Conceptualizing Inclusive Growth


“Ensuring inclusive growth within nations and inclusive globalization across nations is a central challenge that faces us.”

Dr. Manmohan Singh, Prime Minister of India at the UN General Assembly, 16 September, 2011

Context

India’s fast rate of economic growth of over 7% since 2003-04 % has been globally acknowledged though there are signs of the waning of this growth momentum in 2011 on account of the high and persistent inflation domestically and the slowdown in growth rates of developed countries. With an HDI value of 0.519 in 2010, India ranked 119 among 169 countries indicating a less than commensurate performance on human development. High inequalities are reflected with India losing over 30% of its HDI value when adjusted for inequalities on account of unequal access to income, health and education. Acknowledging that the benefits of growth have not reached the persistently excluded, the Planning Commission, Government of India had inclusive growth as the main objective of the ongoing XI Five Year Plan (2007-12). Equally, it remains the thrust of the XII Plan as reflected in the just released draft Approach Paper to the Twelfth Five Year Plan which has ‘more faster, sustainable and inclusive growth’ as its main goal.

UNDP globally and in India has been in the forefront in advocating for human development. The financial crisis has also brought urgency to the need for inclusive growth. The extent to which economic growth translates into poverty reduction depends on what happens to inequality during the process of economic growth. Empirical evidence increasingly shows that countries where initial inequality is higher, show a slower rate of decline in poverty. Certain inequalities such as discrimination, restrictions on migration, constraints on human development, lack of access to finance are more harmful as they deny opportunities and perpetuate poverty. Stewart and Langer (2007) highlight the importance of addressing horizontal inequalities due to overt or implicit discrimination against some groups in access to various opportunities. The welfare costs of horizontal inequalities are much higher and lead to perpetuation of poverty among the excluded groups.

Extreme inequalities in opportunity and life chance have a direct bearing on what people can be and what they can do – that is on human capabilities. Inherited disadvantage in opportunity (such as girl child born in low income household will face a higher risk of death) is wrong for intrinsic reasons as it violates basic principles of social justice. At the same time, there are strong instrumental reasons for a concern with inequality. Deep disparities based on wealth, region, ethnicity and gender are bad for growth, democracy and social cohesion.

The link between the debate on pro-poor growth and exclusion is provided by the fact that those socially excluded are often amongst the poorest sections of the population. However, focusing only on the poor would lead to a limited view of capability deprivations and the lens of inclusive growth would be necessary to ensure people centred growth in which people act as agents for their own development and are also beneficiaries of the policies and programmes of the government.

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1 Ravallion, M., 2009
2 Stewart, F., and Langar, A., 2007
3 UNDP, 2005
4 For example, a study Dubey (2004) pointed that in India Dalits were still 19 % more likely to be poor than rest of the population, while adivasis, Other Backward Castes and Muslims were 10, 5 and 3 % respectively more likely to be poor. In China per capita incomes for the majority households grew by 52 percent between 1989 and 1995 the per capita incomes of the ethnic minorities grew by only 22 %. In Brazil, over 70 % of those belonging to the Afro-Brazilian race live below the poverty line as compared to 40 % of the whites, life expectancy of the Afro-Brazilians is 66 years lesser than 72 years for European descendents. South Africa is often known as ‘two worlds’ in one country, where the HDI for the black population compares to that of the HDI for Zimbabwe or Swaziland while that of white south Africans compares to that of far advanced Italy and Israel.
In the light of these factors, the main question that needs to be addressed is how to ensure a growth strategy that embeds equity as an integral part rather than treating it as an afterthought. What are the strategies and policies that are most effective in addressing the needs of the persistently excluded?

Discussions on the connotation and application of the inclusive growth paradigm to real world situations have been held among countries of the Global South including at the workshop in 2010 organised by UNDP’s International Centre for Inclusive Growth in Brazil. In continuation of the dialogue on inclusive growth among countries of the Global South the Planning Commission, Government of India and UNDP India country office are organizing a workshop for brainstorming on the concept and policies for inclusive growth on 24-25 October, 2011, in New Delhi.

**Conceptual underpinnings**

The debate on inclusion has gained urgency in the context of rising concern over the impact of the global financial and economic crisis on the poor and the continuing phenomenon of high and rising food and fuel prices. Also worrying is the fact that there has been a rise in inequality during the globalization period and poverty remains persistent in some groups even when there is positive economic growth.

UNDP identified three mutually reinforcing elements of inclusive growth, viz., pro-poor growth, equity in resources, access to basic social services and income distribution and productive employment. For the Government of India, inclusive growth should result in lower incidence of poverty, broad-based and significant improvement in health outcomes, universal access for children to school, increased access to higher education and improved standards of education, including skill development. It should also be reflected in better opportunities for both wage employment and livelihoods and in improvement in provision of basic amenities like water, electricity, roads, sanitation and housing. Particular attention needs to be paid to the needs of those belonging to the scheduled castes, scheduled tribes and other backward castes, women and children as also minorities and other excluded groups. It should also be sustainable.

According to UNDP, inclusive growth is a concept that encompasses pro-poor growth but goes beyond it in terms of both participation and the distribution of benefits from it. Thus, pro-poor growth is a necessary condition for inclusive growth, but not a sufficient condition. Inclusive growth includes not only the poor but also other excluded groups such as ethnic minorities, physically challenged and those affected by HIV/AIDS. It requires that hitherto marginalised people have a voice in the decision making process in mainstream growth, their activities be an integral part of the growth process and that they derive disproportionate benefits from economic growth. From a human development perspective, inclusive growth seeks to address capability deprivation of the excluded groups. The recent work of the Oxford Poverty and Human Development Initiative (OPHI) on multidimensional poverty seeks to address such deprivation including among excluded groups.

Empirical evidence across the world indicates that group discrimination is largely on the basis of class, caste, ethnicity and, religion. For example, ethnic minorities in China, indigenous peoples in Brazil and Mexico, Dalits and scheduled tribes in India are widely perceived to be discriminated against. Geographical factors add another dimension to discrimination as is evident in the case of Bumiputras in Malaysia. Discrimination can also be on the basis of personal attributes such as those experienced by differently abled people. Researchers have increasingly attempted to study this aspect – for instance, work done by Stewart and other researcher focused on horizontal and vertical inequalities.

**Analytical Framework:**

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5 In fact during the period of rapid economic growth between 1993 and 2008, the Gini coefficient of per capita income increased by 24% in China, by 16% in India and by 4.5% in South Africa, compared to 5.5% in the OECD countries. In China and India, income inequality increased both in urban and in rural areas. See OECD, 2011, http://dx.doi.org/10.1787/9789264088368-en

6 UNDP, 2011

7 GOI, 2011
While the concept of inclusive growth has received increasing acceptance among analysts and policy makers, the theoretical framework to support the analysis is yet to emerge. Growth models that are currently in vogue have focused mainly on the determinants of growth. Development theories of on the other hand emphasized the role of the State in triggering development. The debt crisis of the 1990s shifted attention back to the market with structural adjustment policies ruling supreme. However, the misplaced trust on the market mechanism is evident in the worsening of inequalities and the inability of the growth process to benefit the poorest and the most marginalized sections of the population. The evidence cited in the Growth Commission (2008) report dispels notions that economic growth in itself will be able to address concerns of inclusive growth or that there is a unique set of factors that can be identified as triggers of economic growth.

A major lacuna in the theorizing on inclusive growth is that the main analytical frame does not incorporate distribution as an integral concern. Consequently debates are framed in the erroneous growth vs equity frame with discussion on trade-offs dominating the discourse. For developing countries the requirement is economic growth that is equitable, inclusive and sustainable.

On the policy side, the literature on policy action to ensure inclusive growth is as rich and diverse as the concept with different interpretations of what constitutes appropriate and effective policy action. Broadly there are two approaches to policy action that can be identified from the literature. One approach is to rely on direct action targeting the groups directly, affirmative action in favour of the excluded being a typical example. The other option is to have general policies that affect everyone but because of design benefit some groups more than the others. Regional expenditure policies, decentralization are some examples of such action. The impact of macro policies on exclusion is not often taken into account but they can be crucial, particularly in times of fiscal stringency. Research also indicates that policies that systematically impact social and economic dimensions can be more effective in reducing horizontal inequalities. Currently macroeconomic policies and social protection policies have their own separate objectives. Social protection policies are seen as a ‘cost’ to the exchequer by macroeconomic analysts while macroeconomic policies are viewed as ‘constraints’ within the social protection framework. The complementarities between macroeconomic policies and social protection policies need to be recognized and acted upon for economic growth that is just and sustainable to take place.

Periodic assessment of the impact of policies meant to promote inclusion is also essential for planning and resource allocation though this presents numerous challenges. Being a relative concept, the measurement of impact requires identification of the excluded who do not participate in the production process and those who do not get the benefits generated in terms of income and/or consumption. Some countries have identified indicators to reflect the inclusiveness of policies. The member states of the European Union have agreed to reduce poverty and social exclusion by 2010 and this obligation is being monitored by a common measurement framework (Laeken Indicators). Work in this realm is still in a nascent stage and much more research effort is required to arrive at robust indicators and methodologies that could be applied across countries.

**Objectives of the Workshop:**

The inadequacy of current theoretical frameworks to support analytical work on inclusive growth and the lack of clarity on the policy options for inclusive growth indicate the huge gap in both theoretical and policy work that needs to be urgently addressed. The Government of India is currently engaged in formulating the 12th

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8 The first generation models such as that of Harrod-Domar focused on the role of capital and innovation while the next generation models such as those of endogenous growth recognized the importance of factors such human capital.

9 For example of Rosanstein Rodan (1943), Myrdal (1957) and Hirschman (1958). For more details on alternative frameworks see Lin, 2011

10 Stewart and Brown, 2007

11 Stewart and Brown, 2007

12 Policies in Malaysia and Northern Ireland are cited by Stewart and Brown (2007) as examples of such policies.

13 IPC-IG, 2011

14 Suryanarayana, M.H, 2008

15 Milcher S., and Ivanov A., 2008,
Five Year Plan which has a thrust on faster and more inclusive growth. The experience on countries in the Global South in addressing persistently excluded groups would be pertinent at this stage. UNDP in its role as ‘knowledge broker’ can facilitate the exchange of such evidence ices to national governments. The growing policy space for the concept of Inclusive Growth in the Global South and opportunities for its application in diverse country contexts necessitates a fuller discussion among these countries. The BASICS countries have a shared understanding on inclusive growth and have been experimenting with common approaches such as cash transfers and large scale employment programmes. The concept of Inclusive Growth appears as a common thread in these countries’ national development strategies, in so far as social inclusion is not dismissed as a compensatory measure or as a mere add on, but is considered as both its driving force and its principal goal. They have also been actively sharing experiences on policies and programmes that contribute to inclusive growth, including at the consultation organized by IPC-IG for IBSA in 2010. In continuation of this ongoing dialogue it is proposed to hold a two day international workshop on Inclusive Growth during 24-25 October, 2011 in New Delhi.

The main objectives of the workshop are as follows:

- To build a shared understanding on the concept of inclusive growth and the theoretical foundations that enable the formulations of effective inclusive growth strategies
- To share experiences across the Global South on policies and responses that effectively address inclusive growth, especially issues of persistent exclusion.
- To arrive at a core set of policy actions for various stakeholders to promote growth that is genuinely inclusive.

Why India?

India is one of the fastest growing countries in the world and has exhibited remarkable resilience to the volatile global situation caused by the financial and economic crisis. The average GDP growth rate has been over 8% per annum since 2003-04 except during 2008-10 when it dipped to 6% due to the global financial crisis. However, the rate of poverty reduction has not been as impressive with the latest estimates for 2004-05 placing the headcount ratio of poverty at 37.2%. The Planning Commission, Government of India had inclusive growth as the main objective of the ongoing XI Five Year Plan and is reinforced in the Approach paper of the XII Five Year Plan. The Planning Commission, Government of India is in the process of formulating the XII Plan document. UNDP India has been a partner of the Planning Commission and has an important role as a knowledge broker. IPC-IG is the main UNDP Centre focusing on research and policy options for Inclusive Growth. The workshop is being organized jointly by Planning Commission, Government of India and UNDP (India CO and IPC-IG).
References


