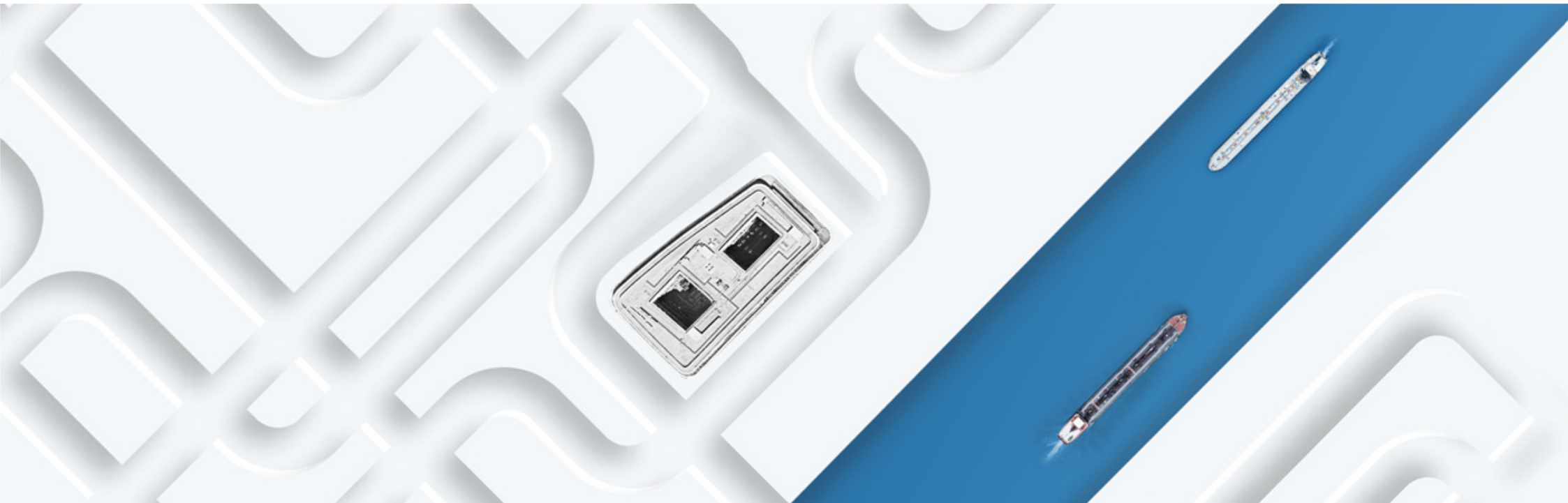




# Dwindling or inclusive growth? – A Comment

VIII. MPIfG / IW-Conference

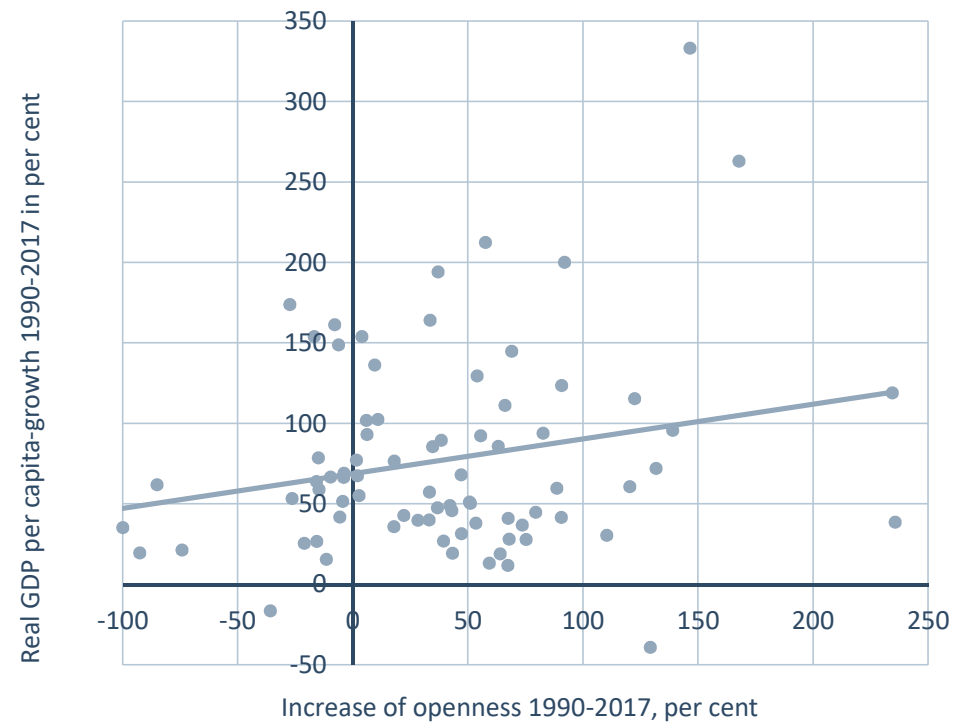


# Starting Point: stronger growth in globalized economies

Positive relationship between degree of openness und growth of GDP:

- › If the degree of openness in trade increases by 12.5 percentage points, this is accompanied by a 1 percentage point increase in GDP per capita.
- › Other relevant indicators: economic globalization, trade and capital restrictions, direct investment inflows

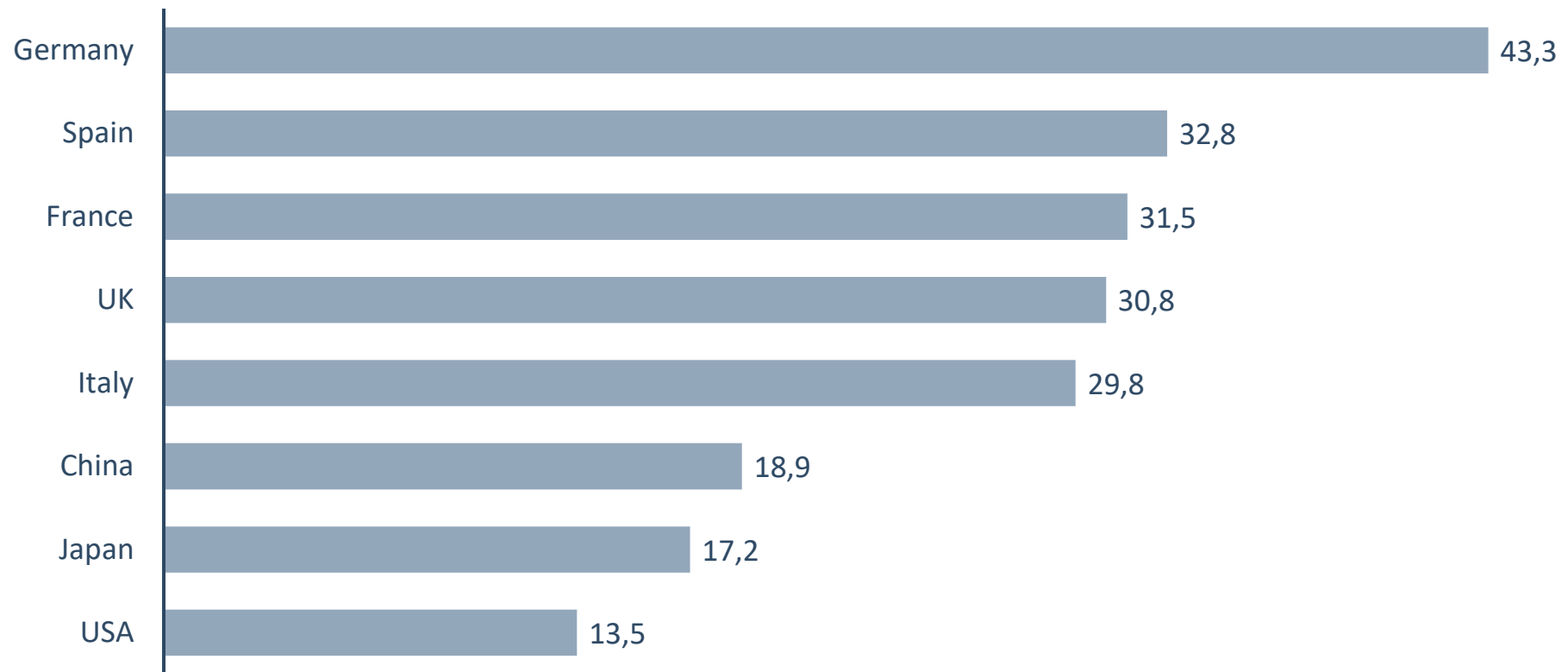
Openness and Growth



Quellen: Oxford Economics; Haver Analytics; Institut der deutschen Wirtschaft

# Germany: most open large economy in the world

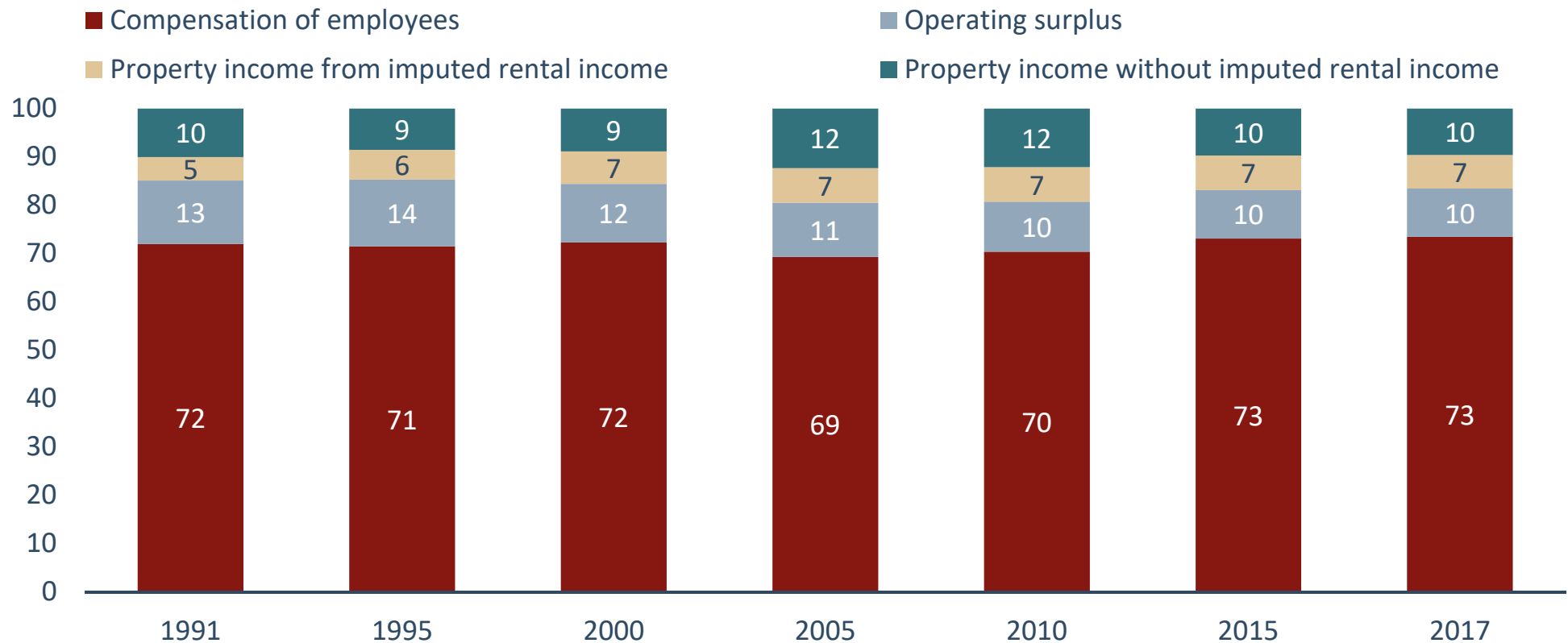
Average Exports plus Imports, as a percentage of GDP, 2017



Sources: Oxford Economics; Haver Analytics; Institut der deutschen Wirtschaft

# Labor Share in primary income: stable,...

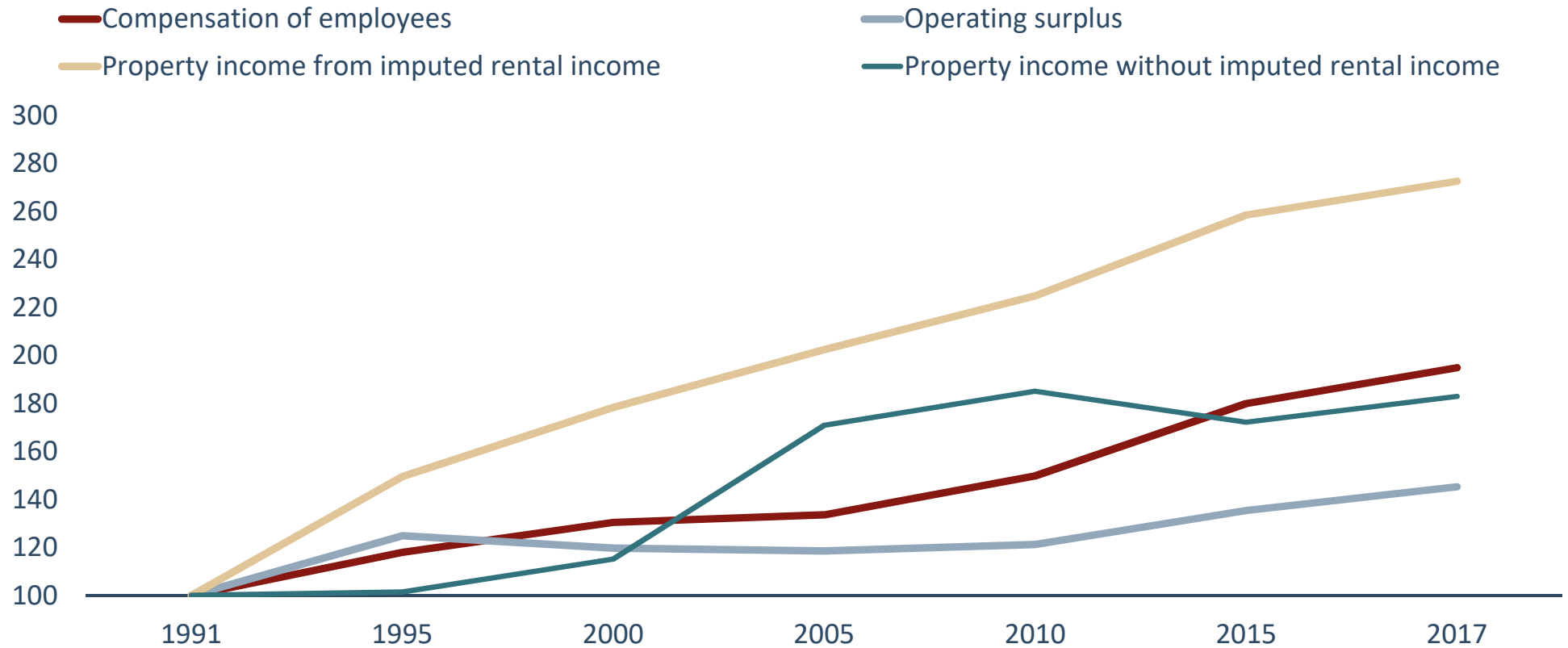
Share of components in primary income, percent



Private households including private non-profit organisations; Data for Germany.  
Sources: Statistisches Bundesamt; Grömling, 2017

# ...but some forms of income from wealth grow more dynamically.

Change of income by components; Index 1991 = 100



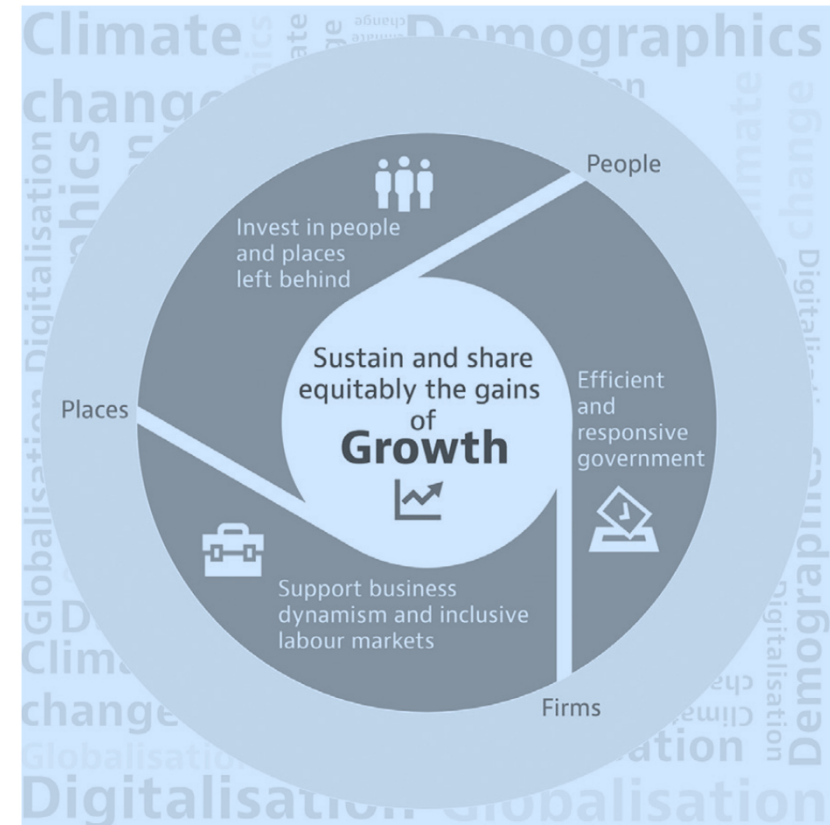
Private households including private non-profit institutions; Data for Germany.  
Sources: Statistisches Bundesamt; Grömling, 2017

# „Inclusive Growth“: reconciling growth and distribution?

„We are at a critical crossroad. For years, we counted on economic growth as the core engine of prosperity, failing to realize that this model was leaving many behind“ (OECD, 2017,1)

“Inclusive growth is economic growth that is distributed fairly across society and creates opportunities for all” (OECD, Landing Page).

Source: OECD, 2018



# „Yes“: Potentials of the „Inclusive Growth“-Concept

- › The concept systematically sheds **more light** on **distributional aspects**.
- › It focuses on **different socio-economic groups** to benefit as much as possible from the economic progress of a country.
- › The aim of the concept of inclusive growth is promoted in particular by **international organisations**.
- › It derives **political recommendations** on the basis of selected indicators.
- › This initiative continues the long-running debate on **alternative welfare measures** beyond GDP per capita.
- › It revitalizes the early Kuznets-discussion on the **relationship** between growth and **distribution**.

## „But“: Weaknesses of the theoretical frame

- › The inclusive growth concept seems to be theoretically weak and has **no supply-side focus**.
- › The **growth accounting context** is poorly mirrored in the selection of indicators. The target indicators used are **outcome indicators**, not independent determinants of growth.
- › It tends to a **commingling** of **process-oriented** and **outcome-oriented** indicators and does **not focus on institutions**. Policy not often has a direct impact on results, but can at best indirectly trigger target-means relationships.
- › It neglects **complementarities** or **substitutional effects** of individual variables.
- › **Access** to knowledge and capital, basic technical and infrastructural equipment, and stable political conditions such as data and cyber security is **underrated**.



# Conclusion

An augmented “Inclusive Growth”-Approach could prevent dwindling growth and reconcile growth and distribution.

Some core features could be improve the concept:

- › Focus on **income generation**: growth process and growth accounting
- › Focus on **growth theory**: theoretical reference
- › Focus on **opportunities**: equal opportunities in access to markets
- › Focus on **institutions**: inclusive growth through inclusive institutions
- › Focus on **growth factors**: labour, human capital, capital, technology
- › Focus on **impact analysis**: trade-offs & complementarities
- › Focus on **political institutions**: good governance

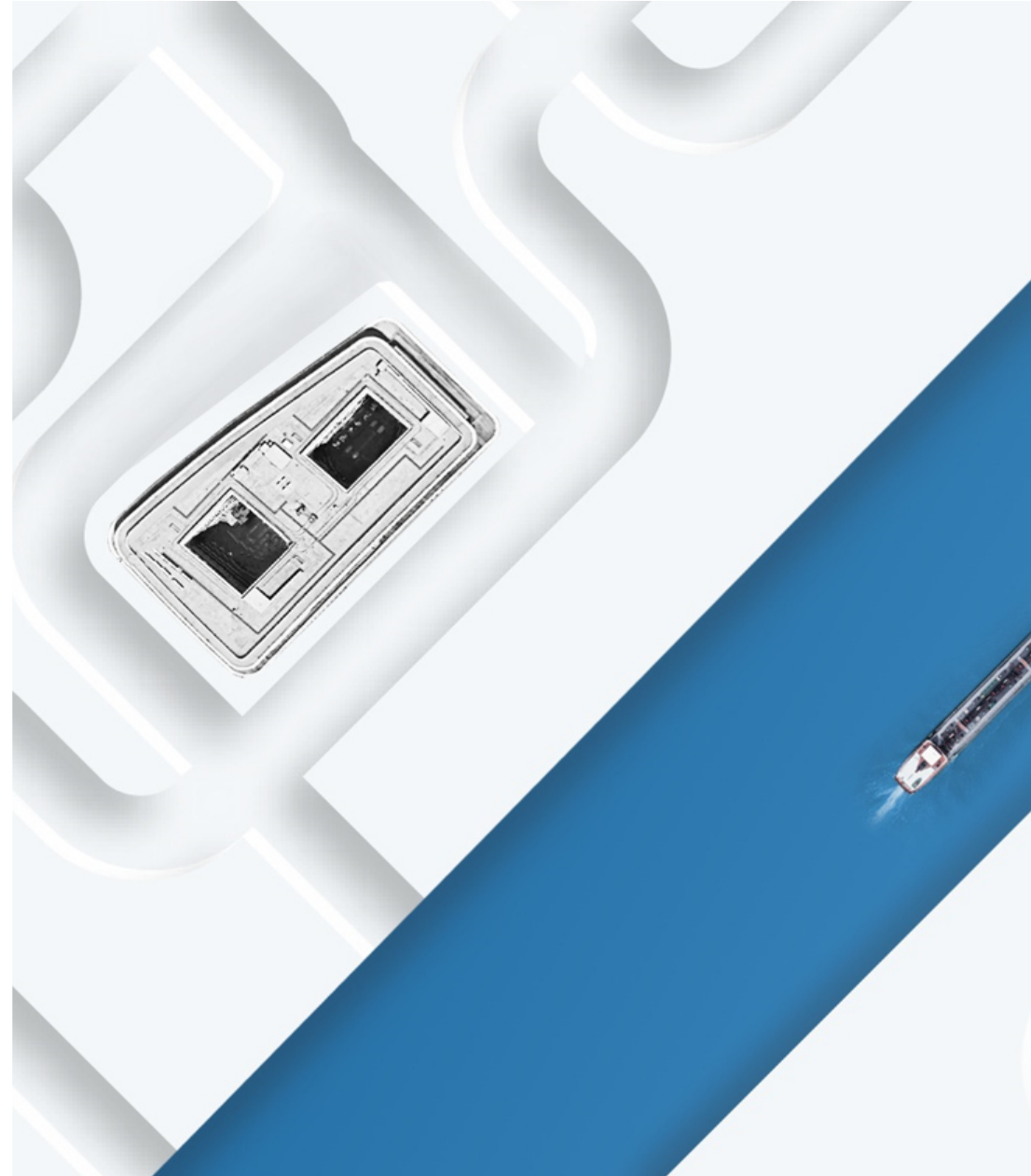
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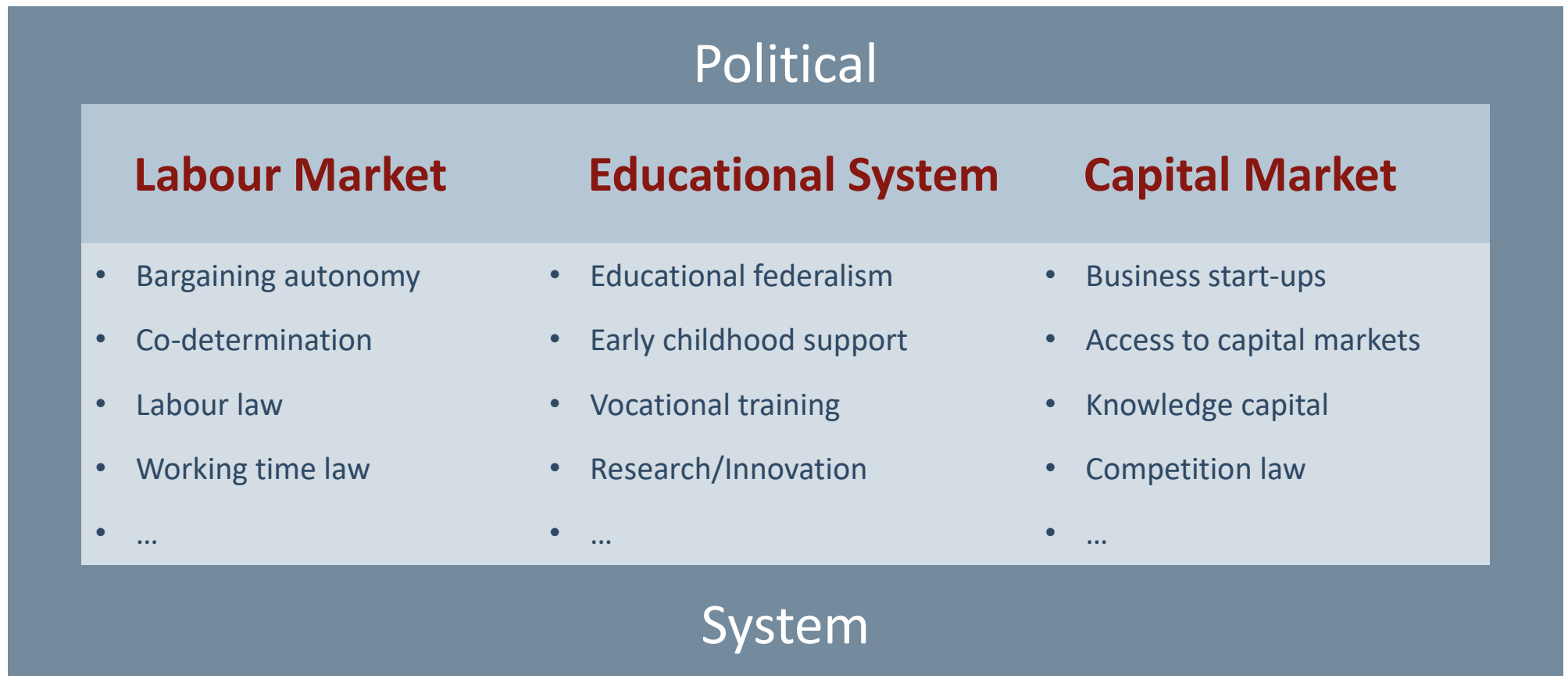
[kloes@iwkoeln.de](mailto:kloes@iwkoeln.de)

[www.iwkoeln.de](http://www.iwkoeln.de)



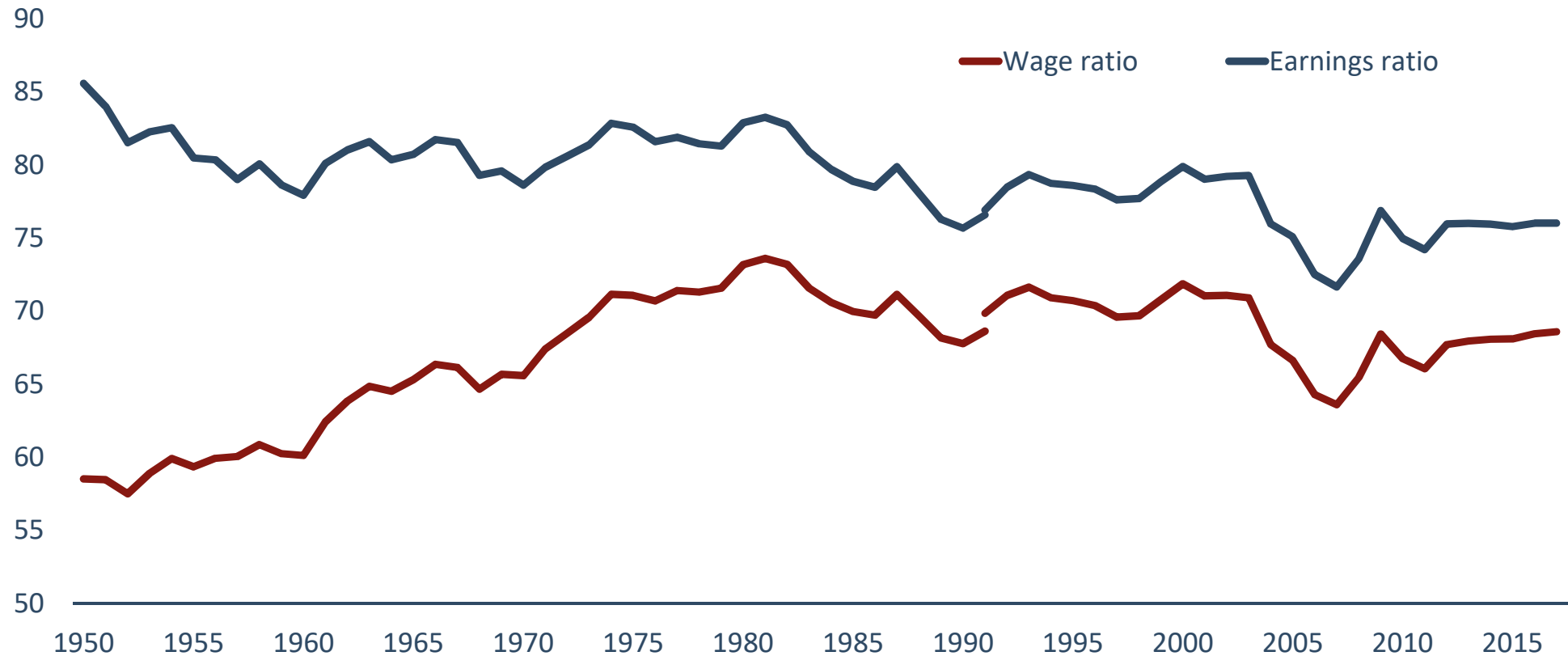
# Backup-Folien

# Taking account of growth-relevant institutions



# Long-term functional income distribution

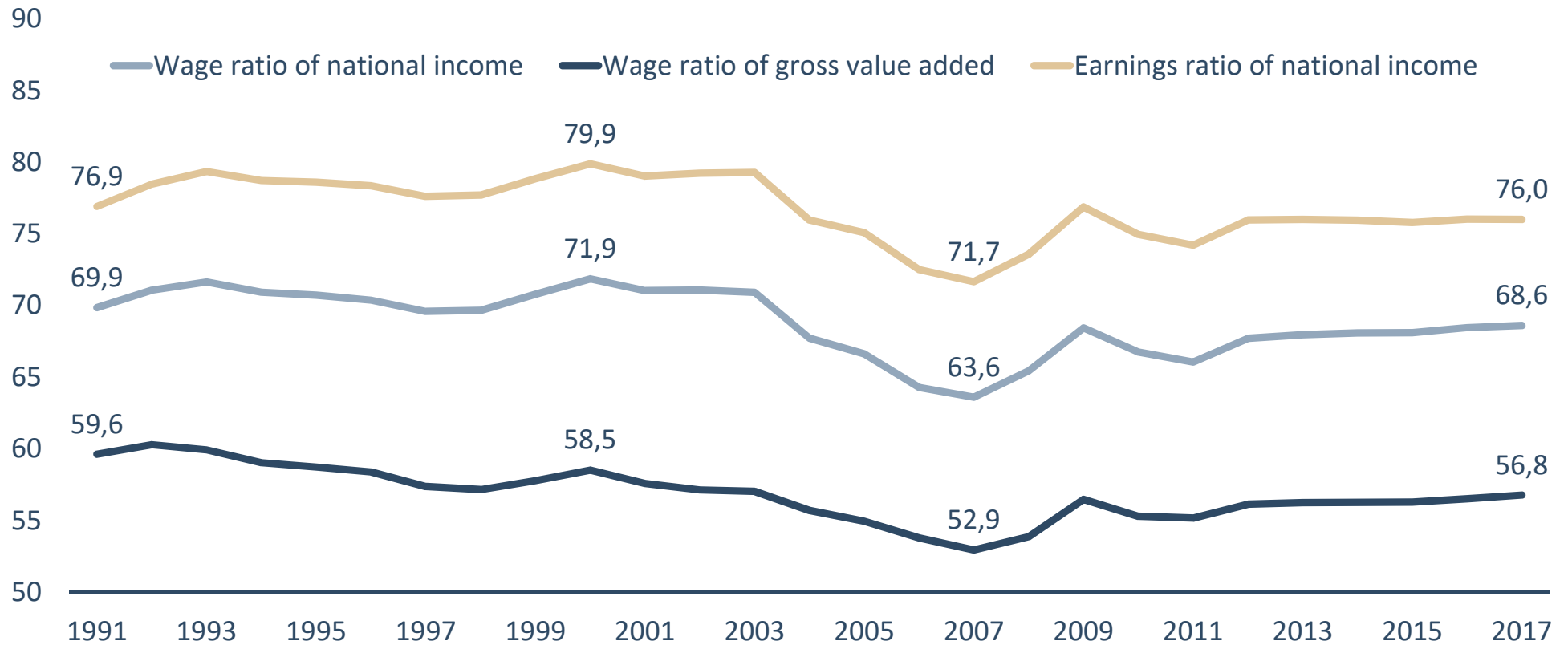
Share of employee compensation and labor income<sup>1)</sup> as a percentage of national income



1950 to 1991 West-Germany; Since 1991 Germany; 1) Including hypothetical labor income of the self-employed.  
Sources: Statistisches Bundesamt; Grömling, 2006, 2017

# Development of different wage rates

Data for Germany, in percent



1) Including hypothetical labor income of the self-employed.  
Sources: Statistisches Bundesamt; Grömling, 2017