

INCLUSIVE GROWTH IN INDIA: PAST PERFORMANCE AND FUTURE PROSPECTS

Dr.K. Selvakumar

Asst. Professor, Dept. of Commerce, Madurai Kamaraj University College, Alagarkoil Road, Madurai

Introduction

Inclusive Growth

India's government has made "inclusive growth" a key element of their policy platform, stating as a goal: "Achieving a growth process in which people in different strata in life... feel that they too benefit significantly from the process." (Ahluwalia, 2007). How a country may achieve a self-sustaining transition from traditional to industrial economies has been addressed by many contributions to development theory. Economic growth models do not establish or suggest, however, an explicit causal-effect relationship between a country's rates of economic growth and the resulting poverty reduction, although policymakers often assume an implicit connection. The current literature provides some guidelines about conditions under which economic growth might be 'inclusive' or 'pro-poor', although how these concepts should be defined remains controversial. An alternative position is that growth should be considered to be pro-poor as long as poor people also benefit in absolute terms, as reflected in some agreed poverty measure (Ravallion, 2004). This is because by their definition, growth is still pro-poor, even if it results in greater inequalities. Indeed, that is precisely what has happened in India; the rich have benefited more than the poor from economic growth since 2000.

Objectives of the Study

1. The concept of inclusive or pro-poor growth is considered
2. To study about the comparison of India's performance in reducing poverty with some of the Asian countries.
3. To know How India's objective of more inclusive growth might be "achieved in the future.
4. To study about the Inclusive growth in various sectors.

Poverty Reduction in India

The measurement of poverty has also been not without controversy. Much of the literature on poverty relies on different measures of income-based poverty: defined in terms of national or international poverty lines (e.g., US\$ 1.00 per day or US\$ 1.25 per day). Recent studies, including the United Nations Development Program (UNDP 2009), have embraced the concept of multidimensional poverty: which includes income, consumption expenditure, malnutrition, literacy, and other indicators of welfare.

In India, poverty is measured in terms of household per capita consumption expenditure. Poverty lines, determined by the government for each Indian state are updated regularly. The latest poverty lines are based on the recommendations of the

Tendulkar Committee Report (2009). At the national level, poverty line for rural population is ₹ 446.68 while for urban population it is ₹ 578.8. Based on these poverty lines, 37.2% of India's total population was poor in 2004-05. In rural India, poverty was higher (41.8%) than in urban areas (25.7%). The Tendulkar Committee also updated the poverty lines for 1993-94 to allow comparisons to be made between the two periods. On the basis of these figures, it is possible to conclude that poverty headcount ratio for all India declined from 45.3% in 1993-94 to 37.2% in 2004-05. Thus, based on these figures one can safely conclude that growth in India has been pro-poor, as poverty has declined since 1993-94. Not everyone accepts this conclusion, however. The critics question the methodology used in the official estimates and argue that the actual number of poor is significantly higher than the official estimates and that poverty had actually increased between 1993-94 and 2004-05 (e.g., Patnaik 2010, and Mehrotra and Mander 2009).

In a recent study, Habito (2009) has published international comparisons of 15 Asian countries in reducing poverty. For 2000-2008, these comparisons paint a sobering picture of India's performance in achieving inclusive growth in recent years, because India ranks 11th, followed by Philippines, Mongolia, Singapore and Myanmar. Ahead of India in this league were (in that order) Indonesia, Pakistan, China, Malaysia, Thailand, Vietnam, Sri Lanka, Nepal, Bangladesh and Cambodia. The comparisons were made in terms of the poverty elasticity of growth (PEG), which measures percentage reduction in poverty for every one percent of growth in GDP. In Indonesia, Pakistan and China, PEG exceeded one, implying that one percent growth in GDP resulted in more than one percent reduction in poverty. For the other countries that were also ahead of India in this comparison, the values of PEG ranged from -0.806 for Malaysia to -0.469 for Bangladesh. India's PEG was -0.154, implying only modest reduction in poverty for every one percent increase in GDP.

India's new growth could be said to have moved from 2000 to 2008, signifying that both the poor and the rich benefited from growth, but that the rich benefited far more than the poor.

Strategy for More Inclusive Growth

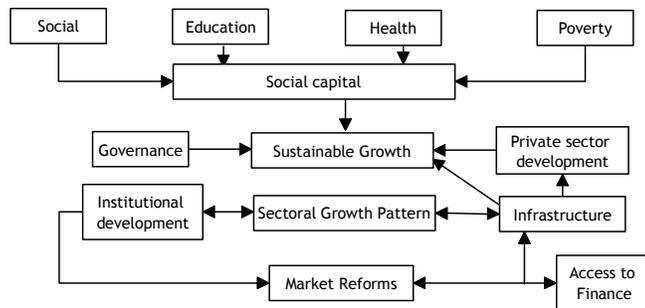
The empirical evidence about the relationship between economic growth and poverty reduction suggests that no particular development model is uniquely pro-poor and that the relationship can only be considered empirically, at the case-by-case level. Nonetheless, it should be possible to draw some general conclusions regarding the major sources of pro-poor growth. The international evidence suggests that faster rates of poverty reduction have been helped by rapid growth in agriculture, public expenditure on social services, particularly education and health, infrastructure and the quality of governance.

For example, Ravallion (2008) concludes that China's success would not have been possible without strong state institutions implementing supportive policies and public investments: "China has had a tradition of building and maintaining the administrative

capacities of governments at all levels, including the countless villages that were the frontline for implementing the crucial rural reforms that started in the late 1970s."

So, it is necessary to add that promoting agriculture and rural economy is crucial to pro-poor growth, particularly in the early stages, given the potential for small-holder farming to rapidly absorb unskilled labour." Policies targeting social capital development and market reforms to address institutional and socio-cultural constraints should be adopted. The elements of the proposed strategy and the linkages among the various processes are summarised in this Figure.

Inclusive Growth in Various Sectors



Recent literature suggests that while sustained economic growth must be a necessary condition for significant poverty reduction, it is not a sufficient condition: **sectoral composition of economic growth also matters.**

Figure 1. A Coordinated Strategy for Pro-poor Growth Growth in Agriculture

Ravallion and Datt (1996) found that because poverty in most developing countries is concentrated in rural areas, growth in the agricultural sector and in the rural economy has been highly beneficial to reduce rural poverty. Virmani's study of India (2007) and Topalova (2008) confirm the importance of growth in agriculture for reducing poverty.

This literature confirms that growth originating in agriculture generates among the highest benefits for the poorest households and the unskilled workers. Construction industry is the next best source of poverty reduction – also because of its unskilled worker intensity. De Janvry and Sadoulet (2010) find that growth originating in agriculture is nearly three times more poverty reducing than growth originating in manufacturing and nearly double that of growth originating in construction.

India's agricultural sector grew strongly in the wake of the Green Revolution. But, the contribution of agriculture to GDP has been on the decline in recent decades, **dropping from 36 percent of GDP in 1980 to about 18 percent in 2007.** The deceleration in agriculture has contributed to rural distress in many parts of the country and has affected both large and small farmers. **The government, of India has developed a strategy of accelerated growth, incorporating a near doubling of the rates of growth of agriculture, during the 11th Five Year Plan (2007-12).** If it were to materialise, rapid growth in agriculture should generate more opportunities for the poor to get employment

and earn income. Agricultural growth will also generate higher demand for industrial products and assist the budgetary situation of the governments through higher growth of tax revenues, which could then be used to finance various anti-poverty programs.

Infrastructure and Energy

Infrastructure continues to occupy central stage in India's economic development strategies. The problem of energy scarcity is just one of the many infrastructure challenges facing India, as -most other forms of infrastructure require substantial expansion and upgrading to meet the increasing demands of economic-growth. **The pressures on India's infrastructure are coming from a variety of sources, including rapid expansion of trade, a new priority for higher growth of manufacturing, the rapid pace of urbanisation, the revival and diversification of agriculture and the need to improve conditions of the rural economy.**

India's infrastructure facilities compare rather unfavorably with several other Asian countries. **The 11th Five Year Plan proposes to raise investment in infrastructure to between seven percent and eight percent of GDP by 2012-13.** Signaling a break from the traditional approach of keeping the provision of infrastructure within the public sector, the government of India has been keen to involve private sector) investment in infrastructure.

The rejuvenation of agriculture noted above will also depend on ample supplies of water for irrigation, exacerbating the severe shortage of water in many parts of India as well as the environmental risks associated with excessive extraction of underground water for irrigation. These pressures will be additional to those generated by rapid urbanization for drinking water, sanitation and waste disposal.

Public Expenditure on Education

As noted above, several studies suggest that there is a correlation between inclusive economic growth and the level of public expenditure on social development (including education and health) (e.g., Habito 2009). Literacy is arguably the most significant factor in poverty reduction as it enhances employability. The role played by literacy has been found to be particularly notable by Ravallion and Datt (2002), who reported that nearly two-thirds of the difference between the elasticity of the headcount index of poverty to non-farm output for Bihar (the state with lowest absolute elasticity) and Kerala was attributable to the latter's substantially higher initial literacy rate.

In 2009, the Right to Education Act was passed, guaranteeing free and compulsory elementary education to children between 6 and 14 years old. The 86th Amendment to the Constitution of India makes education a fundamental right. The Act also obliges private schools to admit and educate at least 25 percent of children free of cost. Between 2003 and 2009, the number of enrollees in elementary education has increased from 57 million to 192 million (World Bank 2010). An estimated eight million children, who do not currently attend schools, are expected to benefit from the programme.

Literacy in India (for the age group five years and above) increased from just 18.3 percent in 1951, to 43.6 percent in 1981 and to 67.2 percent in 2008. However, the level of literacy varies significantly across states, genders and rural-urban areas. **For example, Kerala has more than 90 percent literacy compared with Bihar at around 50 percent.** There are large differences in urban – rural literacy rates in different age groups. It is disturbing, however, to note that literacy rate actually declined between 2001 to 2005 particularly in male literacy in most states including Kerala.

Public Expenditure on Healthcare

India's public expenditure on health care, at 0.9 percent of the GDP, has been low even by developing country standards. India's public expenditure on health has been not only low, but has declined from 1.05 percent of GDP to 0.91 percent in the same period (GOI 2006c). Thus, the growth in GDP did not translate into corresponding increase in public spending on health. By comparison, public health expenditure in most of the OECD countries averages around five percent of their GDP (WHO 2006). India not only spends less on overall health, but public expenditure favours the rich quintile of the Indian society (NRHM 2006). One consequence of this imbalance is that skilled health personnel attend just 16.4 percent of births among the poorest 20 percent compared with 84.4 percent in the richest 20 countries.

Only 35 percent of the population has access to medicines. At this stage of economic growth India needs to consider a new model to extend access to healthcare including medicines to its entire population. **Malhotra (forthcoming) provides an equity-based healthcare model, which is affordable, implementable and sustainable. Less than three percent of India's population has private health insurance. India's attempts in recent years to provide health insurance for the poor have not been successful.** Around 25 percent of the poor do not even seek healthcare because of the costs (World Bank 2002). A case study by Singh (2010) shows that even in the wealthy state of Punjab, healthcare costs have led to farmers' sale of immovable assets and irrecoverable indebtedness.

Stark contrasts also exist in other health outcomes, such as infant mortality rate (IMR) and life expectancy. In Kerala for example, life expectancy for males and females is 70 years and 76 years respectively, followed by Punjab at 67.4 years for both and in Tamilnadu it is 65-73 years for both. But in states like Bihar, Madhya Pradesh, Orissa, Rajasthan and Uttar Pradesh, life expectancy is in the range of 55-60 years.

Governance Issues

All the above initiatives require a major role of government at all levels in India. Effective government interventions at all levels are crucial to minimize the leakages resulting from sloppy implementation and bureaucratic corruption.

The growth of jobs in India depends mostly on the growth of business in the private sector. A vast majority of Indians are either self-employed or are employed in the unorganised sector. Perceptions of India's business environment, especially of India's

bureaucracy continue to be unfavourable, and there are many reports of serious delays in getting official approval for business related procedures. One source often used for assessing the quality of business environments in different countries is the Doing Business series of reports published by the World Bank group. According to the **International Finance Corporation Report Doing Business 2009 (IFC 2010)**, India is ranked 132nd of 183 countries in enforcing contracts, 175th in dealing with construction permits, and the second slowest country for closing a business. For starting a business, India's ranking is 133.

It is worth noting, however, that India is a federal country in which business procedures and bureaucratic performance vary significantly from one state to another, It may be misleading to form an impression on the basis of any single measure that reports to abstract from regional differences, as the above rankings do. This is because some of the states – for example **Tamil Nadu, West Bengal, Karnataka and Punjab** – **have made considerable progress in streamlining their government regulations.** On the other hand, **states like Bihar, Uttar Pradesh, Madhya Pradesh and Orissa have still a long way to go before being able to attract large scale business investments** And these states are precisely the ones which have a high concentration of India's poor. These rankings are very low in a country that is aiming to increase business, investment and capital inflows from abroad.

Conclusion

India's record of achieving inclusive growth was examined in the context of this experiences of some of the Asian countries. These comparisons show that although India's growth since 2000 has been beneficial to the poor, India's achievements are fairly modest relative to the other Asian countries. This calls for a concerted effort to make India's growth more inclusive in the future. Several measures are outlined to strengthen the sources of inclusive growth. The main thrust of inclusive growth strategies has to be on the following key areas. The 5 mantras for inclusive growth:

The Economic Survey 2008-09 has identified five mantras for achieving high and inclusive economic growth with a view to creating more jobs and eliminating poverty at a faster pace.

1. As a first step, the government should initiate measures to channelize savings accruing on account of high growth rate coupled with the demographic dividend (a growing proportion of the population in the working age group) for investment.
2. Secondly, efficiency improvements in the economy since 1999-2000 will reinforce the country's confidence in the high-growth phase. The ratio of net capital stock to gross value added in the national economy, which went down from 2.78 to 2.60 between 1999-2000 and 2004-05, has increased to 2.66 in 2006-07, suggesting efficient utilisation of resources.
3. Thirdly, availability of labour at reasonable wages and efficiency improvements will open new avenues in services, beyond the already well-known IT and ITeS that

bolster confidence in the new high-growth phase. The Survey also suggested that the government should encourage tourism, which globally contributes 10 per cent to the world's gross domestic product.

4. As fourth step, the Survey underlined the need for rapid capacity addition through investments to prevent overheating of the economy as is being feared by some economists.
5. Fifthly, the poor infrastructure that constrained growth in the past has started improving and is likely to strengthen further, giving a boost to economic growth.

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