

Inclusive Growth in India: Issues and Challenges

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Abstract: Developing India's stellar gross domestic product (GDP) growth rates have masked rapidly rising *relative* and *absolute* inequalities, leading to two faces of India. A "shining India", which is competing internationally and benefiting from the forces of globalization, technological change, and economies of scale, has grabbed the attention of the media and the world. In contrast, a "suffering India", not as well publicized but even more important, has unacceptably wide swatches of its population who are poor and vulnerable. These two faces of India are both a beacon of hope and a symbol of despair. Merging these two faces will be the development challenge over the next generation for the region. This paper aims to analyse the problems and challenges in the path of achieving inclusive growth in India.

Key Words: Inclusive growth, Sustainability, Inequalities, Employment generation, Growth Strategies.

1. INTRODUCTION:

The growth of Indian Economy over the part many decades was high and satisfying, but did not make much differences to the lives of the multitude of India's poorer masses, many continued to remain miserable and pathetic. It seemed that the development process had just by passed them or excluded them from its ambit. And this happened because the poor and the weaker sections were not Empowered enough to participate in the development process. They were illiterate, ignorant, unskilled and thus, unfit to take part in development programs and draw any benefits from schemes and projects meant for uplifting their living standard. It was with the objective to end this 'exclusion' of the poor and the weaker sections from the ambit of development and the eleventh plan came with the vision of 'inclusive growth'.

Rapid and sustained poverty reduction requires inclusive growth that allows people to contribute to and benefit from economic growth. Rapid pace of growth is unquestionably necessary for substantial poverty reduction, but for this growth to be sustainable in the long run, it should be *broad-based* across sectors, and *inclusive* of the large part of the country's labour force.³ This definition of inclusive growth implies a direct link between the macro and micro determinants of growth. The micro dimension captures the importance of structural transformation for economic diversification and competition, including creative destruction of jobs and firms.

Inclusive growth refers *both* to the pace and pattern of growth, which are considered interlinked, and therefore in need to be addressed together. The idea that both the pace and pattern of growth are critical for achieving a high, sustainable growth record, as well as poverty reduction, is consistent with the findings in the *Growth Report: Strategies for Sustained Growth and Inclusive Development* (Commission on Growth and Development, 2008). The commission notes that inclusiveness – a concept that encompasses equity, equality of opportunity, and protection in market and employment transitions – is an essential ingredient of any successful growth strategy. Here we emphasize the idea of equality of opportunity in terms of access to markets, resources, and unbiased regulatory environment for businesses and individuals. The Commission on Growth and Development (2008) considers systematic inequality of opportunity "toxic" as it will derail the growth process through political channels or conflict. The inclusive growth approach takes a longer term perspective as the focus is on productive employment rather than on direct income redistribution, as a means of increasing incomes for excluded groups. In the short run, governments could use income distribution schemes to attenuate negative impacts on the poor of policies intended to jump start growth, but transfer schemes cannot be an answer in the long run and can be problematic also in the short run.⁵ In poor countries such schemes can impose significant burdens on already stretched budgets, and it is theoretically impossible to reduce poverty through redistribution in countries where average income falls below US\$ 700 per year. According to a recent OECD study, even in developed countries, redistribution schemes cannot be the only response to rising poverty rates in certain segments of the population.

2. Need for Inclusive Growth in India :

Inclusive growth is necessary for sustainable development and equitable distribution of wealth and prosperity. Achieving inclusive growth is the biggest challenge in a country like India. In a democratic country like India, bringing 600 million people living in rural India into the mainstream is the biggest concern. The challenge is to take the levels of

growth to all section of the society and to all parts of the country. The best way to achieve inclusive growth is through developing people's skills. Mr. Jeffrey, Chairman & CEO of Manpower Planning, USA, said that a multifaceted approach towards education and skills development is necessary to achieve grow. He said the challenge of skills shortage can be addressed through public private partnership. Since independence, significant improvement in India's economic and social development made the nation to grow strongly in the 21st century.

The following factors encouraged the India to concentrate more on inclusive growth:

- India is the 7th largest country by area and 2nd by population. It is the 12th largest economy at market exchange rate and 4th largest by PPP. Yet, India is far away from the development of the neighbourhood nation, i.e., China.
- The exclusion in terms of low agriculture growth, low quality employment growth, low human development, rural-urban divides, gender and socialise qualities, and regional disparities etc. are the problems for the nation.
- Reducing of poverty and other disparities and raising of economic growth are the key objectives of the nation through inclusive growth.
- Political leadership in the country plays a vital role in the overall development of the country. But, the study has found that politicians in India have a very low level of scientific literacy.
- Studies estimated that the cost of corruption in India amounts to over 10% of GDP. Corruption is one of the ills that prevent inclusive growth.
- Although child labour has been banned by the law in India and there are stringent provisions to deter this inhuman practice. Still, many children in India are unaware of education as they lives are spoiled to labour work.
- Literacy levels have to rise to provide the skilled workforce required for higher growth.
- Economic reforms in the country are overwhelmed by out dated philosophies and allegations by the politicians and opposition parties in India.
- Achievement of 9% of GDP growth for country as a whole is one of the boosting factor which gives the importance to the Inclusive growth in India.
- Inclusiveness benchmarked against achievement of monitor able targets related to (i). Income & Poverty, (ii) education, (iii) health, (iv) women & children, (v) infrastructure, (vi) environment.
- Even at international level also, there is a concern about inequalities and exclusion and now they are also taking about inclusive approach for development.

2.1 Elements of inclusive growth

Former Prime Minister, Sri. Man Mohan Singh, the key components of the inclusive growth strategy included a sharp increase in investment in rural areas, rural infrastructure and agriculture spurt in credit for farmers, increase in rural employment through a unique social safety net and a sharp increase in public spending on education and health care. The five related elements of inclusive growth are poverty reduction, employment generation, and increase in quantity & quality of employment, agriculture development, industrial development, social sector development, reduction in regional disparities, protecting the environment and equal distribution of income.

3. Challenges before inclusive growth in India:

Based on the Eleventh Plan Document, we can appoint some of the basic issues and challenges that need to be addressed to make the growth process 'inclusive'.

3.1. The Employment Challenge: Employment has emerged as a major challenge in India's growth process. India is currently passing through that phase of demographic transition' where population growth is slowing down, but the population of young people entering labour force keeps on expanding. Thus, even with rising employment opportunities, the rate of unemployment as well as the number of people seeking employment continues to increase. Inclusive growth, thus, must aim at creating larger avenues of employment. The Eleventh Plan Year Plan observes.

“The ability to generate an adequate number of productive employment opportunities will be a major factor on which incisiveness of growth will be judged.” It is, however, essential to produce a growth process in which employment would be available not only for new entrants to labour force but also for workers leaving agriculture for seeking on labour intensive industries, and small and medium scale enterprises will create employment opportunities in industrial and services sectors.

Poverty Alleviation: The persistence of poverty on the scale at which it still persists is just not acceptable. The Expert Group Report (also known as Tendulkar Report) estimates India's aggregate poverty at 37.2 percent in 2004-05. Even after six decades of development in a country that has also known some remarkable growth rate of GDP in recent years, the poverty ratio is unacceptably high. The Eleventh Plan, therefore, observes that, “A decisive reduction in poverty and expansion of economic opportunities for all sections of population is therefore, the crucial element of the strategy of inclusive growth, Rapid growth of the economy is an essential requirement to achieve this outcome since it is an instrument for achieving a steady increase in employment and income for larger number of people.”

3.2 Social Justice and Empowerment of the Disadvantaged:

The vision of inclusiveness must go beyond the traditional objectives of poverty alleviation to encompass equality of opportunity as well as economic and social mobility for all sections of society, with fixative action for SCs, STs, OBCs, Minorities and women. The Eleventh Plan emphasis. **“There must be equality of opportunity to all with freedom and dignity, and without social and political obstacles.”** This freedom of mobility must be accompanied by an improvement in opportunities for economic and social advancement. For this, people belonging to the disadvantaged groups must be provided special opportunities to develop their skills and participate in the growth process. This outcome can only be ensured by creating a feeling of empowerment and participation among these marginalized sections of society. The Eleventh Plan therefore affirms. **“Empowerment of disadvantaged and hitherto marginalized groups are, therefore, an essential part of any vision of inclusive growth.”**

Gender Equity: It is a matter of great discomfort that females, who constitute nearly half of India’s population, remain largely excluded from the development process due to gender discrimination in almost all socio-economic spheres, be it education, health or avenue of employment. Inclusive growth strategy, therefore, attempts to move beyond mere empowerment of women and recognizes women as agents of socio-economic change and growth. While endeavouring to guarantee rights and entitlements of all women, inclusive growth seeks to ensure that their needs, rights and contributions to development are well recognized and adequately emphasized.

Development with Distributive Justice: Inclusive growth is just not the conventional strategy of growth to which some elements of inclusion, such as poverty alleviation and distributive justice, have been added. On the contrary, it is a strategy which aims at achieving a particular type of growth process which will meet the objective of inclusiveness and sustainability. Therefore, it is necessary that policies for promoting growth are complemented with policies that ensure that more and more people join the growth process. It is also necessary that there are mechanisms in place to redistribute some of the gains to those who are unable to take part in the market-driven development process and thus get left behind. The policies for inclusive growth, thus, must ensure that the nation achieves a high growth rate and that the weakest sections get maximum benefit from this growth.

Social Sector Initiatives: Several programmes, schemes and projects have been Launched by the Government, both at the Central and the State levels to rapidly promote inclusive growth. These programmes and schemes aim at providing basic education, health care and other essential services to the poor, weaker and neglected sections of the society with a view to empowering them to participate in development activities and improving their employment and ending prospects through self-employment and wage employment programmes. Special attention is being paid to the women, minorities and the backward sections, including SCs and STs and specific schemes are being devised and implemented to improve their economic and social position.

In this connection mention may be made of the early schemes such as Integrated Rural Development Programme (IRDP), National Rural Employment Programmes (NREP), Training Rural Youth for Self-Employment (TRYSEM), etc. Later on, Jawahar Rozgar Yojna (JRY) Swarnajayanti Gram Swarozgar Yojna (SGSY) and Pradhan Mantri Gramodaya Yojna (PMGY) were launched till the all-encompassing Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) was implemented in 2006. Schemes to build up rural and urban infrastructure were also put into operation to help the poor. The National Rural Health Mission was launched in 2005 to provide quality health services in rural areas. Right to Education Act came into force in April 2010 that seeks to provide free and compulsory education to all children, including the children of the poor and weaker sections. These initiatives are being earnestly pursued for the empowerment of the poor and the pursuit of inclusive growth.

Inclusive Growth and Social Sector Expenditure: For growth to be inclusive, an overall high pace of GDP growth must be accompanied by major efforts to provide access to the poor and weaker sections to basic education and health facilities, clean drinking water, better sanitation, rural roads for better connectivity and other such essential public services. Such social services do not only have a positive impact on welfare of the masses, but they also provide efficient inputs for future economic growth. For example, any person who is denied the benefit of good education and health facilities is automatically excluded from participation in development activities due to illiteracy, ignorance and ill health, sundry area people may be denied the benefits of development, if their villages do not have basic physical infrastructure such as road connectivity with the urban centres or do not have proper communication system to interact with distant markets.

Thus, social sector expenditure is necessary for enabling participation of the poor and neglected social groups of society in nations economic progress, to share gains of development to improve their productivity and competence to make use of growing economic opportunities which even a high growth rate may not automatically provide.

3.3 Possible solutions

The challenge is expressed in different ways improving quality of public expenditures or increasing institutional capacity or more effective implementation or better service delivery. Since independence, India has been successful on

a number of fronts are the country has maintained electoral democracy, reduced absolute poverty by more than half, dramatically improved literacy, and vastly improved health conditions. Its achievements have, however, created new challenges. The most prominent are:

- **Improving the delivery of core public services:** The incomes rise, citizens are demanding better delivery of core public services such as water and power supply, education, policing, sanitation, roads and public health. As physical access to services improves, issues of quality have become more central. There are four avenues for reform: internal reform of public sector agencies; producing regular and reliable information for citizens; strengthening local Governments and decentralizing responsibilities; and expanding the role of non-state providers. It however cautions that planned reform alone cannot bring about the desired changes - ultimately implementation is everything.
- **Maintaining rapid growth while making growth more inclusive:** The growing disparities between urban and rural areas, prosperous and lagging states, skilled and low-skilled workers, the primary medium term policy challenge for India is not to raise growth from 8 to 10 percent but to sustain rapid growth while spreading its benefits more widely.

3.4 Reforms to improve economic efficiency:

Labor Regulations: In India's restrictive labor regulations have constrained the growth of the formal manufacturing sector. Better designed regulations can attract more labor-intensive investment and improve the job prospects for India unemployed millions, those trapped in poor quality jobs and the 80 million new entrants who are expected to join the work force over the next decade.

Financial Sector: The problems in accessing finance are a major impediment to the performance of small and medium size businesses in India. Improving financial intermediation and ensuring broader access to financial services is critical for equalizing growth. The inclusive growth needs financial institutions to be strong and efficient. The experience with cooperative banks under dual regulation, and deposit taking NBFCs with poor governance, points out the challenges in ensuring effective regulation and supervision of entities allowed to access public deposits. While aligning regulation with international best practices, a more relaxed approach is adopted in India for smaller units such as regional rural banks and small urban cooperative banks operating within a district, without compromising on solvency and liquidity principles.

Real Growth: The world over switched to the floating exchange rates after decades of fixed rates, the foreign exchange market began to grow by leaps and bounds. The world derivatives market again is, estimated at about \$480 trillion face or nominal value 12 times the size of the entire world economy. This kind of financial leveraging is to have reached incredible levels in the current global melt down. The consequences of financial growth are running far ahead of real growth already blatant. The real economy based on agriculture, manufacturing and services has been undermined and neglected. The unprecedented surge in money and capital and their free flow across economies have globalized money laundering fuelling terrorism and many other anti- social activities.

3.4.1 Agriculture and the rural economy

The raising agricultural productivity requires a return to investments in agricultural technology and infrastructure. The getting the rural economy moving will also require facilitating rural-non-farm entrepreneurship.

Lagging States

The faster economic growth has seen rising inter-state disparities. The lagging states need to bring more jobs to their people by creating an attractive investment destination. The reforming cumbersome regulatory procedures, improving rural connectivity, establishing law and order, creating a stable platform for natural resource investment that balances business interests with social concerns, and providing rural finance are important. A good understanding and coordination between the Government machinery is essential for development and inclusive growth.

Right to information act

This Act will make awareness among the people about different schemes introduced by the government from time to time and their implementation. This, will help them for better utilization of the schemes.

Public-private partnerships

Public-private partnerships (PPP) can play an increased role in the provision of services of all types, from telecommunications to health, from airport modernization to primary education. The service delivery reforms merely involving the private sector (NGOs) cannot be expected to improve services unless it increases accountabilities.

Social Development

- In social sector, significant achievements in education and health.
- In the HDI index of India ranked at 119 in 2010. India belongs to medium human development category. UNDP 2014 report says that Indian income grows, but not development and it also pointed out that income inequalities are increasing.
- The social indicators are much lower for Scheduled castes and Scheduled tribes.
- The malnutrition among children is one major problem are to be given top priority for inclusive growth.

Environment

- Degradation of land, water. Increase in pollution levels
- Challenges of climate change
- Consumption patterns of rich
- Higher economic growth should not lead to decline in our environment

Empowerment and Opportunity

In order to achieve inclusive growth, policy reforms should focus on empowerment and opportunity enabling all Indian citizens to engage with the emerging economy on fair terms. The expanding rural infrastructure is good, but without complementary investments in empowerment and opportunity will not be enough. The increased access to rural finance can be important, but only if embedded with other reforms to make the rural economy work for the poor.

Accountability of reforms

Outlays do not necessarily mean outcomes. The people of the country are concerned with outcome. Emphasis should be laid on the need to improve the quality of implementation and enhance the efficiency and accountability of the delivery mechanism. The fruits of reforms are now being enjoyed by the rich and to some extent by the middle class and they are not reaching the poor. Hence, efforts should be made in this direction.

3.4.2 Inclusive growth with respect to employment

- The generation of productive employment for labour
- force in the economy, as employment is a key to inclusive growth,
- The employment generation in all sectors, regions and for all socio-economic groups are for poorer sections of population, backward regions, lagging sectors and ST / SC / OBC / women etc
- The inclusion of small enterprises / producers preferably in a decentralized framework.
- The controlling inequalities and disparities, these results, but the following loop-holes should be paid immediate attention.
- It lacks a long term perspective in designing and in implementation.
- The weak planning component is lack of perspective planning, lack of convergence and lack of multi- level planning.
- The designing problems of NREGA: Role of institutions / social mobilization not recognized.
- The lack of commitment, and poor supervision & monitoring and Corruption.

Land

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, demand for industrialization, including SEZs, and for housing in expanding urban areas and livelihoods and social security for small holders poses a challenge and argue for a careful and calibrated approach for land acquisition.

Social Security

The providing social security is a challenge. As in the previous plans, the 11th 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, crafts men, etc., the lack of concern and commitment by the government poses a threat for the plight of these unorganized sections. The recent suicides of weavers in certain parts of the country reflect lack of concern. In this context, the recommendation of National Commission for Enterprises in the Unorganized Sector- NCEUS 2006) assume significance. The Government has introduced schemes to provide social security coverage through life cover, health insurance and old age pension on the lines recommended by NCEUS, but by restricting to sections of below poverty line (BPL) households. It will be better if this is extended to middle class households also.

4. CONCLUSION :

Inclusiveness of the population is essential for any country's development. Though India is one of the top-ranking countries in terms of economic growth as well as one of the top countries of the world in term of size of the economy, the growth distribution is distorted and imbalanced significantly. The imbalance is seen both inter-personal as well as over the geography. Our policy makers and politicians need to keep in mind that inequality and exclusiveness act as time bomb since it creates social tension and de-stabilises the entire system. The States has to learn lessons from the failures in the last 60 years and focus on the above priority areas in the next decade or so in order achieve *Golden India* and reach the state to one of the top performing states in the country. Otherwise the India may lag behind many other countries in achieving broad based inclusive growth. Fortunately, India's problem is not resource availability or skill availability, but it is more lack of proper implementation of the plans and policies that are targeted to include bottom of the pyramid. The sooner the country managers understands that is better.

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