

# Inclusive Growth in India: Challenges and Prospects

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## Abstract

The Indian economy, which has over the last six decades passed through various phases of growth, is now all set to enter an altogether different orbit: one marked by a high rate of expansion, combined with 'inclusive growth.' In the last few years, inclusive growth has been at the forefront of studies sponsored by multilateral aid agencies, such as the United Nations, the World Bank, Asian Development Bank, and several nongovernmental organizations (NGOs). Successive governments have initiated several projects, such as Jawahar Rozgar Yojna, Integrated Rural Development Program, Rural Housing Scheme, Swarnjayanti Gram Swarozgar Yojana and Mahatama Gandhi National Rural Employment Guarantee Act to promote inclusive growth. However, for inclusive growth to happen in a country with the scale and size of India, private sector involvement is equally important. The private sector has started contributing with initiatives, such as the ICICI Foundation having been set up with the sole purpose of promoting inclusive growth. The government and private sector can play complementary roles in driving inclusive growth. There is a need for the public and the private sector in India to have a unified approach towards how they can extend, innovate, and collaborate in new ways to drive inclusive growth. This paper elaborates the need to build Inclusive India and emphasizes why it is imperative to focus on inclusive growth now. It presents the opportunities available for building an inclusive India by identifying key levers in governance, education, energy and resources, telecom and technology, infrastructure, healthcare, financial inclusion, and business model innovation. It also highlights some of the reasons why efforts to build an Inclusive India in the past have had only limited success and what can be done better in the future so that inclusive growth is realized. The paper further stresses upon the need for the public and the private sector to work in tandem and leverage each other's strengths to drive inclusive growth.

## I. Introduction

Developing India's stellar gross domestic product (GDP) growth rates have masked rapidly rising *relative* and *absolute* inequalities, leading to two faces of India. A "shining India", which is competing internationally and benefiting from the forces of globalization, technological change, and economies of scale, has grabbed the attention of the media and the world. In contrast, a "suffering India", not as well publicized but even more important, has unacceptably wide swatches of its population who are poor and vulnerable. These two faces of India are both a beacon of hope and a symbol of despair. Merging these two faces will be the development challenge over the next generation for the region.

In addressing this challenge, inclusive growth with its focus on creating economic opportunities and ensuring equal access to them will play a pivotal role. More and more countries are adopting it as the goal of development policy. India, which had poverty reduction as the central focus of its development strategy over the last 50 years, has recently switched to a new strategy focusing on two objectives: raising economic growth and making growth more inclusive (Planning Commission of India 2006). Inclusive growth as a development concept is also being embraced by many development partners of developing countries including bilateral and multilateral aid agencies, international organizations, nongovernment organizations, and civil society.

## II Why is developing India Embracing Inclusive Growth

The attention to and recognition of the relevance and importance of inclusive growth in developing Asia have been triggered by a rising concern that the benefits of spectacular economic growth have not been equitably shared (Ali 2007). This section explains why many countries of developing Asia are embracing inclusive growth and putting it at the heart of their development policy and strategy.

Developing India experienced rapid economic growth during the last two decades. For developing India as a whole, per capita GDP at 2000 constant prices increased from \$317 to \$588 between 1990 and 2005, growing at an annual rate of 4.20%, a pace with few parallels in history (Table 1). Asia's rapid growth has led to dramatic reduction in the level of extreme poverty. Using the \$1-a-day poverty line established by the World

### *Defining Inclusive Growth*

Rapid and sustained poverty reduction requires inclusive growth that allows people to contribute to and benefit from economic growth.<sup>1</sup> Rapid pace of growth is unquestionably necessary for substantial poverty reduction, but for this growth to be sustainable in the long run, it should be *broad-based* across sectors,<sup>2</sup> and *inclusive* of the large part of the country's labor force.<sup>3</sup> This definition of inclusive growth implies a direct link between the macro and micro determinants of growth. The micro dimension captures the importance of structural transformation for economic diversification and competition, including creative destruction of jobs and firms.

Inclusive growth refers *both* to the pace and pattern of growth, which are considered interlinked, and therefore in need to be addressed together. The idea that both the pace and pattern of growth are critical for achieving a high, sustainable growth record, as well as poverty reduction, is consistent with the findings in the *Growth Report: Strategies for Sustained Growth and Inclusive Development* (Commission on Growth and Development, 2008). The commission notes that inclusiveness – a concept that encompasses equity, equality of opportunity, and protection in market and employment transitions – is an essential ingredient of any successful growth strategy. Here we emphasize the idea of equality of opportunity in terms of access to markets, resources, and unbiased regulatory environment for businesses and individuals.<sup>4</sup> The Commission on Growth and Development (2008) considers systematic inequality of opportunity “toxic” as it will derail the growth process through political channels or conflict.

The inclusive growth approach takes a longer term perspective as the focus is on productive employment rather than on direct income redistribution, as a means of increasing incomes for excluded groups. In the short run, governments could use income distribution schemes to attenuate negative impacts on the poor of policies intended to jump start growth, but transfer schemes cannot be an answer in the long run and can be problematic also in the short run.<sup>5</sup> In poor countries such schemes can impose significant burdens on already stretched budgets, and it is theoretically impossible to reduce poverty through redistribution in countries where average income falls below US\$ 700 per year. According to a recent OECD study, even in developed countries, redistribution schemes cannot be the only response to rising poverty rates in certain segments of the population.<sup>6</sup>

Bank in 1990, the incidence of extreme income poverty declined from 43.5% to 35.00% between 1990 and 2005 (Table 1), with each percentage point of growth associated with an almost 2-percentage point decline in poverty incidence on average (ADB 2004c). The income poverty target of the Millennium Development Goals (MDGs) had been met by 2005 for most Asian countries except those in South Asia. The decline in the number of the extreme poor from 945 million in 1990 to 604 million in 2005 is largely attributable to the achievement in the PRC and Viet Nam. In South Asia, with the exception of Pakistan and Sri Lanka, the incidence of extreme poverty and its magnitude in 2005 were still very significant.

**Table – 1: Income Per Capita and Poverty Incidence in India and Neighboring Countries**

Economy	GDP Per Capita, Constant 2000 US\$		Average Annual Growth Rate (%)	Headcount Ratio \$ 1 - a - day		Change	Headcount Ratio \$ 2 - a - day		Change
	1990	2005		1990	2005		1990	2005	
Bangladesh	283	433	2.86	34.40	36.04	1.64	86.70	81.70	-4.00
<b>India</b>	<b>317</b>	<b>588</b>	<b>4.20</b>	<b>43.50</b>	<b>35.00</b>	<b>-8.50</b>	<b>86.50</b>	<b>79.80</b>	<b>-6.70</b>
Nepal	176	234	1.93	45.50	26.02	-19.68	84.33	65.45	-18.88
Pakistan	461	596	1.72	47.76	10.24	-37.52	87.87	59.42	-28.45
Sri Lanka	577	1002	3.74	3.82	2.04	-1.78	40.58	32.85	-7.73

### III Need for Inclusive Growth in India

Inclusive growth is necessary for sustainable development and equitable distribution of wealth and prosperity. Achieving inclusive growth is the biggest challenge in a country like India. In a democratic country like India, bringing 600 million people living in rural India into the mainstream is the biggest concern. The challenge is to take the levels of growth to all section of the society and to all parts of the country. The best way to achieve inclusive growth is through developing people's skills. Mr. Jeffrey, Chairman & CEO of Manpower Planning, USA, said that , a multifaceted approach towards education and skills development is necessary to achieve grow. He said the challenge of skills shortage can be addressed through public private partnership. Since independence, significant improvement in India's economic and social development made the nation to grow strongly in the 21st century. The following factors encouraged the India to concentrate more on inclusive growth

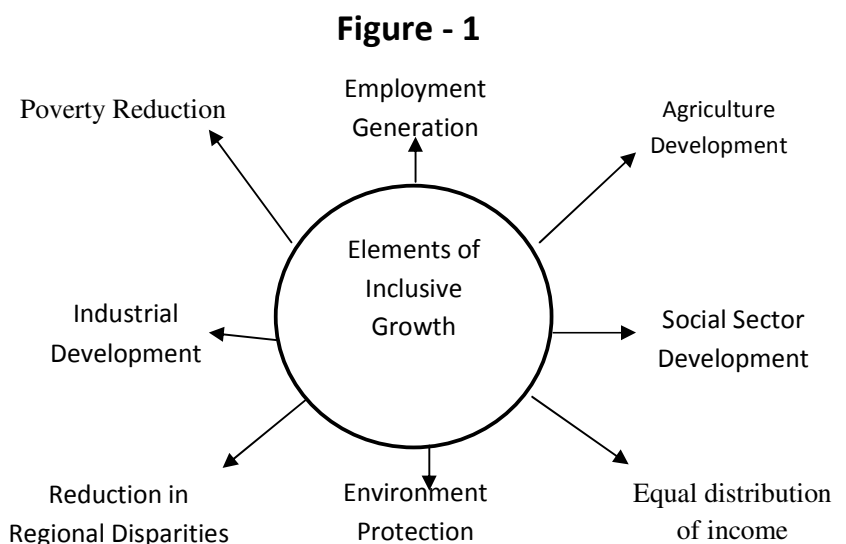
- India is the 7<sup>th</sup> largest country by area and 2<sup>nd</sup> by population. It is the 12<sup>th</sup> largest economy at market exchange rate and 4<sup>th</sup> largest by PPP. Yet, India is far away from the development of the neighbourhood nation, i.e., China.
- The exclusion in terms of low agriculture growth, low quality employment growth, low human development, rural-urban divides, gender and socialine qualities, and regional disparities etc. are the problems for the nation. • Reducing of poverty and other disparities and raising of economic growth are the key objectives of the nation through inclusive growth.
- Political leadership in the country plays a vital role in the overall development of the country. But, the study has found that politicians in India have a very low level of scientific literacy.
- Studies estimated that the cost of corruption in India amounts to over 10% of GDP. Corruption is one of the ills that prevent inclusive growth.

- Although child labour has been banned by the law in India and there are stringent provisions to deter this inhuman practice. Still, many children in India are unaware of education as they lives are spoiled to labour work.
- Literacy levels have to rise to provide the skilled workforce required for higher growth.
- Economic reforms in the country are overwhelmed by out dated philosophies and allegations by the politicians and opposition parties in India.
- Achievement of 9% of GDP growth for country as a whole is one of the boosting factor which gives the importance to the Inclusive growth in India.
- Inclusiveness benchmarked against achievement of monitor able targets related to(i). Income & Poverty, (ii) education, (iii) health, (iv) women & children, (v)infrastructure, (vi) environment.
- Even at international level also, there is a concern about inequalities and exclusion and now they are also taking about inclusive approach for development.

#### IV Elements of Inclusive Growth

According to Prime Minister, Sri. Manmohan Singh, the key components of the inclusive growth strategy included a sharp increase in investment in rural areas, rural infrastructure and agriculture spurt in credit for farmers, increase in rural employment through a unique social safety net and a sharp increase in public spending on education and health care. The five interrelated elements of inclusive growth are:

- Poverty Reduction
- Employment generation and Increase in quantity & quality of employment.
- Agriculture Development
- Industrial Development
- Social Sector Development
- Reduction in regional disparities
- Protecting the environment.
- Equal distribution of income



## **V Challenges of Inclusive Growth in India**

'India' is the new global buzzword. The economy growing at a phenomenal rate, combined with a flourishing democracy is making people sit up and take notice across the world. Yet, it is at cross-roads today. It is far from reaching its true potential. The country remains shackled in corruption, red tape, age old social barriers and a puzzling lack of transparency. Growth is not uniform across sectors; and large cross-sections of the populace remain outside its purview. Several social, political and economic factors need to be tackled for sustaining a high rate of growth, as well as to make this growth inclusive. Elimination of child labour, women empowerment, removal of caste barriers and an improvement in work culture are just a few of the things the Indian society needs to introspect on. Tackling corruption in high places, removing the ills of the electoral system, shunning politics of agitations and keeping national interest above petty politics may not be too much to ask of the country's policy makers. Rapid growth in the rural economy, well planned and targeted urban growth, infrastructure development, reforms in education, ensuring future energy needs, a healthy public-private partnership, intent to secure inclusivity, making all sections of society equal stakeholders in growth, and above all good governance will ensure that India achieves what it deserves.

### ***(i) The social limits of Indian democratic politics***

Of the eight richest people in the world four are Indian, but the irony still remains that there's a marginal farmer in the interior of Maharashtra, who is struggling to feed his five children, the youngest of whom is a son, uneducated and unemployed, with four sisters, all of marriageable age, whose marriage the farmer cannot afford. Try telling the farmer that the economy is growing at a handsome 9% per annum, hardly consolation for the empty stomachs his children go to bed with every night. Few would argue that the Indian economy is growing, salaries are going through the roof for the educated, there are jobs mushrooming in the IT hubs of Bangalore and Hyderabad, disposable income for the 'Call Centre' crowd, that is egging on the foray of several luxury goods never before seen in the nation, is becoming all the more accessible but the fact still remains, that the poor are still poor even though the rich have become super rich and the hitherto not so rich, rich.

The growth is far from inclusive. We see the beggars on the streets, read about the farmer suicides in Maharashtra, about the biggest slums in the world and even closer home, we know of the cleaning lady who cannot afford treatment for her ailing husband, but still works for paltry sums waiting for a miracle to save her family. We all understand their plight, we even sympathize and empathize with them, for the ten minutes after reading an article in a newspaper or seeing an amputated beggar on the street, only to have it all tramped upon by the news of the raise the successful executive father has received or that of the young MBA son buying a Mercedes in silicon valley and the celebrations thereafter at the new Italian place around the corner.

Even the politicians know that the problem exists and that there needs to be some action, but they will have none of it. They're much too busy, travelling in their air conditioned luxury sedans, from their plush offices to their designer sari clad wives only to be seen hobnobbing with celebrities and socialites at the ever more opulent social do's. The summer heat acting as constant reminder for the already overworked politician, just back from the vacation in Goa (whose bill some ailing PSU is forced to bear), that there's a labour conference that he must attend in Geneva, with family in toe, for some odd reason.

Yes, India is a democracy in the true sense of the word, the biggest in the world, something to be very proud of. But, does this democracy really offer the average Indian the choice that it ought to? My answer is no. Yes, the average Indian has the power to change the regime every five years, and as is the case very often, he does exercise this power come election day, but is the change really something that will bring about a significant transformation in the life of that Indian or the policies with which the state is governed? Going by the deteriorating state of the poor with every passing day the answer seems to be “no”.

Political leadership in this country, as a class, scores very poorly on the scientific literacy scale. They are mostly in their positions because of money and muscle power. Recently, newspapers have published a study, “Worldviews and opinions of scientists in India”, carried out by Trinity College of the US with the help of Centre for Inquiry (CFI), India, a non-profit organization. The study has found out that politicians in India have a very low level of scientific literacy. On a scale of one to seven, the 1100 scientists surveyed said the scientific literacy of politicians in the country is very low at 1.9. Interestingly, they believe schoolteachers are scientifically the most literate. What does this say about our leaders and their vision of our future. Be it as it may, there is a need to bring about transformation in the country’s body politic, if we have to match rapid economic development with inclusive growth.

Populism and growth do not match. Come elections, there are promises galore. Illegal and haphazardly constructed housing colonies, and even slums, are regularised, adding to the urban nightmare, free electricity to farmers is promised leading to chaos in budget planning later on when the party comes to power. Farmers’ loans, amounting to hundreds of billions of rupees, are nonchalantly written off, resulting not only in a financial mess but also in a crisis in confidence of honest citizens, who refund their loans and pay taxes honestly. We need to put some sense into the system and put laws in place where such gross misuse of powers would be hard to replicate.

The ‘educated’ Indian is well aware of the condition of the poor, the apathy of the corrupt politician and the flawed system, but is too self centred, busy in making the most of the ever ballooning stock market to be bothered about changing the system or making an effort to be part of the ‘dirty game’ that is politics. He will go to any extent to criticize the government, its policies, policy makers and the fact that elections are fought on the wrong criteria of caste and creed and that people vote for the same wrong reasons, but will do nothing more. It is perhaps talk and actions (or the lack thereof) of this sort that renders their education futile and perhaps advocates their labelling as mere literates and not educated. Needless to say these are the very same people who are presently reaping the benefits of the growth of the Indian economy. It is perhaps for the very same reason they bear an apathetical outlook towards the system and its flaws.

***(ii) Overcoming obstacles to rural growth and urban transformation –***

People living in cities earn far more than those dwelling in rural areas. But that does not change the fact that over 650,000 villages in India are home to nearly 700 million people, the majority of whom live below poverty levels, are malnourished and merely survive. It is this population, very nearly forgotten by the power brokers, who need to be brought into the development scheme. They must be given the option of living and working on jobs in non-agricultural sectors, jobs that guarantee the basic subsistence for themselves and their families.

Now, how does one go about doing this? Does re-appropriating resources help? It does, but only just. Merely transferring resources from one head to another, which has been done, cosmetically sometimes, by politicians has not changed much. The reality remains that the kitty is limited. Even if we distribute the national income perfectly, it would still leave everyone very much poor. We cannot escape the conclusion that India needs to grow economically and do it fast.

Every major industrialised economy in the world has followed a path which began with agriculture being the main source of income for the majority of the population and ended with agricultural employment being a very small fraction of the total labour force.

Our path to economic development has necessarily to be two-fold. One, we have to develop villages, improve agriculture and agro-industries and infrastructure in rural India. Secondly, we need to empower the rural people and give them new opportunities and provide jobs outside villages and agriculture. They must have the chance to move in step with modern India, the India that is being talked about around the world, but unfortunately the India that exists only in pockets. This would necessarily take a majority of them into cities and semi-urban areas and the service sector could possibly be responsible for providing a large chunk of those opportunities.

As India develops, the interference of Government in people's lives must come down. Government functionaries must change their mindset from colonial masters to facilitators, something easier said than done. Corruption is all pervasive in the country. It is eating into the vitals of the economy. Rajiv Gandhi had once remarked that hardly ten percent of the money earmarked for rural projects in India reached the actual beneficiaries. Unfortunately, the situation hasn't changed much at all since. CK Prahalad estimates that the cost of corruption in India amounts to over 10% of GDP. As he remarks: "A nation does not get rich first and then become less corrupt. It's the other way round". Grand schemes and plans are drawn up, with extravagant aims and claims of potential success equally extravagant, in pre-election years to garner the support of the rattled public, but they are of no use unless the delivery systems are improved drastically. That would require a truly mammoth effort from changing the working style of bureaucracy, tackling corruption to involving the private sector fully in the development process.

Things may be changing. It is heartening to see our planners becoming conscious of the need for inclusive development. The approach paper on the eleventh five year plan is titled "Towards faster and more inclusive growth". It reflects the need to make growth more inclusive in terms of benefits flowing through more employment and income to those sections of society which have been left out of the economic growth witnessed in recent years.

Even earlier, there was an attempt on the part of the Planning Commission to seek some inclusiveness, when in the mid-term appraisal of the 10th five year plan (2002-2007), it devoted nearly 100 pages to 'human development'. It also contained an appendix on the Millennium Development Goals (MDGs) adopted by all U.N. member states, including India, at the Millennium Summit in 2000.

This change in thinking of people at the helm is welcome but is far from enough by itself. There has to be a sustained effort to improve the standard of living of those living below the poverty line and to streamline delivery systems so as to ensure that the benefits reach the intended beneficiaries. The choice of the topic last year by the Confederation of Indian Industries (CII) for the Prime Minister to speak on was indeed very timely and appropriate:

'Inclusive Growth—Challenges for Corporate India'. This was especially timely since the media, both print and electronic, have hardly been sensitive to this issue, taken up as they are by stories of mega mergers, super rich tycoons, and eyeing corporate sponsorships.

*(iii) The corruption cancer*

If the will is there and so are the means to do good, then what really is going wrong, one wonders. One answer is corruption. Corruption that is prevalent in the highest offices and which creeps down into even the most trivial of day to day activities. There is a race amongst bureaucrats, politicians and entrepreneurs to enrich themselves at any cost: corruption being a central tool in this game of enrichment. Corruption is definitely one of the ills that prevent inclusive growth, rather, enabling the rich to get richer and keeping the poor poor.

Corruption works like a barter with gains for both the people giving as well as the people accepting and is therefore as much a crime committed by the givers as it is by the takers. Officials in India may be venal, but the private sector is also to be blamed for its complicity.

It is the very growth rate of 9% and the opportunities of modern India that have left a class of contemporary India a lot richer. It is on this class that the onus lies to be responsible and refuse to be a part of corruption as it is this very class that is responsible for the bulk of it and it is the same class that can be responsible for its eradication. Delivery mechanisms and the attendant corruption levels come in for discussions at seminars and public meetings all the time. But till date, 'Lok Pal' (ombudsman) legislation to tackle corruption in high places is yet to be enacted despite remaining on the anvil for over four decades. Similarly, legislation enabling confiscation of properties of public servants convicted of corruption is yet to be enacted. Politicians known to be corrupt continue to get elected and are even sought after at public and social functions. Recently, there have been a lot of media reports in India that the German Government has information about accounts and financial transactions of some Indian nationals in banks in Liechtenstein. It has reportedly offered to reveal their names and details of transactions. While some other governments have accepted this offer with regard to their nationals, there has been no response from the Indian Government so far. We need political will, across the political spectrum cutting across party lines, to tackle corruption headlong.

The strategy to tackle corruption must necessarily be multi-pronged – at the legal level, the enforcement level, as well as at the educational and social levels. Efforts at inclusiveness of society are predestined to failure unless more than just a semblance of attention is brought about on the corruption front.

One of the tools to deal with the corruption issue is to bring about greater transparency, both in the policy making and in the delivery systems. The Right to Information Act was a step in this direction. Though in its infancy still, its implementation does appear tardy. Governments have been defensive in their thinking. They have failed to give full flow to the intentions of the framers of this Act. Information Commissioners, who have been appointed so far, both at the Central Government level, as well as at the State Government levels, have mostly been of the retired bureaucrats variety, hardly likely to challenge the slow (or lack of) information flow from governmental agencies. There is need to balance out the Information Courts with the addition of people from other social and professional categories, be they prominent journalists or social activists or those distinguishing themselves in the non-governmental social organizations. Still, it has to be said that the Act is making its presence felt, and Government departments are slowly but surely opening up. Greater transparency will bring greater accountability, and hopefully a much larger percentage of money would eventually



reach the intended beneficiaries of Government schemes. Corruption is one, perhaps one of the most significant, but there are several other obstacles that need to be overcome and problems that need to be tackled.

*(iv) Social causes of exclusivity*

While discussing inclusive growth, a major factor to be examined is the socio-economic inclusiveness of the people. Inclusive growth being a long term process necessarily emanates from the inclusive nature of socio-economic development across regions and people. As per the UNDP Human Development Report 2009 (HRD 2009), India ranked 134 out of 182 countries of the world placing it at the same rank as in 2006 (the Human Development Index (HDI) for India in 2007 was 0.612).<sup>7</sup> However, the HDI value of India has increased gradually from 0.427 in 1980 to 0.556 in 2000 and went up to 0.612 in 2007, but it is still in the medium Human Development category with even countries like China, Sri Lanka and Indonesia having better ranking (Table 2). In fact, India lags behind in various social indicators of development. There is a huge gap between India and developed world and even many developing countries in respect of health and education, which needs to be bridged at a faster pace. According to HDR, life expectancy at birth in India was 63.4 years in 2007 as against 80.5 years in Norway, 81.4 years in Australia, 74.0 years in Sri Lanka and 72.9 years in China. Adult literacy rate (aged 15 and above) in 1999-2007 was 66.0 per cent in India as against near 100 per cent in China and 92.0 per cent in Indonesia. In the case of combined gross enrolment ratio in education also India was much below the level achieved by some other comparable countries, like China, Norway, and Thailand etc.

Country	1980	1985	1990	1995	2000	2005	2006	2007
Poland	...	...	0.806	0.823	0.853	0.871	0.876	0.88
Brazil	0.685	0.694	0.71	0.734	0.79	0.805	0.808	0.813
Russia	...	...	0.821	0.777	...	0.804	0.811	0.817
Turkey	0.628	0.674	0.705	0.73	0.758	0.796	0.802	0.806
Thailand	0.658	0.684	0.706	0.727	0.753	0.777	0.78	0.783
China	0.533	0.556	0.608	0.657	0.719	0.756	0.763	0.772
Sri Lanka	0.649	0.67	0.683	0.696	0.729	0.752	0.755	0.759
Indonesia	0.522	0.562	0.624	0.658	0.673	0.723	0.729	0.734
Vietnam	...	0.561	0.599	0.647	0.69	0.715	0.72	0.725
Egypt	0.496	0.552	0.58	0.631	0.665	0.696	0.7	0.703
<b>India</b>	<b>0.427</b>	<b>0.453</b>	<b>0.489</b>	<b>0.511</b>	<b>0.556</b>	<b>0.596</b>	<b>0.604</b>	<b>0.612</b>

**Source:** Human Development Report, 2009

Internationally the condition of India is not very sound as mention in Table -2. Other problems are labour, child labour, 'bandhs' (forcible closure of shops, offices & transport), etc. are the major challenge on the path of inclusive growth. Exploitation of labour is widely prevalent. Despite the promulgation of minimum wages, the feudal system in the rural areas and industry in the urban conglomerates continue to fleece labour, paying them wages far below those prescribed. In certain areas, politicians and political parties have their own vested interests in keeping people poor and deprived. They have a ready-made electoral constituency which they fear losing with education and prosperity. Certain other vested interests would like to persist with the caste system to sustain their political base.

No growth can be inclusive unless it takes adequate care of women and children. Child labour, despite a plethora of laws and India's commitments at the ILO, is still unfortunately very much prevalent. Just this month (June, 2008), the British clothing major Primark has axed its three Indian suppliers for allegedly using child labour to finish clothes sold in Britain's high streets. The fashion chain says that it has cancelled all orders from the three companies based in the Tirapur region of Tamil Nadu and removed all their garments from its shelves.

Child labour has been banned by law in India and there are stringent provisions to deter this inhuman practice. But numbers tell a different story – there are an estimated 60 million child labourers in India, but there have been only 670,000 violations of the law detected in eight years and just 22,588 convictions. Millions of young children continue to work in roadside eateries, glass factories, carpet looms or sweeping and cooking in homes in violation of the Child Labour (Prohibition and Regulation) Act. Failure to implement the law and poor rehabilitation policies need urgent attention. While on the one hand an increase in the number of officials and labour inspectors is called for, together with imparting better training and instilling greater sensitivity in them; on the other hand, there is a need to tackle poverty which is the main reason driving parents into pushing their young children to work instead of sending them to schools. This mammoth problem is one of the main challenges to resolve in addressing inclusive growth.

The country's ethos needs to change to bring about an end to child labour, together with a strong political and bureaucratic commitment to end this gory practice. We need to attract children from poverty stricken families to schools. Mid-day meal schemes of Governments have met with partial success. Again, however, lack of transparency has ensured that funds and rations are misappropriated and misused. Literacy levels have to rise to provide the skilled workforce required for higher growth. India has the third largest pool of scientists, engineers and doctors in the world, but it has yet to reach anywhere near its full potential with a majority of its vast population still illiterate or semi-literate. A majority of its population is still steeped in superstition. The caste system is another curse of Indian society. Combine it with religious communalism and you have a deadly combination for economic disaster. Higher allocations for education and the social sectors, complemented by bold and visionary social and political leadership can pave the way for reforms in these sectors.

The Government of India has been paying a lot of attention to social security as part of its inclusive growth agenda. Recently, it introduced a law in parliament to provide social security to unorganized labour. The National Commission for Women is now working on a draft law to provide similar social security to all domestic workers, under which the employer and servant will have to make matching contributions towards a social security fund to be managed by a specially appointed government authority. The employer will have to pay his contribution over and above the salary, likely to be pegged at ten percent of salary. The draft law, which is in the final stages, still has to look at how and who would deposit the money. The law also looks at providing benefits like pension to those domestic helps registered under the scheme for 15 years. Such social schemes deserve strong support and would go a long way in making inclusive growth a reality.

In recent years, India has become a country of demonstrations, agitations and 'bandhs' (forcible closure of shops, offices & transport). For the slightest pretext, trains are stopped, buses and private vehicles burnt and offices and business establishments forcibly closed. This leads to unimaginable loss of man hours and economic output, besides loss of confidence of the outside world for making investments. A peaceful and stable environment is a must for

sustained foreign and domestic investments. In this regard, one has to look at initiating proper reforms in the criminal justice system, especially in the police. The Supreme Court has time and again reminded the Government of the need to reform the police force. The outdated Police Act of 1861 needs to be replaced with a modern Act. The Police force needs to be made more responsive and accountable. It should no longer be a tool in the hands of corrupt politicians but responsible to the law of the land. Only then would it be able to provide a secure atmosphere for economic activity to prosper and remove age old impediments towards inclusiveness.

## **VI The politics of growth and inclusivity**

Despite all the issues holding back the republic and the problems plaguing its development as a nation, the economy has been galloping quite steadily. India is growing at nearly 9%. We would ideally like to sustain growth at this level for the next ten to twenty years, even taking it up to 10% or higher. Only then would we be closer to realizing our dream of being a developed country. And I would like to see this growth being all pervasive and all encompassing in every sense of the word. It ought to be truly inclusive. All sections of society must get the benefits of this growth in full measure and then be able to take this growth forward by participating fully and wholeheartedly.

This can only happen if the Government and the private sectors become equal and willing partners. All impediments in the path of public-private partnership should be removed. China has taken a leap ahead of India in this respect with single window clearances and special economic zones. India is slowly trying to cut its red-tape procedures. It has set up Special Economic Zones (SEZ), giving a host of incentives to industry, at certain selected locations. However, SEZs have also led to a host of unsavoury allegations at times. In order for people at large to support such measures, which ought to be supported, the Government needs to come out with transparent procedures for such schemes, and also make people, especially farmers whose lands are acquired, willing partners and shareholders in the process. Only then will we be able to achieve our economic growth goals.

While on the subject of economic growth and its impediments, we must also refer to the impact and consequences of increasing world fuel prices and the associated threat that looms large over India's future economic growth. Within the last one year, the fuel prices have more than doubled from 65 dollars to nearly 140 dollars a barrel of crude oil, upsetting the entire economic appletart. We need to do some serious reflection on how to tackle this. Not much attention has been paid to alternative sources of energy. India has successfully negotiated a civilian nuclear cooperation with the United States of America. But the next steps in this deal of signing an India-specific safeguards agreement with the Board of Governors of the International Atomic Energy Agency, getting a waiver from the Nuclear Suppliers Group and getting the deal passed by the United States Congress have yet to be initiated. The whole process has got deadlocked in a political quagmire. If we do not pick up courage to act fast on the deal now, we would have lost a historic opportunity for which future generations would not forgive us. We can scarcely dream of a ten percent growth without sufficient sources of energy.

This may indeed be the last chance for the Prime Minister to make a real historic mark. Otherwise we may well remember him the way we had known him up until four years ago: as the best Prime Minister India never had. As our first economist Prime Minister, things could well have been totally different if he had been allowed by the Congress party to continue along the same path that he had set out for the country as Finance Minister over 15 years ago. He could well have gone ahead with the much needed administrative reforms, cutting down

on the bloated bureaucracy, and getting Government out of areas it had no business to be in in the first place.

But none of this has happened. Instead words like 'privatisation' and 'disinvestment' have acquired pejorative meanings. The Knowledge Commission, set up with much fanfare, has come to naught. The desperately needed changes in education are nowhere to be seen. The communists and Marxists, with their outdated philosophies which have no relevance even in modern day China, have really hemmed the Government in. Much needed economic reforms have long been shelved. The economic clock has now come a full circle. Inflation has touched double digit figures reaching over 11% for the week ended 20 June 2008. A jittery stock market and a general sense of economic gloom complete the picture today. Indian equity markets touched their lowest point in the year the same week due to soaring inflation. The 30- share benchmark index of the Bombay Stock Exchange fell by 618 points or 4.07 percent to 14571. On the energy front the future looks bleak. Goldman Sachs says that oil prices will cross \$200 in 2009.

In this atmosphere, it is time for the leadership to take charge and show the people that they have it in them to take statesmanlike decisions to take the country forward. On the civil nuclear issue, they indeed have their task cut out – to take the next step with the IAEA boldly and ensure the country's future energy security. If the deal falls through now, we are unlikely ever to get a chance like this again. The Prime Minister must push it through even if the Government falls. Interests of the country must prevail above everything else. Nuclear power is urgently needed to fill the fuel gap for large scale power generation in India. To ward off the impending energy crisis, there is an urgent need for all political parties to support efforts at getting India to gain access to relevant technology and fuel resources.

Simultaneously with gaining access to civilian nuclear technology and fuel, we must also continue to pursue the Iran-Pakistan-India gas pipeline project. Search for other alternative sources of energy should also continue, besides exploring more oil fields on and off shores. We must also endeavour towards creating more fuel efficient vehicles, as well as hybrid cars. With inflation figures shooting to a 13 year high of 11.05 percent, the government is mulling some urgent measures to control the situation.

However, there are limits to managing the supply side. Much of the response has to be from demand side measures. Inflation control currently appears to be taking a priority over economic growth, more so since the Government is already in election mode. On the supply side, there has been a record production of wheat and rice and the country has adequate stock of these food grains. The Government would now take steps to quell inflationary expectations. These may include a rise in interest rates by the central bank. Finance Minister Chidambaram has also accepted former Finance Minister Yashwant Sinha's suggestion to consider deeper cuts in taxes.

The high inflation rate would probably force the Reserve Bank of India to increase the interest rates to curtail demand. This will affect the profitability of companies and economic growth as a whole. While, in the current fiscal year, GDP growth might be managed at 8%, but if inflationary pressure continues, it is bound to go down in the coming year. The good thing in this scenario is that the savings rate in India is at a high 35%. With rising interest rates, investors would be tempted to save money. This should help the Government to sustain the growth rate. And, if the global economy is able to stage a comeback, interest rates may hopefully be corrected within a year; which would keep the economy on track.

International inflationary pressures have a bearing on India. Edible oils, which have been a major contributor to the 13 year high inflation rate in India, will remain under pressure for the next year. A recent report of the US department of Agriculture says, “Vegetable oil prices will likely remain above historic levels during 2008-09 as demand is strong primarily due to surging growth in the developing world.” India is the world’s biggest edible oil importer after China. Any further spike in global rates would have an impact on countries like India and China, where half of the domestic consumption is met through imports. To provide some relief to the poorer sections of society, the Government in India has decided to supply some edible oils through ration shops at subsidized rates below imported price.

The policy for inclusive growth will include:

- (1) to subsidise only the lowest income people and not special groups of people;
- (2) helping people invest in their own skills and future incomes;
- (3) keeping government in the economy as light as possible;
- (4) making tax rates low and broad based;
- (5) keeping the ratio of public debt to GDP under control by limiting liabilities;
- (6) applying rigorous social cost benefit tests to all spending and regulation decisions;
- (7) aligning responsibilities and resources among levels of government namely, the states and finally, (8) tolerating a measure of inequality during a phase of rapid economic development.

Some of the steps that we take to implement much needed economic measures remain only on paper. Take for example the cost cutting and economy in expenditure measures of the Government. This month, the Finance Ministry, in the wake of steep rise in energy prices, issued a circular to all government departments for taking austerity measures, including an embargo on all foreign travel. However, subsequently it issued three more circulars giving exceptions to the original circular. All foreign trips relating to security, agricultural research, defence, science and commerce are exempt from the ban on foreign travel. Further, what about the implementation of such instructions? It remains tardy as ever. Just after the issuing of the austerity circular, six secretary level officers of the Government, including a husband and wife, left for a twenty day course at Harvard and ten MPs for Yale, all paid for by the State. Good intentions must be matched by good implementation.

## **VII Prescriptions: collective efforts for inclusive growth**

India has the potential of becoming a leading economy and has the unique opportunity to make that growth inclusive, provided there is willingness on the part of all sections of society to put in hard and disciplined work, together with serious, sustained and purposeful planning. First, there is much that needs to be done to build up India’s potential. Better governance, more and better educational institutions, higher agricultural productivity, controlled inflation and improvement in infrastructure are some of the major and more important steps required in this direction. I mention these specifically, because each of these steps has a bearing on the inclusiveness of growth as well. Agriculture is extremely important for inclusive growth, since a large majority of the Indian population is dependent on farming. Improved agricultural productivity would bring in its wake increased family incomes for this vast majority. This, together with better infrastructure in the countryside – greater rural connectivity, rural electrification and investment in irrigation, would aid tremendously in tackling rural poverty, as well as add to the overall prosperity of the nation. The ‘India Shining’ campaign of the previous government failed to impress the people precisely for this

reason because a majority of the rural populace had remained outside the purview of the increase in national GDP.

Better governance is the need of the hour, more so because the government in India still has a majority stake in almost all essential sectors e.g. in the crucial sectors of health, sanitation and water. It is in such social sectors that we find the political parties least interested, especially once they come to power after elections. Yet these are the fields which need to be paid more attention to if we are to improve human development alongside economic growth; with the current situation, it is no wonder that India figures extremely low on world human development index reports. There is a need for more public-private partnerships. The private sector should take more social responsibility and contribute towards making growth more inclusive.

There also ought to be greater accountability for politicians and civil servants. Progress in a democracy is slow but sustaining. This is even truer of a large and diverse country the size and complexity of India. The economic reforms that were introduced in 1991 are starting now to bear fruit with the growth rate reaching 9%. However, the relatively benign economic climate of the past few years perhaps made the government complacent. This, together with the difficulties and constraints brought about by a coalition government, led the authorities to put on the backburner some of the much needed economic reforms. The time has now come to act boldly and decisively.

The astounding success that the country achieved in the telecommunication field – high density across the country and world's cheapest call rates affordable by all – needs to be reproduced in other areas. The problem of a massive parallel black economy, which has evaded a solution so far, needs to be tackled urgently and these funds brought into the much needed social sectors. Education is extremely important for improving the skill levels of the population so that everyone can be an equal partner in the country's growth.

More and better universities, schools and technical institutes should be created. Inflation, which is running amok today, affects the poor man the most, severely limiting inclusiveness of growth. We need to fix acceptable inflation targets and constantly monitor them so that they do not go beyond the outer agreed limits. Similarly, India's fiscal deficit remains one of the highest in the world, almost 7% of GDP in real terms. Political parties, across the spectrum, need to look beyond petty politics, sit down and agree on parameters for inflation and fiscal deficit beyond which certain tough

## **VIII Conclusion**

India seems to be improving its economic growth. The growth rate of GSDP in the last few years has been 7 to 8% per annum. However, the post-reform period witnessed increase in disparities across regions and social groups and between rural and urban areas. There is a need to have a broad based and inclusive growth to benefit all sections of the society.

We have discussed challenges in most important elements of inclusive growth: agriculture, poverty and employment, social sector and, regional We have written earlier on the reasons for the need to achieve inclusive growth<sup>8</sup>. There are strong social, economic and political reasons for achieving broader and inclusive growth. Socially, lack of inclusive growth leads to unrest among many people. There is also economic argument.

The measures which raise equity also promote economic growth. In other words, there is no trade-off between equity and growth. Lastly, the political argument is that no government in a democracy can afford to ignore large sections of workers and non-working population. It is increasingly clear that the process of development in India must become more socially and

economically inclusive. This is important for reducing exclusion, social tensions, inequality and improve overall economic development. Therefore, focused government interventions, enlightened civil society including NGOs are important for the success of macro pro-policies, sectoral interventions, targeted poverty alleviation programmes and to go beyond Millennium Development Goals. The state has to learn lessons from the failures in the last 50 years and focus on the above priority areas in the next decade or so in order achieve 'Golden India' and reach the state to one of the top performing states in the country. Otherwise the India may lag behind many other countries in achieving broad based inclusive growth.

**NOTE:**

1. This statement is in line with the OECD Development Assistance Committee's policy statement on pro-poor growth. However, a difference between pro-poor and inclusive growth is that the pro-poor approach is mainly interested in the welfare of the poor while inclusive growth is concerned with opportunities for the majority of the labor force, poor and middle-class alike.
2. Imb and Wacziarg (2003) show that countries diversify over most of their development path. Countries start specializing quite late in the development process, and the turnaround point occurs at a robust level of income per capita (around constant 1985 \$10,000). They conclude that increased sectoral specialization applies only to high-income economies. It is important to note that some countries may not broaden their economic base as they develop due to their specific economic conditions (e.g. small states).
3. Encouraging broad-based and inclusive growth does *not* imply a return to government-sponsored industrial policies, but instead puts the emphasis on policies that remove constraints to growth and create a level playing field for investment.
4. According to the report of the Commission on Growth and Development, persistent, determined focus on inclusive long-term growth by governments is one of the ingredients of a successful growth strategy. Yet, there is limited analytic work integrating the literature on growth and productive employment.
5. The term 'shared growth' can be misunderstood as implying a focus on income distribution schemes, which is why inclusive growth is preferred.
6. Source: *Growing Unequal? Income Distribution and Poverty in OECD Countries*, OECD (2008).
7. HDI is based on three indicators, viz., GDP per capita (PPP US \$), life expectancy at birth, and education as measured by adult literacy rate and gross enrolment ratio (combined for primary, secondary and tertiary education)
8. See Dev (2006)

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