Growth is one of those goals that shows up everywhere. It is in the budget statements of nations, the annual reports of corporations and the personal development plans of individuals.

Everyone is aiming for growth. The most common economic application of growth is to represent an increase in GDP – the gross domestic product of a nation. But in a wellbeing world where GDP is not the only measure of success, how do we grow and how do we address inequities while doing so?

Inequities are growing
It is no longer sufficient for the economy to be growing at the same pace of population growth, instead economies are judged on whether they can achieve year-on-year per capita growth. In developing economies, rapid economic growth and globalisation has seen millions lifted from poverty. But while the world has watched economies like China and India in awe, on a global scale, economic growth is forecast at a rather sedate 2.6 percent.¹ This is still double the global population increase of ~1.1 percent but is watched as a source of concern and attention.²
Against this backdrop global inequality has never been more stark – the richest 1 percent now own 45 percent of the world’s wealth, and 64 percent of adults hold a mere 2 percent of the wealth. Income inequality within nations remains high and in many places is rising. Total income inequality on a global scale rose rapidly over the past two centuries, and only in the last two decades has this trend reversed. Even so, on any measure, global inequality remains high. In developed nations certainly, the bottom quartiles of the population in income and wealth terms have seen little change and even a fall in their relative positions.

In New Zealand our growth rate is around 3 percent while our population growth rate is around 1.76 percent. Our GDP per capita is increasing – this would suggest that things are getting better for the people of New Zealand. What we know, however, is that this increasing affluence is unequally distributed. With a Gini coefficient of 0.33 (0 being perfect equality and 1 being perfect inequality), we have consistently greater income inequality than the OECD average, and are only doing better than Australia and the United Kingdom by a small margin.

The Statistics New Zealand measures of income inequality have been suspended in anticipation of Ngā Tūtohu Aotearoa – Indicators Aotearoa New Zealand, but there is no reason to believe that broader measures of wellbeing will paint a picture of greater equality. Across numerous social measures of progress we see continuing gender inequity, high degrees of geographic segregation and overrepresentation of Māori and Pacific people in our least enviable cohorts.

Mainstream economics once held the view that a rising tide would lift all boats, or at least that the trickle-down effect would translate growth to increasing affluence for all parts of society. This view is now being abandoned in most economic circles – and the concept of inclusive growth is being pursued instead.

**Inclusive growth is a New Zealand story**

Inclusive growth requires that no one is left behind in the growth story of a nation. Depending on the definitions used, this may mean all members of society are able to share equally in growth opportunities or its outcomes, with reducing inequities as a measure of success.

New Zealanders consistently demonstrate their commitment to equity and fairness in national polls. As the opening article of this series demonstrated, equity is a core value for New Zealanders, and a ‘fair go’ is the Kiwi way.

But inclusive growth doesn’t just appeal to the fair minded amongst us – it is also a necessary approach to sustainable success.

In a very practical sense, sustained inequities also rob a nation of its long term growth prospects. As fewer families are able to take advantage of education and employment opportunities and/or participate in technology and innovation, the human potential of our economy is severely compromised. Future innovators, scientists, creatives and entrepreneurs are lost to us.

**Inclusive growth requires that no one is left behind in the growth story of a nation**
Economies with high disparity in income and wealth also tend to have high structural barriers to social mobility, which are further related to ethnicity, indigenous status and gender. A compelling infographic from the United States recently showed the ‘stickiness’ of poverty disproportionately impacting black Americans. Not only does growth not lift all boats, some boats are tethered to the bottom.

**Changing the frame**
Designed as an alternative to GDP, the World Economic Forum’s Inclusive Development Index (IDI) reflects more closely the criteria by which people evaluate their countries’ economic progress – the traditional pillar of Growth alongside Inclusion, and Intergenerational Equity and Sustainability. New Zealand performs well on the index, 13th amongst the advanced economies, with a ~1 percent upwards trend. But unfortunately, this is not because of our advances in inclusion – we are in fact one of the four poorest performing economies on the Inclusion pillar.

Ngā Tūtohu Aotearoa provides a promising start to broadening the aperture. The framework of indicators proposed covers the four capitals, includes te ao Māori, and includes some measures of equity in relation to health, child poverty and income distribution.

If New Zealand were to begin to report primarily on wellbeing growth, elevating measures of natural, human and social capital to have equal weightings to financial capital (as measured by GDP), it would serve to shift the narrative. Investment strategies from government and business could then be focused on – and assessed against – their contribution to wellbeing equity.

**Taking a lesson from business**
Business is well aware of the need for a more inclusive growth agenda, and an approach to measuring success that takes into account equity and sustainability. Inequality and social instability are bad for employment and consumer markets, and those organisations who are not taking action can quickly lose their ‘social licence to operate’.

We have already seen businesses adopt policies and practices that enhance the wellbeing of their employees – domestic violence initiatives, flexible leave policies, culturally and gender diverse recruitment, and adoption of the living wage. It would be a real step forward if these contributions could be measured and valued as a contribution to our inclusive growth, in the same way as shareholders currently look up the latest movement in stock prices as a proxy for the company’s contribution to economic success.

**Measuring equity of wellbeing**
A measure of wellbeing equity should be constructed that looks at the distribution of wellbeing across the population, and identifies those population segments who are most at risk of inequities, or have the least resilience in their wellbeing.

This would enable policies that target increasing equity across all wellbeing domains to be anchored to a measurable baseline. As governments and businesses focus their investments and strategies on increasing growth, they are naturally drawn to policies and initiatives that grow what is measured. An explicit wellbeing equity measure would incentivise action that reduces the gap – i.e. has a targeted and disproportionate impact on those who need it more.

Of course, this is easier said than done. Despite a focus on child poverty and welfare from successive governments, the ‘before housing costs’ measure has stayed largely stagnant, and the ‘after housing costs’ measure has only dropped slightly. Supporting measures with tools, like the Ministry for Women’s “Bringing Gender In” policy analysis and implementation tool, would greatly increase the system’s ability to act on its equity ambitions.

Just as important as publishing measures is a sustained focus on holding public and private organisations to account in shifting the dial through their activities. In an inclusive growth economy, we would see measures of inclusion and wellbeing equity being discussed in the context of new public policy, regulation, and informing choices around infrastructure and investment. For example, the transport infrastructure strategies being considered across the country would have a primary analysis of the anticipated benefits for wellbeing and inclusion. This may place greater emphasis on sustainable/green choices as well as greater consideration of supported transition costs for those less able to make changes in their transport choices.

**Expanding our definition of growth**
As economists and governments grapple with inclusive growth, they also have to consider growth in light of climate change, and our heightened awareness of planetary boundaries. In any natural system, unconstrained growth is a disaster.

A more expansive definition of inclusive growth would mean taking into account future generations, and the impacts of growth on their financial welfare and the quality of their environment, their social cohesion and connections, and the sustainability of their wellbeing. This expansive definition of inclusive growth requires us to redefine growth as advances in wellbeing – rather than being a singular financial measure that can be pursued at the expense of the environment, communities or families.

**Not only does growth not lift all boats, some boats are tethered to the bottom**
This may help usher us towards a circular economy, where consumption is not measured on the ‘positive side’ of the ledger, but rather a negative that requires balancing. Under this model, we would be seeking a balanced economy, where population growth, consumption of resources, replenishment of natural resource and reclaimed and recycled materials are held in balance. Inclusive growth in this context would be enabled by productivity and technological innovation in our ability to use materials more sustainably, reducing the footprint of consumption and changing patterns of usage and waste. New Zealand has an opportunity as a small, clean, green economy (in reputation as much as fact) to leapfrog the global players in this domain.

Multifactor productivity in New Zealand is growing, but at pretty low rates (just 0.3 percent last year, vs. average growth of 1 percent over the decade). Rather than focusing our efforts on productivity improvements that impact only on currently measured goods and services, we could invest in productivity improvements that bring us closer to inclusive growth and a circular economy. This would see us value more highly the innovations that build back our stocks of natural capital, unlock more human capital and strengthen our social capital.

And if any of this sounds a little too edgy, consider the following. The co-chairs of the OECD High Level Expert Group on the Measurement of Economic Performance and Social Progress summarise their work as: “We need to move “Beyond GDP” when assessing a country’s health, and complement GDP with a broader dashboard of indicators that would reflect the distribution of well-being in society and its sustainability across its social, economic and environmental dimensions ... [this] would have led, most likely, to stronger GDP growth than that actually achieved by most countries after 2008.”

We have already broken new ground with our Wellbeing Budget. An inclusive growth agenda could be the next big thing for New Zealand.

Endnotes

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