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India's growth story largely revolves around growth of the services sector. However, we have leapfrogged into services without adequately developing our manufacturing base. The key, therefore, is to prepare a labour force with adequate skill formation.

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The present buzzword for India's development strategy is inclusive growth. Inclusive growth means an emphasis towards more equitable distribution of income and building capabilities in terms of attainment of better health and education.

The general notion about the success of inclusive growth is little apprehensive. The argument is although the poor are getting richer, the rich are getting richer faster than the poor. This is problematic as it can lead to an uneven distribution of income leading to social unrest.

Unequal payoffs

However, such an outcome is not surprising. Reforms entail unequal payoff to economic agents. People with more skill stand to gain more compared to those with less skill sets. In the present context, the contribution of services sector to national income (GDP) is around 55 per cent, followed by manufacturing (26.4 per cent of GDP) and agriculture sector (18 per cent of GDP).

A more equitable income distribution would require a scenario with more people earning their livelihood from agricultural sector and less people earning their livelihood from the services sector.

The present situation, however, is quite the opposite. Around, 58.6 per cent of the Indian population earns its livelihood from agricultural and agricultural-related allied activities (such as cooperatives, fishing, dairies, etc.) compared to less than 10 per cent dependent on organised services sector.

What is more worrying is that this inequality is going to increase as the agricultural sector is now growing at an annual rate of 2.6 per cent (from a lower base of 18 per cent growth) compared to services growing at 11 per cent (from a higher base of 55 per cent growth). There are too many people locked into the farm sector (with lower productivity and hence lower income) and there is an urgent need to absorb them either into manufacturing or into services sector (with higher productivity and hence higher income).

For an *aam aadmi*, that is, the common man, it is easier to get a job in the manufacturing sector relative to the services sector — specifically, IT-enabled or business type services

such as finance and insurance. However, India's growth story is predominantly revolving around the growth of the services sector.

We leapfrog into services without adequately developing our manufacturing base. What China can do with relative ease — siphoning off labour from agriculture to the less skill intensive manufacturing sector — is less doable for India. The keyword, therefore, is adequate skill formation; to be more precise, creating an environment for developing capabilities in terms of education and health (read, being more productive).

Low agri productivity

Equally important is the need for developing the agriculture sector — both in terms of sustainability of agricultural production (read, reducing volatility of agricultural output) and increasing agricultural productivity. Why is agricultural productivity not increasing?

In India, 70 per cent of the landholding belongs to tenant farmers. Some of the big landholders are busy making money in the US and rest of the world. They have all but abandoned their traditional agricultural occupations back at home, so higher farm productivity is not a priority anymore.

For States such as West Bengal and Kerala, where the ruling Left Front governments were successful in initiating land reform programmes, land owners and share tenants have little resources to invest in high-yielding variety crops.

As crop output is more dependent on rainfall, landowners are risk averse — investing in low-yielding varieties such as rice, pulses, bajra rather than investing in high-yielding varieties such as ground nut, castor. Lack of rainfall-linked insurance schemes, cold storage facilities, irrigation system, dams and tanks, connectivity of the rural to the urban market and ban on futures trading in agricultural commodities have contributed more towards this volatility and lower productivity of agricultural output.

Skill formation

The second important issue has to do with skill formation. Workers can be trained through vocational education. Companies such as DLF are now importing Indian labour back from Dubai to assist them in construction activities in India. In a broader perspective, Government expenditure should be directed towards sectors such as primary education, where social return is higher than private return.

To increase productivity, there is also reason to invest in health. Indeed, government with all good intention have increased allocation of funds from Rs 34,927 crore in 2005-06 to Rs 50,015 in 2006-07 (read, last Budget), for its eight flagship projects on health, education, water supply and national rural employment guarantee (NREG) schemes. However, the results in form of outcomes are not satisfying.

The big question is how to foster accountability. The problems with public project executions are higher administrative cost in terms of implementation and corruption. Both can be minimised through a carrot and stick based strategy where the performers — non-governmental organisations (NGOs) or panchayats — can be rewarded/penalised in terms of fund allocation for the next budgetary period. Some of the State governments have started getting results in partnering with some NGOs — Pratham (in the area of education), Seva Mandir (health), Arghyam (water supply), ICICI Foundation (inclusive growth) — to name a few.

Offering incentives

To address problems associated with school dropouts or target groups not participating in development programmes such as immunisation, there is a need to supplement or provide incentives for the participants.

It is important to recognise that while teacher absenteeism might be a reason for students not showing up in schools, another equally important reason can be loss in income that poor students sacrifice (opportunity cost) for showing up in school. Hence, there is a need to supplement these capability-building programmes with freebies.

Improving efficiency

From the demand-side perspective, the Government is also spending money on schemes such as the National Rural Employment Guarantee (NREG) scheme in the backward districts in India with the objective of providing guaranteed wage employment to each rural household (typically, unskilled labour) opting for it. However, such demand management policies some time can be self-defeating. For instance, if these people are hired to build a road and the project never gets completed then the money allocated for the purpose will add to inflation. A recent study by Subhashish Gangopadhyay (2007) has found evidence of causal linkage between NREG schemes and inflation — showing these funds are not efficiently utilised.

Sustainability of inclusive growth, therefore, calls for better usage of public fund — in terms of building rural infrastructure and imparting accountability towards provision of health and education. Otherwise, the whole objective of growth can be self-defeating. Uncertainty and volatile income in agriculture sector will create incentive for migration — creating pressure on the already inadequate urban infrastructure, unemployment and, more importantly, social unrest.

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