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INCLUSIVE GROWTH WITH INDIAN SCENARIO

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ABSTRACT

This paper presents an empirical study of inclusive growth for Indian scenario. Inclusive growth is a concept that advances equitable opportunities for economic participants during economic growth with benefits incurred by every section of society. The definition of inclusive growth implies direct links between the macroeconomic and microeconomic determinants of the economy and economic growth. The microeconomic dimension captures the importance of structural transformation for economic diversification and competition, while the macro dimension refers to changes in economic aggregates such as the country's gross national product (GNP) or gross domestic product (GDP), total factor productivity, and aggregate factor inputs¹. Sustainable economic growth requires inclusive growth. Maintaining this is sometimes difficult because economic growth may give rise to negative externalities, such as a rise in corruption, which is a major problem in developing countries. Nonetheless, an emphasis on inclusiveness—especially on equality of opportunity in terms of access to markets, resources, and an unbiased regulatory environment—is an essential ingredient of successful growth. The inclusive growth approach takes a longer-term perspective, as the focus is on productive employment as a means of increasing the incomes of poor and excluded groups and raising their standards of living.² The term “inclusive” is being widely used by policy makers, there is not a clear definition of the word. It would appear that it is a synonym for “equitable” – antonymous for “inequitable” – but with an emphasis on job creation and creating an enabling environment for the private sector.³

KEYWORDS

economic growth, GNP, GDP, inclusive growth.

INCLUSIVE GROWTH: DEFINITIONS

JF or the **OECD**: Inclusive growth is where the gap between the rich and the poor is less pronounced and the “growth dividend”⁴ is shared in a fairer way that results in “improvements in living standards and outcomes that matter for people’s quality of life (e.g. good health, jobs and skills, clean environment, community support).”⁵

The **World Bank**: defines inclusive growth by its pace and pattern – growth that is sufficient to lift large numbers out of poverty and growth that includes the largest part of the country’s labour force in the economy.⁶

The **International Policy Centre for Inclusive Growth (IPC-IG)**⁷ places its emphasis on participation – so that in addition to sharing in the benefits of growth, people actively participate in the wealth process and have a say in the orientation of that process.⁸

For the **ADB**⁹, tackling discrimination of the most marginalised groups is an intrinsic part of the inclusive growth process, as well as a key outcome. Groups that have suffered discrimination are those that have been left behind in poverty reduction and economic development efforts – helping these groups to participate in and benefit from economic activities is a cornerstone of inclusive growth.

Institutions, governments, donors, and NGOs are increasingly talking about ‘inclusive growth’. This focus is in some ways an attempt to address the deficiencies of prioritising solely economic growth, and an attempt to ensure instead that the benefits of growth are more broadly experienced. The inclusive growth debate introduces the idea that while efforts to tackle inequality and poverty and promote growth can be mutually reinforcing, this link is not automatic. These debates are happening alongside parallel discussions on sustainability and the co-benefits and trade-offs of sustainable and inclusive growth.¹⁰

Based on this review we make the following recommendations to governments and donors who want their approaches to growth to be inclusive and able to tackle poverty, unemployment and inequality:

1. Have clear definitions of what is meant by inclusive growth
2. Focus on broader sustainable human development objectives rather than just increasing incomes and GDP
3. Develop proactive strategies to ensure growth is inclusive
4. Develop clear guidelines, objectives and indicators on how inclusive growth will be achieved and measured
5. Prioritise small businesses in inclusive growth strategies. Given they provide most of the employment opportunities for poor people, they play a key role in making growth more inclusive.

WHY INCLUSIVE GROWTH AND WHY NOW?

Inclusive growth is a buzz-word in policy circles nowadays, among developed and developing countries alike, as well as in international institutions. Its importance is increasingly being recognised and highlighted in work plans and strategies of the International Monetary Fund (IMF), G20, European Commission and the UK’s Department for International Development for example.¹¹ As a concept, it has been included as a proposed goal by the Open Working Group on Sustainable Development Goals as a part of the post-2015 development agenda.¹²

In a report on inclusive growth, the Organisation for Economic Cooperation and Development (OECD) (2012) identifies three problems that even the record levels of growth of the 1990s and decade of 2000s failed to tackle: poverty, unemployment and inequality. These highlighted the need to address the quality of growth, in particular to improve its inclusiveness.

THREE CHALLENGES THAT RECORD LEVELS OF GROWTH HAVE FAILED TO TACKLE¹⁷

POVERTY

Not all growth is equally effective in reducing poverty.¹³ Despite good progress in tackling extreme poverty and good growth rates globally and within many developing countries, persisting poverty remains a pressing issue. In 2011, 1.2 billion people were living on less than \$1.25 per day, equivalent to 24% of the world’s population.¹⁴

UNEMPLOYMENT

Economic growth is often tied unequivocally to a correlating improvement in employment levels.¹⁵ Over recent decades however, increases in growth have not resulted in expected comparable increases in numbers of jobs. Felipe and Hasan (2006) estimated that in the 1980s it took 3% GDP growth to generate a 1% increase in employment, but in the 1990s this changed significantly and it then took an 8% cent increase in GDP to get the same result.

INEQUALITIES

As the OECD explains, recent decades of growth have not benefited all groups equally and have been characterised by widening inequality: “Today, the gap between rich and poor is widening almost everywhere. Within OECD countries, it is now the widest in 30 years.”¹⁶

Recent Oxfam (2014) analysis found that the richest 85 people in the world own the same amount of wealth as the bottom half of the world’s population (3.5 billion people).

IMPORTANT FACTORS FOR ACHIEVING INCLUSIVE GROWTH

Some recipes for inclusive growth contain many familiar elements from standard growth strategies such as macroeconomic stability and economic openness. This is not surprising when some institutions and government see achieving high growth rates as the major contributing factor and prerequisite for achieving inclusive growth.¹⁷

However, CAFOD¹⁸ would encourage governments and donors to think outside the box and consider some of the wider factors contributing to inclusive growth. In fact, the inclusive growth debate challenges many of these old orthodoxies and has thrown up some new priorities and characteristic approaches.

KEY INGREDIENTS IN AN INCLUSIVE GROWTH STRATEGY¹⁷

Some of the key ingredients for inclusive growth that are generally agreed upon include:

- Investment in human capital
- Job creation
- Progressive tax policies
- Social protection
- Non-discrimination, social inclusion and participation
- Strong institutions

Governments or donors wishing to pursue inclusive growth goals need to have explicit strategies around these areas. 'Growth-first' agendas hoping that these outcomes will trickle down to developmental outcomes are not enough. Below we explore some of these key ingredients in more detail.

INVESTMENT IN HUMAN CAPITAL

Investment in human capital is universally recognised as a key pillar of achieving inclusive growth. Investments in health and education have been statistically linked to better economic development outcomes and to how inclusive growth is in practice.¹⁹ As labour is their main asset, a good level of health and education enables poor men and women both to participate in and benefit from economic growth.

JOB CREATION

"Whether they are subsistence farmers, salaried workers or self-employed entrepreneurs, poor people derive most of their income from work. This basic fact means that the level of employment, the quality of jobs and the access which the poor have to decent earnings opportunities will be crucial determinants of poverty reduction."²⁰

PROGRESSIVE TAX POLICIES

Tax policy has an obvious role in direct redistribution. However, its importance in inclusive growth extends beyond this. Taxation is essential to generate revenue for investments in human capital, social transfers and infrastructure necessary for pro-poor growth. Taxation can provide incentives and support for particular sectors or types of businesses, as well as barriers. How taxation systems are structured can make economies more or less pro-poor.

SOCIAL PROTECTION

Social protection is also a prominent policy area in the inclusive growth literature. Whilst also being a tool for promoting greater equality and poverty reduction through direct transfers and redistribution, it also has a more dynamic role to play in achieving inclusive growth.

Social protection, if properly designed, can also contribute to higher incomes for the poor entrepreneurs, by helping to overcome what the United Nations Conference on Trade and Development (UNCTAD, 2006) refers to as "all pervasive economic insecurity at the household level associated with generalised poverty [which] adversely affects entrepreneurship as it leads to short-termism and limits risk-taking." Social protection can also prevent households coping with shocks by selling productive assets, reducing consumption or sending their children to work,²¹ all of which undermine economic prospects of the household in the longer term.

NON-DISCRIMINATION, SOCIAL INCLUSION AND PARTICIPATION

Although social exclusion is not the same as inequality, it is clear that systematic discrimination against marginalised groups has an impact on economic opportunities and outcomes, as well as prospects for poverty eradication and improving well-being. It is clear that if bolder inclusive growth ambitions benefiting all groups are to be met, then policies need to address the fact that the same groups are persistently left behind in growth and poverty eradication efforts.

Conversely, tackling social inclusion and ensuring participation of marginalised groups can have dynamic and multiple benefits. For example, education of women is not only desirable in its own right, but leads to better education and livelihoods prospects for their children, breaking intergenerational cycles of poverty.²²

INSTITUTIONS

An inclusive economy requires an inclusive society that has the institutions, structures and processes that empower local communities so they can hold their governments accountable. It also requires the participation of all groups in society in decision-making processes.²³ This would require proactive policies for the participation of marginalised groups, such as those highly dependent on land or natural resources, who may otherwise disproportionately bear the costs of particular development decisions.

Governments also need to be efficient and capable, for example of financing and providing essential services to all. Governments need to be able to overcome corruption which acts as a barrier to employment creation and firm productivity.²⁴ "Successful cases share a further characteristic: an increasingly capable, credible and committed government."²⁵ As has already been noted, it is not enough for governments to leave it to markets, governments need to be proactively and publicly committed to developing, implementing and monitoring inclusive growth strategies over the long term.

CONCLUSION AND RECOMMENDATIONS¹⁷

Inclusive growth is a distinct concept from standard economic growth and is accompanied by a unique set of policy recommendations. It is often, however, included in donor approaches without much clarity about how an inclusive approach differs from the standard approaches.

Based on this analysis our recommendations to donors and governments wishing to pursue inclusive growth are to:

- **Develop clear definitions of what is meant by inclusive growth.** Definitions matter because they clarify and set the objectives that will determine policy and spending choices.
- **Ensure that the objectives for inclusive growth are explicitly defined.** These should focus on broader sustainable human development objectives than increasing incomes or GDP, such as gains in human development, poverty and inequality reduction, increased economic participation and promotion of the sustainable use of natural resources and climate protection.
- **Develop proactive strategies to ensure growth that is inclusive** – this does not happen automatically. Proposed work should have key factors to consider for achieving inclusive growth which are supported by evidence. In addition, economic policy-makers should proactively aim to maximize social and environmental co-benefits.
- **Develop clear guidelines, objectives and indicators on how inclusive growth will be achieved and measured.** This includes clearly articulating the methodology for implementation and theory of change behind a proposed approach.

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24. Commission on Growth and Development (2008)

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