

Inclusive Growth: What does it mean?

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The reason I suggested the title “Inclusive Growth: What does it mean” was because in the Indian context, there are multiple meanings of the term, each of them quite genuine and underlining the questions being raised. I intend to explore with you the underlying multi-dimensional nature of the questions that may relate to some of the concerns we have not only in India, but actually all over the world. In some ways, the world is becoming as concerned about a number of things which we were earlier concerned with, so we are actually in good company from that point of view.

These days we also refer to “Inclusive and Sustainable Growth” because sustainability is a very important dimension. But I am going to talk more about “Inclusiveness” as other simple categories like “Growth with Poverty Reduction” or “Growth with Justice” or “Growth with Equality”, suggest a uni-dimensional aspect, other than growth. I think when we talk about Inclusive Growth we are trying to give an impression that actually what you call Inclusiveness is a kind of Growth which addresses very large number of different concerns.

In the history of Indian thinking on planning, we have never been pushing for growth as some kind of strengthening-the-nation kind of a concept, which though relevant, ignores the question “why do we want growth.” The Indian thought process has addressed the need for raising the level of living to acceptable levels of the people at large. This can be traced to 1938 when Subhash Chandra Bose, who was then the President of the Indian National Congress, appointed a Committee under Pandit Jawaharlal Nehru, later to be our first Prime Minister. This Committee basically argued for the need to improve levels of living. We are a very poor country, and to bring everyone to a reasonable level of living, we need to increase national wealth. The idea was, to expand the pie, as there isn’t enough to go around if you are only redistributing.

This is a very different situation from a rich country which may have only 10 per cent of the population in poverty, and it is possible to solve their problems without necessarily having to expand the pie. But in case of a poor country where income levels are quite low, if you want to increase the income levels, welfare, well-being, etc. of a broad mass of the population, the total GDP, i.e. production has to grow.

Earlier it was thought that with growth everybody will benefit. It was believed by many that if we achieve, say, 8 per cent growth everyone’s income would grow by 8 per cent. But it was realised quite early that this is not the way the system works. It is possible to have a growth rate which is high, but it is also possible that the same is not broadly spread raising concerns and doubts over the growth process.

In India for the first several decades the principal failure was that we never got to the growth target. Underlying growth targeting was a belief that if the growth takes place then there be more goods that will be distributed and everybody's income will go up. Somewhere around the 1970's Ashok Mitra wrote a piece in the *Economic and Political Weekly*, arguing to get rid of these growth fetishes and go for what really matters, which is poverty reduction. Maybe we could achieve poverty reduction without worrying about growth.

At the same time in 1970 Zulfikar Ali Bhutto in Pakistan was talking about "*roti, kapda and makaan*", and in India we were pursuing the slogan "*gareebi hatao*". I mean the real question which was relevant was, is it that growth cannot be achieved, or is it that the policy framework that we were following was not the one that would achieve that growth? That question was not, in my view, adequately addressed.

. It is, therefore, quite reasonable to say the main focus in 1970s was delivery to the poor whatever problems we were having with growth. Around the 1990's, it was becoming quite clear that many other countries were growing rapidly. It was not just Korea, Hong Kong Singapore and Taiwan (called the gang of four or the four tigers), but many other Southeast Asian countries. Rethinking took place in India, too, and the economic policy began to change. Many people would say, it changed too slowly, but without going into that question, it did change and it led to a build-up for growth.

In India, in the early 1991 onwards a very strong systemic liberalisation and opening up of the economy etc. were outlined. Even those policies were implemented very slowly and it is an interesting that when we began the process of liberalisation the growth rate was about 5.7 per cent which is not bad, but even in 1990's after the liberalisation the growth rate remained at 5.7 per cent. I think it was because the changes were done slowly and by the decade of 2000 the growth rate really began to accelerate. I think the debate in India began to change. Earlier when the liberalisation was first introduced in 1991, the government was rightly criticised that it would ruin the economy but by the year 2000, it began to be conceded that maybe these fellows know something about how to get growth going. But the attack changed to yes you are getting growth, but what kind of growth, it's not inclusive enough.

I want to emphasise conceptually that the reason we used the term 'inclusive' in the 11th plan, (we still use it in the 12th plan), is that we recognised that the growth plus demand, is not just a demand for any one thing. I have got a list here of items, and I can list several dimensions all of which are relevant for inclusiveness. Let me just go through them very quickly. The first issue is does growth reduce poverty? There is a huge literature. At one time, other than Surjit Bhalla, nobody in this country seemed to be willing to believe that growth was reducing poverty and people were saying that growth is making the rich richer and the poor poorer etc. The second one is – is growth coming at the cost of equity? With growth we are becoming more unequal. That's a much stronger test because you can become a little unequal, and still

reduce poverty a lot, but it is a separate dimension, and you can't say no-no I don't care about it.

I would say that a growth process that doesn't reduce poverty is really not worth it unless poverty is down to under 10 per cent. But the growth process I would say certainly should not be increasing inequality too much. What is important is not so much equality, but "social mobility" because the concept of equality itself can be, when you describe it in terms of GD co-efficient. You can have a situation where the income inequality as measured by the usual measures – GD co-efficient etc. is roughly stable, is not actually improving or could even be marginally deteriorating. If there is social mobility, many people at the bottom are getting opportunities to get to the top and displacing people at the top who are then going lower, so it's a kind of social churn. My guess would be that one can easily imagine a situation where people would be willing to trade off social mobility against the static concept of equality. There is something quite depressing about the society, where if your great grandfather was in the top 10 per cent then your father was also in the top 10 per cent, and you also are in the top 10 per cent as opposed to a society where your great grandfather was actually in the bottom 10 percent, but your father was in the next 20 per cent and you are in somewhere in the middle. It is possible to have such a social churn without affecting equality in the overall and for a highly participative and a democratic country. What is really important is for the young and growing to rise in social mobility.

I should add that we do not have any data on social mobility. It is very difficult because in its absence you cannot have transition matrixes and panel data over time. You have anecdotal data and sociological information, but it is not possible easily to determine whether over time inter-generationally we are seeing more social mobility, or less.

When liberalisation was first introduced, suddenly the regional dimension of liberalisation became an issue, and people said that this liberalisation is going to help the better off states, because they are going to be able to take advantage, they are better placed, they have better infrastructure. It was in the 80's that Ashish Bose coined the phrase, "BIMARU" – Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh. Then later he added Orissa, because Orissa had the same characteristics, but he spelt it "BIMAROU". If you look at the data it is true that in the 9th and the 10th plan these states were growing slowly. But if we look at the data since 12th plan the most important achievement is that the BIMAROU states are now growing much more rapidly. One of them, namely Bihar, is actually growing very rapidly indeed, but others are doing quite well, and in fact, the Prime Minister in one of his speeches recently said that we may have to relegate the term BIMAROU to history, which is a huge achievement for the country.

So, regional inequality is important, but the concept of region is now not just limited any more to states. People say well you know Maharashtra is clearly one of our better performing states, but what about Marathwada and Vidarbha regions? Similarly Karnataka is doing well, but what about North Karnataka? So the concept

of backward parts of an otherwise non-backward state have become quite important and certainly at the district level the Government of India recognise this by introducing “Backward Regions Grant Fund”, which covers a very large number of districts (about 250 plus), which are spread over a number of States including states that are actually growing faster – Maharashtra being one, Andhra Pradesh being the other. So the regional equality concept is not just better balanced performance across states, but also better balanced performance within states. It is interesting that the ratio of per capita income of the richer states to the poorer states is 5:1 (if you look at Maharashtra and compare it to Bihar in terms of per capita). But within states, these ratios can also be quite high so that is yet another dimension in which growth has to be inclusive.

Then you have the “urban-rural” issue. Many people say that growth is only for urban areas, and rural areas are badly hit. This is totally different, by the way, from the state issue, because every state can be growing equally, and within each state the urban-rural divide can be getting worse. It is an environment in which you cannot say that inequality is either improving or worsening. It is very easy to define a structure where inequality is not changing, because its people are moving – the richer people are moving from rural areas to urban areas, and people left behind in the rural areas are not any poorer, but relative to the urban they are. This dimension worries people who want greater equality between rural and urban areas.

Then there is the concept of “jobless growth” which is now an international buzzword. At every G20 meeting you have somebody from the International Labour Organisation (ILO) saying that you must not only have better growth, but it must be a job-creating growth. Job creating growth may not necessarily be linked to poverty. The worry in places like Europe and the US is not that the new phenomena is bad for the poor, its actually bad for the middle classes because they were otherwise well off until recently but are now getting squeezed and the super-rich, (the top 1 per cent) in these countries, are getting all the gravy. This is mirrored in our own context also.

In my view income is really not the main or only issue because there are many things that you cannot buy from your income such as health, education, sanitation, clean drinking water, etc. Such services should be available through publically funded or public delivery systems.

That is another dimension which is different from the income flow that GDP growth produces. You can have a major failure in the delivery of public services, with a direct impact on welfare. Both the National Planning Committee and the Bombay Plan said health and education will be provided by the State. So the question arises, how good a job is the State doing in providing these? You could have a situation where everything else is fine you know growth is good, inequality is OK, poverty is going down etc., but if you are failing on delivery of these services, it is a genuine failure.

Another factor which is very important in our context is the inequality across socio economic groups. Let’s assume the scheduled caste, the scheduled tribes, and the minority Muslims are the lower end of the income spectrum. Any poverty reducing

strategy for, say, the scheduled castes will certainly give benefits to them. One view could be that we are going for higher growth, which is poverty reducing, and therefore the scheduled caste are benefiting. But you can turn that argument on its head; what is the objective? Is the objective to raise people above poverty, and since most people who are in the scheduled caste group are somewhere below the poverty line, they also benefit, or is the objective to equalise inter group income. I think if you look at any reasonable expression, the long term objective must be to equalise inter-group income. We need to be asking – is the gap between the scheduled caste and the rest of the population narrowing, or not, is it narrowing fast enough. I have looked at the data and it was quite interesting that between 1993-94 and 2004-05 there is clear reduction in the gap, the gap is still there, but the gap between the rest of the society and the scheduled castes is actually narrowing; but not so much for the scheduled tribes. Then, when you take into consideration the period 2004-05 to 2011-12 even the scheduled tribes gap starts narrowing. So here's a good example where obviously affirmative action type policies have for long been focused on the scheduled caste, but we have also referred to the scheduled tribe and actually it wasn't working very much. More recently certainly between 2004-05 and 2011-12 that seems to have begun to work.

When you say that the action has begun to work and take credit, you have to ask yourself how fast is it working. Experience of other countries in eliminating deep-seated differences does take a long time, but at least the debate is being conducted at a different level with other group issues like gender balance, etc. No society has a chief general balance, so one should be readily able to say that we haven't either.

The Planning Commission also focusses on marginalised groups, that are not the scheduled caste and tribes, but are very major parts of our population, such as the differently abled people. Three and half per cent of our population suffers from one or the other disability. Is the society looking after them or not? We all have been praying for doing something for them and it is very recently that we have begun to focus on it. I am not saying, by the way, that we are succeeding, and their expectations are also actually quite modest. I have a group coming to me and saying that we are very glad that you have mentioned this in the plan, and then they quite rightly say, what about doing A, B and C? Then there are other groups – primitive tribal groups; even these are very small groups, which were formally criminalised tribes and so on.

So what is inclusiveness? We recognised that any effort to reduce inclusiveness to one two or even three dimensions is doomed to be unacceptable. So in the plan we have identified "25 monitorable indicators". Each of these is very poorly measured.

It is quite conceivable that the worst statistics we produce are the statistics on the employment. I will make a comment on that, because many of you will have heard people say that last 5 or 6 years have been years of jobless growth, whereas the previous period was the period when employment increased by so much. Between 1993-94 and 2004-05, it is true that employment increased, but the labour force increased much more and therefore the rate of unemployment actually increased.

After 2004-05 the labour force did not increase much, so not surprisingly employment also did not increase much so the rate of unemployment actually fell. If you want to glorify the last several years you will say this is the first time that the unemployment rate has fallen, and if want to criticise, you can argue that in our society, people cannot afford to be unemployed, and therefore if we cannot talk about the quality of employment, talking about total employment is really not all that useful. Having said that let me say I think that the problem of quality of employment is a serious one. The main point I am making is that if you are getting the growth you also have to be able to show improvement in the 25 monitorable indicators, which have been laid out in the plan document.

Unfortunately the data which measures progress on these indicators is not available like the price index every month. It is delayed quite a bit so even by the end of the 12th plan we will not have all the data for the monitorable indicators. Probably, at the time of mid-term appraisal of 13th plan all this data will be available and then one will be able to say, how much growth we managed, and how much did it relate to these 25 monitorable indicators. You can never achieve 100 per cent, but if you show reasonable progress on a very large number of these 25 monitorable indicators, you should be in a position to declare a modest victory. Even then it is almost impossible to be sure that you will get progress in every one of those monitorable indicators.

Now let me step back a little and say, that until recently, the whole debate was – you are getting a lot of growth, but what about inclusiveness? Of course, right now we are in a position where we are not getting the desired growth. The world also grew more slowly, but my take on the last year if I were presenting a government assessment is that yes, it is a temporary slowdown, we know why it happened, partly because of the global situation about which we can do little, but partly a lot of domestic constraints which we now have to address. Since the global economies are going to be weak, the compulsion to take care of your own backyard is that much stronger. There is lot we can do, but if you look at what has been the recent growth performance of the Indian economy, I mean the averages, and not the last year, is what matters.

We have looked at the last 10 years, and yes people will say that this period had a lot of good years for the global economy, so we have subjected the time series data to statistical filtering and when you do that, the average of the clean series is about 7.5, but not 5, so I have no hesitation, whatsoever, in saying that if we take the corrective steps that are necessary, we will get back about 7 per cent. I wish I could say this year, I don't think it will happen this year, but if it doesn't happen this year, may be over a two-year period. That's the growth performance that I believe this economy is now capable of, and frankly if things turnout well, and we do even better domestically, we can do better than that.

The real question therefore is on inclusiveness. Have we got our act together on inclusiveness? There is a sort of an assumption at times, that inclusive growth means growth is not enough; you got to add some inclusion to it and that is what I would call the programme approach. Government does that and if you were to ask to

government if its only interest is in growth, they will say not at all, because here are our programmes and some of those programmes are very clearly building a social security infrastructure programme. They are actually programmes that will feed into the growth process because they produce a healthier and more educated population. Not just because of social welfare, they also feed into the growth process. If you do not have health, and you don't have education, you are not going to get sufficiently healthy population to generate a sensible growth rate, and the same thing would be true of sanitation and clean drinking water. Equally on the growth side, if you do not have growth, you are not going to have the resources needed to fund these programmes.

Now I find a lot of people accept the proposition that yes growth is necessary, because it produces the resources which enable us to fund inclusiveness programmes, but I think they should recognise that growth directly impacts inclusiveness also. For example, if you have a growth rate which is based on a strong agricultural performance, which is our strategy at the moment, as opposed to a growth rate which, say, is based on mining and highly capital intensive industry, you are going to have a very different inclusiveness outcome. People underestimate impact of a growth strategy which generates a type of growth which inherently will generate a more broad income base.

I did a little calculation, and one of the achievements of the last 10 years compared to the previous period – agriculture in the 11th plan grew at about 3.6 per cent compared to growth of 2.9 per cent in the previous period. If instead of growing, agriculture continued to grow at 2.9 per cent instead of 3.6 per cent, then agriculture income would have been 7 per cent less in the terminal year. The impact on the incomes of poor is very substantially improved if you can bring your agriculture growth rate up to 4 per cent or so which, I believe, we are now within a shooting distance of.

Where we have not done so well, I think, is in manufacturing and in generating a labour intensive manufacturing growth. We have done very well on services that has generated many positive things. We have not achieved our objectives, or are even close to achieving our objectives on manufacturing and more importantly the kind of manufacturing that we have done well in is not the kind of manufacturing that produces jobs for a large number of young people, who have limited skills. Actually, for social cohesiveness, looking ahead, it only make sense if: (a) you can educate and skill them; and (b) run the economy in a manner in which you will produce enough jobs in manufacturing to take them out of agriculture.

Some people often say that falling employment in agriculture is a sign of success while others get upset. But if you accept the fact that GDP growth in agriculture is not going to be faster than 4 per cent in real terms, and if you believe that GDP growth in the economy as a whole could well be 8 per cent and if the population growth at the economy as a whole is around 1.4 per cent, then per capita GDP growth for the economy as a whole is likely to be around 6.4-6.5 per cent. Now if agriculture is only going to grow at 4 per cent the only way per capita income in agriculture will grow at

the same rate as for the economy as a whole is, if employment in agriculture falls at 2.4 per cent per year. I am not saying that people should be thrown out of agriculture, that would be terrible, but you want a growth process wherein people spontaneously move out of agriculture, it will improve inclusiveness.

Unfortunately, many of the critics of government policy regarded it as a criticism that farmers do not want to stay in farming. I do not know what the definition of success would be, because to really succeed, we need fewer people in farming at much higher income levels and the subsistence farming has to get out of the picture. The problem is that at the moment, people are probably moving out as they are expecting to get good jobs and growth and the prosperity. It is not clear that they are getting the jobs they want, and I hope, the jury is still open on this, but if it goes on for another 10 years, it would not be sustainable.

When we talk about inclusive growth, we need to get away from mouthing useless slogans and we need to analyse successes and failures. On the issue of employment most economists will tell you that the reason we do not have an employment enhancing manufacturing process is that we have labour laws they are too restrictive and inflexible, and I can tell you I have talked to lots of small entrepreneurs and every one of them agrees with this. The government knows that this is a problem, but also it is a politically sensitive issue. The official position of the government is that we need labour laws to be more flexible, but we will want to generate a consensus with labour. In my view, the time to push on that side is after we get the growth back, because this 5 per cent growth is simply not a basis for raising this difficult issue. We could just carry on a growth process which is based on services and capital intensive industry, with no expansion of labour intensive industry.

China has the most remarkable success in absorbing people of relatively moderate skills, skilling them a bit, and then involving them into relatively simple manufacture. Chinese are going to vacate this area, and the real question is, is it going to be taken up by Vietnam, Bangladesh, and the Philippines, or is India also going to get some piece of that. To my mind, it depends on three things: (1) can we improve our infrastructure? Manufacturing competitiveness is powerfully impacted by the quality of infrastructure and therefore, this should be a very high priority; (2) can we do something about the whole skill generation process. Also, quite frankly, do something about the management of land and urbanisation, so that new manufacturing units can be setup, and not run into the kinds of constraints we notice around, and (3) do we need more flexibility in our labour laws?

In my view, we should fix the infrastructure problem first. It is tough, but whatever needs to be done should be done. When we have done that I think we should address the issue of flexibility or inflexibility of labour laws.

In the process, particularly in a democratic country, there has to be social credibility where the society has to accept that what is happening is good for it, in a broad and general sense. People feel there is governance failure with much corruption, cronyism and I say this, because people are very familiar with this issue from the

newspapers as part of our public debate. But quite honestly, it is there in every country at the moment. We still have to address this but I think we need to face very important issue.

In the western countries there is a very strong negative feeling about the corporate sector, dominantly about the corporate financial sector. It is not about the rest of the corporate sector. Here, it has got translated into a generalised suspicion of the corporate sector, and one reason for that is the presence of crony relationships. It is really connected with the issue of how you allocate scarce resources.

I think the good news is that these issues are not being swept under the carpet. They actually are being addressed, but we are completely obsessed with how some particular thing in the past happened/didn't happen, who should be held responsible. But if we ask ourselves, are we taking the structural steps needed, so that in future the same problems will not arise, my guess is that we are. So the real issue is, how will all of this play out? I think if you take a fair look at what has happened in the last several years, the sense in which we have succeeded in many of the dimensions of inclusiveness is not adequately recognised.

If you forget about the 5 per cent growth, the numbers towards inclusiveness are actually quite impressive. There is no question that poverty is falling faster than it did before and when the latest numbers for 2011-12 become available this will be totally clear; there is a significantly faster rate of decline in poverty. If you look at agriculture, which is after all one of the determinants of faster fall in poverty, it is absolutely clear that it has grown faster than it did before. If you ask what's happening to rural prosperity it is absolutely clear that per capita rural consumption between 2004-05 and 2009-10 increased at about 4-5 times faster than it did in the previous period. If you ask about rural wages, these too increased much faster in the second period, not just because of MNREGA, but because of more investment in infrastructure, and because of faster growth in agriculture.

One dimension where we admit that the performance is very poor, is in the areas of health. But Bill Gates mentioned in an interview that in health, India is doing lots of good things. That is not enough recognition of the fact that the glass is definitely not full, but may be as the Prime Minister said it is filling up.

Two years ago we had not eliminated polio. Today, we have. Those who feel that the Indian system cannot deliver looking at this fact should say well you know it can. Then you can legitimately ask why on earth is immunisation stuck at 70 per cent? Well you can say earlier it was only 45 percent. I think we certainly ask, why cannot it be 95 percent now. I think why people are really concerned is malnutrition, as the Prime Minister himself has said that malnutrition in India is a shame. True, you know the latest official data on child malnutrition comes from the National Family Health Survey of 2005-2006, which is actually before the 11th plan but we don't have comparable data after 2005-2006. We do have piecemeal information coming from the ICDS and some surveys that the rate at which child malnutrition is going down has accelerated compared to the previous situation. But these are things that take a long time to have an impact. I only mention this not to say that it is not a problem; it

is a problem, but I think we should recognise that when we move to a multi-dimensional standard of comparison, there is always a target you can pick to shoot at, and it's going to take a fair amount of time for the good news to come, but I think, it can be asserted that the process of growth that has been unleashed is both tending towards more rapid growth, and towards greater inclusiveness.