Inclusive Growth under India's Neo-liberal Regime: Towards an Exposition

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Ever since the Eleventh Five Year Plan, India is trying to pursue an inclusive growth strategy. There is, however, much vagueness with regard to the content and intent of so-called inclusive growth. The present paper attempts at exploring the possible content and intent of India's inclusive growth and exposes some critical inconsistencies underlying it. The paper then traces the source of such inconsistencies and shows how such inconsistencies have their roots in the country's neo-liberal policies.

The term *inclusive growth* and the discourse around it in India have suddenly gained currency since the approach paper to the Eleventh Five Year Plan has been titled as "Towards Faster and More Inclusive Growth" (GoI, 2006). It advocates that rapid growth is essential for the country on two accounts – first, "it is *only* in a rapidly growing economy that we can expect to sufficiently raise the incomes of the mass of our population to bring about a general improvement in living conditions"; and second, "rapid growth is *necessary* to generate the resources needed to provide basic services to all" (ibid, p.2, emphasis added). While both of these propositions can legitimately be questioned for their "unrealistic assumptions" and "problematic theoretical underpinnings" (Patnaik, 2006; 2011), it is, nevertheless, required to understand how Indian planners have conceptualised the notion of inclusive growth in the plan document that followed by examining its broad contours and diverse shades and, more importantly, its *intent* from the political-economy perspective. This paper makes a preliminary attempt at attending to the "content" and "intent" of India's inclusive growth strategy, and also tries to offer some *general* observations.

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The paper begins by tracing and locating the "official" version of *inclusive growth* and the strategy to achieve this, followed by a discussion on its possible interpretations as proposed by myriad individuals and agencies. The paper then presents some facts related to both the versions viz. the "official" and the other - to show that the strategy of inclusive growth pursued in India runs the risk of serious flaws. The paper concludes by hinting at the sources of such flaws and the possible neo-liberal intent responsible for them.

Official Version

It is intriguing, indeed, to note that notwithstanding the overarching fad with the idea of inclusive growth, the 11th plan document has remained, somehow, conspicuously obscure in terms of its "actual" content. The document recognises the "impressive growth performance of Indian economy" and feels that the performance has "overcome the cyclicality" and, thus, is on a sustainable path (GoI, 2007: p.1). However, the plan document also observes that "a major weakness in the economy is that the growth is not perceived as being sufficiently 'inclusive' for many groups, especially Scheduled Castes (SCs), Scheduled Tribes (STs), and minorities". It is further admitted that "gender inequality also remains a pervasive problem" and "some of the structural changes taking place have an adverse effect on women" (ibid: p1). The document, therefore, candidly confesses that despite commendable growth performances, there is lack of inclusiveness on several dimensions; and, hence, aims at making the growth "more inclusive".

Notwithstanding a complete chapter on inclusive growth in the plan document, no "specific definition" is provided as to what constitutes so-called "inclusive growth" as such. One can, nevertheless, trace *likely* elements of inclusion in the plan document and possibly bind them together to obtain the broad contour and vision of the *official* meaning of the term. The chapter talks of, inter alia, "broad-based improvement in quality of life of the people, especially the poor, SC/ST and other backward castes (OBC), minority and women" (ibid: p.2). It then refers to inclusive growth as "process which yields broad-based benefits and ensures equality of opportunity for all" (ibid: p.2). The basket of "benefits" and "opportunities", it seems, includes poverty reduction, employment creation, better access to essential services like education and health, improved connectivity, enhanced opportunity for upward mobility to all sections and above all good governance. It is not difficult to see that central to this vision is the acknowledgement that growth "should not be treated as an end in itself, but only as a means to an end" (ibid:

p.23). This is best done, according to the plan document, by adopting monitorable targets which would reflect "multi-dimensional economic and social objectives of inclusive growth" (ibid: p.23). The plan, therefore, identifies 27 monitorable targets in its pursuit for inclusive growth in the country as a whole, and 13 more to monitor the progress of inclusive growth at the state level. The 27 monitorable targets, so proposed, are classified into six categories viz. income and poverty, education, health, women and children, infrastructure, and environment. The, strategy outlined, accordingly, is to "bridge the divides" or "redress inequality" across various dimensions – spatial, gender, caste and category; the idea behind is that more the *gap* is *reduced*, more is the *inclusion* achieved.

The 12th plan approach also maintains similar position regarding the idea of inclusive growth. The proposed approach paper of the 12th plan retains the objective of "accelerated and more inclusive growth" for the period 2012-2017. It seems that the planning commission continues to be concerned with the "multidimensionality of inclusion" and tries to evaluate achievements of 11th plan in terms of poverty reduction, agricultural growth, access to basic services, gap between the marginal communities and the rest, inequality in consumption so on (Ahluwalia, 2011).

Very recently, the Economic Survey 2010-11 has provided interesting "micro-foundations of inclusive growth" (p.21). It has echoed almost the same concerns stated above and reiterated that in order that growth becomes inclusive, its "gains" were to be shared "widely" (p.22). It has tried to articulate a "sharper form" of "gains" in terms of the "progress of the poorest segment, for instance, bottom 20 percent of population". It has been postulated that if the per capita income of the bottom quintile is growing faster, then the growth process *necessarily* has to be *inclusive*. The Survey, further, has declared that the policy discussions in the country though do not "explicitly refer to", but are, in fact, "inspired by" this idea of "inclusive growth" (p.22).

It is important here to recall that the 11th plan document categorically mentioned that the kind of inclusive growth which is envisaged by the planners requires an "environment" wherein "the economy is much more integrated into the global economy". The "micro-economic foundations" offered necessitates such "environment" to have an "*enabling* government". The projected idea of an enabling state is that "it does not try to directly deliver to citizens everything they need". Instead, it creates an "enabling ethos for the *market* so that individual enterprise can flourish and citizens can mutually cater to the needs of one another. An enabling state is mandated to step in to help *only* those who do not *manage* to do well for themselves (Economic Survey 2010-11, p. 23). The departure in the statecraft in this new policy regime is underlined by the important fact that when in doubt regarding any voluntary exchange or transaction, an *enabling* state simply *does not act*, whereas, earlier the *interventionist* state used to *prevent* it (ibid: p24).

We may, therefore, summarise the "official version" of the inclusive growth and its strategy this way: inclusive growth is a rather amorphous concept in India encompassing almost every single perspective, attribute and dimension. In fact, it is a curious blend of diverse stances, *mostly* opaque and arbitrary. It is, somehow, based on the assumption of positive growth elasticity of poverty. It is generally concerned with the multi-dimensional divides (or inequalities) in the society which needs to be bridged by targeted public spending. This, in turn, calls for constantly increasing government resources which can come only through faster growth. In order that such faster growth is realised, the state must behave as an enabling state and economy needs to be integrated into world economy. The simple logic of this strategy is allowing the growth to take its own course, and if it creates divides, then the state should try bridging them via targeted subventions with the belief that resources required would be generated by the growth process itself. How this official understanding of inclusive growth seriously lacks in perspective and clear focus, and so, remains deficient in terms of effective strategy is briefly discussed below.

Possible Interpretations

Academic discussions relating to so-called inclusive growth, in fact, have started during the last decade or so with a meteoric rise around 2006 onwards. It is noteworthy that most of these discussions emanated, directly or indirectly, from organisations and agencies like Asian Development Bank, World Bank, IMF and UNDP (Klasen, 2010; Datt and Ravallian, 2009; Rauniyar and Kanbur, 2009; Habito, 2009; Ali and Son, 2007; Mody, 2005). There are, however, individual scholars as well, debating the issue of inclusive growth (Thorat, 2011; Datta, 2010; Suryanarayana, 2008; Bhalla, 2007). Major approaches to interpreting inclusive growth presented by this wide array of literature can be summed up as under:

The economic growth, technically, refers to increase in output (i.e. total production of goods and services) and/or income (when measured in money value). Notwithstanding the constricted scope of this well-known definition, it implies that inclusive growth is a sub-set of it since not all growth episodes are inclusive. Characterisation of the qualifying sub-set has been attempted from two perspectives – one from the *process* involved in the growth and the other is the *outcome* thereof. Although entwined, one needs to distinguish these for their specific policy implications; something seems to be missing in the *official* understanding of the term.

Inclusive growth, from the *process* point of view, requires greater *employment* of inputs in the growth process. Obviously, growth is possible even without augmenting employment, provided *productivity* improves, but *such process* clearly does not qualify as *inclusive*. In a limited sense inclusive growth resembles *broad-based growth* as the planning commission maintains, but, in reality, goes beyond it. The term "inclusive" carries with it a notion of *non-discrimination*, which broad-based growth does not take into account. This has, evidently, immediate policy implication for affirmative actions. This also entails "equality of opportunity" in terms of *employment* or *productive participation* by different sections of people.

Aligned to this, idea of "social opportunity function", similar to that of social welfare function, has been offered for examining *inclusiveness* (Ali and Son, 2007). It is argued, social opportunity function depends on two things – average opportunity available to the population and how opportunities are shared by the population. Maximisation of the social opportunity function should produce maximum inclusiveness such that greater weights are attached to opportunities enjoyed by the *disadvantaged*. This simply means that if the opportunity enjoyed by an individual is transferred to a relatively disadvantaged person then social opportunity must increase, thus making growth more inclusive. This idea, in fact, is found to be akin to that of Bonferroni developed as early as 1930 (Silber and Son, 2010).

Looking at the *outcome* perspective, inclusive growth will imply that the "growth" benefits many people. Now benefit of growth can come in array of possibilities including more *income* and/or more *opportunities*. This option is closer to the concept of *pro-poor* growth. In *absolute* sense, pro-poor growth refers to increase in income of the poor, while in *relative* sense it refers to *faster* growth of income of the poor. The latter is, therefore, accompanied by declining income inequality. It is important to realise that both should invoke different policy responses – interpreted in absolute term the strategy would be simply *poverty reduction*, construed in relative term the strategy would be *redressing inequality*. Most importantly, the second also allows income of the non-poor to grow which is vital in maintaining aggregate demand providing growth impetus to the economy. The perspectives of inclusive growth presented here can be extended to cover non-income aspects too, and if so done, the notion will transcend to that of inclusive development. We, however, limit ourselves to the former only.

It should, thus, be clear that the "official" notion of inclusive growth is a mixed-bag, referring to all sorts of *views* ranging from "broad-based" to "pro-poor" and, therefore, lacks clear perspective. It may also be seen that attributes like *income* and *opportunity* can be attended to both from the "process" and "outcome" standpoints, each requiring differential policy treatments. In absence of any explicit perspective, results derived by sort of "confused" strategy are bound to be underprovided.

Recent Empirics on Inclusion

Let us now turn to some facts. Most remarkable "achievement" of India's growth performance has been "projected" as the secular decline in the country's overall poverty rates. As per the planning commission's estimate India's poverty has gone down significantly from 45.3 percent to 37.2 percent during 1993-94 and 2004-05 (by Tendulkar method). The tentative estimate for 2009-2010 has been put at 32.2 percent. Going by the pro-poor growth perspective, in absolute sense, India's growth can be surely termed as "inclusive". However, multi-dimensional divides in poverty rates make this decline non-inclusive still. For instances, as per the 2004-05 data rural poverty is about one and half times of the urban poverty (data for 2009-10 still under processing). Divides are also prominent across socio-religious groups – among ST it is 44.7, among SC 37.1, among Hindus 28 and among Muslims 33 percent (Thorat, 2011). Nevertheless, gaps are *believed* to be narrowing apparently indicating greater inclusiveness. For example, the rural-urban poverty gap has reduced from 18.3 in 1993-94 to 16.1 in 2004-05.

Along with poverty, one may also pick-up couple of "monitorable" indicators, which mostly relate to *outcome* rather than the *process* of growth to examine the extent of inclusiveness. For instance, let us take indicators of Infant Mortality Rate (IMR) and Gross Enrolment Ratio (GER), say, at upper-primary level. It will be seen that the IMR has declined from 58 to 50 during 2004-2009. Notwithstanding, there exists an evident gulf between rural and urban as rural IMR is 55 and urban IMR is 34 in 2009. In 2004, the rural IMR was 64 while urban IMR was 40. It is popularly viewed that the rural urban gap, therefore, has reduced from 24 to 21. Needless to point out, through, gaps also exist along other dimensions such as gender or social groups. Coming to the GER, one would find that in 2004-05 the rate was 69.9, which has risen to 77.5 in 2008. Nevertheless, clear gap is seen among boys and girls – rate for boys is 77.0 and that for girls is 69.5 in 2008 which was 74.3 and 65.1 respectively in 2004-05.

The data on employment, on the other hand, depicts a disastrous picture. Recently released 66th round NSSO data on employment shows clear deceleration in aggregate employment between 2004-05 and 2009-10, a period proclaimed as a period of inclusive growth. The first point that is revealed by the data is that there is virtually no increase in employment opportunities during the period. The total employment has grown during the period just by about half a million against the promise of 58 million during the 11th plan period. The rate of employment growth has been mere 0.83 percent against the previous rate of 2.66 percent during 1999-2000 to 2004-05. The most strikingly, the deceleration is all pervasive and in case of females, employment the rate, in fact, is negative, both in rural and urban areas. The deceleration is prominent in non-agricultural activities. The result portrays a situation of so-called "jobless growth", and, placed in an awkward situation, the government has come down heavily on the NSSO alleging it of adopting "faulty methodology".

Scholars have pointed out two possible explanations for the present employment scenario in the country - first, it is held that the observed deceleration is partly due to educational preference of youths belonging to 15 to 24 age groups (Ghosh and Chandrasekhar, 2011). Second, the slow down in the labour market is due to present recession leading to depressing exports, which are mostly women labour oriented (Chowdhury, 2011). There, however, also prevails scepticism that the decline in female labour force participation rate across all age-groups indicates some fundamentally exclusionary character of present growth process against women (ibid: p. 24).

It is, thus, obvious that notwithstanding the "positives" in *outcome* indicators, there is hardly any "positive" in the *process* term in the so-called inclusive growth regime in India. Given the fact that labour force was assumed to grow at 1.92 percent during the 11th plan period, one can easily imagine the employment scenario with meagre 0.8 percent employment growth during the period. The immediate outcome of this is an ever increasing "labour-reserve" in the country, which is left excluded. Situation is predictably going to worsen when those within the age group of 15 – 24 will start seeking employment after completing education coupled with the constantly increasing labour-reserve.

How does one reconcile these two opposite trends both supposed to be reflecting the same inclusive growth? If on process side the present growth process is exhibiting vividly exclusionary character then how come "inclusive features" are generated on the outcome front? Very briefly, the sources of this fallacy are given below.

Sources of Fallacy

The first source of the fallacy lies in the *methodology* of measuring the so-called "inclusiveness" of the outcomes itself. A careful look will reveal that this essentially entails measurement of group-differentials. Any measure of evaluating socio-economic indicators that compare two sub-groups over two situations should exhibit some sensitivity to their *levels*. Analogous to the "transfer-sensitivity" property of poverty indices, any measure of group-differential should also indicate that: "a given hiatus between two groups should acquire a greater salience the lower (if failure indicator)/higher (if attainment indicator) the level at which the hiatus arises" (Mishra and Subramaniam, 2006). A class of measures that satisfies a set of desirable properties has been proposed for both failure and success indicators by Nathan and Mishra (2010). The following two measures fulfil all the desirable properties (see ibid for details) and hence, may be used:

For attainment indicator (i.e. more is better)

$(I_a – I_b)/(1-I_b/2)$; and

For failure indicator (i.e. less is better)

$1-(I_b/I_a)$; where *a* and *b* are sub-groups, and I is the chosen indicator such that, I_b is non-zero

Let us now examine the *outcome* indicators used earlier viz. poverty rate, infant mortality rate and the gross enrolment rate. The following is the table of measurements across the sub-groups over two different periods.

Indicator (I) and Sub-group	Type of Indicator	Period 1		Period 2		Period 1 Differential	Period 2 Differential
		a	b	a	b		
Poverty Rate	Failure	50.10	31.80	41.80	25.70	0.365	0.385
IMR	Failure	64.00	40.00	55.00	34.00	0.375	0.382
GER	Success	65.10	74.30	69.50	77.00	0.254	0.200

The results demonstrate that trend is not so "inclusive" as it has been popularly perceived and projected. The source of this perceived fallacy lies in extreme reductionism regarding the measure of inclusiveness as simple subtraction, which is not at all "level-sensitive" and which is unable to distinguish between "success" and "failure" *outcomes*. As a result, more often than not, it simplistically tends to overestimate so-called inclusiveness and breeds a false sense of complacency amongst people in general, and amongst those around the policy circle. We will see in conclusion how this sense of complacency helps in furthering and continuing with the status-quo.

Second source of fallacy relates to the official poverty figures itself. The secular decline in poverty has widely been alleged as "doctored". This is simply because proclaimed decline in poverty rate is not corroborated by other facts. For instance, growth in agriculture, which is the mainstay of about 75 percent of population, has been minimal - hovering around paltry 2 percent for a long time, aggregate employment is decelerating as shown above, then what could be the possible source of decline in poverty rates. It has been held that the decline shown by the Planning Commission is methodologically faulty: it updates a “poverty line” by using the Consumer Price Index for Agricultural Labourers which only partially covers the consumption basket of the labourers (Patnaik, 2006). Moreover, an essentially income poverty estimate based on consumption expenditure ignores phenomenon like "dis-savings". Therefore, the poverty, even by official standard, it is argued, has been on the rise, or at best has not declined in this so-called high-growth period. Once accepted, the two fundamental logics behind the present growth regime – reduction in poverty and reduction in unemployment – are completely falsified by facts. This is because, as scholars have argued quite emphatically that it is not the magnitude of the growth rate, but the nature of it, and hence the regime within which it occurs, that is crucial for addressing poverty and unemployment. This takes us to the third source of fallacy.

The third source is contained in the stylised relationship between employment and growth and its basic tenets. The stylised theory requires that more labour entering into the production function together with the capital *stock* at a particular point of time should produce growth. It typically assumes productivity of labour as *datum*. It ignores the possibility of non-using up of ever increasing "labour reserves", thus, making the process vulnerable to an in-built source of inequality. When growth process necessitates increasing demand for *products* which entails production system biased towards technology and highly productive labour, the rate of growth of labour demand does not necessarily exceed the rate of growth of labour supply. Clearly, linking employment with the growth *process* needs a perspective which must be translated into policy if growth process is to beget employment at all. Any growth strategy for India, therefore, if it is to address the basic social needs, must be capable of rapidly absorbing the ever expanding labour reserves. Herein, lies the need for a growth strategy stimulated by an expansion of agriculture, which, in turn, must be based on non-expropriation of the peasantry from land (Patnaik, 2011; 2009).

The discussion above highlights the centrality of employment creation to inclusive growth strategy in Indian context. The proliferation of low productivity informal or casual employment, which has grown in India in recent past during the high growth episodes, however, is not the right kind of result. The present strategy of almost "jobless growth" cannot be a long term approach to inclusive growth. The approach of bridging the divides by increased public spending on wide ranging social sector facilitated by higher growth is self-limiting on two counts – first, ever increasing unemployment will ultimately dampen the aggregate demand and shove the growth cycle into depression and second, there is a limit to public spending as well, which cannot go on for ever. This said, however, the kind of growth process obsessively pursued after “so-called” period of neo-liberal reform is *unlikely* to cause employment expansion. It is, therefore, not surprising at all that "skill development" rather than "employment creation" is receiving overriding priority in 12th plan approach. The crucial role of employment expansion, or more technically, the condition of *near* full-employment, if not absolute full-employment, in making growth process “inclusive” can be seen from certain historical facts.

Facts from History

It is both worthwhile and imperative to recount historical experiences of development practices worldwide at this point. A careful examination of these experiences would show that well-established crisis of capitalism in 1930s had resulted in some sort of "class compromise" between "capital and labour" which, in turn, has produced subsequently a political-economy organisation now referred to as "embedded liberalism". Central to the embedded liberalism was the idea that capital was to be "contained" by state imposed precincts. Scholars argue that this kind of embedded liberalism has yielded high rates of economic growth in advanced capitalist countries in 1950s and 1960s. Following the crisis that occurred in these capitalist countries during 1970s, neo-liberal project offered dis-embedding capital as the *only* panacea. The inherent class character of the neo-liberal project has been adequately discussed by David Harvey (2005). He shows in detail the conditions under which neo-liberalism emerged victorious over all possible escape-routes. The class compromise between capital and labour during 50s and 60s mentioned earlier provided grounds in many advanced capitalist countries like Italy, Spain, Portugal for communist and socialist forces to emerge strongly. These unique political-economic configurations tended to ensure a larger share of economic pie to working class at the expense of the shares of the economic elites and ruling classes. For instance, it has been shown that in the US, the share of the national income taken by top 1 percent of income earners fell from a pre-war high of 16 percent to less than 8 percent by the end of the Second World War and stayed close to that level for nearly three decades (Harvey, 2005). This could happen basically due to the kind of "tightness" the contemporary labour markets of the Europe and the US were subjected to. During the 1950s and 1960s, the unemployment rates in the Europe and the US were relatively lower than those of the 70s and 80s; Data reveal that during the 1950s and 1960s, unemployment rates in most of the European countries has remained as low as 1, 2 or 3 percent which subsequently mounted to about 16 percent in the mid 80s (Pissarides, 2003, Aldcroft, 2001). Tempting though, discussion on causes of such "tightness" in the labour market is avoided, lest there should be a digression from our main focus. It needs to be recognised that peculiar political-economy configuration referred to above was made possible by the low unemployment rates at that point of time or, in other words, by the near full employment condition implying thereby that this would not have been possible had there been a high unemployment rate as is the case that the Indian economy is witnessing presently, which, in fact, was the case even with those countries during 1970s and onwards when unemployment rate had risen enormously and political-economy configuration had altered consequently.

These historical facts notwithstanding, it is not difficult to see that while growth rates were impressively high, such decline did not matter since *absolute* size of the income share of the richest kept increasing still. But when growth slumped in the 1970s, together with falling rate of interest yielding lower dividends from investment, economic elites felt threatened. It is, therefore, may be argued that intention of a neo-liberal growth trajectory is to re-establish the hegemony of the economic elites and ruling class, usually by both acting in connivance. Harvey clearly demonstrates that benefits of revived capital accumulation have remained highly skewed under neo-liberal regime across the globe and increasing social inequality, thus, has been almost "structural" to the neo-liberal project. Evidently, therefore, the notion of inclusive growth within a neo-liberal policy regime appears to be an oxymoron, particularly at a time when unemployment rate is evidently increasing.

Conclusion

In conclusion, it is possible to argue that evident overall bewilderment regarding the idea of inclusive growth leading to misspecification of strategy to achieve it is intended to buttress neo-liberal reforms and policy in the country. Growing concern over rising inequalities on diverse fronts during the post-reform period has started capturing peoples' imagination in early 2000s. The culmination is seen during the 2004 general election when people rejected the idea of "shining India". Many started arguing that "verdict 2004 was a vote against neo-liberal economic reforms" (Chandrasekhar, 2004). The impact of the election result was felt in the stock market as well. The situation has rung a bell of alarm not only domestically but also outside. The Asian Development Bank, for instance, constituted a Group of Eminent Persons in its bid to re-structure it for overcoming the "new challenges" in "transforming Asia". In March, 2007 the Group submitted its report which suggests three basic lines of restructuring – "The *New ADB* must be much more focused, driven by three complementary strategic directions: moving *from* extensive poverty *to* supporting 'faster and more inclusive growth', *from* economic growth *to* environmentally sustainable growth, and *from* a primarily national focus *to* a regional and ultimately global focus" (ADB, 2007: p.1). While articulating importance of inclusive growth the Group takes the view:

> In many countries, rising incomes, while reducing overall poverty, have been associated with rising disparities. These disparities, left unchecked, could threaten the *fragile political consensus for economic reforms*, or even political stability. Increasingly, political leaders in Asian countries are searching for *ways to manage this challenge*, a challenge arising directly from their success in achieving growth. … The solution lies in *continuation of pro-growth* economic strategies – but with a much sharper focus on ensuring that *economic opportunities created by growth are available to all*…. (pp.13-14, emphasis added).

There is no reason to believe that India is an exception to this understanding and perception. It is, thus, clear that reference to inclusive growth is an imperative on the part of the government to finding a *way* for *managing* fragile and threatened *political consensus* to continue with the pro-growth strategy and push forward neo-liberal reforms. Obviously, the interest of the neo-liberal state is best served in keeping the concept wide open as far as possible so that discourse becomes highly accommodative. It may, therefore, be concluded that while the content of India's inclusive growth strategy is arguably misplaced, its intent is thoroughly motivated by the interests of the neo-liberal state. The fall out noticed, therefore, is hardly surprising. ■

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