

Moving Beyond GDP:

Inclusive Economic Growth and the
Role of Public Policy

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Views



In Malaysia, economic growth stands at the forefront of our national objectives.

In order to be a developed nation by 2020 we have up until this point used the key indicator of Gross Domestic Product (GDP) of USD15,000 per capita. The GDP no doubt is a useful measure within its limits. This indicator is useful in terms of knowing where the country is in the ‘rank of countries’ but is limiting in terms of providing a more complete measure of real economic growth and the general well-being of the citizenry as a whole.

This accumulation of wealth must be translated into tangible benefits felt by the majority of the citizens- by expanding incomes and raising the standard of living; because merely being a rich country is no bar to society’s retreat into rigidity and intolerance once enough of its citizens sensed that they are left behind or unable to participate in the ‘GDP wealth’ being ‘enjoyed by the country’.

Benjamin Friedman in *The Moral Consequences of Economic Growth* (2005) showed that economic growth-meaning a rising of standard of living for the clear majority of citizens-will foster greater opportunity, tolerance of diversity, social mobility and commitment to fairness. Ever since the Enlightenment, Western thinking has regarded these tendencies positively, and in explicitly moral terms. In classical Islamic thinking, particularly in the works of Al-Farabi, Al-Ghazali, and ibn Khaldun there has never been a dichotomy between material positives and moral negatives – the pursuit of material wealth is ultimately a means of achieving moral and

spiritual well-being. The creation of wealth is not an “end” but simply a “means”. This differs from neo-classical economic thinking where the functioning of the economy is seen purely in instrumental terms. The way in which growth is placed in the institutional framework, i.e. “the means” to achieve economic growth, if done correctly, is not only morally condoned but integral to the Islamic moral order.

At the same time, to the extent that the rationale for seeking to encourage economic growth reflects not only the attraction of rising living standards for their own sake but also the social and political externalities that follow from them. The question is not just what measures can stimulate growth but also which among them are broadly consistent with achieving a more open, tolerant and democratic social order. It makes no sense to seek economic growth beyond what the market on its own could deliver, on the grounds that rising living standards lead to stronger democracy, but attempt to spur growth through policy measures that undermine just that objective. The challenge is to seek growth-promoting policies that are consistent with a fairer, more open society, and, where possible, that further these ends as well.

The value of raising the standard of living lies not just in concrete improvements in how individuals live BUT, it shapes the social, political and ultimately the moral character of a people. History has shown that society behaves differently during different periods of economic prosperity or stagnation, but this is just one part of the story. The prevailing conditions of trade, (be it during good or bad economic times) relied upon approaches rooted in cultural traditions and landscapes where virtues, social norms and trust are encouraged in economic exchanges. We know that this can, and has worked in specific settings as mentioned in Hirshman’s *Passions and Interests* (2013). Under such social and political conditions, trading entities tend to behave more responsibly; supported by a communal intuitional arrangement, for the betterment of society. As society gave trading entities the opportunity to trade, this opportunity in turn created a sense of moral obligation for traders to behave responsibly to society. We need to spread wealth as a matter of economic consequence, because reducing the economic base will ultimately upset consumption patterns. Demand for goods and services will require a growing mass of consumers rather than dependent on a select few.

Externalities create a vacuum in the functioning of the market system, and therefore a role for public policy. Sandel laments in *What Money Can’t Buy: The Moral Limits of Markets* (2012) that currently it is generally accepted that market-driven private economic initiative systematically produces more pollution, congestion than society wants, while producing too little of beneficial

activities like on-the-job training (because business rightly worry that other firms will hire away the workers they train). A business decision to modernize a factory, a bank evaluating whether to finance a construction project, or an individual considering starting a new business, has no direct incentive to take into account the advantage to society as a whole that might follow from any of these actions. In just the same way, the market mechanism left to itself will deliver too little economic growth (economic growth as defined above and not limited to Gross Domestic Product per capita).

Because of these externalities, the familiar injunction that government actions not stand in the way of an economy's achieving the growth that unfettered private initiative would produce fails to recognize the proper role of public policy. Due to the fact that economic growth positively affects the character of the society as a whole- and crucially, because neither openness nor democracy is a good that private markets trade and price- there is a consequent role for policy measures to seek growth beyond what the market would provide on its own. The irony is even if one was ideologically committed to a 'free-market', you are reliant on an ever-increasing layers of regulation to ensure that the market remains 'free'.