CHAPTER

2 TOWARDS INCLUSIVE GROWTH

(Growth and Development)

2.1 GROWTH RATE OF INDIAN ECONOMY

Now, let us go back to the statement made in the beginning of 'growth rates slowing down'. The phrase basically means that the output of an economy is increasing but at a decreasing rate over the previous quarter/half-year/year, whichever is the reference period. If during the same reference period, output has declined, then it is referred to as 'contraction' of output. Continuous periods of contraction over two quarters are known as 'recession' and still longer periods of continuous recession are known as 'depression'.

Until now, the world economy has witnessed The Great Depression during 1929–1933. (We shall discuss more about this aspect in the Chapter on Global Outlook.)

As we have discussed earlier, growth plays an important role in an economy. As we know by now that 'increased growth' means 'increased output' and 'increased income' of an economy with increased income for factors of production which sets off a circular motion of further increase in income.

Increased Income → Increased purchasing power → Increased demand for goods and services → Increased production → Increased output → Increased income

Increased income → Increased savings → Increased investment → Increased output → Increased income

Thus, increasing growth of an economy signifies well-being of that economy. Jobs get created, income levels increase and overall wealth of an economy increases. For this very reason, every economy would like to increase its overall growth. India was believed till the reforms were initiated, caught in a 'low-growth cycle' with low levels of incomes, thereby resulting in low savings and thus low investments, ultimately again leading to low income and again to low savings, which is known as the low-growth cycle.

It was also said during those days that India is unable to break through the 'Hindu rate of growth' with its inability to grow beyond 3.5 per cent (the term was coined by the noted Indian economist, late Prof. Raj Krishna), with low income and increasing population leading to increased poverty and unemployment in the country, regional/intra-regional imbalances and also widening of income inequalities.

Inability of an economy to increase growth rates of economies is not only due to low savings and investment but also due to lack of resources, technology and infrastructure constraints. These factors were a handicap earlier for India but things have changed in the 21st century.

The 21st century has been good for India, as growth rates had started moving upwards and on were on the verge of achieving a double-digit growth, probably for the first time, except may be for a year briefly in the 1980s. Though growth rates have increased but it has not made any perceptible impact on the poverty, unemployment, inter-/intra-regional and income imbalances. Despite the high growth rates achieved, we have not got the desired results. There has been a distinct deceleration in growth since 2010 sliding down to the lowest in last decade of 4.4 per cent. But the larger question remains of high growth achieved had not yielded tangible benefits to the Indian economy.

This would lead us to another concept of 'development'. How are growth and development different from each other?

2.2 DEVELOPMENT—INCLUSIVE GROWTH

The concept of development is qualitative, whereas that of growth is quantitative. While growth is an arithmetic number signifying an increase in the output of an economy, development includes distribution of output or the ability of the increased output and income to reach the bottom-most stratum of society. Development also implies equitable distribution in the economy.

Earlier it was widely believed that initially increased growth is required and then development would happen, through what is referred as the 'trickle-down theory'. This means that the increased growth would percolate down to the bottom-most stratum of society and provide equitable distribution. This is the significance of the word 'growth and development'.

In the earlier years, the problem was our inability to push up rates of growth and the emphasis was on increasing growth for the trickle-down theory to work which would have allowed for development and equitable distribution. But the story for India is quite different since the economic reforms initiated in 1991 and since 2005. India has not only broken through the low-growth cycle but also become one of the fastest-growing economies after China.

The high growth rate achieved since 2005 questions the trickle-down theory in India, as it has not benefited the Indian masses in terms of lowering absolute poverty levels significantly, creating employment opportunities, reducing inter-/intra-regional imbalances (rather it has only accentuated). There are reasons to understand why 'trickle-down theory' has not worked for India. Firstly, the Indian economy has a structural problem of excessive economic dependence on the agricultural sector. Over 65 per cent of the population is either directly/indirectly dependent on this sector.

The contribution of the agricultural sector to the overall gross domestic product (GDP) is only 18 per cent. The largest contribution of over 55 per cent comes from the services sector and the remaining 27 per cent is contributed by the secondary sector of which only 14 per cent is by the manufacturing sector. The sector contributing the least to GDP has the maximum dependence (agriculture) and the sector contributing the most, has the least dependence (services).

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Secondly, In India's growth process, there has been a missing link of the relative earlier maturity of the services sector before achieving manufacturing sector maturity. Ideally, it should be first manufacturing sector before the services sector or at best together. This is an important feature as there is a linkage between manufacturing sector and agricultural sector either through raw materials or as a market for the industrial produce, and also for employment opportunities. This provides for greater sustainable growth of economies.

Thus, the benefit of increased growth in recent years has largely been confined to the services sector and little to the manufacturing sector and has not percolated to the agricultural sector where the majority of our population resides.

The peaking or maturity of the service sector in India could be due to the surge in BPOs and KPOs and also due to the need for value-added services by the bigger economies establishing bases in India given the low cost of hiring, easier to impart skills and a large young workforce. Still, a larger question of why this excessive dependence on agricultural sector, remains still to be resolved. It is said that India's population mostly resides in villages. Lack of employment opportunities in the manufacturing sector, lack of formal education/skills, lesser growth of agro-based industries, traditional thinking and abject poverty could be some of the many reasons.

But it also has to do with the governmental efforts by providing basic, effective and efficient infrastructure around villages including the road/rail links. The aim should be to have pan-India rail-road connectivity. This would provide for easy accessibility and faster mode of travel the making labour mobile.

History has been testimony to the fact that roads are the gateways to development in countries like Germany, the United States and more recently China. India has only recently woken up to this reality and due emphasis is now being given to the road building, primarily through various projects, namely, Golden Quadrilateral (connecting the 4 metropolitan cities Delhi–Kolkatta–Chennai–Mumbai), the North–South corridor (Srinagar–Kanyakumari) and the East–West corridor (Silchar–Porbandar).

Besides, efforts are also on for building of roads for Tier II and III cities and also for villages under the Pradhan Mantri Gramin Sadak Yojana (PMGSY) scheme.

The government, having realized that benefits of increased growth has not been reaching the people and hence now discontinued using nomenclature of 'development' and has replaced it by the term 'inclusive growth'.

It is not a new concept but only how development is now being viewed by the government. The earlier belief was that for development to take place, growth was a necessary condition. The changed notion of inclusive growth is that any growth should benefit the people by and large which means that the benefits of growth should be more broad-based, should have an orientation towards 'masses' and not only 'classes'. Thus, inclusive growth has both growth and development as components, not to be seen as separate, but viewed as together, today and also in the future.

Inclusivity would imply more equitable distribution of the gains achieved through higher growth. But, equitable distribution is not about equal distribution in an economy, arithmetically. This is possible only in theory. Equitable distribution is all about 'fair and just share' for the masses, especially the poor. It is not about the rich getting richer, as long as the poor are also moving up the ladder in terms of income and welfare, even though less proportionately than the privileged sections of the economy.

As long as both the subsets in an economy are moving up in the same direction, have means of livelihood, are economically better off and their basic needs are met, the objective of equitable distribution is being achieved. Hence, inequitable distribution would mean the rich getting richer and the poor remaining poor, or the worse, still becoming poorer.

As we have been discussing that inclusive growth is oriented towards masses, what should inclusive growth give? or when can we say that growth has become inclusive and begun to deliver?

Inclusive growth should lead to:

(1) Employment opportunities for the masses at the entry level, providing livelihood, means of income, increasing their purchasing power and improving their 'well-beingness'. This should result in reducing absolute poverty levels.
(2) Reduction of inter-/intra-regional imbalances.
(3) Create opportunities for skill development/formation.
(4) Better dispersal of industries.
(5) Increased agro-based industries.
(6) A gradual shift away from the excessive economic dependence on the agricultural sector through employment-driven and positive migration.
(7) Increased vocational employment (carpentry, repairs to cars/scooters/TV/mobiles, gardening, etc.).

Inclusive growth would also require a changed perception of both the central government and also the state governments, working in tandem, by creating an 'enabling environment' for the above deliverables.

Such an environment would require the following:

(1) Pan-India road/rail links which would link the entire country and provide accessibility and affordable faster mode of transport for people and goods.
(2) Providing accessibility and affordability to public services (primary health care and education), public utilities (electricity, drinking water and sanitation) and public goods (social assets like community centres, etc.).
(3) Re-energizing the Industrial Training Institutes (ITIs) for skill development.
(4) Policy framework conducive for investment by private sector (something like Tata Motors for their NANO car project in Gujarat).
(5) Focus on directly creating employment opportunities. The government has already launched Mahatma Gandhi National Rural Employment Guarantee Scheme, which provides employment for 100 days to one member from every poor family/household in every district of the country.

The creation of the enabling environment by the government is a key prerequisite, which would largely determine India's ability to achieve inclusive growth in future. Growth and development or inclusive growth has always been an avowed objective of the government since independence. The difference today is not in the objective but the manner in which it is being sought to be achieved.

Earlier, the government had taken up, both the responsibilities of increasing growth and equitable distribution, and spread scarce resources across both resulting in the dilution of efforts and achieving neither growth nor equitable distribution.

The reforms of 1991 mark a change in the strategy of letting the private sector play a major responsibility in the investment and growth while on the other hand the government would concentrate on the welfare measures and create the enabling environment for desired inclusive growth of the economy in future. This is also based on the fact that more and better growth by the private sector would mean larger tax revenue base for the government which would enable the government in expanding the social sector interventions as a way of redistribution to the people.

Inclusive growth is not a new concept and is said to be a combination of both, what was earlier known as growth, development and equitable distribution, all rolled into a new terminology known as inclusive growth, specific and unique to India.

In future, the challenge would lie not in achieving a higher growth but to provide greater inclusivity, more broad-based, which benefits the masses. Inclusive growth was a challenge as identified by the eleventh five-year plan only to become a larger challenge in the twelfth five-year plan.