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# **Growth and Development..... Inclusive Growth**

## **What went wrong with Development?**

**Justine George<sup>i</sup>**

### **Abstract**

*This paper critically reviews the debate of 'growth and development' since 1950 in order to place and conceptualize the term inclusive growth. The paper argues that the basic objective of inclusive growth is the smooth functioning of nation state and to avoid socio economic and political unrest and it seems that the inherent agenda is to maintain conventional economic growth structure without breaking its persistent momentum. Moreover, the paper described a development strategy for developing countries by considering various empirical and theoretical evidences and it concludes by arguing that, it is very difficult to achieve the developmental outcomes without breaking the conventional growth structure.*

Key words: Inclusive growth, Growth and development

### **I) Introduction**

Inclusion is one of the most important words spoken with regard to diversity. But the most frequent spoken word among them could be inclusive growth. Inclusive growth basically means making sure everyone is included in growth, regardless of their economic class, gender, sex, disability and religion. However, inclusive growth is relatively new jargon that has got significant place in the literature on growth and development and the term 'inclusive growth' has mainly introduced and propagated by World Bank during initial years of 21st century. While we get into the debate of growth and development, the years immediately after Second World War was the starting point and it has been continuing intensively without having a consensus among different schools of thought. Inclusive growth is the latest development in the debates of 'growth and development'. The issue of 'growth and development' is still relevant because the most of the countries especially developing nations are now running behind practice of inclusive growth policies in order to make the economic growth as an inclusive one. It is interesting to note, the attainment inclusive growth is the main objective of United Progressive Alliance (UPA) in India, holding power in India's center government since 2004-05. This Paper critically reviews the evolution of debates in a coherent manner in order to place and conceptualize the term inclusive growth. The Paper is

structured into five sections. Section two reviews each development debates and the section three compares Pro Poor growth and inclusive growth. Section four formulated a development strategy for under developed countries and it followed by conclusion.

## **II) Growth and development debates since 1950's**

In the early 1950s, major consensus on the issue of growth and development was centered and settled on the theories of Kuznets and Solow. Kuznets theoretical expectation was that inequality in the distribution of income tends to deteriorate in the early stage of growth process however inequality will get reduce when growth staggers momentum (Kuznets, 1955). In his classical paper 1956, Solow argued that the differences in the per capita income of different countries would converge in the long run because of the equalization of marginal returns to factors of production. However, both theorists have shared more or less same view about development. They have expected, development will achieve automatically through any growth process and they presume different kinds of growth will have same developmental effect. Suppose, if the growth in the particular country is centered on basic and key industries would generate same developmental effect as if growth based on small and medium scale industries. Trickle down effect was the main logic they had used to explain the flow of benefits of growth to all class layers of people including poor. It implies a vertical flow from the rich to the poor that happens of its own accord. The benefits of economic growth go to the rich first, and then in the second round the poor begin to benefit when the rich start spending their gains. Thus, the poor benefit from economic growth only indirectly through a vertical flow from the rich. It implies that the proportional benefits of growth going to the poor will always be less. The incidence of poverty can diminish with growth even if the poor receive only a small fraction of total benefits.

That is the basic development notion which was existed in the 1950's and the belief lasted up to early 1970s. They argued that the 'development' will assume to attain in any growth process, with a time lag due to the so called 'trickledown effect'. Therefore they argued, during initial growth experience of a country, inequality would tend to increase but however when the growth staggers momentum inequality would come down. This school of thought strongly believed that the initial worsening of income distribution was perceived as the necessary outcome, which will of course facilitate the growth process. Keynesianism is the economic theory that provided the justification to the growth fundamentalism. Keynesians

thought only rich are capable of increasing the pace of initial economic growth due to their high capacity of saving and they justified the initial temporary inequality for the better growth in future (Filho, 2010)

Thus the notion of development during that period was linked to modernization, which means all countries have to undergo the same kind of growth process to achieve development and it underpinned by Keynesianism, which seems to be elementary version of welfarism. In methodological sense, development was viewed as highly inductive which means that development involved a transition through modernization to the ideal type of advanced capitalism most notably represented by the five stages of economic growth propagated by Rostow. The role of 'state' in the development process was higher in those periods and that was mainly due to the strong influence of Keynesian school. Development policy was perceived to require a state co-ordination of large scale investment irrespective of each country. In such a growth process, private sector is assumed to play a passive role and they also expected to work along with government to achieve development outcomes. Such Coordinated efforts will lead to employment creation, rapid economic growth and macroeconomic stability. Poverty reduction or any other important developmental outcome is often viewed as the indirect product of growth. Therefore, they hadn't insisted any deliberate action for development.

Attacks to above notion of development started in the late 1960. The basic fuelling factor was due to some clear empirical evidence which stood against the earlier notion of growth and development. Main empirical puzzle was the sustained increase in the poverty and inequality along with the rapid economic growth of few countries. This puzzle was against the theoretical expectation of various growth theories. The growth experience of Brazil during 1970's added 'fuel to the fire'. Four decades of rapid economic growth of Brazil had not only failed to improve the income distribution but also further worsened the income distribution and poverty.

However, during the mid 1970 general consensus had emerged among the various nations and surprisingly even at the World Bank level regarding the growth and development. Famous work published by World Bank (Chenery et al, 1974) raises the skepticism regarding big push project as a solution to problem of poverty and inequality. The basic logic highlighted was that under the normal situation rich are actually controls the vast majority of

national income and power. Naturally, the subsequent growth strategy would always favor rich more than the poor.

Another major shift in the notion of growth and development has been associated with the rise of monetarism in the end of 1970. Monetarist support to the neo-liberalist view of development emerged as a major consensus in the early 1980s and the view was further supported by the practice of neo-liberalism in the UK and US during the early 1980s. According to them, major obstacles for lack of development in a country are attributed to factors such as the presence of state, corruption, and rent seeking. Therefore, in such a view of development, there has not been any need for any kind of redistribution. They strongly believed that redistribution programs will generate inefficiency in the system and some time it may work against the smooth achievement of the development target. To be more precise, they argued that the absence of an efficient market was the main reason for underdevelopment in developing countries and it is also attributed to various misguided economic incentives. Instead of state, they placed the role of the market for industrial development, employment creation, and also for realizing various developmental outcomes. They believed that the attainment of development will be automatic and direct if a country follows appropriate economic incentives, abolishes government interventions, and achieves better flexibility in the labor markets. Therefore, deliberate actions such as poverty alleviation programs and income redistribution policies are often viewed as anti-growth and inefficiency-generating activities. In their view, poverty reduction in a country has to be achieved with the trickle-down effect. This orthodox view about development is the main reason why the World Bank has been imposing stringent conditions for its loans to underdeveloped countries. Conditionality is centered on the objective of increasing the role of the market and the reduction of state intervention and also improving the fiscal matters of those affected countries.

Another milestone in the debates on growth and development was originated after the 1990s and it found as a mere refinement over the earlier notion of development. Like the past, the refined notion of developmentalism was also originated due to some empirical evidence from cross-country studies as well as some successful growth experiences of a few countries. For instance, the growth experience of East Asian countries (Japan, South Korea, Hong Kong, Taiwan, and Singapore) and the latest growth experience of China, Malaysia, Indonesia, and Vietnam contradicted the earlier wisdom on growth and development. Their success stories tied

with strong state, protectionism and directed finance unlike other nation states. Thus the development notion existed in the beginning of 1990s was basically a product of post Washington consensus because it was a minor refinement over earlier notion of growth and development (earlier notion was centered on the outcome of Washington consensus). New notion of development gave an alternative explanation for the underdevelopment. They argued for development of better institutions in under developed countries and those efficient institutions will help the market to work smoothly without having any failure. Therefore they have prescribed for an improvement of various institutions such as property right, family structure, and urbanization work pattern for realizing development targets in less developed countries. Though, these schools of thought have shown some departure from earlier belief with regard to attainment of development, however their foundations were based on market fundamentalism. For them, lack of development is mainly attributed to the prevalence of bad institutions. But there has not been any change in the recommendation of macroeconomic policies and it had shared same beliefs of earlier school. In a departure, surprisingly they had believed some sorts of deliberate actions are necessary to improve the condition of health, education and other social services.

### **Pro poor growth approach**

The notion of pro poor growth was another important milestone in the debates of growth development and the debates about pro poor approach got intensified in the beginning of 21st century. Theoretical contribution to this approach was contributed by post Keynesians, institutionalist, Marxist and structuralist schools. The ADB's *Fighting Poverty in Asia and the Pacific: The Poverty Reduction Strategy* (ADB 1999, 6) indicates that "growth is pro-poor when it is labor absorbing and accompanied by policies and programs that mitigate inequalities and facilitate income and employment generation for the poor, particularly women and other traditionally excluded groups."

Pro poor development strategy is based on two principles: - First, the elimination of poverty should be the main priority of government. Second, growth is said to be pro poor if the benefit of growth must go more into the poor people than rich. It means that growth is pro poor when it reduces both relative as well as absolute poverty. In their growth philosophy, poverty reduction was the main concern of growth and the selected growth process is expected to reduce massive poverty. These school of thought believed the direct way of

poverty reduction is much effective than the indirect way. Moreover these schools highly skeptical about realizing equity in the distribution of benefits from high growth in economy and they are strongly believed that different kind of growth will not deliver same benefits to all categories of people. Therefore the pro poor growth approach needs to be linked with the selection of mode of production, technology in the home country. In nutshell, they argued that each country should depend more on abundant factor of production in the growth process relative to scarce factors. Such a depended growth process would benefit more people if it uses more labour intensive technology when the country has the labour as an abundant factor. This growth strategy is so relevant for developing countries because labour seems to be abundant factor of production for these countries. With this approach, one country can easily attain redistribution and maximum social welfare in direct way and need not have to wait trickledown to clear those developmental problems. However, selection of development policies is important for pro poor growth and proponents of this approach argued that selection of developmental policies should be select through democratic way and not in a populist way. Democratization is essential part of policy making, however in the absence of any proper democratization might have result the problem of implementation and also can generate concentration of benefits among few people. Despite the merits, pro poor approach has suffered due to the lack of focus on macroeconomic stability; they considered macro stability as secondary objectives. This is found to be the serious defect of pro poor approach because in the world of open economy any country can't sustain for a long period by just practicing pro poor model without having a proper macroeconomic policies.

Lack of focus of some aspects in pro poor growth gradually faded the concept of pro poor growth and had reached new stage in the growth debate i.e. inclusive growth. Inclusive growth refers to the pace and pattern of growth which are considered interlinked and therefore it need to be address together. Inclusive growth approach takes on long term perspective and the focus is on productive employment rather than merely direct income redistribution as a means of increasing income for excluded groups. Thus inclusive growth approach took a long term perspective of development. According to World Bank, the growth said to be inclusive when the growth to be sustainable in long run and it should be broad based across the sector and inclusive of large part of countries labour force. Inclusiveness should understand in the sense and focusing on equality of opportunity in terms access to markets, resources and unbiased regulatory environment for business and individual. The

main objective of inclusive growth propaganda is to sustain the pace of growth for long term without hurting its momentum. The theoretical understanding of inclusive growth seems to be inductive in nature. That means it incorporates carefully selected insights from the developmental debates. But dilemma in the inclusive growth is that on the one hand its policies are more or less similar to the policies prescribed by post Washington consensus and in another hand it has necessitated a strong presence of government for facilitating growth. Unfortunately, there has not been any discussion of redistribution under the inclusive growth philosophy. They presume that the resulted growth due to inclusive growth policies would benefit all sorts of people in equal manner. They are mainly concerned with the absolute poverty rather than relative poverty in which both were the main focus of pro poor growth.

### **III) Pro poor growth versus inclusive growth**

Both pro poor and inclusive growth are the most reasoned development and shared many similarities. But in deeper sense both the concepts of growth are entirely different. For instance, the main objective of pro poor growth is to reduce of absolute and relative poverty in which macroeconomic stability considered as the secondary objectives. Therefore under the pro poor growth, reducing inequality was the main concern of growth process but there has not been much consideration for increasing in the rate of growth of GDP. On the other hand, inclusive growth presumes any kind of growth is good. But basic recognition was that different types of growth will have different distributive effect. Therefore they are more concerned with the attainment of quality and justice in the growth process. Such a proposed growth structure expected to be broad based and it must not concentrate in any few sectors. More specifically they argue for equal opportunity to all irrespective of their social and economic background. But the growth process under inclusive growth paradigm may have the chance to generate unequal opportunities as well, because under the inclusive growth there has not been much change in the notion of growth. Only thing they are propagating the growth should be broad based and it must not concentrated among few sector. Without changing the growth structure how can we achieve real equality of opportunities? Under Inclusive growth, there has not been any consideration of redistribution of growth and they presume the growth itself will generate a situation that won't generate any need for redistribution. If this is the case, then what is the difference between inclusive growth and earlier versions of growth? Further, sustainability of pro poor growth may not stand in the



long run due to the lack of focus on macroeconomic policy in which it is essential for any country in the current open economy. Inclusive growth paradigm following more or less similar macroeconomic policy propagated by post Washington consensus. Therefore under inclusive growth paradigm, the policies which are directed to improve the benefit of poor people may not materialize if there has not been any supportive macro economic policy.

#### **IV) New Development Strategy for developing countries**

Earlier sections clearly highlight the pros and cons of different development paradigms and tried to contextualize the socio political and economic notion about each debates. The basic objective of this section is to develop a strategy for developing countries by considers the factors such as section of growth process, income inequality, macro economic stability, poverty reduction program and employment generation (both in terms of quality and in terms of number). Selection of growth process is the first and foremost step and there will be more desirable development outcome if country follows comparative advantage supporting strategy. Comparative advantage supporting strategy means the country must select those growth processes which should use more on countries abundant factor rather than its scares factor. In most of the developing counties, labour is an abundant factors where as the capital is always a scares factor. Therefore under developed country must develop appropriate technology for the growth process and that technology must have the capability to employ more labour than capital. Such growth process would address development problems such as poverty reduction, inequality, redistribution implicitly through the growth process. However, many of the common wealth countries had not had these kind of believes after getting independence from the colonial powers. Many of them were in deep dilemma about the selection of growth path and also not clear about the notion of development. Flourishing the ‘modernization school in 1950s’ with the help of United States of America, convinced many countries that the way which America and developed nations had followed is the model path to development. Most of the newly independent countries especially after 1950 including India followed a particular growth strategy which was based on high capital intensive and viewed various developmental outcome such as poverty reduction, inequality, employment creation would achieved automatically through the growth process and trickle down is the mechanism that expected to play a great role in achieving those development outcomes. In recent period, not only left school of development but also

even so called right school is high special about the development capability of trickledown effect.

The development strategy which we have mentioned earlier in the above expected to solve macro economic instability in under developed countries. Major problem of under developing countries is found to be centered on Balance of Payment (BoP) problems. Many of the underdeveloped countries, BoP problem originates due the particular growth strategy which they had been selected after the independence. Growth strategy for those countries involved both 'inward looking' and based on basic and key industries. For getting technology and capital for such a capitalist growth process, they had forced to import capital goods from other countries and finally remained a situation of having anything to export. This normally leads to BoP problems which normally had necessitated those counties to depend on IMF and other international institutional for getting so called conditional grants. But in the new growth strategy which we have proposed will expect to generate more surpluses for export but it would necessitate only fewer imports. In such a growth strategy, the most selected sector would be agriculture because it the sector where the most of the labor forces are absorbed in the underdeveloped countries. The sectors which employs relatively less labour forces must give a lesser weightages as compared to labour absorbing sector like agriculture. Suppose, if we had considers those factors in the growth process, would have expected to solve many developmental problems. Further, the growth strategy would not only reduce absolute poverty but also address the problem of relative poverty. Inclusive growth mainly addresses the problem of absolute poverty or the absolute improvement of poor which is indispensable for maintaining the sustainability of conventional growth process. In the absence any absolute improvement for mass section people, might have result socio economic and political instability and finally it could break the conventional growth process.

Therefore we would argue, for an ideal development strategy, we should focus both absolute and relative poverty in equal manner. First sufficient condition is to change the structure of growth which of course necessitates strong state action. Adoption of proper democratization for selecting each developmental program is the second essential condition for achieving better developmental outcome.

## **V) Conclusion**

The paper broadly discussed the debate of growth and development in the world since 1950 and tried to contextualize the term inclusive growth, the new adjective that has appeared with growth. The paper formulates a development strategy for developing countries mainly through coordinating and considering earlier notions of development. We argue, there must be some broad framework is necessary to resolve the debates of growth and development and such a strategy must consider the issue of growth and developmental in direct way and the growth process for any country must depend more on countries abundant factor relative to the scares factor. Application of such strategy will address absolute and relative poverty in direct way. However, inclusive growth will address only absolute poverty and there has not been any attempt to remove the relative poverty. 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. Thus the basic objective of inclusive growth is to maintain conventional growth structure without breaking it. To conclude, it is clear that without breaking the growth structure then it is difficult to achieve the developmental outcomes.

**Thank You ☺**

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