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RESEARCH ARTICLE

FASTER AND SUSTAINABLE INCLUSIVE GROWTH WILL BE ONE OF THE IMPORTANT STRTEGY FOR INDIA TOMORROW

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ABSTRACT

Economy of a State is for all its citizens. When the worst on economy is suffered by all its citizens then why not the goods of economy are shared by all? Inclusive Growth (IG) gives an answer to this question. IG with broad base across the sectors is pro poor and reduces rural-urban and rich-poor divides. IG is incorporating all its members (citizens / beneficiaries) under its web and progressing towards a substantial and sustainable development which will result in economic welfare in the long-run. It simply means an equitable allocation of resources with benefits accruing to every sections of the society. IG is based on its three pillars i.e. environment, society and financial system. Inclusion in any of the above factors will lead to a growth which aims to reduce the disparity basically among haves and have not through reduction of poverty. IG focuses on formal training to develop the skills of the workers to increase the productivity and simultaneously raise their wage rates. The paper aims to analyze the above factors and reasons for IG and tries to establish an IG function. Moreover the paper focuses on the impact of IG on cost, market and economy and tries to establish situations when, where and how the IG is possible.

INTRODUCTION

Poverty is an important barrier for any economic welfare. Inclusive Growth (IG) contributes significantly to economic welfare through reduction of poverty. The prima facie job of the government is to reduce poverty through equitable distribution of resources, which is possible through faster and sustainable IG. Eleventh FYP visualized faster and more inclusive growth as its objective. But these objectives can only be realised if there is a reduction in poverty, unemployment and equal distribution of income in a sustainable manner. But at the end of this plan period the figures are not satisfactory. It is difficult to assess inclusiveness as performance on growth, because inclusiveness is a multidimensional concept, the data on inclusiveness are available only after a lag and the impact of inclusiveness is not immediately visible. IG stresses on productive employment in the long- run rather than redistribution of income as a means of increase in income of the excluded groups. Through IG more labour force come into productive employment which raises the income of the common masses and reduces poverty hence it is pro-poor growth strategy. Long-term sustaining IG undertaken by the Government is a successful growth strategy for reducing poverty and unemployment, which might be the most important strategy for the next Five Year Plans.

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Meaning of Inclusive Growth

The Oxford English Dictionary gives four meanings to the word ‘inclusive’, most appropriate for this paper is, “not excluding any section of society.” It means that the true inclusive development that even the poorest Indians get a chance to move the modern high productive sectors. Inclusiveness involves four attributes, namely opportunity, capability, access and security. Now IG means a sustained expansion of GDP that contributes to an enlargement of the scale and scope of these entire four dimensions. In the relationship between in-equality and exclusiveness, income enters as an opportunity dimension. Hence in-equality in income distribution becomes a factor into IG. (Elena I. and Susanna L.2009). The World Bank has stated that inclusive economic growth can be achieved by “focusing on expanding the regional scope of economic growth, expanding access to assets and thriving markets and expanding equity in the opportunities for the next generation of Indian citizens no matter whom they are or where they live” (p. xiv, World Bank 2006).

Sustainable development

The term was used by the Brundtland Commission which coined what has become the most often-quoted definition of sustainable development as development that “meets the needs of the present without compromising the ability of future generations to meet their own needs”. It is usually noted that this requires the reconciliation of environmental, social and economic demands - the "three pillars" of sustainability. This view has been expressed as an illustration using three overlapping ellipses indicating that the three pillars of sustainability are not mutually exclusive and can be mutually reinforcing. Sustainable development ties together concern for the carrying capacity of natural systems with the social challenges facing humanity. As early as the 1970s "sustainability" was employed to describe an economy in equilibrium with basic ecological support systems [Wikipedia]. Sustainability is a dynamic concept which came out of the environmental debate of the last quarter century. The important issue of the 21st century is to create greater economic and social well being without harming our environmental resources. So sustainable development is an accepted norm in the literature ever since the publication of the Brundtland Commission report on 1987. A primary goal of sustainable development is to achieve a reasonable and equitable distributed level of economic well being that can be perpetuated continually for next generation. It is proved that socio- economic sustainability depends on environmental sustainability because the socio- economic aspects, like agriculture, transport, settlement, and other demographic factors part of environmental discourse.

The Past Indian Scenario

In the 9th FYP the annual GDP growth rate was 5.5%, while the same figure accelerated in the 10th FYP period to record average of 7.7% (the highest in any Plan period so far). Moreover, there was acceleration even within the 10th FYP period and the growth rate in the last four years of the Plan has averaged 8.7%, making India one of the fastest growing economies in the world. The 11th FYP set a target of 9% growth rate. Is high rate of growth our ultimate goal? Or how this is distributed among every section of the society such that everyone is equally benefitted and giving an equal opportunity for employment. The objective of growth is to lift the most vulnerable of our society out of poverty. The percentage of the population below the official poverty line has come down from 36% in 1993–94 to 28% in 2004–05. However, the rate of decline in poverty has not accelerated along with the growth in GDP and the incidence of poverty among certain marginalized groups, for example, the STs, has hardly declined at all. Achieving 9% growth rate of the economy is not an easy task. Emphasis should be given on agriculture and crucial social sectors including education, health, women and children. According to 2001 Census India is the second (next to China) largest populous country in the world. About 17.5% of world populations live in India in only 2.4% of geographical land area. Hence the density of population is very high. If the current growth rate of population (i.e. 2.11% per annum) continues within 2030 India will be the most populous country in the world creating a severe food scarcity and a huge amount of unemployment. About 68% of total population spends their livelihood from agriculture where the per capita income is very low.

IG and its Impact on other Factors

IG and environment in the Forthcoming Plan Strategy

India's 12th FYP (2012 to 2017) will be launched on 1st April, 2012. One of the most important strategies will be to lower carbon IG which focuses on aid to the development of rural areas. Achieving carbon emission cuts to 90% below 1990 levels by 2050 (Datt R. and Sundharam K.P.M. 2011**)** requires a process of decarbonising economy by using new cost effective, innovative low carbon technologies to reduce GHGs and create new employment and growth. Resources should be invested in small scale energy efficient and renewable energy projects. India can manage to reduce CO_2 emission and plan to emphasis on low carbon inclusive growth strategy on broad areas like increasing efficiency in thermal energy with renewable, nuclear, hydel and alternative energy options for steel, cement and transport sectors. In the transport sector, promoting goods transport by railways, mass transport for passenger's movement, facilitating non-motorized transport and increasing fuel efficiency of vehicles can be explored. While in industries, the possibility of reducing CO_2 emissions through changing technology in the steel, cement, oil and gas should be advocated. More research and development should be made in this respect. Special emphasis should be made to motivate the economic agents to adopt low carbon inclusive growth. The target should be eco-friendly in nature which will be compatible with higher economic growth and sustainable development. The vision of the FYP will commit a development process which will be environmentally sustainable. Natural resources such as water and land are limited and their per capita availability is actually diminishing because of rising population and also because of irrational exploitation of common scarce resources. So the coming FYP should go with strategy of higher growth with equitable distribution and preservation and maintenance of natural scarce resources for present and future generation. A good environment can only secure a good quality of life. This strategy must prevail in all sectors of the economy in a scale neutral process. For IG Good quality of infrastructure and huge investment in backward region is a necessary pre-condition. This includes availability of electric power, good transportation facilities (including railways, oil and gas, air service, development of IT).

As a developing country India has a great opportunity to earn from the international market through carbon trading. It has an important role to reduce unemployment and boost up the agricultural production by using labour-intensive techniques which emit less CO_2 (i.e. eco-friendly in nature).Which is more sustainable and competent for the future generation. To make a pollution free environment and to reduce global warming every industry should follow the CDM project (Singh J. K.). The Government has to take active part for the use of Energy Efficiency in Power sector and the development of Fundamental Research and Training so that all public and private sectors can follow the CDM project from the grass root level. According to A. Marshall Education raises the skill of the labour productivity and hence the growth of the economy as a whole. Hence a coordinated Action Plan for Skill development, National Skill Development Corporation (NSDC), Vocational training through Training Institutes (ITIs) and Industrial Training Centres (ITCs) is required.

IG and Quintile Income Statistic to Reduce Poverty

The IG has three complementary aspects-poverty, in-equality and growth. One possible way to solve this problem is "Quintile Income" (Subramanian S. 2011) statistics, developed by K. Basu. The pro-poor IG considers the optimal budgetary intervention of poverty alleviation by allocation of fixed budget subject to the constraint that no poor person receives a sum in excess of her poverty gap and no poor person is taxed. In egalitarian solution every poor person would get equal share of the budget in equity consideration. Suppose the economy has a population n_1 with a mean income M_1 in base period say 1 and increase population n_2 with a mean income M_2 in period 2. Then aggregate income in period 1, say, $Y_1= n_1 M_1$ and in period 2, $Y_2= n_2 M_2$. Thus increase in income over the two periods, say, $\Delta = Y_2 - Y_1$. Now we suppose that our objective is that optimal allocation of budget for poverty alleviation. Suppose we divide the whole population into quintiles. Then pro-poor or IG strategic distribution refers that each quintile receives a share = $\Delta /5$. Let q_1^1 and q_2^2 are the quintile populations of the two periods and Q_2^2 are the respective quintile incomes of the two periods. Then the aggregate incomes of the two periods are $Y_1^1 = q_1^1 Q_1^1$ and $Y_1^2 = q_2^2 Q_2^2$. Then aggregate increase in income of the poorest quintile $\Delta_1 = Y_1^2 - Y_1^1$. The inclusive allocation strategy then imply $\Delta_1 = \Delta /5$. Let g is the simple growth rate of average per capita consumption expenditure, g_i is the growth rate of average per capita consumption expenditure of the corresponding quintiles for all i = 1to 5 and s_i^1 be the respective expenditure shares of these quintiles for all i = 1to 5. Then the aggregate growth rate is the weighted sum of g and s i.e. $g = \Sigma s_i .g_i$ for all i = 1to 5. for all i = 1to 5. Let c_1 is the proportionate contribution of the poorest quintile to aggregate growth. Then $c_1=s_1g_1/g$. Suppose there is no quintile discrimination i.e. the growth is neutral then all $c_i =1/5$.Then $g_1= .2g/s_1^1$, $s_1^1= Y_1^1/ Y_1$, $\Delta_1= g_1 Y_1$, $g Y_1= \Delta$ and so on. Thus $\Delta_1 = \Delta /5$.

Now a general question is whether the poverty increases or decreases by this growth process. The IG with quintile distribution of income definitely raises the income of the poor people when an income is transfer to poorest quintile group. Since poverty is a multi-dimensional problem, it requires a multi-dimensional strategy to reduce it. To reduce poverty the planning strategy must be stressed on all these social factors. In a labour surplus country like India where the productivity of agricultural labour is very low and hence wage rate and income. If this surplus labour is shifted to other industrial sectors productivity and hence wage rate and income would definitely rise. Thus by raising productive employment of unemployed reserve force unemployment and poverty can be reduced. The main problem of a developing country is not unemployment but underemployment. IG creates many new jobs raises wage rate and productivity and hence growth of the economy as a whole and income of the employed person. One such example may be linking agricultural products to different sectors of production. This linkage generates employment and distributes agricultural produces as a raw material to different industries. The productive capacity of the economy depends on the availability of resources, the supply of skilled labour and also demand for labour. The availability of skilled labour is limited by the individuals' education, health and the other productivity attributes they bring to a job. According to the Commission on Growth and Development report (2008), sustained high growth requires rapid incremental productive employment. There is no bias in favour of labour-intensive industry policies. To raise their incomes the self-employed poor need improvements in productivity. In a dynamic condition the labour has the ability to work among the various sectors of the economy to earn higher wage rate but the simple constraint is mobility of labour across the sectors and regions. The inclusive growth approach takes a long- term perspective. This is necessary for improving the productive capacity of individuals and creating conducive environment for employment, rather than on income redistribution as a means of increasing incomes for excluded groups. To raise labour's skill there is a lag in investment and return in education.

By the year 2022 the construction sector of India will face a shortage of 33 million people due to the shortage of skilled labour the high drop-out rate in vocational training courses. Only 10% of the 300 million Indians in the age group of 6-16 years are likely to complete school education and go on for other study. While 12.8 million youth enter the job market every year, the annual current capacity for vocational training in India is just around 4.3 million. In fact, net enrolment in vocational courses in India is about 3.5 million per year compared to 90 million in China and 11.3 million in the United States. A mere 2% of Indian workers are formally skilled. Only 15% of workers in the manufacturing sector received training and a major portion of the labour force in India i.e. 93% who work in the unorganised sector have no training at all. By way of comparison, 96% of the workers in South Korea receive formal skills training. The corresponding figures are 80% In Japan, 75% in Germany and 68% in UK. (Majumdar S. 2010). But the same figure for India is very low of 20% only. Micro, Small and Medium segment is not just the biggest generator of employment, but more importantly, offers maximum opportunities for self-employment. Skill development in the MSME sector is crucial for promoting the concept of inclusive growth.

IG and Financial Inclusion

The biggest challenge for India is to ensure IG and financial inclusion (Sriram M.S. 2011) is an important priority of the Govt. as only 38% of the commercial bank branches (i.e.87, 051 bank branches) are in rural areas and only 40% of the country's total population has bank accounts. As per 2001 Census, there are about 6,000,000 villages in India but only 32,919 rural bank branches in the country. It is necessary to provide appropriate banking facilities to places having population over 2000. Accordingly, the banks have formulated the forum of state level bankers committees for financial inclusion through commercial banks, regional rural banks and cooperative banks for providing banking facilities in a time-bound manner. Montek Singh Ahluwalia told that "International financial institutions, the IMF in particular, have tended to see public investment as a short-term stabilization issue, and failed to grasp its long-term growth consequences. If low-income countries are stuck in a low-level equilibrium, then putting constraints on their infrastructure spending may ensure they never take off." Shortage of funds is the main constraint. Many commercial organisations in India have entered into the market in search of profits and competing to lend to the poor. To supply money in proper time and in proper amount at a low rate of interest is the main objectives. With the help of this money the Self Help Groups (SHGs) are employed themselves in productive purposes and earn incomes to reduce their poverty. The Govt. and some other public Institution may help the poor in this case. But unfortunately the process is time consuming and the benefits are not reaching to the mass rather confined to the individual SGHs. But with inclusion of more and more people in the network of SGHs or with the broader base of finance of the banks and financial institutions to provide finance to most people will make the IG strategies effective. Banks or any financial institutions supply credit through credit rationing (i.e. by adverse selection or moral hazard). This credit rationing doesn't allow banks to deliver credit to all sectors and all sections of the society apart from their profit maximizing objectives. So for financial inclusions SHGs have an important role to bring more and more little financially sovereign people under a financial base which will bring an equitable growth in the economy.

IG and Millennium Development Goals (MDGs)

A higher rate of growth does not necessarily imply higher development of the nation. Development can be inclusive if it reduce poverty only if all groups of people contribute to create opportunities, shares the benefits of development and participate in decision making. The most important element in pursuing inclusive development is to create productive and gainful employment with effective and efficient allocation of resources to protect who cannot work or who earn little. To reach the MDGs India needs to enhance public services by building schools and hospitals, training teachers and doctors, supplying pure drinking water, sanitation and transportation, all of which requires public spending. It advocates for a stronger role for the state, enhanced public investment and economic governance to ensure that everyone has access to vital public services. That means State should invest much on infrastructure which will allow catering public goods and services to all the citizens of India. Govt. investing much on infrastructure will lead the Aggregate Demand (AD) curve to shift upward and help much to combat inflation and accelerate growth of the economy.

Inclusive Growth and GDP under Constant Return to Scale

IG is multidimensional, since it contains several components under its discourse which can be compressed to three main dimensions i.e. environmental, social and financial. Environmental inclusion refers to bringing more and more companies under an eco-friendly environment for suffering a sustainable development for future generation. Social inclusion means entitling more peoples to public goods like, health, education, participation in democracy etc. i.e. incorporating most people under a social regime. Lastly, financial inclusion refers to bringing maximum people in the financial web and making them part of financial system.

IG function

For two attributes if the IG index satisfies monotonicity, continuity, decomposability and one dimensional transfer principle or multi dimensional transfer principle, then the iso-IG contours are decreasing convex to the origin. Applying this convexity the CES form of the function stands as:

$$I\,(u_1, u_2) = f\,[(a_1u_1^{\mu} + a_2u_2^{\mu})^{1/\mu}].$$

Here the function is an increasing convex function such that f (0) = 0, a_1 and a_2 are positive weights attached to the two attributes, and μ is the parameter of elasticity of substitution between the short falls of the various attributes and $\mu < 1$ (for convexity) and u_1 (say education) and u_2 (say health) are the two attributes. The elasticity of substitution $\delta = \frac{1}{1-\mu} = 1$ for $\mu = 0$ (perfect complementary inputs u_1 and u_2). This results CRS, since $\mu = 1 - \frac{1}{\delta}$ at $\delta = 1$ and $\mu = 0$, which is always advocated in the long- run.

IG's impact in cost, market and economy:

We consider our production function

$$I\,(u_1, u_2) = f\,[(a_1u_1^{\mu} + a_2u_2^{\mu})^{1/\mu}]$$

Now multiplying a specific constant, say k, we get

$$I\,(ku_1, ku_2) = f\,[(a_1\,(k\,u_1)^{\mu} + a_2(k\,u_2)^{\mu})^{1/\mu}] = k\,I\,(u_1, u_2)$$

which is homogeneous of degree k? Now iff k =1 it represents CRS.

Under CRS in the long-run LAC = LMC and are horizontal to the X-axis. Moreover in the case of perfectly competitive market P=LAC and profit equals to zero. If the production function is homogeneous of degree one (i.e. under CRS) if we apply the Oiler's rule then each factor will get according to their marginal productivity total product will be exhausted and pure economic profit will be equal to zero. Thus it has an important role in this case from the social point of view. Because of that under CRS if we multiply each factor, say 2 times the total product will also increase accordingly. This type of IG is not only socially desirability but also economically viable because it satisfies four attributes, namely opportunity, capability, access and security. From the plan strategic point of view this type of IG is accessible from the whole economic point of view. Shortage of funds is the main constraint of IG. Now we consider the effect of exogenous, say FDI, investment on IG. Now under the CRS it will definitely raise the national income in a smooth constant rate in the long-run which may be a plan objective in the contest of Indian economy.

Conclusion

For successful achievements of the strategy towards faster and more inclusive growth requires some systematic reforms. Inclusiveness must obviously include progress in delivering essential services like education, health, safe drinking water and sanitation. These are the basic capability needs and freedom of any democratic society. IG must be pro-poor, reduce urban-rural and rich-poor divide (Oomen M. A. 2011). But due to the commercialization of education and health services certainly have excluded many poor and dispossessed them from the main stream of growth. Rapid agricultural growth cannot be inclusive in the absence of redistributive land reforms. Where benefits are trickle down to the landless wage earners generally remain excluded from the growth. The market exclusion, have several institutional failures, because the economy doesn't cater money to all sections significantly. There are also several social exclusions like caste, gender discriminations and so on. Growth is inclusive when it allows all members of the society to participate in the growth process.

Reduction in poverty and financial in-equality are the main mottos of the Planning Commission. If we follow the systematic reforms with IG as a strategy for the next FYPs we hope India to shine rather than suffer. For the overall success of the coming plan our states should adopts "*National best practice*" and not **"***Global best practice***".**

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