

INCLUSIVE GROWTH AND POVERTY FADING

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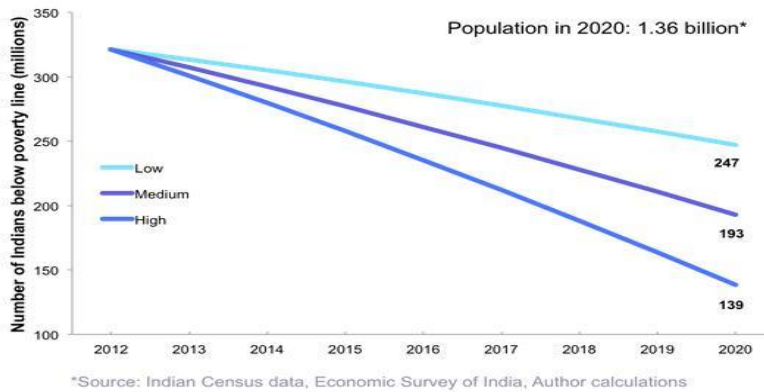
Abstract : Inequality may be the direct cause of a lack of wellbeing, but more often it has an impact on society through intermediate variables, which are generally socio-cultural or socioeconomic in nature. It refers to a myriad of inequalities, including unequal access to water and sanitation, nutrition, health, employment, housing, education, social security and free time. Policies to reduce inequality in the long term do not necessarily directly focus on income inequality, but on factors like education and skills that help to increase income and therefore reduce poverty. With better skills and a higher education, people may get a job more easily and earn more money. In other words, inequality can be reduced by improving the intermediate variables of education and skills, which lead to a higher income and less poverty. In the socioeconomic sphere, improving the intermediate variables of education and skills, which lead to a higher income and less poverty.

Key words : Inequality, Intermediate Variables and Poverty

Introduction

Traditionally, and has mainly been targeted at eradicating extreme poverty and fighting human deprivation. It includes well defined development targets, and often implies the transfer of a specific good (like money, medicines or education programmes) from one country to another. Poverty is easier to quantify than inequality. While poverty is defined according to hard minimum lines, inequality is always relative. Although there are instruments to measure inequality. It is harder to try and achieve concrete inequality rates. Inequality describes a certain relation of income or wealth between people. Dealing with inequality, therefore, can be framed as a broader development challenge. It implies addressing

the question, how to change power relations. Those who are excluded from economic, social, and political institutions do not have a share in deciding how these bodies are organized, and how capital is distributed. An example of a socio-cultural variable is India's caste system, which contributes to low literacy, poverty and low life expectancy for the members of the lowest class and castles. Inequality may also lead to social unrest and even revolution through intermediate variables like higher expectations and a sense of dignity. Global development policymakers thus face the challenge of dealing with structural causes that sustain all sorts of inequalities. The following figure shows Indian population below poverty line:

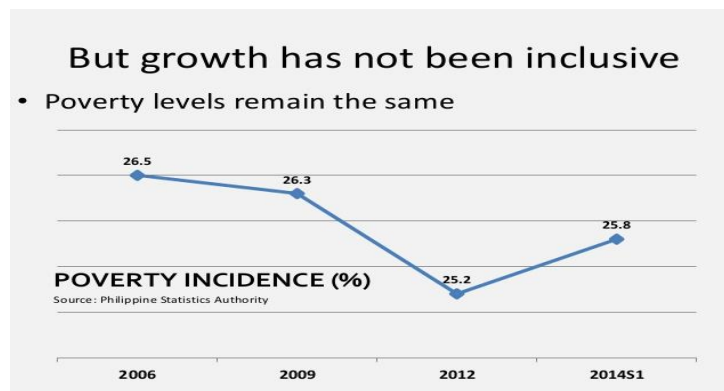


Relation between Inclusive Growth and Poverty

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 labor force. This definition of inclusive growth implies captures the importance of structural transformation for economic diversification and competition, including creative destruction of jobs and firms.

Policies for inclusive growth are an important component of most government strategies for sustainable growth. For instance, a country that has grown rapidly over a decade, but has not seen substantial reduction in poverty rates

may need to focus specifically on the inclusiveness of its growth strategy, i.e. on the equality of opportunity for individuals and firms. Other examples can be drawn from resource rich countries. Extractive industries usually do not employ much labor and the non-resource sectors typically suffer contractions associated with Dutch disease effects during boom periods. These cases may call for analysis of constraints to broad-based growth with a particular emphasis on the non-resource sectors in the economy. On the other hand, in countries starting at a very low income level and low growth, an inclusive growth approach would be very close to an approach for speeding up the pace of growth, as the main focus should be on getting the fundamentals for growth right. The following diagram shows the inclusive growth and poverty incidence:



A disaggregate look is necessitated by our main objective to identify the incidence of growth across the income distribution and the bottlenecks to the productive employment of individuals. If the focus is on the poor, in the case of the self-employed, we undertake business environment analysis through the lenses of the small and micro enterprise. In the case of wage employed, we undertake an employability analysis as well as business environment analysis through the lenses of a representative firm, potentially employing the poor.

The inclusive growth definition is in line with the absolute definition of pro-poor growth, but differs from it in the following ways; absolute pro-poor growth can be the result of direct income redistribution schemes, but for growth to be inclusive productivity must be improved and new opportunities for employment created, and the pro-poor concept has traditionally focused on growth and poverty measures whereas inclusive growth focuses on an ex-ante analysis of the sources of, and constraints to sustained, high growth and poverty reduction.

Government Strategy for Inclusive Growth

Policies for inclusive growth are an important component of any government strategy for sustainable growth and the frameworks for inclusive growth analysis are eclectic in spirit. The main instrument for a sustainable and inclusive growth is assumed to be productive employment. Employment growth generates new

jobs and income for the individual- from wage in all types of firms, or from self-employment, usually in micro firms – while productivity growth has the potential to lift the wages of those employed and the returns to the self – employed. The ability of individuals to be productivity employed depends on the opportunities to make full use of available resources as the economy evolves over time. The analysis therefore looks at ways to strengthen the productive resources and capacity of the individual on the labor supply side as well as to open up new opportunities for productive employment on the labor demand side.

The progress towards inclusiveness is more difficult to assess, because inclusiveness is a multidimensional concept. Inclusive growth should result in lower incidence of poverty, broad-based and significant improvement in health outcomes, universal access for children to school, increased access to higher education and improved standards of education, including skill development. It should also be reflected in better opportunities for both wage employment and livelihood, and in improvement in provision of basic materials like water, electricity, roads, sanitation and housing. To achieve inclusiveness in all these dimension requires multiple interventions, and success depends not only on introducing new policies and government programmes, but on institutional and attitudinal changes brought about, which take time.

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