

Inclusive Growth – a Paradigm shift in the benefits of Economic Development

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Abstract

Growth is the mantra that has been visioned & frequently charted by the policy makers, academicians, planners and the industry captains. Although the 11th Five year plan commissioning from 2007 is talking about an accelerated growth rate of 9%; robust growth, which is being frequently talked about, had created two Indias – one which had enjoyed the fruits of growth & shined and the other section which had remained where it had been in the past. Unfortunately, this second India is larger in dimension, away from the quality of life enjoyed by the urban India. This paper aims to instigate the concept of “Inclusive Growth” as a paradigm shift in the thinking of the conventional theory of economic growth and how it could contribute in terms of its welfare implications. The paper also makes an attempt to portray how each stakeholder could contribute to remove this disparity and thus help in achieving inclusive growth.

Keywords: *Inclusive Growth, accelerated growth, 11th five year plan.*

Robert F. Kennedy.” If the society can not help the many who are poor, it can not save the few who are rich.”

Indian economic growth besides China has attracted global attention. Our economy has been growing around 8% over the last four years and is expected to make our country more prosperous and propel us to the league of developed nations by the year 2020.

The concern of policy makers is to reduce the number of people below poverty line and improve quality of life. This paper examines whether in reality has every citizen or at least majority of the society has got benefits from the much talked about high growth. Growth should be more equally shared by all, as many parts of the country remain poor. However we hear from all sources that the vast majority of our country men living in villages whose main occupation is farming, who feed the nation, continue to remain poor and the quality of life has not improved. We define quality of life as access to basic necessities like safe drinking water, sanitation and health care needs, uninterrupted power supply, roads and access to quality education. However the population live in metros, towns have reaped the benefit of economic liberalization in terms of improvement in availability of basic necessities. The economists are looking at parameters like availability of telephone per

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thousand population, improvement in connectivity through low cost airlines, four lane roads, growth in automobiles etc. The manufacturing sector is growing. The textile industry is thriving with exports under liberalized regime. Our foreign exchange reserves are soaring. The stock market is at record levels. IT sector is booming and is facing shortage of manpower to maintain the momentum. The rosy picture of all the above developments has by-passed large section of our population living in villages and a few disadvantaged in metros. This has created two "Indias" one India consisting of around 40% population reaping the benefits of growth and the rest 60% suffering with no improvement in either

employment opportunities or quality of life. We would like this unfortunate section which deserves to be part of the benefits accruing from growth to be benefited also and we use the term "inclusive growth" for this.

According to latest NSSO survey⁴, only 42% of the employable population got work in 2004-05. According to this report rural India faced 56% unemployment and urban India 63%.

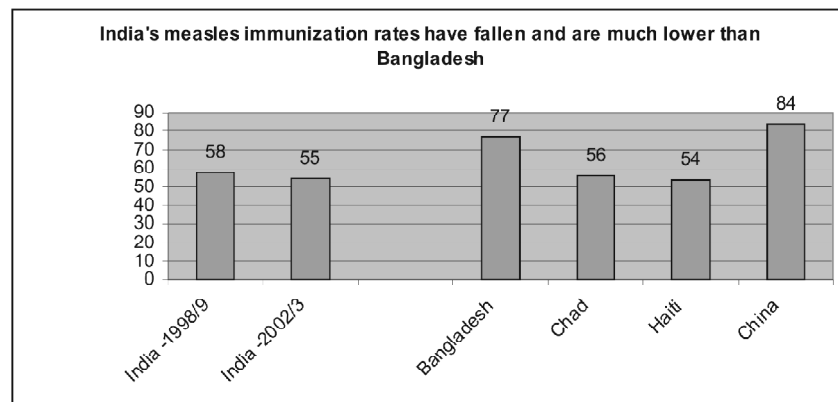
Even today India compares poorly (Table) with China, Sri Lanka, Vietnam in terms of Infant mortality rates and the % population who have access to sanitation.¹

Table: Comparisons of Infant mortality rates and the % population having access to sanitation in India, Sri Lanka, China and Vietnam

Parameter	India	Sri Lanka	China	Vietnam
Infant Mortality*(per 1000 birth)	60	13	30	19
Population with **sustainable access to sanitation	30	91	44	41
One year olds fully immunized for measles+	58	99	84	93

2003, ** 2002 statistics & +2002-2004

Figure 1: India's immunization rates as compared to other countries



Source: For India, Reproductive and Child Health survey data, for other

Even it is shocking to note that India's measles immunization rates are lower as compared to those of Bangladesh (Figure1).

The farming community and the population in the villages do not have access to minimum health care and if monsoon is bountiful the prices drop and the farmers income does not go up. If the inflation is high and the crop fails the poor farmers have a double whammy in the sense that disposable income is less and he has to pay more to procure other requirements.

For achieving the inclusive growth, does the solution lie with the policy makers or with society at large? Further whether are we in paralyzed state and whether certain actions have been initiated?

This paper looks at what are the issues that lead to the exclusion of the vast majority of the population and what are the possible alternatives to achieve the inclusive growth so that it encompasses people living in metros, towns and villages enjoy a better quality of life and aspirations of most of the society members are met. We will examine the reasons for this lopsided growth/benefits and also whether there is light at end of the tunnel. The paper suggests all the stake holders of the society can contribute besides the Government to bring equitable and inclusive growth.

Recommendations

Role of Government

The road connectivity, improvement in power supply and primary education for all is needed at

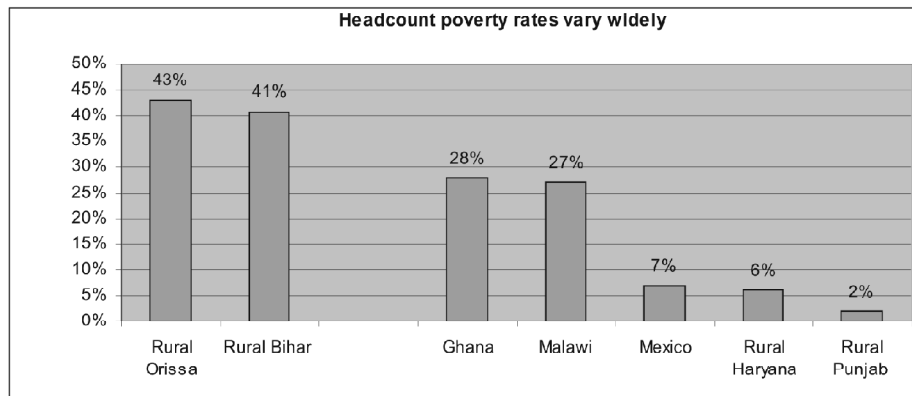
villages. It will be worthwhile to recall the program aired by NDTV regarding the inclusive growth. The program was about digital divide and titled "Bridging the 2 India's". This title is apt for the disparity in income arising out of the economic growth. Dr. Prannoy Roy - Chairman of the NDTV was the anchor. He appropriately used the term for the disparity in growth -Socialism is for the poor and Capitalism is for the rich. The participants in the discussions included M/s. Narayanamurthy(Infosys), Steve Balmer(Microsoft) and Malvinder Singh (Ranabaxy). The panel raised the following interesting question with regard to villagers requirement for improved sanitation, health care, water supply etc. The private players will participate in the above activities only when it yields economic benefit to their organisations. The current approach of the government that the above basic necessities for quality life in the rural areas as freebies is responsible for the current dismal state of affairs. Mr. Narayanmurthy said that income generation is required in rural areas so that they can pay for services. We have to balance the two sides-the capacity to pay and scope for increased earnings in rural areas. It was suggested that government can give vouchers and this can be used for getting the required service.

It is a firm belief of economists& strategic thinkers that unless a 10-12% agricultural growth is targeted the existing inequality will continue to widen and witness the crocodile jaw syndrome. It is a paradox the highest policy planners in their 11 th five year pal are targeting only a 4%

agricultural growth. How can we expect then the income level of 60 % of the population will increase? It is interesting to note that a state like Gujarat¹ had a consistent agricultural growth of around 12% for over a decade, even though Gujarat is not a resource rich state. Why this

has not happened in resource rich states like UP, Bihar, West Bengal and Andhra Pradesh? As revealed by Figure 2, some states of our country like those of rural Bihar & Orissa have worse head count poverty rates as compared to undeveloped countries like Ghana and Malawi.

Figure 2: Head count Poverty rates in some states of India as compared to those of some undeveloped countries



Source: For Indian states Deaton and Dreze (2002), for comparisons, author's calculations from World Bank Poverty Database.

We all agree that there can be growth without social justice but social justice can not be there without growth. The growth in economy should be measured along with social sector indicators like literacy, malnutrition, infant mortality etc. The rural employment Guarantee schemes, subsidy is not going to help in sustaining prosperity and best these are only short term measures. The solution lies in improving the income level of farmers and makes them stake holders in the prosperity.

We witnessed bold initiatives in 1991 to reform our economy. We are seeing the fruits of

this today being enjoyed by 40% population. Whenever a government over-regulates there is a problem. Farming community is a victim of over-regulation. Here both Central and state governments compete with each other to create road blocks for free movement of agricultural produce and offer scope for improvement of income.

Our enterprising Railway Minister has announced that he will provide space in Railway stations for farmers to market their produce directly to the end customer. Can he provide "Garib Rath" (Air-conditioned wagons) for their produce

also like for passengers, reduce the losses in transit are minimized?

The government can encourage setting up of community radios to broadcast society relevant information. The activity can be undertaken by private players similar to FM radio stations licensing policy.

Role of Banks

The banks and other financial institutions should also lend to the weaker section to have inclusive banking. We have seen the success story of Gramin Bank in Bangladesh in improving the quality of life of women in villages and how they have avoided the oft repeated paradigm of Indian bankers that poor has no collateral. Even in India private players are playing role in extending micro finance to village communities. It is reported that the repayment is as high as 98%. Can the banks lend through village cooperatives?

Private sector participation

The management guru C.K.Prahalad has written a book titled "The fortune at the bottom of the pyramid". He is advocating in this book that poverty can be eradicated through profits. He also says this enables dignity and choices through Markets.

Mr. M.M. Brown administrator of UNDP program had the following comment regarding the approach recommended by Prahalad in his above book.

"An important and insightful work showing persuasively how the private sector can be put at

the center of development, not just as a rhetoric flourish but as a real engine of jobs and services for the poor."

We have witnessed success whenever government policies have enabled private sector participation. The success stories in telecom, aviation sector are outstanding examples. Government has already launched another model of public-private participation in infrastructure developments like Roads and ports. We are witnessing improvements in this sector. Can this model be replicated in farm sector? The ownership of land can remain with the farmers and private sector brings in technology and capital. Government has to remove restriction in movement of agricultural produce and allow free movement. The farmer is paid directly and vagaries of weather and crop losses should be covered through insurance.

The value addition should take place nearer to the point of production. Food processing industries should be set up. The farmer should get a share of profit in any commercial venture. We can look at the Amul Cooperative model where the farmer has a total stake.

The cooperative model can work especially in fruits and vegetables where the retail revolution that is unfolding can source directly from these cooperatives. The availability being seasonal, humidity controlled state of the art warehouses can be built either by the cooperatives or with active participation of private sector. Private labels for jams, pickles and ready to eat food can be

made by the cooperatives with technology input from large scale retailers. The private players along with NGO's can use a revenue model generating income like advertising their products on the syringes used in injections which in turn can be subsidized.

The rural market also can generate bottom line for the companies and they can use the community radios for spreading message of hygiene and health. The rural supply chain can be handled by the villagers to improve their income. Can the rural folk become MNC's salesmen?

The success story of Ralegoan Siddhi village in Maharashtra is due to the efforts of noted social activist Anna Hazare. A drought prone village is prosperous. Why this success story has failed in getting replicated in Vidharba where the farmers are committing suicide in large numbers.

Brand Building

If California Grapes, Californian prunes, Australian apple can fetch higher prices who can build branded products for our vegetable and fruits better than the private sector? Gherkins are exported from Bangalore. These are used as pickle in the West. Can brand Bengalooru be created for gherkins

IT- Can this empower the farmers

India has tremendous advantage of talented IT pool. Corporate like ITC have initiated e-Choupal an information center at villages. The

research studies have shown that this has helped to improve income of the producer. Can the farmer network with their counterparts to access the best practices. There is urgent need for action on this side as only can create an IT infrastructure in the villages. Knowing our perennial power problems wind energy/ solar energy is the answer?

Role of Academic Institutes

Government can create world class institutes in agricultural sciences on the lines of IIT and IIM. The need to create intellectual capital is backbone of agriculture.

The academic world can help by adopting villages and spreading knowledge. Community service can be made compulsory. A part of the summer vacation should be spent in villages. The degree courses should have compulsory visit to villages and study the various aspects of village life. The research papers should focus on how to achieve inclusive growth. Private enterprise should come forward to spread primary education through tie up with academic institutions.

Conclusions

Gandhi has said India lives in its villages. The growth of the economy and wealth creation has by passed a large portion of the population. The current model of the growth can not sustain unless there is equitable distribution of the wealth and basic needs like education, sanitation and clean drinking water for the vast majority of population is made available.

How to enhance rural industrialization involving local population as entrepreneurs? How to replicate “AMUL” model where the stake holders are involved in gainful activity and enjoy higher income. The villagers have to be supported by NGO’s to act as pressure groups for delivering the promises and arrest leakage of funds.

Prof. Indiresan in his editorial ⁵ titled “Inclusive without being altruistic” has written that wealth, economic growth is bringing to individuals should be shared with the less fortunate second Indians. There is no point accumulating wealth if we can not enjoy it in peace. That is why we need inclusive growth.

In this context it will be worth while to quote from one of the answers given during the interview, Business World² had with Mr. Ifzal Ali, Chief Economist Asian Development Bank with regard to India’s strong GDP growth.. He has waved the red flag on focusing only on GDP growth.

Question: Is this dangerous in political sense?

“Unless growth is equitable, we have to watch out for the social and political instability that could result from increasing inequalities.

Within the Indian context, the Prime Minister has described the Naxalite problem as the greatest security threat facing India. There is similar problem across Asia. There is a problem in Nepal and southern Thailand and also in southern Philippines. The Chinese authorities are very concerned about the problem in western China.

It is not that I am critical about India alone. It’s a challenge for the entire Asian region. Growth is required but what is needed to sustain that growth is to increase the inclusiveness of the process.”

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