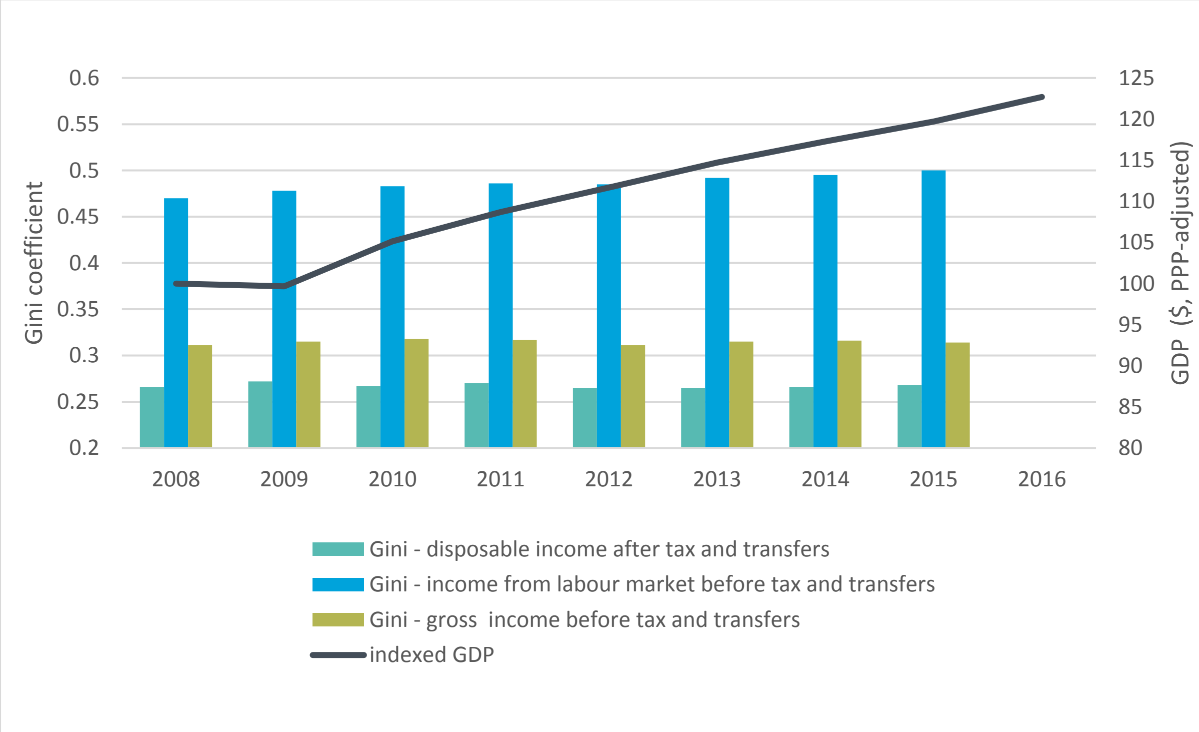
The challenge of delivering inclusive growth across multi-layered government was highlighted as a particular challenge in the Canadian context, with participants describing a "lack of accountability" for the implementation of poverty-reduction strategies. A lack of available data on key social and economic indicators was also identified consistently as a challenge to measuring inclusive growth outcomes.

4.3 Belgium and inclusive growth

Among the countries we looked at, Belgium is perhaps the most obvious success story having minimised growth in wage inequality and narrowed inequality in gross income, before tax and transfers. Recent literature has identified Belgium as a leading success story in the realisation of growth in incomes whilst limiting increases in inequality (Marx & Verbist, 2018). Observers have attributed this largely to wage-setting institutions and evolving labour-market participation and employment, alongside effective redistributive structures in the form of tax and transfer policy. These mechanisms may have particular relevance for existing policy making programmes and areas of government in Scotland. Furthermore, there are significant constitutional dimensions due to Belgium's federal state structure that will perhaps provide useful insights for devolved policy-making in Scotland.

Figure 3 demonstrates Belgium's relative success in minimising pre-tax and transfer income inequality against a strong growth trajectory. In terms of gross income inequality (before tax and transfers) which includes income from wealth, Belgium has successfully narrowed inequality since 2008, whilst successfully implementing more effective redistribution through tax and transfers. Labour market income inequality, in terms of income from earnings alone, has marginally increased over this same period. Despite this success, it is important to note that Belgium displays high levels of relative poverty. In this regard, and more, Belgium still falls short of being a sure inclusive growth success story.

Figure 3: Belgium Inequality by indexed GDP growth (2008=100



Source: OECD, 2019c

Learning from the Belgian experience

Interviewees in Belgium described a markedly different experience of inclusive growth. One stakeholder described inclusive growth as being "*part of the DNA of Belgian society*", with an explicit commitment to an inclusive model of growth evident in government declarations and economic outcomes. Indeed, there has been a decrease in income inequality since the financial crash.

In the Belgian context, inclusive growth is not considered to be a new phenomenon, but a legacy of the post-war era from which emerged a social contract between government, employers and trade unions to sustain a dialogue on wages and working conditions. Research participants noted explicitly that the language surrounding inclusive growth that is common across Canada, Scotland and other OECD nations has not been adopted in Belgium, and that the strategies through which policy-makers in Belgium address inequality are long-standing.

Centralised and coordinated cooperation between government, employers and workers' representatives was identified as key to the Belgian economy's relative resilience to widening inequalities elsewhere in Europe. Trade unions were identified as a central mechanism for ensuring growth persisted, with 53% of Belgian workers belonging to a union, and some 95% of jobs covered by sector-level collective agreements (OECD, 2019a). This mechanism, participants argued, was responsible for delivering growth in sectors with typically low wages, such as hospitality. Wage-setting in Belgium is embedded in a social partnership structure, with real wages indexed at sector level. This was identified as a key mechanism for preventing in-work poverty, with one stakeholder citing Belgium's particularly low rate of in-work poverty, which at 4.7% is the 3rd lowest in the EU, and almost half the UK equivalent (Eurostat, 2019). Collective bargaining was identified as a key inclusive growth measure at company-level, too. Participants argued it led to better wages, and attributed high union membership to a premium paid by employers that accounted for half of workers' union membership fee.

Each of the Belgian participants interviewed referenced Belgium's progressive taxation structure and social security system as levers of inclusive growth, showing perhaps a confusion between inclusive growth as a term and previous approaches to tackling inequalities solely or mainly through redistribution, such as 'third-way' economics. One stakeholder referred to a view held by some policy-makers in Belgium that relatively slow rates of recent growth were due to an increased emphasis on tackling inequality through social security rather than through shaping the direction of growth to be distributed more inclusively, or equally, across society. Childcare provision was referenced as a social policy success in Belgium, with progress cited on both availability and affordability, which were in turned linked to wider access.

Whilst there are clear lessons to learn from Belgium's economic model, there are considerable limits on the inclusiveness of growth in Belgium. A closer look at the Belgian workforce reveals an insider-outsider labour market, with deep structural challenges. Our research participants in Belgium referenced particular at-risk groups that needed to be better supported to participate in the Belgian economy – namely migrants and single-parent families who faced heightened barriers to accessing work, and in some cases active discrimination in the labour market. Across OECD countries, Belgium performs particularly poorly on labour market integration of its non-native population (Pina, Corluy, & Verbist, 2015).

We also found high and stubborn barriers to participation in paid work across the population: Belgium's labour force participation rate is well below the EU average, with particular weaknesses amongst 16-24-year-olds and over 55s (OECD Data, 2019b). These barriers are particularly pronounced for low-skilled workers, and subsequently low-skill employment is ten percentage points lower than the EU average – at 45% (OECD, 2017a). Our research participants also identified progression from low-paid to higher-paid work as a significant challenge, with persistent labour market segmentation linked to poor educational attainment in some parts of the country.

Even on the measures by which Belgium's economic performance looks strong – namely stable levels of income inequality - relative success has not come without challenges. As neighbouring economies like Germany, France and the Netherlands experienced falling real wages since the financial crash, one stakeholder explained, this put pressure on the Belgian economy which is heavily integrated with other European economies. The EU, however, was identified as a key mechanism for sustaining progress on employment standards and resisting the rise of harmful employment practices such as zero-hours contracts. There was concern expressed by participants in the Belgian context for the future direction of employment standards in the UK after Brexit, when there would be no obligation to level the playing field.

There is also considerable regional variation in levels of inequality and inclusion across Belgium's economy, reflecting the federalised structure of the country. Participants spoke of persistent regional inequality, and challenges connecting people with jobs in other regions or urban centres due to a lack of transport infrastructure across regions. Indeed, rates of unemployment vary by 10 percentage points between Brussels and West Flanders (Eurostat, 2018). Some participants described a lack of coherence across regional governments which was attributed to a lack of collaboration. Interviewees suggested progress on cross-regional collaboration was needed to address historic inequalities between the North and South of Belgium, with the South characterised by historically weaker employment, GDP growth and educational attainment leading from de-industrialisation.

When asked to identify measures of inclusive growth, our research participants in Belgium pointed to traditional measures of income inequality, such as the Gini index, and to EU social inclusion indicators. Some participants pointed to clear room for improvement, noting a lack of policy evaluation across government. This was considered a potential barrier preventing further strides towards reducing inequality.

Chapter 5 - Key findings and themes

Is Inclusive Growth just a change in rhetoric?

Elsewhere in the UK, inclusive growth agendas have been characterised as often signalling progressive *intent,* but with only limited evidence of successfully implementation (Lee, 2018). Through this research we wanted to understand how far inclusive growth in Scotland had moved beyond good intentions.

Without question, we have collected evidence that shows the Scottish Government's adoption of inclusive growth has brought about change, at least within policy-making circles. The Scottish Government can, and does, point to a range of policy initiatives with relevance to inclusive growth. Fair Work, the Enterprise and Skills Strategic Board, early years expansion, work to narrow the attainment gap and deliver fairer access, and most recently the development of the new SNIB and the SCRIG, show that inclusive growth is at least becoming an organising principle across government, bringing together a range of programmes of work that span social and economic policy functions.

This was also reflected in the strategic leads we spoke to within government and government agencies, who provided an insight into the high levels of buy-in at the senior level to working to deliver a more inclusive form of economic growth. This has opened opportunities for new levels of collaboration within government, particularly in bringing economics colleagues into policy areas usually reserved for social policy.

Equally, without question, we also found high levels of commitment to delivering inclusive growth across the senior stakeholders and practitioners we spoke to inside and outside of government. Regardless of how inclusive growth was conceived by our research participants, there was very broad support for inclusive growth as an idea.

However, confusion reigns for many. As you move further from government, or closer to the practitioner level, the question of how to translate commitment to inclusive growth as a principle into delivering inclusive growth in practice remains unresolved. It is early days still, but much more will need to be done to capitalise on broad commitment, and new opportunities for collaboration, and to turn national ambition into local action, before commitment to the agenda is lost.

Where has the Inclusive Growth agenda not yet reached?

Whilst references to inclusive growth have risen in high-level strategy documents ranging from the Equality Budget Statements to Ministerial Guidance Letters provided to government agencies, the key policy interventions are yet to be widely identified – particularly at the local level.

Equally, we did not find evidence among our research participants of a full understanding that inclusive growth marks a significant departure from past attempts to develop Scotland's economy. By definition, many working within economic development and in policy areas with potential for impact on inclusive growth, will need to change their approach from those of the past if we are to be successful. As an example, a particularly robust criticism made by a number of research participants working at the local level was that government investment decisions were not always seen to have an emphasis on inclusive growth. This was particularly contentious with regard to the place-based agenda, with concern that government was yet to translate its ambitions for a more geographically-balanced economy into committing resources differently across Scotland.

A lack of impact (so far?)

However, most of all, the biggest criticism that can be made against the inclusive growth agenda in Scotland is its lack of impact, so far at least.

For some, this is because the agenda is new. It is argued that it would take many years to reshape a country's economic model, and indeed see the long-term benefits of a more inclusive model of growth, and it is therefore too soon to criticise Scotland's inclusive growth agenda for not having yet achieved a root-and-stem transformation of economic policy and outcomes.

For others, however, this lack of impact is seen as the consequence of a lack of ambition, and lack of willingness to make the potentially hard choices that would see inclusive growth become a reality. For them, we have not yet seen the scale of rhetoric when it comes to inclusive growth, matched by a similar scale of impact in reality. If inclusive growth as a policy agenda is to have the impact on the economy clearly desired by government, and by those working across and with government, then the ambitious rhetoric will need to be matched by ambitious policy change, potentially creating losers as well as winners, turning inclusive growth from a good idea into good practice.

If inclusive growth is to reach its full potential to reduce poverty and inequality in Scotland, and to reshape the economy to build fairness in from the start, it will need government to make the choices that will support significant behaviour and culture change across the economy.

Key findings and themes

Our key findings and themes are split into two broad categories:

i) Getting the policy framework right – findings in relation to policy decisions
ii) Getting policy implementation right – findings in relation to delivering decisions that are more impactful

Getting the policy framework right

1. Developing a social partnership approach to Scotland's economy could provide strong foundations for inclusive growth

An emerging theme from our research on inclusive growth and our international case studies is the importance of social partnership approaches to embedding inclusive growth into Scotland's economy. Social partnership approaches are where trade unions and employee representatives, business representatives and employers are given a formal seat at the table to work with government on how to build, shape and grow the economy. This supports some of the building blocks that have been recognised through our research as vital to making inclusive growth a reality: high quality jobs, fair pay, and more opportunities to get on in work.

Academics examining inclusive growth have identified Belgium's strong social partnerships, which are embedded across the economy, as one of the key factors in explaining how Belgium has succeeded in building a stronger and more inclusive economy. This was reflected by research participants in Scotland, several of whom identified wage growth in middle and low-income jobs as a key priority for unlocking more inclusive growth. We are interested in how Scotland can learn from this success by building social partnership approaches more firmly into our inclusive growth strategy.

In many ways, delivering inclusive growth is about transforming how government and business approach Scotland's economy. Setting clear principles around cooperation between government, employers and employees, and providing structures to encourage this, could be crucial to delivering culture change and shaping a more inclusive economic model in Scotland.

Ideas for Action

Developing a social partnership economy across Scotland, with formal institutions for employers, employees and government to work together could be crucial to delivering inclusive growth. The Fair Work Convention is a good example of a social partnership in practice in Scotland. Equally, its recent recommendation for a new social partnership body within the social care sector a further good example of what can be done in Scotland, within existing powers, to further embed a social partnership approach.

We should consider how we can further embed this approach in Scotland. This could include sectoral social partnership bodies, especially for low pay sectors, that bring employers and employees (and future employees) together with government to help to shape recommended wage floors, wage increases, career structures and progression. Partnerships could target skills investment, boost productivity, tackle in-work poverty, narrow gender gaps, and boost exports.

While recommendations from these bodies would likely need to be advisory under current devolved powers, moving to a more contingent approach to accessing public funds (in line with the recent Fair Work first model), and using levers offered through the tax and benefit system devolved to Scotland, could give these bodies some amount of force.

2. **Scotland's economic strategy could develop a clearer focus on the 'everyday economy', where most people work**

To make a success of inclusive growth, it is clear that focussing on the right areas of the economy can make a big difference. When we are looking to grow Scotland's economy it is important that we broaden our focus to include the 'everyday economy' of ordinary companies, where most people work, including low pay sectors such as retail, care, tourism and hospitality.

Through our research, we heard competing views on which parts of the economy should be the focus of government when we are looking to deliver growth in Scotland. The Scottish Government has already set a clear focus on Scotland's 'growth sectors', which are industries in which Scotland has – or is looking to have – a competitive advantage on the world stage. These include Energy (Oil and Gas) and Financial Services. The Scottish Government's current approach to these 'key sectors' does not offer much promise of realising a more inclusive model of economic approach.

These sectors are often already higher paid, employ fewer people or require very specialist skillsets. It may not be realistic to suggest we can deliver inclusive growth through these sectors by bringing large numbers of people not currently in work into employment, or delivering pay rises for the significant number of workers in Scotland on low pay.

It seems clear that to drive sustainable inclusive growth we will need to focus as much, if not more, on Scotland's 'everyday economy', where most people work, as on Scotland's 'growth sectors'. For growth and inclusion to go hand in hand, policy-makers need to avoid focusing exclusively on the sectors of the economy with the strongest existing productivity rates and performance against traditional metrics, such as Gross Domestic Product generated and Gross Value Added to the economy. This will mean putting a clear and sustained focus on creating more – and better – economic opportunities that are within the reach of ordinary people, in their workplaces and their communities. It will mean a focus on those parts of the economy where lower-pay is more prevalent and economic inequalities manifest. And it will likely mean a focus on developing new skills provision that can help to improve opportunities for those already in lower paid work.

Ideas for Action

It is clear that focusing on the right areas of the economy can make a big difference to the success of inclusive growth. The Scottish Government's enterprise, innovation and economic policy could focus more specifically on improving job quality and pay within lower pay sectors. Currently, Scotland's economic strategy focuses primarily on 'growth sectors', which tend to have comparatively higher-skilled workforces and higher pay. They do not, however, offer routes to greater participation, progression or higher pay for the majority of Scotland's population. Ensuring that the Scottish Government and its enterprise and skills agencies have explicit plans in place to improve job quality and pay within large, low pay sectors – including potentially new skills provision focused on boosting pay and progression for lower-paid workers – could be a crucial element of delivering fair work and inclusive growth in Scotland.

3. Public spending and investment could be better inclusive growth-proofed

The Scottish Government's pledge to increase infrastructure spending by 1% of GDP by 2026, and the creation of a new Scottish National Investment Bank (SNIB), offer new opportunities to invest in the economy in ways that could enable inclusive growth in Scotland. Equally, the power of the full range of the Scottish Parliament's public spending, and within that the over £2bn per year spent through Scotland's skills and enterprise agencies, offers significant opportunities to drive inclusive growth.

While we found evidence of an increasing emphasis on inclusive growth through government policy documents, guidance letters to agencies, and agency strategic plans we did not see significant evidence that a systematic approach to inclusive growth-proofing public spending was in place in Scotland. Ensuring the full range of government spend, and in particular its spend on economic development, is being used to realise inclusive growth could be a useful addition to translating strategy into reality.

Ideas for Action

The Scottish Government, its agencies, the SNIB and wider non-government funders could adopt an inclusive growth-proofing tool to ensure that spending and investment is gaining the greatest impact in relation to delivering more inclusive growth in Scotland. At the very least this could see every decision-making process in relation to public investment be made subject to key questions on inclusive growth (for example, where will the investment be made, who will benefit, how will this investment effect income and wealth inequalities and poverty). A step further could see an inclusive growth impact assessment, by organisation, and for each budget, against key inclusive growth measures.

4. The Scottish Government could take a more proactive approach to embedding inclusive growth practice across Scotland's economy

A number of research participants expressed frustration that much of the inclusive growth agenda is voluntary and lacks teeth. While delivering an inclusive growth economy is likely to depend on culture change over the longer-term, there was a clear view that more should be done to consider what tools and levers, at the national, regional and local level, could be used to incentivise businesses and employers' inclusive growth practices (or disincentivise poor practices). The recent announcement of a 'fair work first' approach to business development funding was cited as a positive example. If government is to play a full role in embedding inclusive growth practices across Scotland's economy, this should not signal the high-point of ambition, but an important first step.

With the devolution of new powers the Scottish Government has an increasingly important role in delivering inclusive growth. In particular, the government's new powers over tax and social security might be important pieces of the inclusive growth puzzle – alongside existing powers around local tax and local government, economic development, enterprise, skills and education – if they can be used to change behaviour across the economy.

Given how recently the latest wave of devolution took place, we did not find evidence that the Scottish Government or its agencies had undertaken a systematic look at how new and existing powers could be used to deliver the behaviour change we need to see across the economy to drive a more inclusive economic model in Scotland.

Ideas for Action

The Scottish Government could use its national and local powers in relation to tax, social security and public spend, to develop new ways to drive culture and behaviour change in relation to inclusive growth, considering how to give the Fair Work, Business Pledge, and, more broadly, inclusive growth agendas teeth.

In relation to tax, this could see a broader review of how new and existing tax powers could be better used, not just to raise public funds, but also to drive the culture change required across the economy to secure inclusive growth. For example, the Small Business Bonus (SBB), which is due to be review by the Scottish Government – worth around £226m per year, and paid to businesses with small properties – could be made contingent on delivering inclusive growth outcomes. This could see the SBB made contingent on delivering fair work, on the business pledge or on wider measures likely to boost inclusive growth, such as skills investment. Furthermore, tax and benefit powers could be used to promote inclusive growth in other ways, for example incentivising collective bargaining agreements across sectors and within individual companies. A review of tax policy (including tax allowances) in place at the national and local level, and how tax and benefit policy could best drive inclusive growth, could be important in delivering faster and more significant progress in relation to inclusive growth in Scotland.

Getting policy implementation right

5. There is a lack of a clear, consistent or applied definition of inclusive growth

Throughout our research we have heard confusion and a lack of clarity in relation to the definition of inclusive growth. Many of our research participants felt they were unclear as to what inclusive growth means, both in theory and practice. This has also been evidenced in the academic and grey literature we have reviewed.

Some of this confusion stems from the broad definition of inclusive growth adopted in Scotland, with a sense that if inclusive growth includes everything then it is unlikely to deliver meaningful change. Equally, there was a potential conflict between working definitions that prioritise a place-based approach, a population group-based approach, and an approach that prioritises the narrowing of socio-economic inequalities.

For some, inclusive growth is delivered at a population group level. Many reported interventions or projects that aimed to target significant parts of the population, including women, disabled people, BAME communities and people experiencing mental ill-health. Indeed, the Inclusive Growth Diagnostic Tool developed by Scotland's Centre for Regional Inclusive Growth (SCRIG) encourages an approach on this basis. However, given that these target groups, taken together, could constitute a considerable majority of the total population in a given area, more needs to be done to avoid blanket or broad-brush approaches.

Others describe inclusive growth as a place-based concept. However, often these place-based approaches aimed to achieve impact in large geographical areas. Whether by rurality or deprivation, some research participants described inclusive growth approaches which targeted whole local authority areas, or broad rural areas. Nonetheless, amongst a minority of participants, and particularly those working on place-building through urban regeneration projects, there was clear understanding of the need to develop bespoke strategies for "fragile communities" in rural locations, or historically disadvantaged areas.

Through our grey literature review we can see that the Scottish Government has a clear definition of inclusive growth, as outlined in Scotland's Economic Strategy (see Chapter 3 above), but not a clear or consistent application of that definition. While the inclusive growth agenda is still new and developing, greater efforts could be made to better embed a consistent and clear definition across government, government agencies and out into the wider economy. This will require greater discipline of use of the term among the strategic level, within agencies and in communicating and working with those outside of government.

At the same time, a number of the research participants we spoke to found it difficult to point to many tangible examples of inclusive growth interventions. While some people we spoke to could point to broad policy areas and strategies – including the Scottish Government's commitment on increasing free early years provision, skills and enterprise agency alignment, attainment gap and fair access – many struggled to do so.

Building success stories, and case studies that bring inclusive growth to life, will be important in defining what is and what is not inclusive growth, and ensuring that definition is used across government, agencies and beyond. There is a lack of understanding about what has worked elsewhere, and how projects that have worked can be translated for Scotland. Equally, there is a lack of understanding around the key elements of successful projects and interventions that might have the best chance of succeeding at narrowing inequalities within population groups or particular geographical areas.

There is a clear need to develop a menu of options for those working to deliver inclusive growth, outlining the key elements of projects that have worked to deliver inclusive growth. This could take the form of an online bank of options of impactful interventions, tailored to their context (e.g. population group, geographical area or other contexts). This could be very useful at this stage to develop a greater and shared understanding of what works to deliver inclusive growth.

Ideas for Action

The Scottish Government and its agencies could be clearer and more consistent in their definition of inclusive growth, and demonstrate how this applied definition translates into practice.

In our view, for inclusive growth to have the maximum impact on poverty and inequality, the inclusive growth definition used should be clear that the aim of inclusive growth is to narrow socio-economic inequalities. Place-based or group-based approaches are incredibly important, and necessary to understanding poverty and inequality. However, they are means to the end, not ends in themselves.

Any definition of inclusive growth also needs to be brought to life to be an effective tool for policy-makers. Developing an online bank of evaluated inclusive growth projects and activity to outline a menu of options for designing inclusive growth interventions could be an early priority in order to do so. An online bank of this sort, similar to EEF's Attainment Gap Teaching and Learning Toolkit (Education Endowment Foundation, 2019), would provide evaluated examples of projects that have achieved impact in relation to inclusive growth, outlining the key elements of projects, those projects that have impact in specific contexts and for particular groups, and support policy learning across Scotland. An online bank of successful inclusive growth projects could be one of the best ways to clarify what inclusive growth is, how it can be achieved, and to learn from what works.

6. Measurement and evaluation of inclusive growth activities could improve

A common theme across our research has been a difficulty in measuring progress against inclusive growth at the national and sub-national level, and a lack of evaluation of individual projects against inclusive growth aims. This has had a number of dimensions.

Firstly, we heard that many see inclusive growth as a long-term goal. Translating day-to-day and year-to-year policy interventions into a long-term goal around inclusive growth was seen as challenging by many. Secondly, and connected to a lack of clarity or consistency in definition (see above), there was clear confusion as to what impacts inclusive growth aims to achieve and for who. Therefore, and thirdly, agreeing measures to understand aims and impacts for the sub-national level was more difficult. Even where a clear and consistent definition of inclusive exists, this does not seem to translate into clear, consistent and useful metrics for understanding progress in delivering inclusive growth.

The Scottish Government, alongside partners, have developed a number of initiatives to help with the measurement of inclusive growth, both in terms of its aims and progress being made. The Office of the Chief Economic Adviser, together with the Scottish Government's Economic Development Directorate, have established the Scottish Centre for Regional Inclusive Growth (SCRIG). The aim of the SCRIG will be to work with local authorities, and the newly formed Regional Economic Partnerships to realise opportunities for inclusive growth and embed and inclusive growth agenda in local and regional economic policy. As part of its work the SCRIG has developed a new Inclusive Growth Diagnostic Tool which aims to help regions to prioritise geographical areas and population groups who could benefit most from inclusive growth interventions. It has also developed an Inclusive Growth outcomes framework, which combines the dimensions and outcomes of Scotland's inclusive growth agenda (see Figures A2 and A3). This tool was found to be limited in the extent to which it presented tangible outcomes towards which inclusive growth projects or initiatives might be focussed – or indeed measured against.

As stated, this is early stages in terms of inclusive growth in general, but also in terms of the diagnostic tool specifically, and indeed it is being updated as it is used. However, we heard mixed views on the use of the diagnostic tool. Some participants argued it could be a very useful tool in the mix to turn inclusive growth into reality, while others had found the tool to be either, in their view, not tailored sufficiently to their local context or too broad brush to be as useful as it could be. Equally, many participants expressed frustration at a lack of understanding as to how to measure individual projects and interventions, often at a household or neighbourhood level, as to their impacts on inclusive growth.

A common theme, more broadly, was that we may be missing opportunities to properly measure impact. Participants pointed to a number of policy initiatives whereby implementation had focused down to simply delivering the project, missing the opportunities to deliver and measure wider impacts in relation to inclusive growth. Furthermore, we may be potentially missing opportunities to pick up on unintended positive and negative impacts.

Ideas for Action

To ensure we are delivering inclusive growth, and to ensure we can build momentum through tracking progress we could better build-in evaluation and measurement across the full range of inclusive growth interventions at the national, regional and local level.

The Scottish Government, and its agencies, could better set clear and measurable inclusive growth outcomes, against which key policy agendas and interventions are measured. This could include major areas of government investment such as childcare, growth deals, and future infrastructure investment.

7. Inclusive growth interventions need to share a policy framework, and push in the same direction

As outlined above, we found that a broad range of inclusive growth definitions were leading to varied interpretations and broad interventions. In identifying whole population groups, or whole geographical areas (e.g. rural or deprived areas) that could benefit from inclusive growth, and choosing to prioritise these whole-groups or areas, it was clear that there is a risk that inclusive growth strategies prioritise almost everyone and therefore prioritise no one. To deliver impact on inclusive growth quickly, there is likely to be a need to make choices, both within population groups and within broad geographical categories. This is likely to require a greater ability to target more specific barriers in the way of people benefiting from growth.

Our research participants saw a role for SCRIG and the diagnostic tool, and more generally for government, to support inclusive growth strategies to be sufficiently focused and to make choices that allow inclusive growth to be meaningfully different from previous approaches, and to allow progress to be made in delivering inclusive growth.

Furthermore, we saw evidence through the policy literature that national, regional and local actors, working to contribute towards inclusive growth, do not always have a coherence between the priorities they choose. Encouraging a greater focus within inclusive growth strategies could provide greater opportunities for national, regional and local actors to pull in the same direction, prioritising the same interventions and outcomes, rather than broad-brush definitions, strategies and interventions that risk activity that pulls in opposite directions.

Ideas for Action

The SCRIG could work more effectively with users of the Inclusive Growth Diagnostic Tool to better prioritise target groups, develop more focused aims, and work more closely with those working on the inclusive growth agenda to design high-impact local initiatives. In relation to inclusive growth, it is clear that prioritising everything has the same effect as prioritising nothing. Driving a stronger and more inclusive economy by focussing on multiple broad population groups and a host of large geographical areas risks missing opportunities to focus resources in such a way as is needed to deliver inclusive growth that reduces poverty and inequality in Scotland.

8. Realising inclusive growth will take collaboration and culture change

A number of participants expressed that inclusive growth as an agenda had already been useful in bringing previously distinct areas of policy, and people working within different areas of policy, closer together. Within government, and government agencies, a number of our research participants reported progress in bringing economy colleagues into the inclusion policy agenda, and to some extent the same in the opposite direction. Equally, we have seen structural and governance changes that may begin the process of doing the same across policy areas.

While there was an understanding of these moves to attempt to foster greater collaboration across policy areas, particularly at the strategic level, there was also the view that these structural changes have only opened up the opportunity to work more closely, they have not and will not deliver that closer joint working in and of themselves.

At the practitioner level there was a clear demand for greater collaboration and networking across organisations and across policy areas. Across everyone we spoke to, but in particular practitioners, we heard a strong view that building greater links could be useful to connect those working to deliver inclusive growth across different policy areas and organisational structures. Much of the feedback from practitioners, was that it was incredibly useful to hear what others are doing to deliver inclusive growth, the barriers and enablers they are experiencing, and incredibly useful to gain an insight into how different policy areas fit together, an understanding of the overall aim and to feel part of something bigger. While the SCRIG, in part, was set up to facilitate this type of collaboration, and in turn culture change, we have not seen evidence that it has yet been able to fulfil this role to a significant extent.

Embedding inclusive growth will require an adoption of an inclusive growth focused culture within organisations and across organisations. This process is likely to have a vertical and horizontal dimension to it. The vertical dimension of embedding inclusive growth will likely require individual organisations to cascade an understanding of inclusive growth throughout their organisation, including what it means and examples of how it is being achieved. It will be crucial that internal incentives and performance management reflect this. The horizontal dimension of embedding inclusive growth will require the development of a group consciousness among practitioners across Scotland as to their role in contributing to inclusive growth, and as being part of something bigger.

Ideas for Action

There is potential for new regional networks, or Regional Inclusive Growth Collaboratives, to help to bring practitioners together and to deliver greater impact at the local level. These could bring together practitioners across policy areas to share best practice, enablers and barriers to realising inclusive growth, and to attempt to create a group consciousness around inclusive growth among practitioners. We found consistent evidence that practitioners want to feel part of 'something bigger' and want to know how their work fits with the bigger picture, and how the learning they have developed can help others across Scotland. New networks, explicitly aimed at practitioners working within areas of Scotland's inclusive growth agenda, rather than the strategic level, could be effective at developing inclusive growth activity that is consistent within local areas and across local areas.

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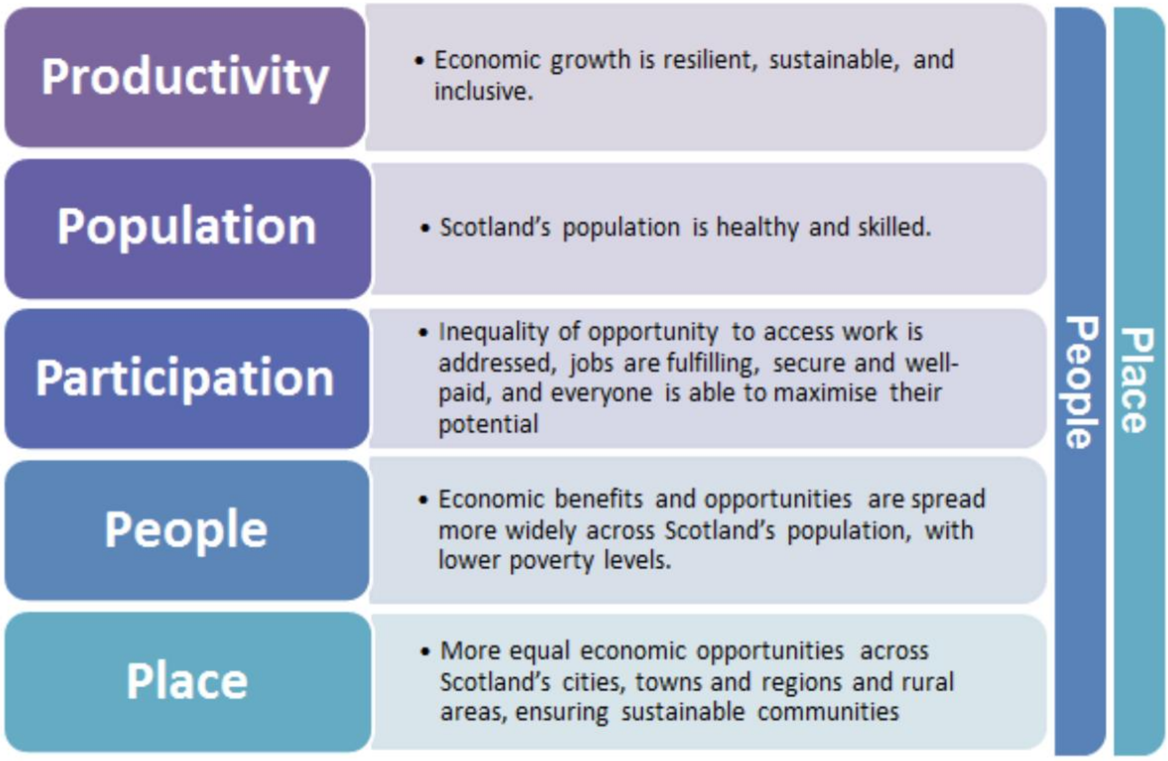
Annex

Table A1. Interview and Roundtable Participant Outline

Scotland Interviews – organisation name	**Practitioner Roundtable – organisation name**
Highland City Region Deal	NHS Scotland
SURF	Healthcare Improvement Scotland
Skills Development Scotland	National Day Nurseries Association
Glasgow City Region Deal	Scottish Enterprise
STUC	Scottish Funding Council
Scottish Government, Economic Development Directorate	Fife Council
Scottish Government, Housing and Social Justice Directorate	Glasgow City Region Deal
Scottish Government, Chief Economic Adviser	Transport Scotland
Skills and Enterprise Strategic Board	
Clyde Gateway	
Scottish Enterprise	
Tay Cities Deal	
Scottish National Investment Bank	
Highlands and Islands Enterprise	
Ayrshire Growth Deal	

Figure A2 – SCRIG IG outcomes framework (a)



Source: Scottish Government 2015

Figure A3 - SCRIG IG outcomes framework (b)

Source: Scottish Government 2015

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The Poverty and Inequality Commission
6th Floor
5 Atlantic Quay
Glasgow
G2 8LU

ISBN: 978-1-78781-860-6 (web only)

Published by The Poverty and Inequality Commission, June 2019

Produced for the Poverty and Inequality Commission by APS Group Scotland, 21 Tennant Street, Edinburgh EH6 5NA
PPDAS568970 (06/19)