

THE

GOOD

ECONOMY

The Good Economy: A Better Future for Everyone

2016

www.thegodeconomy.co.uk

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For permission requests please contact info@thegoodeconomy.co.uk or write to:

The Good Economy Partnership
4 Miles's Buildings
Bath BA1 2QS

Foreword

Business, financial and political leaders say it is time for a new model of capitalism that delivers 'inclusive growth' and 'shared prosperity'. The notion of 'inclusive capitalism' is an old idea, traceable to Thomas Hobbes (1588-1679). It may be an idea whose time has come, but to make it a reality is something else altogether. Speaking for ourselves, inclusive capitalism sounds too complicated.

We prefer to put it more simply. Let's work together to build the Good Economy – "an economy that works for everyone".

This position paper introduces our four-pillar model of the Good Economy. It fits within the tradition of social economics and is inspired by the ideas of J.K. Galbraith and Edmund Phelps amongst others. Four pillars – Good Jobs, Business Dynamism, Human Development and Social Cohesion – hold up the Good Economy, not simply as load-bearers but as traction engines for powering its realisation. We have brought these familiar pillars together in a new and different way.

Our four pillars are composite structures. We are exploring how to integrate "sustainable consumption" into the Good Economy framework, seeing this as fundamental to environmental sustainability.

This paper is an invitation to collaborate with The Good Economy Partnership (GEP). There needs to be consensus and collaboration between business, investors, government and communities to turn the idea of a Good Economy into reality. The Good Economy embraces many diverse elements of economic theory and practice that champion innovation, productivity, entrepreneurship and inclusion. We seek to create a broad church, a highly inclusive community of interests from a broad range of partners from the public and private sectors as well as from wider civil society.

We have varied economic development and social impact investment backgrounds, covering innovative policy, practice and research in every region of the world. Although this paper focuses on the UK context, we continue to work at home and abroad. The Good Economy model is a 'borderless' concept with universal relevance, and we are linking with partners globally and locally.

We hope you will be inspired, get in touch and contribute to building the Good Economy with us in theory and in practice.

Sarah Forster and Mark Hepworth

Founding Directors, The Good Economy Partnership
May 2016

Inclusive capitalism is fundamentally about delivering a basic social contract comprised of relative equality of outcomes; equality of opportunity; and fairness across generations. This gathering and similar ones in recent years have been prompted by a sense that this basic social contract is breaking down. That unease is backed up by hard data.

Mark Carney,
Governor of the Bank of England,
Conference on Inclusive Capitalism,
London, 27 May 2014

The Good Economy Model

A Four Pillar Framework

GEP have created an original model of The Good Economy based on four pillars: Good Jobs, Business Dynamism, Human Development and Social Cohesion. The Good Jobs pillar derives from John Kenneth Galbraith's book on 'The Good Society'. The Business Dynamism pillar links to Edmund Phelps' writings on innovative-driven economies characterised by 'high dynamism and wide inclusion'.¹ The Human Development pillar reflects the UN human development goals. Finally, the Social Cohesion pillar draws on Robert Putnam's work on social capital and civic communities and the OECD's evidence on social mobility. Whilst these different pillars of the Good Economy will be familiar to most people, what we have sought to do is to bring them together in a single conceptual framework.

THE GOOD ECONOMY

Good Jobs

Decent Living Standards

Full-employment and jobs that pay decent wages and fulfil career aspirations, with everyone able to enjoy a high quality of work-life.

Business Dynamism

Inclusive Investing

A backbone of SMEs characterised by high business dynamism in terms of sustainable growth and social impact, thriving on an economic landscape rich in finance, skills, infrastructure and accessible market opportunities.

Human Development

Universal Services

Equal access to high quality public services so that everyone, everywhere can enjoy a high standard of personal and social well-being.

Social Cohesion

Democracy & Community

A truly representative democracy shored up by high levels of social mobility and vibrant civic communities.

Inclusive Investing

We employ the term 'inclusive investing' – **people-centric investment that promotes social and economic inclusion on a sustainable basis** – to describe The Good Economy's characteristic investment drivers.

- **Inclusive Business Investment** – by non-financial businesses and public sector corporations – drives sustainable improvements in management, skills, productivity, motivation and engagement in innovation across the entire workforce (from the 'lab' to the 'suggestion box'). This stretches across supply chains and into education and training institutions. Good Economy businesses possess dynamism and achieve sustainable growth and social impact.
- **Inclusive Government Investment** – by central government and local government – drives sustainable improvements in public services necessary to universal human development. User communities and small and medium size enterprises (SMEs) participate fully in the design, procurement, delivery and evaluation of public services. Good Economy governments are innovative, efficient managers of services and highly respected employers.
- **Inclusive Financial Investment** – by banks, investment firms, crowd funders, community finance institutions and individuals – provides affordable capital and financial services for individuals and businesses and a means for people to save and invest in ways that help build a Good Economy. Impact investment that intentionally sets out to help tackle social and environmental problems evolves rapidly. Good Economy financial institutions have social purpose, transparency and accountability embedded in their culture and operations.

The Good Economy's investment drivers must be powerful and balanced enough to deliver long-term inclusive growth. Presently the UK economy is under-powered and under-invested. Government investment has trailed behind G7 rival economies for three decades, and business investment has been flat for half of that time.² Even with London's preeminent financial status and international leadership in intangible capital investment, the UK lags behind the productivity performance of its main competitors. Finance and knowledge investments are not producing sufficient business dynamism across the UK economy.³

The UK needs a financial system that delivers higher levels of productive business and government investment. The OECD argues that the UK is over-reliant on monetary policy and financial investment.

The UK's inclusive investing drivers are shaped by global and local market forces. Global companies and City asset managers tend to look outside the UK for growth and financial returns, whilst foreign oligopolies dominate some key domestic transport and utility sectors. Inclusive investing across the UK-based SME sector and the nation's public services can provide a local countervailing force to globalisation, with multi-asset financial investment reinforcing the pursuit of high dynamism and wide inclusion as sovereign economic policy goals. The Good Economy calls for strong goal-led inclusive investment on a broad front.

The UK needs a financial system that delivers higher levels of productive business and government investment.

The Four Pillars

Good Jobs

Full-employment and jobs that pay a decent wage, fulfil career aspirations, enabling everyone to enjoy a high quality of work-life.

According to Galbraith, 'There is no serious doubt as to the economic basis of the good society. There must be employment opportunity for all willing members'.

The UK does not meet the good jobs standard of the Good Economy. According to the OECD, 'The UK economy has been effective in creating jobs since the recession. Unemployment is low relative to other countries and total employment is at an all-time high. But productivity growth has been low, and this is reflected in low wage growth putting lower-income households at risk of poverty'. The UK's under-employment rate is estimated to be 7% – one of the highest in the EU, and 2 percentage points above the unemployment rate. 3 million workers are underemployed, many of these being part-time workers who make up 25% of the workforce.⁴ 6 million workers are paid less than the National Living Wage, and 13 million people live in low-income households.⁵ High underemployment explains why the UK is the sixth most unequal society [by wage income] in the industrialised world.⁶

The UK does not meet the good jobs standard of the Good Economy.

The Living Wage Campaign has moved the issue of job quality to the centre of public debate. The Government's statutory National Living Wage (NLW) falls short of the Campaign's voluntary Living Wage. Nonetheless, it has exposed deep fault lines and tensions in the UK's labour market⁷. Is it socially or economically desirable that British employers cannot afford to pay their staff a decent living wage? The Office of Budget Responsibility predicts that 60,000 people will lose their jobs; the British Retail Consortium's figure is closer to 1 million. The Resolution Foundation also warns that 25% of NLW earners will lose out from scheduled benefit cuts. The Institute for Fiscal Studies says that households gaining from the NLW are evenly distributed across the income distribution, with the largest gains to be found in the middle. Can Government defend the NLW with employer, trade union and public backing? Our inclusive future depends on employers delivering 'good jobs for all'.

It is helpful to look at the structural causes of the UK's good job problems, which can be traced to the decline of manufacturing from 25% of GDP in the 1970s to 10% today. Most of our economic competitors have seen a decline in productivity and business dynamism over the last two decades. Edmund Phelps argues that this decline across the OECD nations – not only the UK – is the result of national innovation systems failing – technically, institutionally and socially. The rise of India and China as global economic superpowers – 'tipping productivity eastwards' – is the other fundamental reason for the West's declining overall economic performance [Chart 1].

Nevertheless, the UK's 'fall from grace' in the international productivity race is one of the most dramatic, with the exception of Italy.

The so-called 'North-South Divide' in Britain deepened with de-industrialisation, notably between 1979 and 1982 after foreign exchange controls were dismantled. In 'post-industrial' Britain, the dominant rise of financial and business services has not compensated for this decline in overall

productivity. But what if the UK were to achieve a 'manufacturing renaissance' – through innovation in engineering and traditional industries and the evolution of new technology-based industries such as biosciences, materials and digital technologies?

We could see wage inequality fall and labour productivity rise. However radical innovation moves slowly through the economy – in Schumpeterian 'long waves'. We need proactive business and financial investment policies to accelerate innovation and innovation diffusion. Good job creation can't wait.

GEP itself has been working on 'good jobs' in the investment arena. We have created a pioneering 'Good Jobs Assessment Methodology', in partnership with Big Issue Invest, which enables fund managers to identify FTSE listed companies that perform well on 'good job' creation. We benchmark good jobs performance by the Living Wage, UK-based employment growth and job creation in less resilient labour markets. A leading global asset manager plans to launch a new 'good jobs fund' based on our unique methodology in the second half of 2016. This will be the first 'impact' fund in the UK that rates the social contribution of companies by their good jobs performance.

GEP's aspiration is that the success of new listed funds based on our innovative social performance methodologies will produce a demonstration effect across mainstream markets. It will provide means and incentives for both investors and listed companies to demonstrate their Good Economy credentials. Asset owners, asset managers and listed companies can benefit from positive consumer, shareholder, investor and government recognition. Promoting inclusive investing in the City requires more detailed and transparent reporting of employment and job quality performance in company annual reports and other public documents. There are glaring 'jobs gaps' in standard ESG reports on listed companies. Non-financial due diligence analysis should give more weight to the employment and training performance of companies – and is an obvious way of monitoring the jobs performance of Living Wage Employers, at least in the listed sector. Shareholders and their action groups, such as Share Action, would also benefit from better and more transparent information on the 'good jobs' performance of companies.

Promoting inclusive investing in the City requires more detailed and transparent reporting of employment and job quality performance.

CHART 1 | Labour productivity growth since 1990

Growth in GDP per hour worked



Source: OECD, 'The Future of Productivity', 2015

Business Dynamism

A backbone of SMEs characterised by high business dynamism in terms of sustainable growth and social impact, thriving on an economic landscape rich in finance, skills, infrastructure and accessible market opportunities.

The Good Economy requires a strong backbone of SMEs that possess high levels of business dynamism. SMEs create two out of every three new jobs in OECD countries. Hence their dynamism is key to making the UK more productive, competitive and inclusive. Dynamism refers to creativity, entrepreneurship and an innovation mind-set. The big challenge for the UK is to scale up and create a high level of aggregate dynamism. We need higher levels of business dynamism pervading the entire SME and social enterprise sector – particularly in strategic industries and human development services.

Today, UK SMEs lag behind their foreign counterparts on innovation, internationalisation and growth ambition.⁸ Survey evidence reveals that SMEs need better access to finance, infrastructure, supply chain and public sector markets and skills to improve their business dynamism.⁹

Finance. The UK ranks 15th of 20 OECD countries on SME access to bank lending – only 3.5% of banks' assets are devoted to lending to non-real estate firms, and SMEs struggle to find financing.¹⁰

After a seven-year bank lending squeeze, UK SMEs are seeing a renewed availability of bank debt. However, access to finance is uneven: 71% of equity funds went to companies in London and the south-east, although they accounted for just 34% of the business population; new bank loans have favoured medium-sized businesses while those with less than 50 employees are still struggling to borrow. Start-ups had a 50% rejection rate from banks. Only 3% of start-ups become mid-sized businesses, compared with 6% in the US. Undoubtedly, the UK needs to back scale-ups and start-ups if it is to develop a competitive, high impact SME backbone.¹¹ SMEs need multiple financial options and inclusive investing partners – the 'backbone' needs proper backing.

GEP's research for leading UK private equity firms, LDC and Enterprise Ventures, confirmed the need for a strong regional private equity infrastructure to support SME-led economic growth – i.e. the German model. This case is supported by the Regional Studies Association in its policy advice for a balanced economy.¹² The UK private equity sector as a whole is still London-centric.

Regional financial investment for SMEs would be reinforced if the UK's massive local government pension funds – now being pooled within and across regions – were to be invested in local infrastructure and business.¹³ GEP is working on new data analytics tools to enable new multi-asset funds to be set up which invest in companies according to geographical criteria. Building investment portfolios that have a strong representation of companies located within their own regions could help to 'embed' companies in their local-regional economies. We could get more resilient firms and more resilient economies through long-term planning in the areas of skills, infrastructure, supply chains and finance. The success of the German Mittelstand companies is partly explained by this regional connectedness. Such funds could also allocate a percentage of their investment to community-based social impact investing, along the lines of the Fonds Solidaire in France, as is being proposed by Big Society Capital.

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Infrastructure – The UK was ranked 10th in the world in terms of the overall quality of its infrastructure in 2014/15, behind France (8th), Germany (7th), but ahead of the USA (12th), according to the World Economic Forum.¹⁴ OECD analysis shows that the UK has suffered from under-investment, compared to rival economies, since the 1980s. This is attributed to 'insufficient long-term planning by successive governments' and the UK's reliance on the private sector to deliver its national infrastructure plan. One result of this is regional inequality in infrastructure between London and the South-East and the rest of the country. As such, the government is failing UK-based companies that require first-class infrastructure to compete – particularly the North's SMEs. It is high time we closed the regional infrastructure gap.¹⁵

It is high time we closed the regional infrastructure gap.

The new multi-billion pound National Infrastructure Delivery Plan 2016-2021 with its emphasis on 'powering-up' the Northern Powerhouse is consistent with this policy shift. Experts suggest that it would be wise to 'wait and see' whether the new plan actually delivers against its ambitions objectives – particularly, its balanced economy objective.

Access to Markets – The UK has an Industrial Strategy for strengthening manufacturing supply chains, with increasing SME participation a priority. This Strategy is delivered through 'Catapult Centres' for innovation, the Business Growth Service and Sector Growth Partnerships.

The CBI's 'Pulling Together' report says that UK-based businesses are interested in rebuilding national supply chains. That is good news. Can we truly re-industrialise Britain – maybe starting with a new British Steel backed by private investment and government commitment? With UK manufacturing now 'in recession', can we rise to the challenge?

To gain these benefits UK supply chains will have to realise a comeback, *having been hollowed out in recent decades as our wider industrial base diminished*. With a focused strategy to create an environment in which supply chains primarily driven by innovation and service can thrive, the benefits to UK plc could be substantial. It could boost the economy by as much as £30bn by 2025, creating over 500,000 jobs.

Privatisation has led to widespread foreign ownership (including foreign state-owned corporations) of the UK's infrastructure – transport, energy and water for example. How well represented are UK-based SMEs in these supply chains? If it is low, what leverage does Government have to increase UK-based SME share?

Public procurement can boost SME growth throughout the UK.¹⁶ The Social Value Act and the Competition and Markets Authority should deliver this across the UK's local and regional economies. Oligopolies dominate the £120 billion outsourced services market, despite the Government's pledge to spend 25% (directly or indirectly) with SMEs, social enterprises and charities. We need hard evidence of a working 'level playing field' and the government's intent to create a much more inclusive public services marketplace. After all, 'we own it'. GEP works with social enterprises to demonstrate their social value and become investment-ready so helping social enterprises scale-up and win a greater market share.¹⁷

Public procurement can boost SME growth throughout the UK.

Skills – There is an apparent mismatch between the types of skills SME employers need and what new graduates have to offer. Employers say 54% of graduates are not work ready and 75% of school leavers are unprepared. At the same time, 60% of new graduates are currently under-employed, and 14% of all 16-24 year olds are unemployed (20% of them for more than one year). This is an intolerable labour market situation that we have complacently accepted for many years.

Universities are now looking to deepen their relationships with local economies, as players in 'inclusive regeneration'.¹⁸ The new degree apprenticeship scheme – which combines university study with workplace-based learning, like the old polytechnics, could help to reduce the skills mismatch.

Something needs to be done, urgently – new graduates, particularly those from less well-off backgrounds, are paying dearly for their university dreams and ambitions. The Good Economy SME backbone is critical here, given that 80% of new graduates now look to SME employers by choice. We also need more and better apprenticeships, more young people choosing vocational and flexible further education colleges and better managed school-to-work transitions. The Audit Commission estimates that young people currently Not in Education, Employment or Training (NEET) will cost the UK at least £34bn – £12bn in public finance costs and £22bn in losses to the economy and society. Impetus PEF, the private equity funded grant making foundation, is campaigning to 'make NEETs history'. Inclusive investing – based on collective action to 'make NEETs history' – can create a more cohesive and socially mobile society, whilst promoting long-term economic growth.

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Human Development

The Good Economy requires equal access to high quality public services so that everyone, everywhere can enjoy a high standard of personal and social well-being.

Education. It is clear that educational inequality remains one of the most destructive and pervasive problems in the UK. It is just not fair that all children don't get the same quality of education and opportunity to succeed in life.

Inter-generational education inequality is one of the main causes of the UK's low social mobility. In 2014, 38% of poor children achieved five good GCSEs including English and Maths compared to 64% of children from well-off families.¹⁹ On leaving university, 40% of graduates who attend private school secure a high status occupation, compared to 28% of graduates from state school backgrounds.²⁰

In a Good Economy there is equal educational opportunity for all. The complex issues underlying educational inequality require that organisations that can support educational improvements come together. We do not believe in top down, one-size-fits-all solutions. Evidence tells us that turning all state schools into academies is not a solution in itself and has risks associated with unaccountable privatisation. The Sutton Trust found that a third of the UK's 4,000-plus academies are run by chains overseeing three or more academy schools and that some academy chains are very good, some are okay, and some are poor.²¹ The Fair Education Alliance offers a good example of an inclusive Good Economy approach to tackling educational inequality. It unites children's charity organisations, business organisations and education organisations, including the National Association of Headteachers, in a concerted attempt to end the educational achievement gap between young people from poor and wealthy backgrounds.

Health and Social Care. Socio-economic inequalities also underlie health inequality. The main causes of significant differences in life expectancy are older people's deprivation, employment deprivation and housing deprivation.²² There are also an increasing number of people living longer with long-term conditions, such as dementia and heart conditions.

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GEP's work with the NHS and local authority care commissioners in the South West has demonstrated the importance of a greater focus on tackling the underlying causes of health inequality through integration of health and social care, housing and employment interventions and more investment in early intervention and preventive health services. Here, charities and social enterprises can play a bigger role in providing community-based, more person-centered services that produce better outcomes for individuals whilst helping to relieve pressures on the NHS. Commissioners need to lead the co-design and procurement of these services, with new social investment used for capacity-building and business growth. Risk should be shared between the providers of enabling financial capital and the commissioners – and not transferred to service providers or service users.

Housing. Three million people are on UK council housing lists, 90,000 children are living in temporary accommodation and homelessness is rising. In the midst of a socially debilitating housing crisis, the UK is building fewer affordable homes than ten years ago. The Government has cut the capital budget spent on affordable homes by 60%. Against this background of falling government investment and rising social need, GEP has joined forces with investors and housing associations to support the building of more affordable homes, particularly for the

most vulnerable. We act as social advisors to Funding Affordable Homes (FAH) which has raised capital from private investors and Big Society Capital to create a fund which provides a new source of permanent equity capital to fund the building of affordable homes.

The FAH project demonstrates the importance of having an alignment of interests to achieve social goals. In this case, investors are provided with an investment opportunity that provides secure, long-term and stable financial returns blended with the opportunity to make a social difference; housing associations (HA) get a source of capital to build new homes; private developers build houses of quality and on affordable terms; local authorities achieve their goal of reducing the housing list; and tenants have high quality affordable homes.

However, whenever private capital is invited in to public markets, safeguards need to be in place. When private equity backs Social Housing at scale, this can be seen as a public infrastructure asset class, asset-backed, with a long-term revenue stream, which provides attractive risk adjusted returns and could attract large amounts of capital to build new homes. The motivation of investors is key. A risk is that private equity HA schemes get parcelled up and sold or traded on the market or costs are stripped out against leveraged acquisitions to drive profitability and price before the asset/venture is re-sold in years, with investors looking to double their initial capital. Hence we only support housing schemes where providers are registered social providers and the investors treat the investment as a social investment holding their money accountable to both financial (kept to reasonable limits) and social returns.

Government investment in public services is needed to 'crowd in' private investment such that the blend of finance delivers on equal access to quality services for all.

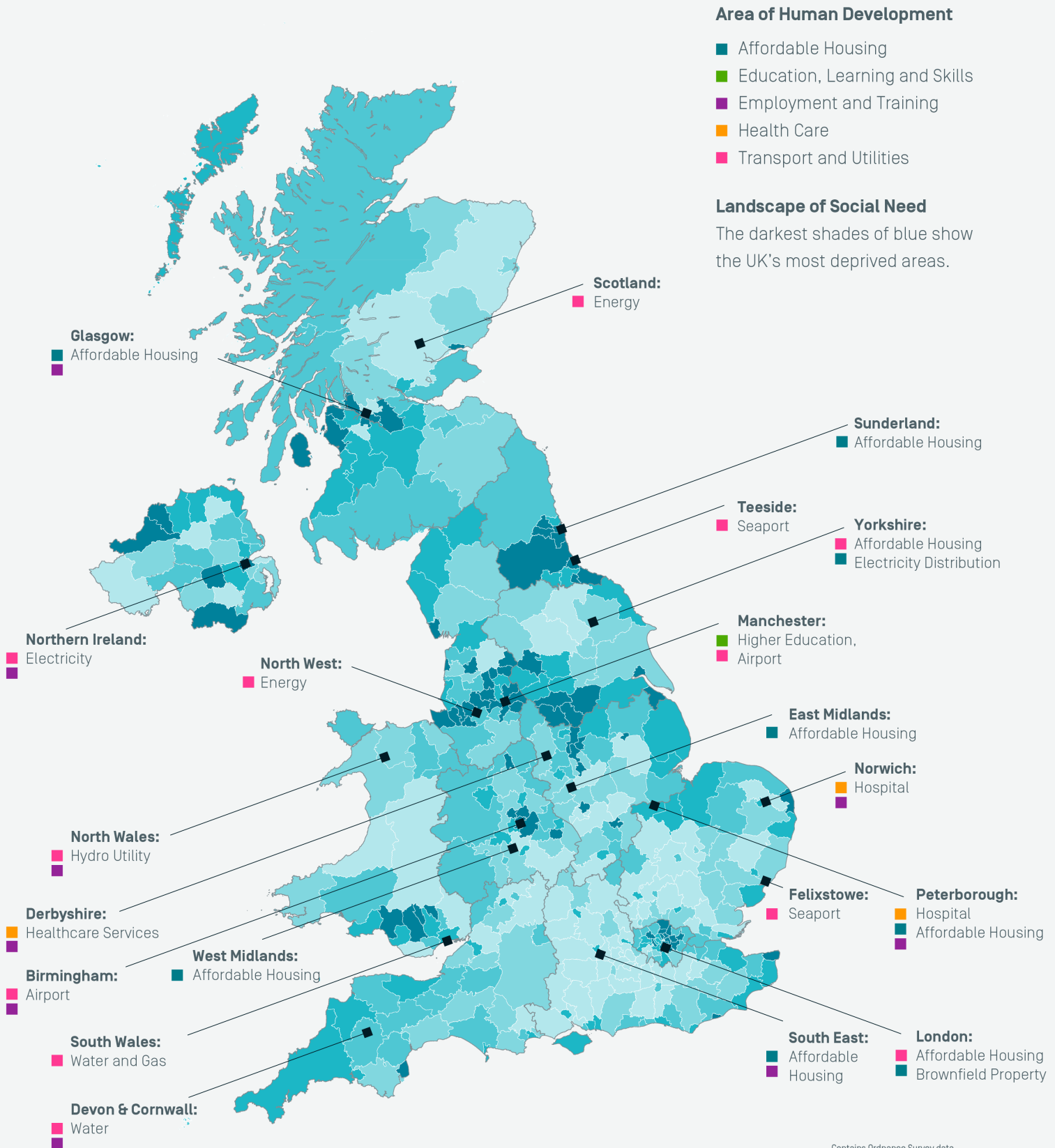
Further, private socially-driven investment is not a substitute for government investment. Government investment in public services is needed to 'crowd in' private investment such that the blend of finance delivers on equal access to quality services for all.

There are a growing number of individuals who want to save and invest in ways that meet financial expectations and also make a positive difference to society. Already there are a number of specialist social finance institutions, such as Triodos Bank, and opportunities for individuals to invest directly in worthwhile projects through, for example, credit unions, community shares and crowd funding. However, within the mainstream savings and investment market, the most socially driven products are typically limited to 'ethical' funds which focus on negative screening rather than positive impact.

GEP is part of the community seeking to change the status quo. We work with asset managers to design robust social performance assessment methodologies that enable fund managers to assess the social performance of investments, including listed bonds, equities and private equity, in ways that are transparent and evidence-based. This goes beyond the important work of fully integrating Environmental, Social and Governance (ESG) considerations into investment decision-making, to looking at how companies help to build a Good Economy.

A good example of our work in this area is the Threadneedle UK Social Bond Fund which was developed in partnership with Big Issue Invest, the social investment arm of The Big Issue. 3D Investing commented "The fund is truly different to other ethical bond funds due to its focus on social impact. Nearly 80% of the fund is invested in stocks with high or medium social outcomes. This is in sharp contrast to other bond funds that principally adopt an ethical exclusion approach." [see Chart 2].

CHART 2 | The Geography of Nationwide Inclusive Investing:
Threadneedle UK Social Bond Fund, in partnership
with Big Issue Invest



Contains Ordnance Survey data
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Social Cohesion

The Good Economy requires high social cohesion supported by vibrant 'civic communities', truly representative democracy and high levels of social mobility, especially amongst younger people of all backgrounds.

The Good Economy is founded on truly representative democracy and truly competitive markets. How do we know what society truly values, when neither the ballot box nor the price mechanism can be relied upon for allocative efficiency – to truly represent our preferences as users and consumers of public services and private goods and services? This is the question Joseph Schumpeter raised more than a century ago, when he coined the term 'social value'.²³ What we know is that policies which lead towards truly representative democracy – where everyone votes, and everyone's vote counts – and truly competitive markets – where SME business dynamism does raise an effective challenge to oligopoly – are what The Good Economy requires.

The UK lacks a truly representative democracy, measured by voter turn-out, fairness and public confidence. The high point in national election turnout was in the 1950s – when we truly were 'all in it together' – and the low point was at the turn of the millennium when turnout dropped below 60%.²⁴ Since 1945, national turn out has averaged 70-75%, the 66% figure for the 2015 General Election being the third lowest since the introduction of universal suffrage. In the most disproportional election to date in the UK, millions voted for smaller parties only to see their efforts result in single-digit representation, and a majority government returned to Parliament on less than 37% of the vote and with the support of just 24% of the electorate.²⁵

Democratic Audit found that 'in comparative terms, the UK's Westminster elections are now almost five times more disproportional [the mismatch between the parties that citizens support and those who win seats in Parliament] than the practicable minimum achievable in a modern electoral system. They consistently perform among the worst of any liberal democracies worldwide'.²⁶ According to Democratic Audit researchers:

People's sense of political efficacy – their sense that the political system is responsive to people like them – depends on many factors. One of these factors is the overall disproportionality of the electoral system. Self-reported efficacy is higher in countries which use proportional representation. There is increasing support for PR systems in the UK, particularly following the 2015 general election.

Truly representative democracy is all-important to The Good Economy. It is a measure of social cohesion as well as a vehicle for maintaining it. The OECD highlighted the way that income inequality can undermine democracy in the UK: voter turnout for the top 20% of the population by income is about 73%, whereas the participation rate of the bottom 20% is around 50%. This 23 percentage point difference is much higher than the OECD average difference of 13 percentage points. We need to politically include the worst off.²⁷

Declining social mobility in the UK is bad for the economy and for society at the same time. The UK has been a modestly

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cohesive society by international standards; however this cohesion is threatened by declining social mobility.²⁸ The UK is the worst performing OECD country *on social mobility*, with inter-generational advantage in educational opportunity being identified as a key factor. The new threat to social mobility comes from rising barriers to home ownership. The proportion of 25 to 34 year olds who own their own home has fallen from 66% to 36% within a decade.

We could work 'bottom-up', going from place to place to build Good Economy towns and cities. Robert Putman emphasised that the dynamism of political institutions is linked to the vibrancy of 'civic community'.²⁹ Building civic communities and building The Good Economy go hand in hand. Again, we have to reinvigorate local democracy, if we want to create local and regional economies capable of sustainable inclusive growth.

The new threat to social mobility comes from rising barriers to home ownership.

How do we reconnect socially in political and economic life? We have turned to social psychology and social economics for the answer. Social connection and compassion are important predictors of health and well-being.³⁰ It is worth recalling Darwin's 150-year old observation as we fuel the debate on inclusive capitalism – 'Communities, which included the greatest number of the most sympathetic members, would flourish best, and rear the greatest number of offspring'. We need more 'compassionate capitalism', even at the risk of using an oxymoron. We see considerable merit in Archbishop Justin Welby's characterisation of the 'Good Economy' by the following four principles:

Creativity – Full employment matters, investment in education is essential, skills development is core, and businesses of all kinds should be given the space to develop and create wealth, to create employment and prosperity for the society in which they live, it is a God-given call and function.

Gratuity – A spirit of generosity that does not seek the maximisation of return or every transaction to be carried out on a basis of exchange and equivalence. Gratuity is activated principally amongst businesses, the third sector and individuals. It involves both philanthropy and a certain restraint in the maximisation of return to the logical limit.

Solidarity – An economic landscape with no one left out or left behind. We value people and communities. Four areas of public policy could demonstrate what an economy built on solidarity can look like and deliver: a living wage, good and affordable housing, excellent education and training, and greater financial access.

Subsidiarity – A Good Economy encourages collaborative working between different elements of the economy to enable the flourishing of all – as reflected in anti-monopoly legislation, local government, decentralisation, and regulation that ensures accountability of huge companies to customers.

These types of social values have motivated some of our greatest economists. Alfred Marshall argued that poverty and inequality was caused by governmental and educational institutions through their malignant neglect of the educational needs of the underclass. He recommended public investment in human capital in the form of drastically expanded public expenditures for education. For Keynes, poverty and inequality was due to massive unemployment – like Galbraith. The UK economy had become mired in depression (1930s)

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because the institution of 'rentiership' – that is, living exclusively off return on capital, as opposed to engaging in business or professional pursuits – had intentionally reduced its funding of the institution of business entrepreneurship. Keynes' solution was public investment in private enterprises, which he called socialization of investment. The result would be universal affluence in a society in which the institution of 'rentiership' would be conspicuous by its absence.

The sobering thought is that Marshall and Keynes were writing about the UK economy and society nearly a century ago. These are powerful echoes from the past. To borrow George Stigler's phraseology, we need to rescue society from 'occupying a slum dwelling in the town of economics'.³⁷ And while we debate what the UK can afford and cannot afford, let us all remind ourselves that economics should focus on human beings, not things and numbers.

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Roadmap to The Good Economy

The Good Economy requires society to be ambitious about what it wants to become. Ten years of social and economic progress could bring the UK within sight of The Good Economy by 2025 – the lifetime of this parliament and the next one (plus another year to compensate for the late start).

To achieve this, we need a 'roadmap' to The Good Economy – a vision, a dashboard showing direction and measurable progress, and of course an inclusive investment action plan. GEP seeks to develop this roadmap with like minded partners, including businesses, policy makers, service providers, investors, practitioners, independent experts and civil society champions – working across the UK's economic and social landscape.

This paper is a living document and there is plenty it doesn't cover. Going forwards, we want to explicitly integrate 'sustainable consumption' into the Good Economy model. As we see it, this is the weakest link in the quest for environmental sustainability, and should feature on the Good Economy Road Map.

Vision and Intent

The UK lacks a coherent and inspirational vision of its economic future. Financial, business, and political leaders are talking about 'inclusive capitalism'. What we have instead is exclusive capitalism, fuelled by the current regressive low interest rates and quantitative easing policies. By propping up stock markets and supporting booming house prices current monetary and fiscal policies are deepening inequality and widening the wealth gap.³² High inequality suppresses social mobility – the main driver of inclusive capitalism.

In principle, there is universal support for a 'balanced economy' – the Government's overarching policy goal. Yet the economy is heading in the opposite direction.³³ Between 2009 and 2014, economic growth in London and the South East was around 25%, twice that of the North of England.³⁴ Unbalanced growth is bad for equality in every region. London experienced the biggest rise in inequality. London's policy makers say the capital is an increasingly polarised society.³⁵

Sustainable development is compatible with The Good Economy model. But again, we are heading away from sustainability. Matthew Spencer, Director of Green Alliance, summarises where the UK is now:

Despite the progress that we have made, the UK's carbon dioxide footprint has gone up 10% over the last 20 years, even as our production emissions have gone down. 80% of the products that go into the UK's economy are still only there for a very short amount of time; they are not used for a second time. The majority of the UK's wildlife is in decline, probably the biggest challenge that we face as a country. *The underlying health of the environment is worsening in the UK because there is more unsustainable development.*

The Good Economy is a big enough concept to include inclusive, balanced and sustainable growth and development. It is an intelligible concept – people 'get it' regardless of their perspective. It is an inclusive concept – ***an economy that works for everyone***. There is no mistaking that idea. Who doesn't want an economy built on good jobs, innovative and inclusive businesses, universal human development and greater social cohesion?

For The Good Economy vision to become a reality, we need 'clarity of intent' rather than more money.³⁶

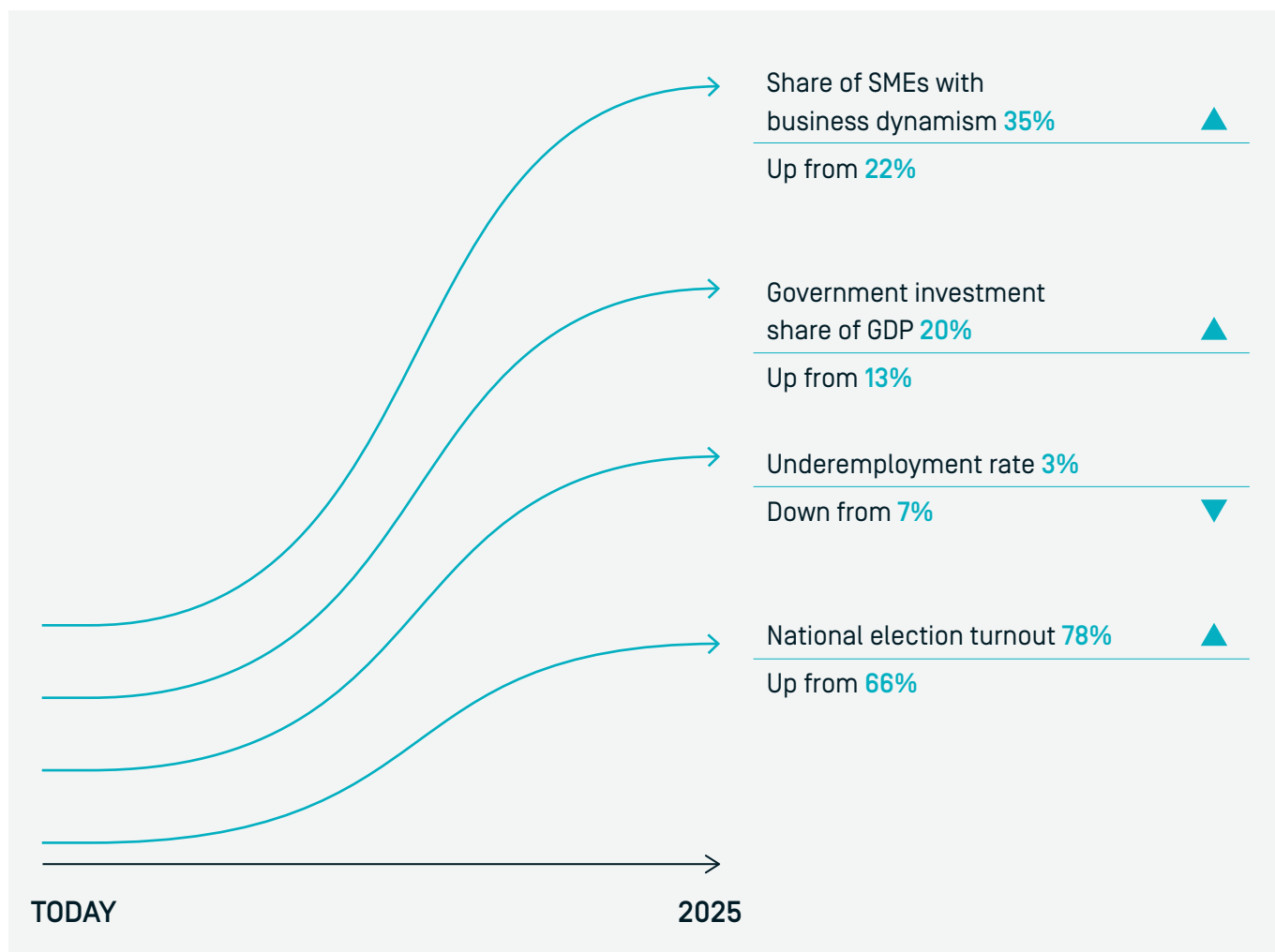
The Good Economy Index

We must set clear and ambitious targets for The Good Economy and monitor progress towards these goals. The Good Economy Index measures progress towards long-term goals for good jobs, business dynamism, human development and social cohesion. We should measure social value by the degree to which inclusive investing – people, resources and money – in the public, private and social sectors is aligned with these Good Economy directions of travel.

To illustrate how to measure progress, here we suggest a key target for each of our four Good Economy pillars. Although aspirational, attaining these targets would put the UK on a par with our G7 competitors and fellow EU member states and help build an economy that works for everyone.

This is only an illustration. We will work with partners who have specialist knowledge and practical experience in all of the four pillar areas to develop a rigorous set of indicators. We have used s-curves for the Index to highlight the influence of social innovation – recognising that it is setting goals that matters, how we get there will require learning by doing.

CHART 3 | Towards The Good Economy



NOTES:

Business dynamism = increase of 16% to 22% and 28% to 40% of UK SMEs exporting and innovating respectively (Goldman Sachs; Global Entrepreneurship Monitor);

Human Development = 13% to 20% infrastructure investment share of GDP on par with G7 countries;

Good Jobs = decrease in underemployment rate from 7% to 3% on par with leading Western economies (ILO);

Social Cohesion = increase national election turn-out from 66% to 78% on par with post-war trend and leading Western European countries.

The Power to Include

Too many people and too many small businesses are excluded from the labour market system, the financial system, the housing market system and the democratic system. Systemically and collectively we are choosing to **exclude**. By doing this, we risk continuing as a 'no-good' economy. Instead, we need to embrace the power to **include**.

Our challenge is to create an inclusive and vibrant economic and political democracy. To build a Good Economy, *everyone must choose to exercise their power to include*. This is about increasing personal social responsibility (PSR) as much as corporate social responsibility (CSR).

- If we think in this bigger empowering way, across the labour and housing markets, introducing new hiring and lending practices based on the inclusion principle we would save millions of young people from becoming a so called 'lost generation'.
- If we invested in small businesses according to their financial and social value, the nation would have a big, strong SME backbone capable of generating inclusive and sustainable growth.
- If we all turned out to vote, having researched and debated choices [with our friends and families, at least], democracy would be truly representative. Why would we need a referendum?

The four pillars of the Good Economy make it incumbent on us to engage in broad-based public debate on the cultural as well as economic reforms we need to build our four Good Economy pillars – forcing us to ask whether society is failing the economy, rather than whether the economy is letting down society.

There are countless inclusive investing opportunities to be discovered throughout the UK today. Exploiting these opportunities as truly 'one nation working together' will lead to the Good Economy and a better future for everyone. Already there are many who are working collectively to build a more inclusive society at the local and national level. GEP plans to join forces with others to focus on both research and policy and building this model in practice – we are already working on social performance indicators for companies and main market funds, collaborating with policy makers to ensure economic development strategies benefit the poor and developing inclusive investing projects in partnership with progressive investors, businesses and social sector organisations.

We look forward to working with all those who believe in this vision and are up for collective action to make the vision a reality.

Footnotes

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- ³³ Sheffield Political Economy Research Institute (British Political Economy Brief No. 14)
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- ³⁶ We have borrowed this argument from James Doty's book 'Into the Magic Shop', 2016. He has founded the Centre on Compassion and Altruism Research and Education at Stanford University.

Sarah Forster

CEO & Founder

Sarah co-founded The Good Economy Partnership (GEP) in 2015 as a social advisory firm bringing together the disciplines of economic development, financial investment and social performance measurement. She is recognized as one of the pioneers within the UK social impact investment market and internationally for her work on microfinance.

Prior to establishing GEP, Sarah was Deputy CEO of Big Issue Invest (BII), one of the UK's most innovative and respected social investment intermediaries with a mission to tackle poverty by financing the growth of sustainable social enterprises. She played a key role in taking BII from start-up in 2005 to managing and advising on over £120 million of social investment funds. Sarah also led the Rental Exchange, in partnership with Experian, which helps tackle financial exclusion by adding rent payment data to credit scoring.

From 2001-2004, Sarah was a Programme Director at the New Economics Foundation where she oversaw vital research and policy work for the Government's Social Investment Task Force and led the Inner City 100, designed to spotlight the role of local enterprise in urban regeneration.

Sarah started her career at the World Bank where she worked for nine years on poverty alleviation projects in Africa, South Asia and the Balkans. She developed a specialisation in microfinance with a focus on building the capacity of sustainable local microfinance institutions in post-conflict countries.

With a BA in Law from Queen's College Cambridge and a Masters of International Affairs, specialising in Economic and Political Development, from Columbia University, Sarah brings a multi-disciplinary approach to her work.

Mark Hepworth

Founding Director, Research and Policy

Mark is a multidisciplinary economist with a varied academic, public policy and commercial background. In the 1980s and 1990s, Mark's seminal research on the information society and the knowledge economy – at Newcastle University and London University – led to international advisory positions with the OECD, UN Economic Council and European Commission.

In 1997, Mark co-founded the Local Futures Group, which evolved into a leading economic development consultancy and data analytics business. He set up Geoeconomics as a consultancy in 2007, specialising in corporate impact assessments with Oxford Economics, major infrastructure projects with UK universities and economic development strategies for cities and regions.

As Social Value Advisor to Big Issue Invest, Mark co-created the social assessment methodology for the Threadneedle UK Social Bond Fund. His new 'good jobs' methodology will underpin a pioneering UK listed equities fund. Mark has produced original social value assessments for private equity firms, Enterprise Ventures and LDC, described by the British Venture Capital Association as state of the art.

Mark holds a first degree in Economics from Warwick University and a Doctorate in Economic Geography from the University of Toronto.