

## Inclusive growth in India: Dream or reality?

Subir Gokarn | BS | December 31, 2007 | 14:16 IST

The subject of inclusive growth has been in the spotlight recently, for very obvious reasons. The parliamentary election campaign of 2004, with its 'India Shining' vs. 'Aam Aadmi' confrontation, highlighted an apparently widespread perception that the benefits of economic growth were simply passing too many people by.

Of course, that campaign was fought after only one year of 8 per cent plus GDP growth, which came after a relatively sluggish period between 1998 and 2003. But, notwithstanding several other factors that may have influenced the outcome of the elections, the assessment that a widespread feeling of exclusion contributed to it has shaped the rhetoric and the broad policy orientation of the United Progressive Alliance government.

This orientation is most visibly manifested in the theme of the Eleventh Five-Year Plan, which runs from 2007 to 2012. The theme is 'towards faster and more inclusive growth,' which clearly reflects the need to find a sustainable balance between growth and inclusion.

We spend a lot of time debating the issue of income inequality, whether measured by the Gini Coefficient or any other statistic. Many people view 'inequality' and 'exclusiveness' as being the same thing. I would argue that not only are they not the same, but, in fact, believing that they are may mislead us into prescribing an entirely wrong set of interventions to address the problem. Before we decide whether our growth is inclusive or not, or whether it even can be inclusive or not, we must first understand what inclusiveness means.

I would like to propose a definition of inclusiveness that involves four attributes:

- 1. Opportunity:** Is the economy generating more and varied ways for people to earn a living and increase their incomes over time?
- 2. Capability:** Is the economy providing the means for people to create or enhance their capabilities in order to exploit available opportunities?
- 3. Access:** Is the economy providing the means to bring opportunities and capabilities together?
- 4. Security:** Is the economy providing the means for people to protect themselves against a temporary or permanent loss of livelihood?

Consistent with this definition, 'inclusive growth' is a process, in which, economic growth, measured by a sustained expansion in GDP, contributes to an enlargement of the scale and scope of all four dimensions.

To return briefly to the relationship between inequality and exclusiveness/inclusiveness, income enters the picture primarily through the 'opportunity' dimension. However, it is critical to understand that 'income' is the result of an opportunity being exploited.

It depends on a number of factors, including the motivation and performance of the individual himself. In this sense, it is unreasonable to hold the growth or development process itself entirely accountable for the result. It is more appropriate to assess the effectiveness of the process in terms of whether or not it gives a large (and increasing) number of people legitimate opportunities to earn incomes.

From this perspective, I would prefer not to evaluate the 'inclusiveness' of a growth process by changes in the inequality measure, particularly over relatively short periods of time.

The 'capability' dimension clearly relates to education and skill creation. There are three essential components to any educational process. It must provide a basic set of skills that the individual needs to function within his socio-economic environment -- ?literacy, numeracy and, in today's times, some basic IT capabilities.

It must impart a set of skills that are relevant to the market -- ?in other words, enable the individual to take advantage of opportunities. And, it must give the individual his values, a sense of his place in the larger community and his obligations to it.

We must remember that 'productive' workers are not so based solely on functional skills. Productivity owes as much to the individual's ability to fit into a team and to align his activities with the larger collective objective.

'Access' is a little more difficult to explain. In its broadest sense, the term might well encompass both opportunity and capability, in the sense of people having access to jobs or education.

However, I would prefer to define it in a somewhat narrower sense; going back to the brief definition I provided earlier, it refers to the ability of the system to bring together opportunities and capabilities. From this perspective, it essentially refers to the functioning of labour markets, which are supposed to match demand for labour, or in more contemporary terms, 'human capital,' with its supply.

Efficient market mechanisms, either autonomous or supported by appropriate regulation, are at the core of the issue of access, but it is also enhanced by, for example, the ease with which people can move from location to location in search of jobs and, in the process, integrate effectively into the local community and welfare systems.

Finally, the concept of security is both easy to explain and justify. Generally speaking, a rapidly growing economy is also a turbulent one. Sectors and companies become obsolete quite quickly and new ones emerge to take their place.

Joseph Schumpeter described capitalism as a process of 'creative destruction.' I think his term is a very appropriate description of the way things are today. The contribution of this turbulence to the growth momentum is unquestionable, but, equally, its impact on people in terms of predictability and stability of their livelihoods can be quite brutal.

If we are to derive the full benefits of a dynamic and evolving economy, we have to provide a reasonable safety net to people, as they go through temporary ups and downs. Beyond this, in our specific case, is the fact that a majority of our population is still primarily dependent on agriculture, an inherently risky activity.

Also, while we are very much in the 'sweet spot' of our demographic transition, with the dependency ratio (ratio of total population to working age population) at a relatively low level, we cannot ignore the fact that we have a large number of senior citizens, who are living longer after they retire and whose livelihood also needs to be provided for, particularly if they have not been able to do so through their private savings.

This article has attempted to flesh out the four dimensions of 'inclusiveness' by giving some key examples of indicators that they relate to. In the next column, I shall explore movement along these various dimensions.

*This is excerpted from the 8th Dr. R. L. Sanghvi AMA Endowment Lecture, titled 'Inclusive Growth in India: Dream or Reality?' delivered at the Ahmedabad Management Association, on December 6, 2007.*

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