Vol 3 Issue 1 Oct 2013 ISSN No : 2249-894X

Monthly Multidisciplinary Research Journal

Review Of Research Journal

Chief Editors

Welcome to Review Of Research

RNI MAHMUL/2011/38595 **ISSN No.2249-894X**

Review Of Research Journal is a multidisciplinary research journal, published monthly in English, Hindi & Marathi Language. All research papers submitted to the journal will be double - blind peer reviewed referred by members of the editorial Board readers will include investigator in universities, research institutes government and industry with research interest in the general subjects.

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Review Of Research
Vol. 3, Issue. 1, Oct. 2013
ISSN:-2249-894X
Available online at www.ror.isrj.net

ORIGINAL ARTICLE

INCLUSIVE GROWTH : EXPERIENCE AND CHALLENGES – A BIRDS VIEW

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Abstract:

'Inclusive growth' is not a new or a novel idea. Defined in the Eleventh Plan as 'growth process which yields broad based benefits and ensures equality of opportunity for all', it stands for 'equitable development' or 'growth with social justice', which have always been the watch words of development planning in India. Yet, since 'inclusive growth' is so widely used these days by the reputed multilateral institutions as well as the policy makers in India, one wonders whether this usage acquires a special significance in the present context. Perhaps, it does. The belief that there is a significant 'trade-off' between growth and equity does not seem to be as widespread now as before. There is now a genuine and widespread recognition about the adverse social consequences of rising inequalities in the recent high growth phase, which do not seem to be mitigated through the so-called 'trickle-down' mechanism.

KEY WORDS:

Inclusive growth' , equitable development , multilateral institutions .

1.INTRODUCTION

For about three decades from the early 1950s to the early 1980s when the country was experiencing a slow, or the so-called 'Hindu' rate of growth, the concern for accelerating GDP growth itself was uppermost, apart form ensuring equity. Inequalities did arise in the wake of growth then, but wee not as prominent as in the recent phase of accelerated growth. With the GDP growth rate rising to 7-8 per cent, rural – urban divide, regional divide and rich-poor divide became glaring, which brought 'inclusive growth' high on the policy agenda.

2. POST-REFORM EXPERIENCE

Growth rate of agriculture GDP which was a little over 3 per cent per annum when the green revolution was in full swing in the 1980s and up to the mid-nineties, dropped to a mere 2 per cent during the Ninth and Tenth Plan period. Worse still, the growth of food grains output fell short of population growth over much of this period. Since well over half the work force in the country is still dependent on agriculture, the difference, the difference in per capita incomes between agriculture and non-agriculture widened sharply. This led to rising rural distress and a large number of suicide by small and marginal farmers in several parts of the country.

The regional divide became similarly sharp. For example, the per capita Gross State Domestic Product (GSDP) of Bihar – the poorest state in the country – which had steadily declined to a little over 30 per cent of the per capita GSDP of the richest state by 1993 – 94, dropped further to 20 per cent in 2004-05 (Planning Commission, 2008). The less developed states located in the central and eastern parts of the country account for over 60 percent of population below the poverty line in the country. These rural-urban and the regional divides are basically responsible for the rich-poor divide and the rise in inequalities in income.

The proportion of people below the poverty line has no doubt been declining. Since poverty line is fixed in terms of a certain level of per capita expenditure, one should normally expect some decline in poverty when the average per capita income rises. It would be surprising if this does not happen. The issue really is: Why has the pace of poverty reduction slowed down in the post-reform period despite the rise in per capita GD at a faster rate? The rich-poor divide subsumes the 'social divide'. The population belonging to socially the economically disadvantaged sections like schedule castes, scheduled tribes and backward classes, and women and children have benefited the least from growth and rising prosperity. The slow improvement in the various development indices for these sections and the slow rise in public expenditure targeted to them as well as for social sectors like health, education and poverty alleviation programmes, and greater vulnerability of the poor to various kinds of risks in this period have been documented extensively in the literature (Radhakrishna and Ray, 2005; Dev, 2008).

Economics reforms introduced in the country in the early 1990s released the initiative and enterprise of those adequately endowed with infrastructure, resources, skills, power and influence. Such sections are generally concentrated in states and regions that are relatively well developed and less so in other areas. People in the less endowed regions too have the spirit of enterprise, but in the absence of productive outlets and the requisite resources, fail t display their initiative and enterprise. The situation turned worse for them as the post-reform policy failed to effectively counteract the adverse initial conditions by according greater priority for public investment in infrastructure, agriculture and social sectors in general, because of its faith in 'trickle down' mechanism and the belief that greater role for the private sector can make good these gaps.

Economics polarization was a logical corollary of such a policy. The climax of this was witnessed five years ago when the GDP growth rate was at its peak and the 'India Shining' campaign, then in full swing, coexisted with widespread rural distress and suicides by a large number of farmers. The United Progressive Alliance which came to power at the Centre under these circumstances in 2004 came out with a National Common Minimum Programme articulating an economic and social policy which, for the first time after 15 years of economic reform, tried to integrate the objective of growth with social justice and promised to pursue reforms with human face.

3. INLCUSIVE GROWTH : THE ISSUES

It is not inevitable that growth in GDP should lead to the rise in inequalities in income – whether before or after the reforms. Much depends on the level and spatial distribution of physical infrastructure, human resource development, prevailing social structure, social policies and governance patterns. Therefore, the sharp rise in inequalities in the post-reform period can not be attributed to economic reforms as such Rather, they can be traced to the initial conditions obtaining in the pre-reform period itself. In China, for example, where land reforms were successful and infrastructure development was high in the pre-reform period, there was a rapid reduction in poverty following economic reforms and acceleration in GDP growth (Rao, 2005), even though inequalities in income started rising. The quality of reform package is, of course important. It has to be such as to make good the infrastructural and other gaps inherited from the pre-reform period. It should also be effective in coping with the adverse social consequences that predictably result from the implementation of reforms under the given unfavourable initial conditions.

Inadequate physical and social infrastructure like irrigation, power, roads, transport and communications, education and health in the less developed regions and rural areas in general in the country is a major factor responsible for the growing rural-urban and regional disparities. This is also responsible for the slow growth of manufacturing and other activities in the rural non-farm sector, which explains the slow shift of labour force from agriculture and hence slow reduction in rural poverty. The highly stratified and hierarchical social structure characterized by inequalities in land holdings and other forms of wealth, status and power is the second major factor leading to the rise in income inequalities in the wake of growth. Because of this, achieving inclusive growth is far more challenging than stepping up the GDP growth rate per se. Finally, the governance pattern, that is, the working of our democracy under the prevailing social structure and the efficiency of implementation mechanisms or delivery systems determines the actual outcomes on the ground from our planning exercises and policies. We shall look at the recent performance briefly and see what challenges confront the planners and policy makers on these three fronts.

4. RECENT EXPERIENCE:

4.1 Acceleration in GDP Growth

Notwithstanding the impact of the global economic meltdown on the domestic economy in the recent days, the present UPA government can legitimately take credit for sustained high GDP growth, with strong recovery of manufacturing sector. This particular configuration has brought a boom in tax revenues for the government, led by the revenues from direct taxes, especially from the corporate sector. The tax GDP ratio registered a significant rise recovering and even exceeding pre-reform levels both for the centre and the states. This has enabled governments to step up public investment in infrastructure and other expenditures on agriculture and social sectors. What is clearly on display, if indeed this was needed, is that high GDP growth, through improvement in revenues, can facilitate inclusive growth by enabling the governments to undertake the necessary investments and other expenditures. For a resource constrained economy, high GDP growth is a necessary, though not sufficient, condition for achieving inclusive growth.

4.2 Agricultural Growth

The UPA government was quick to address rural distress through a two-pronged strategy of reviving agriculture and putting gin place a rural employment guarantee scheme. Public investment in agriculture which had declined from 5% of agriculture GDP in the early 1980s to below 2% in 2002-03 has now been stepped up to 3%, with the target of raising it further to 4% by the close of the Eleventh Plan. Together with private investment, the overall capital formation in agriculture is now 12% of agriculture GDP which is the highest in the last 25 years (Planning Commission, 2008). by the end of the Eleventh Plan, this is expected to go up to 16% -necessary for sustaining 4% growth in agriculture GDP. The target of doubling the supply of institutional credit to agriculture in 3 years has been exceeded. There have been concerted policy interventions such as launching of the National Food Security Mission and The Rashtriya Krishi Vikas Yojana.

As a result, there is a clear upturn in agriculture, the growth rate of Agriculture GDP rising to nearly 4%, on an average, in the last four years with comfortable stocks of foodgrains – almost comparable to that achieved when the green revolution was in full swing. Needless to say, much more remains to be done towards strengthening the agricultural research system, regenerating dry land farming, and providing institutional support like credit and extension services to small and marginal farmers and women farmers among them. But the recent experience clearly demonstrates that there is considerable under – exploited potential in agriculture crying to be tapped and that a little extra effort can bring forth substantial results within a short period.

4.3 Rural Employment Guarantee

Rural Employment Guarantee Scheme has now been extended throughout the country. Most evaluations – official as well as non-official – show that the implementation of this scheme has been far more effective than any of its predecessor schemes in the country. In particular, the leakages have been reduced significantly in many places in respect of the number of days a worker is employed as well as wages paid. This is attributed mainly to the adoption of innovative methods like opening post office and bank accounts fro payment of wages to workers and the use of information technology, apart from social auditing. The significant rise in the rural market wages reported from several parts of the country and the widespread demand from the farmers to reschedule the operation of the employment guarantee scheme from busy to lean season testifies to the effectiveness of its implementation.

The encouraging experience is by no means uniform, nor is there any limit to the ingenuity for circumventing the new rules and practices. In particular, planning and execution of works under the scheme needs considerable improvement by enhancing the technical and institutional capacity at the grass roots. But, coming against the backdrop of rural distress for over a decade, the scheme was successful in providing much needed relief to the rural poor, apart from raising their awareness and bargaining power. Further, the recent experience shows that the Right to Information Act being implemented in the country holds a great promise for improving the effectiveness of this and similar schemes designed to improve the lot of the poor.

4.4 Social Sectors

Major initiatives have also been taken in the social sectors like education and health through Sarva Siksha Abhyan (SSA) and National Rural Health Mission (NRHM). The allocations for the social sectors have been stepped up substantially in the 11th Plan when compared to the 10th Plan. The allocation of funds to the poorer states from the Centre during 2007-08 for programmes like NRHM, SSA and poverty alleviation was well above their share in population.

5. CHALLENGES AHEAD:

5.1 Deficiencies in Infrastructure and the Regional Divide

The Commission on Growth and Development, recently constituted by the World Bank, came out with the assessment that "no country has sustained repaid growth without also keeping up impressive rates of public investment in infrastructure, education and health. Far from crowing out private investment, this spending crowds it in… Unfortunately we discovered, infrastructure spending is widely neglected" (The World Bank, 2008). The Commission notes that public investment in infrastructure constitutes 5-7 per cent of GDP in fast growing Asia. Implying, presumably, that there is no sanctity to a particular number in this regard, the Commission specifically observes about India that "now the government is trying to do more, making up for years of underinvestment in public infrastructure".

The performance of certain infrastructure industries has been far from satisfactory. For example, a basic input like electricity which had registered an annual growth rate of 8-10 per cent in the 1980s, showed a steady decline in its growth rate in the post-reform period reaching a low of about 3% in 2002-03. Since then it has been recovering, its annul growth rate rising to a little over 7% in 2006-07 (RBI, 2008). The Eleventh Plan, therefore, envisages a significant rise in public investment in infrastructure from a little over 4% of GDP in the base year to over 6% at the end of the Plan. Together with private investment, it is expected to rise form 5% of GDP to 9% over this period.

The Eleventh Plan claims to outline "a comprehensive programme for development of infrastructure, especially in rural areas, and in the remote and backward parts of the country consistent with the requirements of inclusive growth at 9% per year….what this plan seeks to do is to target the slower growing regions, and the backward areas within these states, for higher levels of public investment that will enable the backlog in physical and social infrastructure to be addressed" (Planning Commission, 2008). But from the information given in the Plan document, it is not possible to find out how the infrastructure planned is going to be spread over different states, on the one hand, and between agriculture and the non-farm sector including small towns, on the other.

The Tenth Plan, for the first time, specified targets for the growth rate in Gross State Domestic Product (GSDP) for each state in consultation with state governments, without specifying the corresponding investment rates. However, the growth rates actually achieved in the Tenth Plan in the less developed states like Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh fell considerably shot of the target, the shortfall ranging from 1.5 (Bihar) to 3.35 (Rajasthan) percentage points. The Eleventh Plan has continued this practice of fixing state-wise growth targets. These targeted growth rates for GSDP show smaller divergence between the richer and poorer states than those achieved in the Tenth Plan. But the absence of targets in respect of investment rates castes doubt on the credibility of these growth targets.

There is no basis to believe that the divergence in the investment rates between the poor and better-off states would come down in the Eleventh Plan period. For one thing, the per capita plan outlays (including central assistance) of the poorer states have been declining relative to those of the richer states in the post-reform period. The poorer states have been handicapped basically by their own weaker resource position. Because of lower tax-GSDP ratios and higher debt-GSDP ratios, their credit-worthiness is lower, and so they have not been able to access borrowings adequately from the market. Private investment has been flowing basically to the high income states where infrastructure is well developed owing to higher per capita plan outlays (Rao, 2006).

The position has now become worse for the poorer states because of the Centre's decision to do away with the loan component of the normal central assistance for state plans, following the recommendations of the Twelfth Finance Commission. No alternative mechanism has been put in place so far to enable the poorer sates to easily access loans from the market. There is no increase in central assistance in the Eleventh Plan for infrastructure development of the backward regions through Backward Regions Grant Fund, Special Plan for Bihar and Action Plan for the undivided KBK (Kalahandi-Bolangir-Koraput districts of Orissa), which have only been protected at the Tenth Plan level. Such assistance constitutes less than 1% of total 11th Plan outlay for all states. It is not known how the performance of Bharat Nirman – a flagship programme designed to create infrastructure – is tilted in favour of the less developed states.

The Planning Commission notes that over the past several years, the share of public investment in the overall investment has been declining reaching a little over 20% in recent years. Therefore, according to the Commission, there is "a very great limitation on the influence that fiscal quantities, allocations and strategy can directly exert on growth rates, especially at state levels. States have, therefore to focus on providing the necessary policy framework and supporting environment that makes economic activity possible and attractive enough for private sector investments. This would include the entire gamut of services….right from maintaining law and order, providing quick and effective dispute resolution through an efficient adjudication system, avoiding an extortionate and distortionary tax system to enabling and empowering the general mass of population to take advantage of economic activity" (Planning Commission 2008). While many of these measures for 'good governance' are desirable, they can not be a substitute for the provision of adequate infrastructure through public investment. There is a case for revisiting the whole area of infrastructure development in the less development regions and the rural areas in general.

5.2 Social Structure and Social Policy

While the UPA government, facing a crisis – like situation when it came to power, did address rural distress by taking steps to revive agriculture and introducing rural employment guarantee scheme, it has not been able to evolve a comprehensive and active social policy for providing safety nets to cope with the adverse consequences of non-inclusive growth under the prevailing iniquitous social structure. A comprehensive social policy at this stage should have four major elements, viz., land policy, rehabilitation and resettlement policy, social security for the unorganized sections of labour and finance inclusion.

5.2.1 Land Policy

'Land to the tiller' was the overarching principle of land policy in the early post-independence period. While this policy continues to be relevant, especially for tribal areas half a century of development has brought some new concerns to the forefront. With growing industrialization and urbanization, the rising demand for land for industrial purposes, including Special Economic Zones, and for housing in expanding urban areas is posing an inevitable threat of a reverse movement of land from tillers. While raising agricultural productivity is a must to cope with the shrinkage of agricultural land, the very slow growth of non-farm opportunities for employment and livelihoods and lack of social security for small holders argue for a careful and calibrated approach for land acquisition.

Land alienation continues to be is a serious problem in tribal areas. The enactment of Scheduled Tribes and Other Traditional Forest Dwellers (Recognition of Forest Rights) Act, 2006, is a major step towards protecting the rights of Scheduled Tribes and other traditional forest dwellers. However, past experience suggests that the implementation of this Act is going to be extremely challenging. A pre-requisite for effective implementation is improvement in land administration in tribal areas by putting in place field machinery with adequate staff, and effective monitoring and review, backed by necessary political will to counter the pressure from the vested interests. Some spade work in this respect seems to be in progress in the Planning Commission and the relevant ministries at the centre and in states. But the efforts on the ground so far do not seem to match the challenges involved.

5.2.2 Policy for Rehabilitation and Resettlement

Willingness to part with land by the farmers for development projects has to be the guiding principle for making the sale transaction just and humane. Government and industry should, therefore, supplement the principle of fixed 'compensation' at a point of time with mechanisms for assuring original and owners adequate stake, on a secure footing, in the new establishments. This is essential because in the present context of rising land values and high input-intensity of farming with increasing uncertainty, traditional norms and compensation and forms of Rehabilitation and Resettlement of displaced persons are proving to be unviable. Therefore, while the R&R policy should give a primacy of place to land-or-land, it should also address the alternative of ensuring adequate stake in the new projects and enterprises, including those in Special Economic Zones, for the displaced persons. Such a course of action would be fully justified by the high profitability of new ventures.

5.2.3 Social Security

As in the previous plans, the eleventh Plan proposes targeted livelihood support programmes aimed at increasing productivity and incomes of the poor in several low income occupations, such as small and micro enterprises, weavers, artisans, craftsmen, etc. But the lack of concern at the state and the lower levels for the plight of these unorganized sections renders many of these programmes infructuous. The recent spate of suicides of weavers in certain parts of the country reflects this lack of concern.

In this context, the recommendations on Social Security made by the National Commission for Enterprises in the Unorganised Sector, headed by Arjun K. Sengupta (NCEUS, 2006) assumed significance. The UPA Government has introduced schemes to provide Social Security Coverage through life cover health insurance and extension of old age pension on the lines recommended by NCEUS but by restricting coverage to sections of Below the Poverty Line (BPL) households. The government has introduced an Unorganised Workers Social Security Bill, 2007, putting on a statutory footing the above mentioned social security schemes as well as some other social security schemes for unorganized workers.

5.2.4 Financial Inclusion

Financial inclusion is a policy priority even in the developed countries While liberalization there improved financial products and services for the few, it accentuated denial of services for many. The same happened in India following the introduction of economic reforms in the early 1990s when there was a retrogression on several indices of financial inclusion reflecting a severe set back to the objectives with which major commercial banks were nationalized in the late 1960s. This experience has prompted renewed policy attention to the issues of financial inclusion in India in recent years. These have been examined by the Committee on Financial Inclusion appointed by the Ministry of Finance, under the chairmanship of C.Rangarajan (GOI, 2007), and another Committee on Financial Sector Reforms constituted by the Planning Commissioner under the Chairmanship of Raghuram G.Rajan (Planning Commission, 2008).

Financial inclusion should be measured not only by the number of bank accounts held by the weaker sections, as brought out by the above Committees, but also by the amounts borrowed by them, which show a more dismal picture. For example the share of direct accounts with a credit limit of less than Rs. 25,000 in total direct accounts declined from 97% in 1990 to 67% in 2005, while their share in outstanding direct credit declined from 0.66% to 0.23% in the same period (Planning Commission, 2007).

Financial inclusion is no doubt inhibited by the higher transaction costs of dealing with a large number of small accounts rather than a small number of large accounts. But such costs can be reduced through organizational innovations or, where necessary, met through explicit subsidies. Unduly lower ceiling on interest rates for bank loans could also encourage exclusion, which need not be insisted upon, as the small borrowers are interested in adequate supply of credit rather than such lower rates of interest, the benefit of which, in any case, may not accrue to them but to the middle men.

But the basic cause for financial exclusion, often missed – including by the Raghuram Rajan Committee – is a mindset lacking in social concerns. This has to be faced squarely if appropriate institutional arrangements are to be made for checking the prevailing distortions in bank lending. The experience with the linkages of Banks with Micro Finance Institutions and Self-Help Groups (S.H.G.s) clearly demonstrates that the poor are bankable. Even when margins are low high volumes can make the business profitable (Joshi, 2008). Innovative institutions and methods for the delivery of credit, including those recommended by the above Committees, are called for. Also, the targets for inclusion should be set in terms of the number of accounts as well as the amount of credit to be extended.

5.3 Evaluation

Governance is not simply a matter of particular administrative arrangements, procedures, monitoring, etc. In view of the all pervading influence of the prevailing social structure on decision-making as well as implementation processes, governance has to be viewed and shaped in the context of on-going social change through the functioning of out democratic system. It is wrong to attribute the deficiencies in decision-making and tardiness in implementation to the prevailing democratic system as such. Rather, they can be traced to the way the functioning of our democracy has been twisted and moulded by the pulls and pressure from various interest groups. The solution lies in broadening and deepening our democracy by effectively extending it to the grass roots.

Experience has amply demonstrated that participatory or inclusive governance is indispensable for achieving inclusive growth. This is woefully lacking at the grass root levels where the formulation of schemes is not quite in keeping with the local needs and circumstances, and administration is not accountable to the people. It is precisely to cope with such challenges that Panchayati Raj was visualized by the late Prime Minister Shri Rajiv Gandhi.

Thanks to the 73rd and 74th amendments to the Constitution, elected Panchayats have been in place. But they are deprived of necessary functions, finances and functionaries. No serious effort has been made so far to devolve such powers, not to speak of any effort to build up local capabilities by training the elected functionaries. This is explained solely by the resistance form the entrenched interests to part with their powers. Therefore, the change in attitudes has necessarily has necessarily to be driven through the political process.

It is indeed ironical that governments at the centre and the states owing allegiance to Rajiv Gandhi have not taken any major initiative – political or administrative – in this direction showing tangible results on the ground. On the contrary, certain state governments, owing allegiance to Rajiv Gandhi, have been active in pursuing top-down development and governance by floating numerous schemes and parallel implementation structures which cut at the very root of Panchayati Raj institutions – on the top of it by naming such schemes after Rajiv Gandhi!. In a situation riddled with formidable socio-political obstacles to decentralization, the Planning Commission's proposal to provide incentives to encourage the states to devolve functions by evolving "a suitable Devolution Index called PRI-Empowerment Index", though well meaning, may not take us very far.

Inclusive governance has a wider connotation encompassing inclusive politics or empowerment of social groups hitherto not having access to political power at different levels. IN the ultimate analysis, inclusive growth can be achieved only through inclusive politics. The social change underway in the country through the democratic process holds such a promise.

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