

**CRISIL YOUNG THOUGHT LEADER, 2007**

**DISSERTATION ON**  
**STRATEGIES FOR INCLUSIVE GROWTH**



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## EXECUTIVE SUMMARY

Developing India's stellar gross domestic product growth rates have masked rapidly rising *relative* and *absolute* inequalities, leading to its two contradicting faces. A 'shining India' is competing internationally, capturing the imagination of the world, while a 'suffering India' has unacceptably wide swatches of its population entrenched in poverty. Merging these two is the development challenge over the next generation. In addressing this challenge, inclusive growth with its focus on creating economic opportunities and ensuring equal access to them will play a pivotal role.

Today, emerging India is embracing inclusive growth as a key development goal in response to rising inequalities and increasing concern that these could undermine the very sustainability of its growth. This paper argues that inclusive growth emphasizes creation of and equal access to opportunities; and that unequal opportunities arise from social exclusion associated with market, institutional, and policy failures.

This paper examines policy implications of adopting inclusive growth as the overarching development goal by India. More specifically, the paper (i) discusses the concept of inclusive growth as a development goal; (ii) looks at why the nation is embracing inclusive growth; and (iii) examines policy ingredients of a development strategy anchored on inclusive growth.

## INTRODUCTION

Kofi Annan, in an article, recalled that the Arabic translation of the word “globalization” literally meant “*world inclusivity*”. Yet, the asymmetric and inequitable forms of globalization prevailing today are detrimental to the interests of developing countries including India, while profiting some insiders and leaving many deprived.

Inclusive growth means growth with equal opportunities. It focuses on both creating opportunities and making the opportunities accessible to all. Rising income and non-income inequalities are associated with unequal access to opportunities, including access to social services such as education and health. The attention to and recognition of the relevance and importance of inclusive growth in development have been triggered by a rising concern that the benefits of spectacular economic growth have not been equitably shared.

India, which had poverty reduction as the central focus of its development strategy over the last 50 years, has also recently switched to a new strategy focusing on two objectives: raising economic growth and making growth more inclusive (Planning Commission of India 2006).

The persistence of inequality could lead to three outcomes.

- First, reforms would stall, resulting in lower growth and widening inequalities.
- These rising absolute gaps in income and consumption between the poorest and richest quintiles could trigger social and political tensions.
- Third, in its extreme form, these tensions could lead to armed conflict as is currently happening in parts of South Asia (Murshed and Gates 2006).

Rising inequalities therefore pose a clear and present danger to social and political stability and, therefore, the sustainability of the growth process itself.

In sum, an inclusive growth strategy encompasses the key elements of an effective poverty reduction strategy and, more importantly, expands the development agenda. In contrast to a uni-dimensional poverty reduction strategy, this growth strategy addresses circumstance-

related inequalities and their attendant risks. It is not based on a redistributive approach to addressing inequality and focuses on creating opportunities and ensuring equal access to them which will hinge on larger investments in augmenting human capacities including those of the poor, whose main asset, labor, would then be productively employed.

Needless to say, inclusive globalization would greatly facilitate the transition towards inclusive development. However, national strategies based on the concept of “development from within” (Sunkel, 1993), which should not be mistaken as a call for inward-looking strategies, are of crucial importance.

### **RATIONALE FOR INCLUSIVE GROWTH**

As argued by Amartya Sen, “...poverty must be seen as the deprivation of basic capabilities rather than merely as lowness of incomes” (Sen, 1999; p.86). Capabilities provide freedom from hunger and poverty. The human development indicators too show that there is a long way to go to reach the Millennium Development Goals (MDGs)

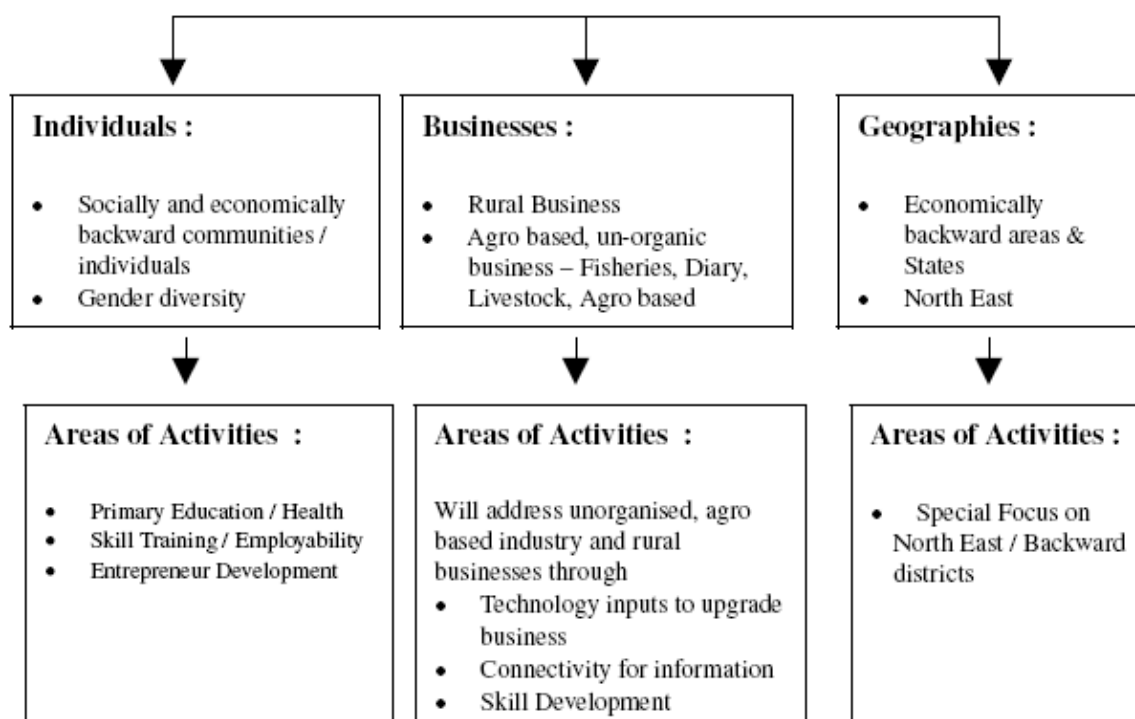
- Almost 250 million people in India live in abject poverty. According to the recent report of the National Commission for Enterprises in the Unorganized Sector, at the end of 2004-05, about 77 per cent of the population was living on less than 0.50 cents a day in exchange rate terms and \$ 2 in PPP terms.
- Almost 92 per cent of the people are in the unorganized sector. The country has about 370 million illiterate people.
- The infant and maternal mortality rates in the country are very high in relation to not only developed countries but also some of the developing countries as well.

While over the years, the reform process has widely transformed the economic landscape of India, the benefits of economic growth have not equitably reached different parts of our society. The rural and agriculture sector, in particular, have not gained the desired momentum of growth and development. Further, within cities, the inequality is on the rise and demographic pressure is leading to growth of slums.

## WHY INCLUSIVE GROWTH FOR INDIA

- Economic growth in India has to be inclusive in order to make it sustainable. Inclusiveness is an essential element in a democracy.
- If policies that bring about economic growth do not benefit the people in a wide and inclusive manner, they will not be sustainable.
- Equally, inclusive growth is essential to grow the market size, which alone will sustain growth momentum.
- Will help build supply side with competitive cost
- Above all, inclusive growth is the only just and equitable way that any society can grow.

The objective and scope for such a policy outlook would be to spread economic growth so as to include:



### KEY CHALLENGES IN THE PATH OF INCLUSIVE GROWTH

The harsh ground realities present serious challenges for India's policy makers. One problem is that, despite strong economic performance, job creation has not kept pace with a growing labor force. In fact, the rate of employment growth declined from 2.7% per year in 1983-1984 to barely over 1% in 1994-2000. Perhaps this partly reflects the increasing productivity of labor force in the manufacturing sector, but it nevertheless is an issue that requires attention.

Another issue is the deceleration in agriculture growth, which reflects a broad based slow-down in productivity growth. Growth in the sector declined from over 3% a year between 1980 and the mid-1990s to a subsequent trend average of 1.9%, and the share of agriculture in total employment dropped from 60% in 1993-1994 to 57% in 1999-2000. Given the relatively low employment generation potential of the fast-growing services sector, the agriculture sector, on which the livelihood of the majority of Indians depends, needs to be reinvigorated.

As the mid-term appraisal of the 10th Five Year Plan (MTA) notes, inequality among states increased in the 1990s. While some states were able to benefit from India's economic reforms and increase their growth rates significantly, some of the poorest and most populous states have fallen behind, and even advanced, dynamic states have pockets of extreme poverty. Much of this is due to poor physical and social infrastructure. Finding adequate resources for funding the required infrastructure facilities therefore remains a major challenge.

### THE RURAL-URBAN DIVIDE

Although the process of economic growth raises average incomes and reduces the incidence of poverty at a national level, urban poverty declines more rapidly than rural poverty highlighting the '*rural-urban divide*'. Economic growth has been accompanied by a shrinking share of agriculture in national output and this structural realignment is progressively gathering pace.

Declining demand, changing expenditure patterns and consequently lower relative food prices reflect agricultural sector's deteriorating terms of trade. This price movement reduces real rural incomes as rate of adjustment of employment is more gradual than the realignment of the composition of output. On the supply side, capital accumulation, the principal driver of the

growth process, results in the expansion of capital-intensive sectors such as manufacturing and some services, at the cost of labor-intensive sectors, such as agriculture.

While migration to urban areas spells the path out of poverty for many, by raising productivity, it is seen by the government as pressurizing urban infrastructure, and thus discouraged. Rural non-agricultural employment therefore, gains great significance and so far has not gained momentum in the country, where non-agricultural employment still tends to be concentrated in urban areas.

Making agriculture more attractive by imposing protectionist tariffs is not sustainable, as it benefits mostly large farmers, while squeezing sustenance farmers from the consumption side through higher prices, without a compensatory rise in their incomes.

It is critical to reduce the rural-urban income disparity in a way that reduces cumulative poverty. This necessitates (a) raising rural productivity (b) facilitating employment shift away from agriculture.

1. Rural education is central to this process and currently is inferior in both quantity and quality, condemning them permanently to the bottom rungs of the economic ladder.
2. Rural infrastructure is also underprovided, lowering rural productivity and pushing up '*cost to market*' of agricultural goods. Roads and electricity provision are key examples. Improvements in agricultural technology and water management which raise rural labor outputs depend on public investments, thus requiring public sector action.
3. Finally, the promotion of private investments in agricultural processing and retail needs a boost to raise the competitiveness of domestic agricultural goods, accompanied by quality adjustments.

The challenge ahead is the transformation of petty activities into organized small-scale enterprises capable of competing in the mainstream capitalistic market. Their graduation will be a result of upgrading their skills and managerial capacities (increasing intra-firm competitiveness) and improving their systemic competitiveness through a set of converging affirmative actions, such as preferential access to credit, technology and markets.

## **POLICY INGREDIENTS OF THE INCLUSIVE DEVELOPMENT STRATEGY**

### **ROLE OF THE GOVERNMENT**

Creating enabling conditions for an inclusive growth calls for a nexus between achieving Millennium Development Goals, economic growth and macro policies. Promoting social inclusion requires public interventions in three areas:

- (i) investing in education, health, and other social services to enhance human capacities;
- (ii) promoting good policies and sound institutions to advance economic and social justice and level playing fields; and
- (iii) providing social safety nets to prevent extreme deprivation.

On the macro side for achieving Millennium Development Goals, policies and programs for generating and sustaining high economic growth must be followed. However, the growth process is needed to be made “MDG friendly” by improving policies.

The approach to the 11th Plan has shifted the focus to the agricultural sector, increasing outlay on education and health sectors, and incorporating measures to improve agricultural productivity and strengthening infrastructure. Initiatives have been taken to implement some of the measures such as Employment Guarantee Act, universalization of education, National Rural Health Mission, a program on rural roads and a mission for urban renewal.

The Economic Survey 2006-07, in alignment with this policy move, has identified five mantras for achieving high and inclusive economic growth with a view to creating more jobs and eliminating poverty at a faster pace.

1. As a first step, the government should initiate measures to channelise savings accruing on account of high growth rate coupled with the demographic dividend (a growing proportion of the population in the working age group) for investment.
2. Secondly, efficiency improvements in the economy since 1999-2000 will reinforce the country's confidence in the high-growth phase.

The ratio of net capital stock to gross value added in the national economy, which went down from 2.78 to 2.60 between 1999-2000 and 2004-05, has increased to 2.66 in 2004-05, suggesting efficient utilisation of resources.

**3.** Thirdly, availability of labour at reasonable wages and efficiency improvements will open new avenues in services, beyond the already well-known IT and ITeS that bolster confidence in the new high-growth phase.

The Survey also suggested that the government should encourage tourism, which globally contributes 10 per cent to the world's gross domestic product.

**4.** The Survey underlined the need for rapid capacity addition through investments to prevent overheating of the economy as is being feared by some economists.

**5.** Finally, the poor infrastructure that constrained growth in the past has started improving and is likely to strengthen further, giving a boost to economic growth.

The government of India's justifiable concern with the inclusiveness of economic growth can be addressed 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 who they are or where they live. While reforms that are growth accelerators are important, even more pressing is the need for *equalizing accelerators*—actions that promote more rapid growth in those areas, sectors and groups where it is needed the most.

#### IMPEDIMENTS FOR THE GOVERNMENT

*Potential Binding Constraint: Infrastructure-* It is not merely a financing problem of mobilizing additional billions but rather the emerging infrastructure constraints require systemic reforms that not only “fix the pipes” but also “fix the institutions that fix the pipes.” India must invest around 3-4% more of GDP on infrastructure to sustain growth of around 8%, address existing gaps and meet policy-driven coverage goals. The private sector can play an important role in providing such levels of resources, including through PPPs, although improving implementation capacity and the quality of investment will be as or more important than increasing the quantum of funds available. In all sectors, reforms are underway, but these must be accelerated and difficult issues such as rationalizing user fees for services cannot be avoided.

*Potential Binding Constraint: Fiscal Deficit.* India has maintained a very high deficit by international standards for many years now. This creates many concerns.

- The burden of deficit in India has been surprisingly “light” as India maintains much higher deficits with much lower risks of internal or external crisis. Getting back on and staying on the Fiscal Responsibility and Budget Management Act targets for deficit reduction is essential to avoiding increased risk of crisis and associated higher domestic interest rates that could easily choke-off an expansion or cause a much higher fiscal burden of debt.
- The UPA government elected in 2004 has many areas in which they believe additional expenditures are desirable and is launching many potentially desirable initiatives: rural infrastructure (Bharat Nirman), employment (National Rural Employment Guarantee Act), education (Sarva Shiksha Abhiyan), rural health (National Rural Health Mission), urban infrastructure (National Urban Renewal Mission). But those new initiatives must be financed with some combination of higher taxes (or user charges), or cutting existing expenditures. The existing deficit leaves the government no *fiscal space* even for highly productive new spending which can sustain the current rapid growth. This means a focus on raising revenues in ways that do not choke off growth and cutting out unproductive government expenditure to make space for better, more effective, expenditures.
- Large deficits interact with an unreformed banking sector to reduce the ability of the private sector to obtain bank financing as risk averse bank managers can simply hold government debt and are under few pressures to innovate and find new customers and expand their portfolio.

However, the government’s commitment in improving the education and health status of population has not been impressive. Public spending on education relative to GDP in 2000-02 was just about 3 per cent and spending on basic education was only about 1.5 per cent. This is less than the spending by most sub-Saharan countries in Africa. Similarly public expenditure on healthcare including water supply and sanitation was just about 1.2 per cent of GDP in 2005-06.

Creation of employment opportunities also requires a variety of policy and institutional changes. The labour laws in the country, while protecting the interest of the organized labour has put a dampener on expansion of employment opportunities. A variety of fiscal and financial incentives to small scale enterprises which are supposedly employment intensive, have prevented the growth of these firms into medium and large enterprises. The Factories Act and various other regulations have only helped to perpetuate the problem. It is imperative for the government to maximize the labour content of growth.

Government policy is looking beyond just maintaining rapid growth to making growth more inclusive by addressing imbalances in the pattern of growth: too few jobs, too little growth in agriculture, lagging states and regions, and groups and people left out of progress. While social protection remains one element of inclusive growth, an empowerment approach does not seek to protect people *from* the market but rather it sees policy and public sector activity as facilitating success *in* the market. This makes empowerment foundational both for greater accountability and service delivery as well as for expanding the benefits of economic growth.

#### ROAD AHEAD FOR THE GOVERNMENT

The following steps are needed to move along the trajectory of inclusive growth:

(i) *Redefine the role of the state*: Our growing economy still has vestiges of the planning era including significant presence of state owned enterprises and large volume of subsidies arising from controls on prices and output. These need to be reformed to limit the role of the governments to public goods provision and clear cases of market failure. It is important to involve the private sector in many of the activities traditionally undertaken by the government. Public private participation in infrastructure projects would have to be promoted.

(ii) *Promote diplomacy and avoid conflicts*: In India, conflict situations have warranted substantial resources to be spent on defense. Diplomatic initiatives could release these resources for development. Reduction in defense budgets in developed countries could enhance resources available for international initiatives in human development, particularly in least developed countries.

(iii) *Reforming the tax system:* This is extremely important in emerging countries to minimize distortions and to raise revenues. High growth of GDP can bring in more than proportionate increase in tax revenues if the tax system in these economies is buoyant. The best practice approach to tax reform is to broaden the base, reduce the rates, reduce rate differences and have a simple and transparent tax system. Tax administration reform is a critical element of tax reform and should be done by keeping the tax system simple and along with legal reforms to ensure expeditious decisions. In India, since 2002-03, setting up the Tax Information Network (TIN) has helped to improve tax compliance and increased the revenue-GDP ratio by over 3.5 percentage points.

(iv) *Raising revenues through user charges on quasi-public services* would be extremely important. In some cases, it may be important to ensure that poor have access to these services through appropriate arrangements for loan finance.

(v) *Significant proportion of financing of both physical and social infrastructure will have to come from bilateral and multilateral development institutions.* However, this should not create a dependency syndrome and the assistance from these institutions should not be a means of creating employment opportunities to the consultants from advanced economies. The focus should be on building capacity in these countries.

(vi) India needs to adopt a strategic approach for human development in the lagging regions where the poor and disadvantaged sections are concentrated, not only in terms of targeting resources for human development in these regions but also to enhance efficiency in service delivery. The right type of decentralization could enhance both efficiency and accountability in service delivery. Stakeholder participation in service delivery could help to mobilize resources and enhance social accountability. This could also impart efficiency in implementation.

## ROLE OF CORPORATES IN INCLUSIVE GROWTH

High and sustainable growth that creates productive and decent employment opportunities must be driven by a dynamic private sector through market competition and market-based incentives. It is under their ambit to coordinate various existing initiatives and establish new initiatives to fill up gaps.

In many areas, private players are fairly active and doing specific sectoral work. For example, Rural Business Hub, Skill Development and Training, CSR and Social Development, Special Projects like Dungarpur, Art-N-East Project for marketing intervention for handicraft products, etc. However, areas with further potential have been delineated below:

1. Forming forums with experts in the following specific fields; Fisheries, Poultry, Dairy, Leather, Livestock to determine the gaps / interventions required, & chalk out a strategy and action plan.
2. For Urban poor, it is critical to take specific initiative aimed at improving habitat conditions in the slum areas and imparting vocational training to improve employability of youths. A partnership with resourceful organizations active in this field, such as Rotary / Lion Clubs or prestigious Religious Gurus / Institutions etc is a possible way forward.
3. Dungarpur Project of CII is a fantastic model of public –private partnership for integrated development of backward areas. CII is also dialoguing with Andhra Pradesh Government to work in partnership with them to replicate the same model. Similar projects under inclusive growth, would supplement the efforts of the companies having extensive engagement for social development.

The objective is to establish pilots for integrated development, leveraging existing government / corporate programs for social upliftment. By focusing operations in these sectors, and in states that are relatively weak, the corporate sector can complement the Government's efforts in reducing inter-regional disparities and creating conditions for broad-based, inclusive growth.



## **CONCLUSION**

In setting the re-focused policy and reform priorities, the government should identify the binding constraints to growth and target its efforts and resources at relaxing the binding constraints.

It requires a three-track approach. First, efficient, sustainable, and environmentally friendly growth must be ensured to generate new productive opportunities. Second, the economic and political playing fields must be leveled so that everyone can participate in, contribute to, and benefit from the new opportunities. Third, effective and efficient social protection systems must be strengthened to ensure that extreme deprivation is eliminated.

The major development challenge is to make the growth inclusive. This calls for significant efforts at not merely accelerating the growth rate of GDP but also changing the quality of growth itself. Increase in the growth rate has to come about by not only enhancing the investment rate but also through productivity gains.

In modern India, the sustainability of stellar growth rates will hinge on broadening inclusiveness. While the adoption of an inclusive growth strategy has been incorporated into the development process, the reform agenda required is complex and ambitious as reforms relating to policies, institutions, and governance that reduce both economic and political inequality will need to be addressed simultaneously.

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## CURRICULUM VITAE

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#### Academic Information

Year	Degree	Institution	Board	Subjects / Specialization	%
2006-08	M.B.A	Faculty of Management Studies	University of Delhi	1 <sup>st</sup> Year	69.6
2002-05	B.A. (Honours)	Sri Venkateswara College	University of Delhi	Economics	57.2
2001-02	A.I.S.S.C.E	Delhi Public School, R.K. Puram	C.B.S.E	Economics, Mathematics, Accountancy, Business Studies, English	87.2
1999-2000	A.I.S.S.E	Delhi Public School, R.K. Puram	C.B.S.E	Science, Mathematics, Social Studies, English, French	85.2

#### Academic Distinctions and Awards

- Ranked 5<sup>th</sup>, Semester 1, MBA course among 100 students 2006
- Certification in **Derivatives** Program, Dun & Bradstreet 2006
- Ranked in **top 1%** consecutively for **3 years**, B.A. (Hons.) Economics 2005
- GRE Score: 1420 ( 790/800 in Quantitative Section) 2004
- Gold Medal** - academic excellence for **7** successive **years**, D.P.S R.K. Puram 1995- 2001
- Scholarly achievement** - French (CBSE) by the **French Embassy** 2000

#### Summer Internship

Organization: **H.S.B.C** 1 April- 1June, 2007  
Department : Financial Planning Services, Personal Financial Services 8 weeks

**Project 1:** Developing enhanced sales and activity management systems for greater business predictability

**Project 2:** New Employee Integration in the Financial Planning Management channel of Banc assurance

**Project 3:** Business Expansion Ideas for Financial Planning Management

#### Summer Training Program

Organization: **Texas Pacific Group** 11 June-29 June, 2007  
Industry : **Private Equity and Valuation** 3 weeks

**Title:** Understanding Decision-Making in Private Equity

- Application of Leveraged Buy-outs & Enterprise Valuation Techniques
- Technical & Fundamental Evaluation of pipeline & newspaper industries in India

#### Projects Undertaken

Organization: **KHUSHII - NGO** May-July, 2004

- **Coordinator** of **orphanage**-Bal Vihar
- **Organized** free **health camps**, Neemrana village
- Conceptualized **sponsorship programs** & implemented financial structure

#### International Exchange Program

**Delegate**, Students' **Exchange Program, France** 2000

- **Represented India** in a one month exchange program
- Attended baccalaureate **courses** & Participated in **bilateral** seminars

#### Extra-curricular Activities

##### Positions of Responsibility

- **Associate Member**, Team **FIESTA**, **FMS** 2006-07
- **Co-Founder & President**, Environment Club, Sri Venkateswara College 2003-05
- **Organizer**, **Annual Economics Festival**, Sri Venkateswara College 2002, 03
- Elected Class Representative, B.A. (Hons) Economics, Sri Venkateswara College 2002-03
- **Vice-President**, Interact Club, affiliate - **Rotary** Club, Delhi 2001-02
- **General Secretary & Organizer**, Model **UN** Summit 2001
- Volunteered at NGO for **3 years** 2004-06
- Organized fund raising campaign for **Tsunami** relief 2005
- **Felicitated** for Social Work, D.P.S R.K. Puram 2001

##### Competitions Won

- **Winner**, **Citi Investment Bankers** Bourses Game- Trading 2007
- **1<sup>st</sup> Runners-up**, **Citi Investment Bankers** Bourses Game- Profitability 2007
- **Winner**, National Paper Writing Competition, **XLRI** Jamshedpur 2006