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Consultation on
Conceptualizing Inclusive Growth

24 – 25 October, 2011
Hotel Claridges, New Delhi

United Nations Development Programme, India
Planning Commission, Government of India

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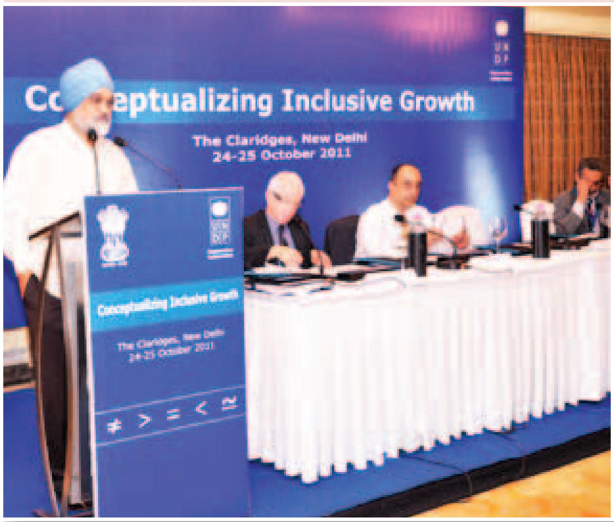
Background to the Workshop

The inadequacy of current theoretical frameworks to support analytical work on inclusive growth and the lack of clarity on the policy options for inclusive growth indicate the huge gap in both theoretical and policy work that needs to be urgently addressed. The Government of India is currently engaged with countries in the Global South in addressing persistently excluded groups would be pertinent at formulating the 12th Five Year Plan which has a thrust on faster and more inclusive growth. The experience this stage. UNDP in its role as 'knowledge broker' can facilitate the exchange of such evidence with national governments. The growing policy space for the concept of inclusive growth in the Global South and opportunities for its application in diverse country contexts necessitates a fuller discussion among these countries. The BASICS countries have a shared understanding of inclusive growth and have been experimenting with common approaches such as cash transfers and large scale employment programmes. The concept of inclusive growth appears as a common thread in these countries' national development strategies, in so far as social inclusion is not dismissed as a compensatory measure or as a mere add-on, but is considered as both its driving force and its principal goal. They have also been actively sharing experiences on policies and programmes that contribute to inclusive growth, including at the consultation organized by IPC-IG for IBSA in 2010. In continuation of this ongoing dialogue a two day international workshop on Conceptualizing Inclusive Growth was held during 24-25 October, 2011 in New Delhi.



The main objectives of the workshop were as follows:

- To build a shared understanding on the concept of inclusive growth and the theoretical foundations that enable the formulation of effective inclusive growth strategies
- To share experiences across the Global South on policies and responses that effectively address inclusive growth, especially issues of persistent exclusion
- To arrive at a core set of policy actions for various stakeholders to promote growth that is genuinely inclusive

Agenda for the Workshop

DAY 1 : Monday, 24 October 2011	
09:00 to 09:30	Registration
09:30 to 09:40	Welcome Remarks by Patrice Coeur – Bizot, UN Resident Coordinator and UNDP Resident Representative, India
09:40 to 09:50	Setting the Agenda by Pronab Sen, Principal Adviser, Planning Commission, Government of India
09:50 to 10:10	Opening Remarks by Ajay Chhibber, UN Assistant Secretary General, Assistant Administrator and Regional Director for Asia and the Pacific, UNDP
10:10 to 10:30	Keynote Address by Montek Singh Ahluwalia, Deputy Chairperson, Planning Commission, Government of India
10:30 to 10:45	Break
10:45 to 12:30	**Session 1:** Ideating for an Inclusive Growth Framework This session will focus on presenting and discussing conceptual models and analytical framework for inclusive growth. It is expected that the deliberations will lead to a more nuanced understanding and arriving at a more definitive characterization of Inclusive Growth. **Chair:** Pronab Sen, Principal Adviser, Planning Commission **Speakers:** Rathin Roy, Director, International Policy Centre for Inclusive Growth, Brazil Sajjad Zohir, Director, Economic Research Group, Bangladesh Indira Hirway, Director, Centre for Development Alternatives, India T. Palanivel, Chief Economist , UNDP Regional Bureau for Asia-Pacific Discussion
12:30 to 13:3	Lunch
13:30 to 14:45	**Session 2:** Nature, Form and Challenges of Exclusion: Experiences from the Global South This session will focus on unpacking the nature and forms of persistent exclusion in different national contexts in the Global South and identify responses that have been effective in addressing challenges of exclusion. **Chair:** Caitlin Wiesen, Country Director, UNDP, India **Speakers:** **Brazil:** Rodrigo Octavio Orair, Macroeconomics Division, IPEA **Mexico:** Rodolfo do la Torre, Head, HDR Unit, UNDP Mexico **India:** Sukhadeo Thorat, Chairperson, ICSSR and Amaresh Dubey, Professor, JNU Discussion

14:45 to 17:30	**Session 3:** Conceptualizing Inclusive Growth and addressing Exclusion In this session, the participants will work on aspects that are important for developing an inclusive growth framework: **Group 1:** Facilitated by Rathin Roy, Director, International Policy Centre for Inclusive Growth, Brazil **Group 2:** Facilitated by Sukhadeo Thorat, ICSSR, India **Group 3:** Facilitated by Rodrigo Octávio Orair, IPEA, Brazil **Group 4:** Facilitated by Ashwani Saith, Professor, Institute of Social Sciences, The Hague
17:30 to 17:45	Tea Break
17:45 to 18:15	Plenary I **Chair:** M Govinda Rao, Director, National Institute of Public Finance and Policy and Member, Economic Advisory Council to the Prime Minister Presentation by **Group 1:** Facilitated by Rathin Roy **Group 2:** Facilitated by Sukhadeo Thorat
Day 2: Tuesday, 25 October 2011	
10:00 to 10:30	Plenary II Chair: Pronab Sen, Principal Advisor, Planning Commission Presentation by Group 3: Facilitated by Rodrigo Octávio Orair Group 4: Facilitated by Ashwani Saith
10:30 to 12:45	Session 4: Synthesis of the emerging features of an Inclusive Growth Framework In this session the main features emerging from the working group discussions will be highlighted and deliberated upon to arrive at possible core elements of an Inclusive Growth Framework Presentation: Emerging features of an Inclusive Growth Framework by K. Seeta Prabhu, Senior Advisor, UNDP India Discussants: Ashwini Deshpande, Professor, Delhi School of Economics, India Jayati Ghosh, Professor, Jawaharlal Nehru University, India Rathin Roy, Director, International Policy Centre for Inclusive Growth, Brazil Open Discussion Moderated by: Pronab Sen, Principal Advisor, Planning Commission
12:45 to 13:00	The Way Forward: UNDP India and Planning Commission of India Vote of Thanks: UNDP India
13:00 onwards	Lunch

Inaugural Session

The United Nations Development Programme (UNDP) and the Planning Commission organized a two day consultation on `Conceptualizing Inclusive Growth' on 24–25 October 2011 at The Claridges, New Delhi. The consultation brought together policymakers and researchers from across the globe with the aim of providing a conceptual framework for inclusive growth.

The inaugural session was opened by Patrice Coeur Bizot, United Nations Resident Coordinator and UNDP Resident Representative, India who welcomed all the participants. He stated that the rising inequality and the persistent poverty amongst groups is a matter of concern to the governments as well as development agencies. Emphasizing the need to simultaneously focus on economic growth and socio- economic progress, he touched upon India's efforts for inclusive growth that began with the 11th Five Year Plan. Furthermore he raised concerns about the missing theoretical framework for inclusive growth and said that the requirement for the developing countries is growth that is equitable, inclusive and sustainable. He ended by bringing forward the main purpose of the consultation and thanked everyone for their participation.

The session was presided over by Pronab Sen, Principal Advisor, Planning Commission. He asserted that people are well aware of inclusive growth as a process; however, it still lacks a theoretical background. He was critical of the way in which the present planning process has often been modified for more inclusive growth as from his point of view this reduces growth even as it leads to inclusion. So he emphasized the need to have a theory behind inclusive growth and a clear understanding of the concept of inclusive growth. He questioned the meaning of inclusion – whether it implies widening the impact on the majority or increasing the reach to individuals or regions that have been excluded in the past, and ended with the hope that he would find the answer at the conference.

Ajay Chhibber, UN Assistant Secretary General, Assistant Administrator and Regional Director for Asia and the Pacific, UNDP followed with his opening remarks. He used a historical perspective on the growth process in developing countries to make the point that though poverty has been reduced in these countries particularly the Asian countries, there has been an increase in inequality. He also presented examples of countries in Asia that have experienced inclusive growth and urged that these be used as guides in the planning process by other countries. He touched upon the Kuznets hypothesis as a possible explanation for the current trend of inequality in Asia, a viewpoint shared by many analysts. In this context he emphasized the need to distinguish between two types of inequality- first, due to entrepreneurship which can be regarded as good and second, due to exclusion which is bad. He further added that inclusive growth is indeed hampered by discrimination on the basis of caste, gender, etc., and ended by saying that the growth process which is employment intensive is important for inclusive growth.

The keynote address given by Montek Singh Ahluwalia, Deputy Chairperson, Planning Commission, started with a historical background of the planning and growth process in India. made He emphasised that inclusive growth in the context of a democratic system such as India has to be understood as a multi dimensional process with poverty reduction, equity, inter regional equity, gender equity, etc., being some of the dimensions. He defined inclusive growth as improvement in every dimension, and added that in reality due to lack of necessary data it is difficult to keep track of improvements in every dimension. He then commented on the media scrutiny on the progress in developing countries being more intense than for developed countries. Besides this he mentioned the problem of allocation of resources and the difficulty of taking a decision in this regard given the political scenario. He also mentioned that the modelling exercise that needs to be resolved includes the issue of agriculture and labour intensive industrialization. He ended his address with the view that the modelling exercise needs to be such that it connects with reality as well.

Session 1

Ideating for an Inclusive Growth Framework

Rathin Roy[1]

The paper presented by Rathin Roy focused on the issues of inclusion using the specific example of social policy and social protection to determine how these can be aligned with the concerns of the Ministry of Finance. The paper presents an analytical framework to identify the links between macroeconomic and social protection policies from an inclusive growth perspective as a unifying framework and to analyze how these policies interact. It demonstrates that the ground reality in this decade is that a host of countries including India are introducing social policies to deliver macroeconomic programs. The paper also addresses the question of fiscal space for social protection.

The three overarching objectives of macroeconomic policies are stable growth, price stability and external sector equilibrium which are also the primary concerns of the Ministry of Finance. However, it is a different situation in G20 meetings of pillar 6 in Geneva because the social policies and social protection policies have different objectives depending on level of development, the kind of sociological specificity, etc. Social protection policies can be divided into two objectives. Most social protection policies are concerned with equity which is reasonable access to equality of opportunity which should permit people to use the instruments that are at their disposal to progress by some parameter. For instance if one is interested in the business of increasing incomes, one would want equality of opportunities to do things oneself to increase income. Hence, equity is not a deontological objective of removing inequality for its own sake but is highly instrumental in doing so. In a society that has sustainable growth with price stability and political stability, equity becomes an objective and social protection policies are viewed as one portfolio of potential instruments that can secure them.

The second objective is addressing vulnerability. Vulnerability is defined as the possibility of regress from an attained state of well being - good, bad or indifferent derived recently or for centuries. If something happens which is out of control and leads one to regress from that state of wellbeing then in a sense one is vulnerable and of public policy concern. Vulnerability can arise from the existence of a particular demographic or societal feature (gender, ethnicity, poverty, disability) that can impair the ability of a socio- economic group to withstand exogenous shocks, including macroeconomic shocks. Social policies at macro level of 'safety nets', actually address vulnerability.

The discussion also focused on the links between two major macroeconomic policy objectives – growth and price stability and two social policy objectives: equity and vulnerability. It is very important to establish these links between growth and price stability and growth and equity to address inclusive growth. In the late 1990s the bilateral and multilateral development agencies placed increasing

[1]Director, International Policy Centre for Inclusive Growth, Brazil

emphasis on poverty reduction in developing countries including achieving the MDGs. The focus shifted from broader issues of equity to the more specific issue of poverty reduction. Despite all the noise about poverty reduction the fundamental model in all the MDG goals remained that higher levels of growth would reduce poverty and focus on complementary microeconomic measures were missing. At the macro level, the shift to the MDGs and broadening of development paradigm did not make a difference to the way that people ideated about what could be done for growth or equity. In the post war period, the main task was to maximize growth and then, through income transfers (domestic and aid financed) and poverty reduction programmes, to use the benefits of such growth to reduce poverty. This in the author's view of is the application of Kaldor–Hicks framework. The welfare states in the advanced countries in the Global North have been following Kaldor–Hicks model and on an average they spend about 60 – 75 % of their public finances on shifting money from one sector to another.

There has been a huge debate between the states in the Global North, UNDP and the World Bank for a consensus on what is pro-poor growth. There has also been an increased focus on equality of opportunities in the education sector. But most importantly, the emerging economies are facing the challenge of redistribution. They are taking a stand and are redistributing and reducing poverty as they grow. These economies do not have to wait for Kaldor–Hicks process to kick in, to redistribute wealth after growth has happened. This resonates with the debate on jobless growth and demographic dividend which is seen as a missed opportunity. Hence, as a consequence of this real time shift and this opportunity to rethink the development paradigm, inclusive growth seems to ensure that the growth process targets better *inclusion of citizens* – as workers, entrepreneurs and consumers of public and private goods – into the delivery of growth i.e., in production and its delivery and not merely in its benefits. The more people are involved in delivering growth than just receiving its benefits, the more inclusive is the growth process.

The traditional approach to achieving the price stability objective has been to focus on the overall price level, using monetary or fiscal instruments to keep it stable. These instruments are used to target a desired rate of overall inflation and to smooth excessive volatilities in such inflation. When inflation hits the vulnerable, then subsidies and tax concessions are used to control specific prices and to ensure that poor and vulnerable groups are able to access the basic goods and services. In a survey of 40 countries, 80 % of the countries were subsidizing and giving tax breaks at the micro or sectoral level in case of the impact of inflation on poor or vulnerable. Within the inclusive growth approach in real time there are two changes which are not yet seen much in India. First, is the business of making sure that people are protected and inequality is reduced by using a broader range of multiple instruments of transfers, public works, rights based guarantees, often replacing subsidies and tax concessions? Second is the increasing recognition that social expenditure has counter-cyclical value at the macro level.

In the analytical framework it is known that macroeconomic policy analysis focuses on its own objectives as do social policies but the result is very negative. There is a dissonance in the discourse with social protection being seen purely as 'costs' to the public exchequer and macroeconomic policies being in turn being viewed as 'constraints'. But the recent experience of emerging developing economies and middle income countries shows that there is considerable potential complementarity between the two and the dichotomy is false. A simple analytical construct with the message that growth occurs through a combination of increases in the application of resources (capital and labour), improvements in the productivity of these resources, and improvements in innovation(whether technical, procedural or institutional) that enable more to be produced with the application of the same quantum of resources was presented. The key conclusion is that growth is more inclusive when the returns from each of the above growth processes from participation accrue to those on the wrong side of the income distribution divide. For example if people on the wrong side of the income divide own more labour then, the growth process which is more labour oriented is more inclusive than the one that is a capital oriented growth process. Hence, it is more about participation by the population.

Another conclusion is that the political economy approach is concerned with innovations i.e., if these innovations lead to more participation from those on the wrong side of the income divide then the innovation is more inclusive. This is essentially a public distribution problem because these returns to the economy accrue to the factors of production and who receives the returns from the production process decides if the growth is more inclusive or not.

In the author's view there are two key practical innovations. The most important is that growth is a target not a maxim and i.e., growth can never be maximized in itself but a forecast can be made depending upon the historical growth of the economy and growth targets can be established. Hence, the objective of growth macroeconomics is not to maximize growth but to achieve those growth targets. For the business process of achieving those targets, choices can be made based on the above three factors and this is the business process of inclusive growth in terms of policy. The second theoretical conclusion is that there is no factor exhaustion. In developing countries there may be a scarcity of factors of production which are also utilized to a much lesser extent than the scarcity value. Hence, in the Solow based production function, if we take away these two parametric assumptions then different methods can be determined for achieving the same growth targets.

Ensuring a more inclusive growth will require using the factors of production owned by these groups on the wrong side of the income divide more intensively to deliver growth, increasing the returns (e.g. through human capital and capability improvements) to their factors of production and increasing their share of gains from institutional and technical changes that increase overall productivity. Thus, the role of social policies is to make interventions that make it possible for all or any of the above to happen. The examples from Brazil, Mexico, India, Ethiopia, etc., indicate that the social protection plans are actually leading to higher participation in the delivery of growth rather than its benefits. So it is time for people to push aside the safety nets and focus on growth, which is the Kaldor Hicks view of growth of social protection. The objective is not to compensate failure but to enable people from the wrong side of the income divide to participate in the growth process.

Unlike defence expenditure, social protection is not it is not a regrettable necessity and delivers the inclusive part of inclusive growth. Second, it contributes to fiscal stability by delivering on the stabilization and allocation functions as much as the traditional redistribution function when not used as a Kaldor-Hicks instrument. Third, social protection is financed out of current expenditure. In developing countries, these are typically permanent in the short term and they also require an increase in expenditures to secure an increase in the supply of public and merit goods. Macroeconomic prudence requires a zero current deficit, except in times of temporary cyclical stress. With inclusive growth, these expenditures decline as a proportion of total expenditure in the long term due to the increase in the able bodied groups which require less social protection with time. Hence, the time frame is critical to assess their fiscal sustainability.

The important lesson learnt is that the social protection spending must be for highly specific objectives that deliver development results within the planning horizon. The development impact of such expenditures can then be expected to enhance the taxable capacity of the economy and allow for a broadening the ambition of the social protection programme in the medium term. If the above is true then there are ways to argue for fiscal space. First, flagship social protection programmes have low outlays as a percentage of GDP, i.e., nothing more than 2-3 % of the GDP and when compared to the expenditure on regrettable necessities like defence, their magnitude is much smaller. In Latin America MIC experience provides a real time path to finding prudence-consistent fical room if revenue growth is income elastic. Lastly, dropping the Kaldor-Hicks framework affords scope for expenditure switching and provides fiscal space within the existing resource envelope.

Sajjad Zohir[2]

The government is perceived to have more of a role in the redistributive policy and there is scope to deviate from this viewpoint and show that government has many additional roles to play in promoting the growth process. The discourse on 'inclusive growth' takes 'growth' as the central theme and chooses to define its 'inclusiveness' as an attribute. Development practices had often endeavoured to reach out to the 'excluded'. Exclusion, broadly defined, provides one entry point to conceptualize 'inclusive growth'. Literature on 'exclusion' surfaces in different sub-branches of knowledge – thus, it calls for identifying a common set of principles/arguments for better communication across the diverse (rather, fragmented) knowledge spheres. Such re-conceptualization may also be relevant for inclusive growth. It is proposed that 'exclusion' (extent of non-inclusion) be considered an 'equilibrium' outcome – so, complete inclusion in all spheres of human society would be a rare accident! Upholding this view justifies tampering with various factors that underlie a given 'equilibrium' outcome. Alternatively, introducing 'inclusive growth' in development discourse lures one to revisit the alternative approaches to poverty reduction (and inclusion). The extent of segmentation associated with introduction of differentiated products/services that are necessary to increase coverage (include) under service delivery can be included from the various factors considered for comparing alternatives. There is a need to re-establish ex ante perspective in the domain of policymaking.

In the context of inclusive growth, recognizing that the global growth pattern has implications for national growth pattern as well for distribution of income within national boundaries, the discussion below focuses primarily on a 'truncated' national economy. The growth premium (from domestic production of goods and services) is generally expected to be distributed amongst the various factor payments. By reviving the traditional concepts, a distinction can be made between various growth patterns by considering the implications in the following aspects:

1. Extent to which actor payments arising directly out of the growth process reach wider segments of the population on account of the latter having ownership or user rights over those factors. Include forward and backward production linkages.
2. Include secondary activities and subsequent factor payments arising out of multiplier effects through consumption.
3. Transfers that are not mediated through formal agencies.
4. Transfers that are mediated through formal agencies, which include government, multilateral agencies and the NGOs.

Most of the times, inclusivity of growth is studied in terms of the fifth point i.e., how much of the transfers are flowing in from formal agencies to promote inclusive growth. Here the author proposes that 'inclusiveness of growth' be defined with three variants – by considering only the first point, both first and second points, or the first three points.

There are three core principles of analytical category. First, a basic analytical category called 'agent' is used (the set may include, 'class', households, individuals, communities, governments, political party, etc.). Each agent is assumed to have a pre-defined objective. The choice of agents and their objectives are inseparable. Second, agents are considered 'rational' only to the extent that their actions are guided by the pursuit of (optimizing) some transformed value of their objectives under a set of constraints; and 'actions'/decisions may only be defined over spaces on which these objectives are defined. Third,

Sajjad Zohir

[2]*Director, Economic Research Group, Bangladesh*

exchanges between agents take place under various structures of power relations, and are sustainable only if all parties 'gain' from such exchanges, given the constraints. Whether implicit or explicit, market-based or not, the term 'contract' is used to account for all the terms and conditions of exchanges, including the physical characterization of the thing exchanged.

Additionally transactions are single-directional flows, while exchanges involve transactions in two or more directions, with two or more agents. Time- and space-contingent goods and service flows define the exchanges; and the terms & conditions of such exchanges, together constitute 'contracts'. Contracts are negotiated between various agents in different spheres of life. What drives agents to negotiate contracts with other agents is embedded in their 'objectives' and the 'constraints' within which those objectives are realized. For the purpose of this analysis, we assume that 'contracts' and exchanges among various agents are driven by self-interest. Thus, there is no transaction other than as an element of exchange. Finally, observed arrangements of 'contracts' among multiple agents and in multiple spheres are considered to be equilibrium outcomes.

Ex-ante perspective: Contracts exist if they are viable. Exclusion in a given sphere is defined as the presence of an 'agent' with whom no viable 'contract' may be defined which involves other agents in the society in that sphere. Exclusion is an equilibrium solution; and why does it exist needs to be explained. It may have emerged in a different setting and the whys may be explained only in that context. Yet it is possible that subsequent adjustments in equilibrium found it convenient to keep a given exclusion undisturbed. For example, if one buys a cup of tea then over a year the price of a cup of tea might remain the same while the size of the cup reduces tremendously. Thus, there may have been an adjustment in one element of the contract while the element on which we were focused as the element of exclusion may have remained the same.

Ex-post perspective: The general definition of exclusion applies to the subset of contracts that manifest in the forms of goods and services exchanged between providers/producers and consumers at (let us assume) prices that ensure net benefits for both parties. Thus, efforts towards 'inclusion' may be termed as 'search for viable contracts'; and a growth is more inclusive if it succeeds in establishing viable 'contracts' with the once-excluded ones. Hence, the idea is that the search for a viable contract and growth is more fruitful if it is successful in establishing viable contracts with the once excluded ones. It has been illustrated with the help of an example of 'exclusion of domestic workers from education'. This requires understanding the objective function of domestic workers, the community in which he/she is living and then think through the kind of contracts in terms of labour use that go on within the household and the kind of restrictions that are imposed by the community. Then with these constraints one needs to try to determine why an equilibrium solution excludes the domestic workers from education and then find a solution either in terms of changing an objective function or adding another service provider who has an incentive to engage in a contract with multiple parties and design a product which will then ensure inclusion.

The six types of exclusion are

- Type 1: Voluntary (choice-based)
- Type 2: Lack of awareness/information
- Type 3: Lack of choice as bound for survival/other priority needs/high opportunity cost of being included
- Type 4: Lack of effective demand (when no problem arises on account of type 2 or 3
- Type 5: Caused by social distance/exclusion (when effective demand exists)
- Type 6: Caused by physical distance/inadequate connectivity (when compared with places/markets in close proximity to growth centers)

Introducing differentiated products is a method of reaching out to the excluded ones. Hence coverage and differentiated product have a strong significance.

A singular focus on targeted figures on coverage may blind one from appreciating the segmentation process such initiatives tend to fuel. It is important to recognize that realizing MDGs pre-supposes segments in some cases; and introducing segmentations in others. And all these may converge into spheres of politics. Dispersion of growth centers at sub-national levels will increase income of those away from the center, increase the size of distant markets to attract other service providers, which in turn will reduce exclusion (and increase coverage). Strengthening grass-root organizations and their networks need to be given new meanings beyond MFI/NGOs for poverty alleviation. In order to make these agencies work towards cost-effective delivery of services, their governance and incentive structures need to be examined. Government agencies constituted the traditional network and their potential needs to be harnessed. There are trade-offs in resource allocation for 'inclusive growth' and increasing 'inclusion' in the short term through transfers. The details have rarely been addressed in the literature; and the politics with short-term concerns have traditionally dominated allocations. Tampering with equilibrium (and an irreversible move towards a new one) require actions beyond economics i.e., shaping the 'objectives' of the new generation. Investments on 'social processes' that shape those objectives have long been neglected, and a fresh look into priority areas of public investment (and policy changes) is called for. Sustained innovation in 'products' and 'agencies' is required – and a pluralist perspective needs to be nurtured. There is a need for periodic check-up and to keep an eye on the negative fallouts in the guise of increased segmentations.

There is a need for decentralizing numerical models in decision tools at the sub agency level and guiding the broad policy objectives at the national level.

Indira Hirway[3]

The author defines inclusive growth as the growth process that reduces poverty faster, that is broad-based and labour intensive, reduces inequalities across regions and across different socioeconomic groups, opens up opportunities for the excluded and marginalized not only as beneficiaries but also as partners in the growth process. It is not a goal that can be achieved in the short run though the process of inclusion should start without first waiting for a certain level of growth and redistribution to take place.

In the neo-liberal policy, inclusive growth is expected via liberalization of domestic and global markets that opens up opportunities and unleashes initiative and enterprise of the enterprising class. The initial period of growth is accompanied by rising inequalities across regions and socioeconomic groups. This happens as the share of profits increases even as there are no increases in the share of wages. Inequalities across agricultural and non agricultural sectors increases and therefore better off regions do better in the initial stages. But it is expected that in the long run growth becomes inclusive largely through (1) expansion of productive employment because that makes people active partners in growth and expands aggregate demand in the economy and (2) redistribution policies through tax revenue increases which in turn can be used for investments in infrastructure in the backward regions, social policies, health etc. This kind of a framework has two major problems. First, there are inconsistencies within the policy framework and second it excludes some important components of macro economy.

To begin with, there is the prospect of the poor receiving full employment under neo-liberal policies, but expansion of productive employment which is an important component, is not usually achieved under this policy. Rise of capital intensity and dualism, opens up trade and allows technology into the economy. This leads to a rise in the capital intensity which lessens the employment intensity in the economy. Hence, there is an increase in growth but not an adequate increase in employment. Globalization leads to expansion in exports. Exports predominantly consist of labour intensive products and therefore a rise in employment would be expected. However as these countries are globalizing at the lower end of the value chain, they have no say in the process and have to restructure their production to match the needs of the global market. As a result of which they also have to restructure the labour i.e., they would like to have flexible labour and flexible products due to which informalization happens. In order to cut the costs of production they reduce employment wages leading to poor quality of labour being turned out at the end of export production. During the process natural resources are considered inputs that can raise growth and depletion and degradation of natural resources and livelihoods are not taken into account. The destruction of these resources causes a negative impact on peoples' livelihood. This causes vulnerability in the labour market, thereby affecting their security of employment. Hence, there is no built-in mechanism in the policy framework to ensure full employment and thus employment which is the major strategy for inclusion does not work. In this scenario, the employment guarantee programmes such as NREGA play a very important role.

Second when economic growth takes place under the influence of neoliberal policies, the burden of inclusive growth falls on redistribution because employment is not able to take care of it. There are several problems with this kind of a strategy because the process of exclusion continues to create inequalities and efforts to solve this problem through redistribution does not work. Performance of an economy under the neo-liberal policy framework is monitored mainly by the rate of growth of GDP, certain macroeconomic parameters and other drivers of growth under which rate of savings, etc., are very important. In the whole process the rate of growth is always the focus as opposed to rate of employment. The political economy of rapid economic growth strengthens the alliance between the

[3]*Director, Centre for Development Alternatives, India*

state and the capitalist class, leading to crony capitalism. This unholy alliance is used to create distorted allocation of resources because it is not the markets but support from the government in the form of grants and favours that determine allocation of resources which is not a market friendly practice. For example a project in Gujarat was given 10,000 cr. at 0.1 % interest rate, 11000 acres of land was given away at below the market price, there was no binding to employ people from the local population, and continuous power and water supply was given. The total cost came out to around Rs. 20000 crores. This kind of allocation through crony capitalism is not efficient. It creates high inequalities, corruption takes place on both the sides and lower funds are available for the social sector. The political will to tax the rich and to formulate and enforce labour laws for giving a better deal to the labour weakens. It is an empirically proven fact in India that the labour department never receives the funds required to implement labour laws.

Two major exclusions that take place in the economy, which are very important from the point of view of inclusion, are exclusion of environmental resources and the economy of unpaid workers. Natural capital is an important component of total capital stock and environmental services are an important flow of incomes. Exclusion of these environmental resources is an important sustainable development issue that leads to either losses or gains in the stock and flow of natural resources which are never included in the national accounting systems. Therefore, as nature is unaccounted for, nobody ever knows what happened to the major source of livelihood of the people and the environmental impact can never be recorded. Exclusion of this macroeconomic sector makes the impacts of the changes in this sector on livelihoods of people as well as loss of non-sustainability of growth invisible. Green GDP is the best way to integrate natural resources in the policy framework. In the absence of this integration, the partial vision of the economy fails to give inputs for sound policy making as we do not have sufficient information about the impact on the employment and livelihood of many who are dependent on these resources. Also in the absence of available data it is difficult to assess the ways to improve the natural capital.

Unpaid work is another major exclusion from the neo liberal policy is. Unpaid work is something which is outside the production boundary but inside the extended production boundary of UNSNA. It includes three kinds of services. First, cleaning, washing etc., second jobs related to childcare and third voluntary services. Sometimes work related to collection of fuel and fodder for the household is also included under the unpaid work scenario. Unpaid work is important from the macroeconomic policy perspective because it takes care of the wear and tear of the labour and also nurtures human beings into creating human capital. Second, the size and characteristics are determined by macroeconomic factors, and not by household factors alone. For example, when the level of development is low, a large number of activities are performed within the household but when income levels go up as development goes up, a large numbers of activities involve expenditure in the market. Also it depends upon the provisioning of public services in the economy. If the quality of public services is good i.e., there is good drinking water and proper security, then the number of unpaid workers fall. Third, it also depends on the business cycle. When the business cycle is in the upward phase, the level of unpaid work goes down and vice versa. Hence, in short the macroeconomic factors determine the level of unpaid work in the economy.

Unpaid work also subsidizes the mainstream economy – the market and the government sectors. It rejuvenates the human capital in the absence of which the private sector would be spending more on building human capital in order to maintain the same level of wages resulting in reduced profits. Similarly if the government fails in making adequate public provisions then the work is performed by the unpaid workers due to which the government is then required to spend less on such services. This means that unpaid work is a sector in the economy along with the market economy and the government sector and it is a building block in the total macro economy. In other words the hierarchy of paid and unpaid work puts unpaid workers at a disadvantage. The labour in this sector is not in a position to fulfil

its potential which in turn does not allow the economy to fulfil its potential either. Thus, macroeconomic policies must have an impact on the unpaid sector. But this is neither known nor addressed. The neo-liberal policy framework excludes unpaid work and looks only at a part of the total economy, as a result of which the policies tend to become narrow, distorted and wrong. The policies also are highly unjust to women, who form most of the unpaid work force.

Hence, the two major exclusions from the macroeconomic policies, make these policies partial and distorted and inclusion of large sections of the economy cannot be ensured.

The author offers building blocks for an Alternative Strategy for Inclusive Growth. First, it is suggested that the boundaries of macro economics should be expanded to cover environmental resources and unpaid non-SNA work in order to get the total picture of the economy and then devise policies that are inclusive. Second, success of growth should also be assessed on the basis of generation of productive decent employment. Third, developmental goals should be integrated within the development policy framework as its organic components and not only as redistribution policies. This approach will broaden the policy framework to include the excluded and the marginalized.

T. Palanivel[4]

There are multiple definitions for the concept of inclusive growth. Some of their common features are: Growth is inclusive when it takes place in the sectors in which the poor work (e.g., agriculture), occurs in places where the poor live (e.g., relatively backward areas), uses the factors of production that the poor possess (e.g., unskilled labour) and reduces the prices of consumption items that the poor consume (e.g., food, fuel and clothing).

There has been a focus on three messages. The first message is that the rapid growth in Asia has been accompanied by significant reduction in poverty as well as significant increase in income inequality. Therefore, the experience in Asia is not a story of the "rich getting richer and the poor getting poorer." Rather it is the rich getting richer faster than the poor. In this context, growth in Asia has not been sufficiently "inclusive". The key message has been supported by the following facts:

- Asia records not only a relatively high growth as compared to other regions, but it also accelerated its growth rate. The per capita GDP growth for South Asia was just 0.6 % per annum in the 1970s, but it accelerated to 3.2 % in the 1980, to 3.3 % in the 1990s, and to 5.0 % in the 2000s. The per capita GDP growth for East Asia and Pacific also accelerated from 5 % in the 1970s to 6 % in the 1980s, and from 6.8 % in the 1990s to 8 % in the 2000s
- During the last two decades, , inequality is found to have increased in 11 countries out of 14 Asian countries for which sufficient data is available . Sri Lanka, China, Cambodia, India, Indonesia, and Nepal are some of those countries. On the other hand Malaysia and Thailand two of the Southeast Asian MIC, are characterized by declining levels of inequality –
- Why does rising inequality matter? First, increases in inequality dampen the poverty reducing impact of a given amount of growth. Second, there are reasons to believe that high levels of inequality may adversely impact future growth and development prospects
- Despite continued growth of the population, about 712 million people in Asia-Pacific were lifted out of poverty in the last 25 years, a remarkable achievement by any standards. In the early 1980s, this region was home to about 87 % of the world's poor; and this figure has now declined to 67 %. This shows that despite significant progress on poverty reduction, Asia is still home to about two-thirds of the global poor
- Despite accelerated economic growth, there is a slowdown in poverty reduction in South Asia. Poverty incidence declined to about 1.7 % in the 1980s, but slowed down to 1.6 % in the 1990s and to 1.4% in the 2000s
- Growth elasticity of poverty declined over the last three decades in South Asia – from about 0.5 in the 1980s to 0.3 in the last decade. The elasticity also declined for $1.00 a day poverty line – from 0.7 to 0.4
- This implies that South Asia's recent growth has not been 'inclusive'

The second key message is that growth in Asia has been 'less-inclusive' because of the following five factors:

1. Growth has been uneven across sectors and locations.
2. Demand for skilled and unskilled labour has also been uneven.
3. Growth has been driven by capital-intensive sectors.

[4]*Chief Economist, UNDP Regional Bureau for Asia-Pacific*

4. Income of the poor eroded much more severely as compared to the rich due to high food and fuel prices.
5. High disparities in assets and access to infrastructure impede the poor from fully participating in the growth process.

Following are some of the key highlights in empirical evidence behind this story:

1. Growth was mainly driven by industry and services. In South Asia and East Asia most of the growth has taken place in the non agricultural sector and in urban areas.
2. Due to the globalization factor, the demand for skilled labour has increased at a much higher rate than the demand for the unskilled labour. The process of manufacturing has also changed from labour based manufacturing to technology based manufacturing in the last 10-15 years. The real wage growth rate for India in the manufacturing sector increases at a rate of 12 % per annum for the skilled/professional worker as against only 4 % increase for the transport worker etc. This disparity in the wage income is actually leading to the increasing inequalities in the economy.
3. In India in 1970s or 1980s GDP was growing at a rate of 3.5 %, the employment was growing at a rate of only 2-3 %. While in the last 10-15 years the GDP has been growing at a rate of 8 % while the employment is still growing at 2-3%. As a result the employment elasticity of growth has declined over the period.
4. The rate of growth of productivity has been higher in Asia compared to other regions; and it has accelerated. Despite this, the level of labour productivity is still low in Asia when compared to the world average, which limits the creation of decent employment opportunities. As a result 45 % of the working poor reside in South Asia. Working poor are those who have employment but the remuneration is not enough for them to cross the poverty line. Globally, the number of working poor (and their families) declined from 875 to 632 million in the last decade, but it remained constant at 285 million in South Asia.
5. Share of the working poor in total employment declined from 57 % to 44 % in South Asia; but it is still high as compared to other regions (except Africa). Within South Asia, working poor rates are high in Bangladesh, Nepal and India
6. High food prices reduce the purchasing power of the poor more than that of the rich. Higher food prices decreased poor households' purchasing power by 24 % in Asia, while for rich households this decline was just 4 %. This also led to the rising inequality in the economy.
7. High inequalities in assets impede the poor from fully benefitting in the growth process. Land holding and other assets including financial assets are highly concentrated in several Asian countries.
8. High gender inequalities limit women from fully participating in the growth process. For example, women's labour force participation rate is a low 33 % in South and Southeast Asia as compared to 77 % of men; women earn only 34 % of men's wages in South Asia; women own only 7% of farms in Asia versus 18% in Africa.

The third key message of the speaker is that the public policies have also not been "sufficiently inclusive". Since the poor lack both human and financial capital, public policies that help poor to build their human capital, better manage their risks, and improve the access to credit are essential for making growth more inclusive. Hence, we need to focus on the policy framework too and not just on growth across the sectors and regions. For instance public spending on education and health is low in Asia when compared to other regions. For health services, a very high proportion of private expenditure is 'out-of-pocket'. Also Government support to agriculture has declined over time. In Asia the public expenditure on agriculture as a percentage of total government expenditure declined from 15% in 1980 to around 8.5% in 2002. The level and share of ODA to agriculture also declined from $8 to $3.4 billion; 18% to 3.5%. Good rural infrastructure, modern seeds, fertilizer, irrigation, R & D and farmer training are necessary for robust improvements in agricultural productivity and sustainable growth. Another issue is that the existing social protection programmes pare not sufficient to protect the poor from risks in Asia as they are fragmented and not well targeted. Only 30 % of the elderly receive pensions; only 20 % of the unemployed and under-employed have access to labour market programmes; only 20 % of the population has access to health care assistance. Most of the programmes do not even take risks into account.

Compared to other regions, access to formal financial services is low in Asia. Financial inclusion not only allows poor households and micro enterprises to borrow and invest in productive human capital (such as sending children to school) and productive physical capital (such as agricultural machinery), but also helps poor households in buffering sudden shocks to incomes and assets. Unfortunately, financial services are used by only a small proportion of the population across most developing regions. According to the World Bank (2010) two thirds of the adult population in developing countries or 2.7 billion people lack access to basic formal financial services. The share of the people who have access to basic formal financial services in Asia is relatively less (24 % in South Asia and 39 % in East Asia) compared to that of Central Asia and Eastern Europe (42%), Latin America and Caribbean (45%), and OECD (84%).

The suggested key areas for policy intervention is to improve access of the poor to basic health care and basic education through increasing public spending as well as ensuring quality of social services and expanding income earning opportunities for the poor by increasing employment opportunities and improving productivity of farm and non-farm activities. There is also a need to strengthen social protection systems like crop insurance plans etc., to reduce risks associated with economic shocks/ natural calamities. Lastly, fostering rural non-farm and SME activities would create employment opportunities for unskilled labourers.

It has been seen that many of the countries like India and China are now moving in the right direction with the main focus on inclusive growth in their five year development plans. India's National Rural Employment Guarantee Scheme, China's Minimum Livelihood Guarantee Scheme,, and Thailand's Universal Health Insurance Scheme are good examples of social protection schemes designed to help the poorest and most vulnerable.

Debate and Discussion

Q: Why is the language used of social policy and social protection in the discussion when we are actually talking about economic protection and economic support through macroeconomic policy? This distinction is very important to those who are working on economic justice to bring the language of economics in their efforts towards removal of poverty. Feminist economists argue that poor women are growth agents and as Indira said it is a valuation measurement failure not to see the value of what poor women are doing. Second, what is the reason that UNDP is struggling with the terms like inclusive growth when earlier we had a simple term called equitable growth. Third, it is said that since we are struggling with the trickle down theories of growth; livelihood led growth leads to bubbling up theory of growth which is what we really need to look at and not on the conceptualization of inclusiveness.

A: The reason for using the terms like social protection and social policy rather than economic policy and protection is more bureaucratic. Since pillar 6 of G20 refers to the social policy and social protection, we are also using these terms here. But at times when we are making a hardcore economic point: that social protection is not about compensating losers, and not about safety nets but it is actually about making sure that more people contribute to the growth process, then it is brought into to the realm of economics.

Equity here is not a deontological goal. We are seeking equity as an objective for its own sake. We are seeking more inclusive growth in terms of more equal participation of people in delivering the growth. And that is what differentiates it from equitable growth. To have equity, one could do all the growing and others could take and redistribute that money to everybody else. But this redistribution is not sustainable and also not inclusive. Therefore, it is equitable but not inclusive.

The reason for using the concept of inclusive growth rather than pro poor growth is because pro poor growth does not come across as inclusive. For example- a woman who is not poor would not come under the pro poor debate. Therefore, pro poor growth is not inclusive because inclusivity is a much broader concept.

Session 2

Nature, Form and Challenges of Exclusion:
Experiences from the Global South

Chaired by Caitlin Wiesen, Country Director, UNDP India, session two focused on unpacking the nature and forms of persistent exclusion in different national contexts in the Global South in order to identify responses that have been effective in addressing the challenges of exclusion.

Rodrigo Octavio Orair[5]

Notes on the relatively recent Brazilian experience of economic growth with (government led) income redistribution

Brazil had an average annual GDP growth of 4.1 % between 2003 and 2010 and there has been a reduction of 8 % in the Gini coefficient measure of personal income inequality from 0.586 in 2002 to 0.538 in 2009. Orair addressed the question of how Brazil is responding to the challenges of exclusion.

Brazil has achieved high growth after twenty years of a relatively stagnant economy. In recent times characteristics of pro-poor growth like reduction in poverty and inequality were also observed along with productive or job creating growth. Despite this in Brazil most people still have problems in accessing resources, basic social services and the country is one of the worst examples of inequality in personal income distributions on the planet.

There was lowering of inequality in mid 1990s but it was mainly due to a fall in the income of the rich. It's only since 2003 that the poor have been earning more income. On a map depicting the distribution of GDP in Brazil the Speaker showed that South Brazil was richer whereas North and North East parts of the country were much poorer. He further imparted the information that the recent 2004-08 growth of employment occurred in poorer north and north east regions. Therefore, poor were the main beneficiaries of cash transfer programmes in this period. Multiple factors contributed to improvement in inequality. First, considerable institution building took place for at least 20 years before growth started. Second, Brazil returned to democratic rule in 1985. Also, the Constitution of 1988 favoured the forces against the past centralization of power and wealth in Brazil, first by trying to implement a welfare state in a not so rich country and second, by striving to provide universal public access to health, education, universal benefits to old, unemployed and disabled. The main constraints came from tryst with hyperinflation, low economic regime, and lack of economic conditions for a welfare state. In 1994 the prices stabilized but there was still a lot of macroeconomic volatility.

As a part of institution building, there were efforts to establish a competent bureaucracy - designing and implementation of better public policies so that the government would be able to track down the poor, the old and people with disabilities. This also improved the government's ability to collect taxes and fine tune increases and decreases in tax revenue. Another important aspect to be considered is that several exchange rate crises have enforced the need to reduce external vulnerability.

Like other emerging economies, Brazil did benefit a great deal from both increased global trade since 2002 and higher commodity prices, which means, the classic external constraints to growth were lifted for a while which signalled an institutional change. A need was also felt to diversify the productive sector as the external sector was not sufficient to give dynamic effects through its domestic market. Since 1988, Brazil started to increase the aggregate tax burden that allowed for fiscal space for expansion of government transfers. Another policy that the Constitution established was that most of the benefits of social protection were linked to minimum wages. The policy of minimum wages was further accelerated in 2003. One redistributive measure in Brazil is the policy of cash transfers called Bolsa Familia programme which targeted families and provided additional income to poor people. Thus, after 2003 Brazil experienced the combined effects of the labour market (especially the unskilled and informal labour market) and a social protection structure.

The resurgence after two lost decades also happened due to financial innovations that allowed for expansion of credit (mainly to poor people). This brought a number of poor people to the market increasing both investment and consumption. There are now talks of consolidating a mass consumption- production growth model in order to increase the income of poor consumers and

[5]Public Finance Department of Institute for Applied Economic Research (IPEA), Brazil.

change the patterns of consumption towards the most modern productive sectors. These together with the economic policies created conditions to raise investment in capital goods and innovation. This guarantees productivity gains and ensures that there are no supply side constraints. On the demand side, there are interactions between social policies and conditions of bargaining in the labour market. The speaker commented that social policies in Brazil were adequate and that economic policies have some problems that need attention so that questions pertaining to financing the expansion of government cash transfers can be answered.

From a macroeconomic perspective the recent Brazilian "inclusive growth" experience can be termed a result of good external environment (relaxation of external constraints); increased and better targeted government transfers, mainly the minimum wage policy; increases in the availability of credit to the poor and larger fiscal space (and domestic saving) provided by increases in tax burden, expansion of socio and economic infrastructural investment. The important question is whether the strategy is sustainable or not. The continuously increasing aggregate tax burden in Brazil is the first policy problem that is increasingly creating resistance in the people. The aggregate tax burden cannot rise forever without hurting growth. Another concern is the rapid increase in credit in the country after witnessing the experience in the US. Also, external sector bonanza seems to be over and the shift from external demand to domestic demand is bound to hurt the current account balance. In other words sustaining growth will very likely require more external saving and debt.

Some of the major policy gaps hindering inclusive growth in Brazil were also discussed. The first being the composition of tax burden which can be improved considerably as nearly half of it consists of consumption taxes which are regressive. The personal income taxation in Brazil is very progressive at only 2.2 % of GDP against OECD average of 9 % of GDP and property taxes are also quite low at only 1.3% of GDP against an OECD average of 2 %.

Second, public expenditure is also poorly targeted and there is a need for better public education and health services. It was suggested that rather than looking at expenditure based redistributive policy, Brazil could also look into a tax based one.

While answering a few clarifying questions, the speaker revealed that Brazil has the highest interest rate on credit to poor in the world at 100 % a year making it the lowest GDP credit ratio in the world. Brazil also has extremely low savings rate making it dependent on external savings from rest of the world which makes its current account more vulnerable to the world economy. Therefore, income needs to grow so that savings expand and then it can be financed out.

In the end speaking about the bureaucracy in Brazil, he concluded that it is noteworthy that the bureaucracy/governance is improving but the problems require a better solution.

Rodolfo de La Torre[6]

Nature and challenges of exclusion: The case of public spending in Mexico

In his presentation Rodolfo de La Torre from UNDP, Mexico focused on human development and public spending in Mexico. He referred to the last Human Development Report of Mexico on public spending.

He began his presentation by emphasizing that economic growth increases private income and so the question of pro-poor growth is very important. At the same time it increases public resources and raises questions about progressiveness of public spending. More importantly, the focus should be on how equitable net public spending is.

The speaker said that one should approach public spending analysis with a human development perspective. In Mexico, Human Development Index (HDI) is calculated for different regions apart from the country as a whole. It is calculated for households and also for individuals. He spoke about a methodology which was partially utilized in 2010 global Human Development Report, using which they calculated Human Development Gap Index to define what is equitable. There was a controversy over measuring equity in public spending but they decided to use this measure.

The idea is simple and in consonance with the traditional way to measure progressivity. Ranks are assigned to regions, households, persons, etc., and it is determined if the variable in question can be income, public spending, etc., and whether it is going to the poor or to the rich or different kinds of distributions. Concentration coefficient is used which generalizes Gini index such that we get more pro-rich distribution if more spending goes to the rich in terms of income. A new approach that can be used is that normative spending be calculated for regions according to deprivation. The idea is that if a region has a larger human development gap then, it gets more public spending than others. This is a very simplistic way to conceptualize equity. A more sophisticated measure is Social Human Development aggregate function, something akin to wealth function; it incorporates a parameter that is able to establish how averse we are to inequality. This inequality aversion parameter can be modified and then we can look through different public expenditure allocations depending on how important inequality is for us.

Another important innovation in this Human Development Report is the use of OECD measures of horizontal equity which compares people having the same characteristics on the assumption that they should receive the same public spending. If we detect deviations from the normative spending then we can also detect horizontal inequity. The key to carrying out this method is to measure public spending by region or by household. Use of f certain public services have to be considered and then the value of those services estimated. Family survey is available to estimate how intensive is the use of these services. Data is also available on the extent of expenditure on education, health services, etc., incurred by families in Mexico and income transfers received by these families is available.

Mexico's human development index value is 0.75 and it ranks 56 out of 187 countries on the HDI. Growth hasn't been too high in recent years with an average of 2-3%. There are discussions on how to grow but if growth is not taking place then there should be discussions on what to do with public spending in order to improve equity in general. The speaker then gave several examples of inequality of public transfers in Mexico. About 41% of the population of Mexico lacks access to public services. The top human development income index decile receives 23% of higher education public expenditure. About 80 % of the direct agricultural public transfers go to the 10 % of producers who own more land.

[6] *UNDP, Mexico*

Speaking about the vertical and horizontal indices calculated by Mexico, he explained that positive numbers mean that there is a pro-rich allocation. The indices show that about 20% of the population with highest development receives 30.6% of the federal transfers in 2008 so there is a very pro-rich distribution. While looking at this index in terms of income ranking it is found that education has a pro-poor distribution but when using Human Development Index, it is found to be untrue. He remarked that this is one of the changes that is the result of using multidimensional index of development. This means that the Mexican federal government should be concerned that the poor are not receiving even a part of federal spending.

A pictorial depiction of the two indices of horizontal and vertical equity was presented. Information was arranged in a way that there were crossroads of services like health, transfers, education and total human development federal spending. As in a target bull's eye here means that the crossroad is reached and equitable spending is achieved. If the bull's eye was not reached it shows deviations from each kind of public spending. It was found that health spending was not so inequitable in terms of vertical equity. There seems to be an association between deprivation and public spending in case of health spending but it is not so for education and particularly for transfers. Robustness of the result was subsequently checked.

Analysing allocation of public spending according to human development gap gives another possible deviation with different inequality aversions in the more general human development function. In the horizontal equity case, deviations show how people are treated differently even when they are basically the same. It was found that 12 out of 32 states in Mexico had a pro-rich allocation of state public spending. Looking at vertical equity index by state for the year 2005, the bull's eye average miss tells us that 20% of the population with lowest Human Development Index should receive 32% of local public expenditure but the actual figure is 20%. The Municipal Horizontal equity index (HEI) by state for 2005 indicates bull's eye miss case of two equal sized municipalities both with HDI of .74 having a difference of 169% in state public spending.

In his final remarks, Rodolfo de La Torre said that Mexico's income inequality would be similar to that of the countries with the lowest inequality if public spending was as progressive as in these countries and the local public spending could be as regressive or inequitable as central government spending. Thus, explicit allocation rules are required with clear redistributive criteria for public spending in order to avoid further problems.

Sukhdeo Thorat[7]

How Inclusive Growth has been during 1993/94-2009/10? Concept, Performance and Lessons for 12th Plan

Sukhdeo Thorat started by talking about his paper co-authored with Amaresh Dubey on inclusive growth and which is probably the first attempt to estimate poverty for 2009-10. India's Eleventh (2007/-2011/12) and the Twelfth Five Year Plans (2012/13 -2017/18) have emerged as distinct from the earlier plans, in that these plans place the goal of inclusiveness at the core of the growth strategy. He referred to the paper as a work in progress and said that some of the results though systematic are subject to verification. The paper presents the story of inclusiveness for the period 1993 to 2010 and the policy implications. The study shows that growth was mainly pro-poor in the period under consideration and more so for rural areas.

The 11th and 12th Five Year Plans are significantly different from other plans as they bring the goal of "inclusiveness" to the core of the growth strategy. It is not that it was not recognised earlier, but 11th Plan highlighted and flagged the term. They also stressed that "outcome" in terms of increase in income is important i.e., income increases and poverty declines but at the same time the processes, capabilities in terms of education, health, access to income earning asset, etc., which increases the capability of the poor in taking advantage of the employment opportunities and economic growth are crucial. The two plans focus on the income poor and on those poor who need special attention due to the socio-religious group to which they belong.

Next, he spoke about the data, methodological issues and the specific objectives. The first is that to study changes in poverty incidence and growth in income for socio-religious and economic groups, NSS data enabled to examine poverty related social composition but economic groups are equally important, especially for self-employed agriculturists, non-farm, wage labourer in farm and non farm sector. They also analysed data separately for socio-religious groups so that it can be determined who exactly are the poor. Another objective of their paper was to study pro-poorness by estimating elasticity of change in poverty with respect to income and to estimate the role of growth and income distribution in reducing poverty.

There are several issues related to indicators and measurement. Data is used from National Sample Survey (NSS) and Consumption Expenditure Survey (CES) from the three most recent rounds, 1993/94, 2004/05 and 2009/10.The Official (Planning commission) poverty line for incidence of poverty is used and adjusted for change in prices using Expert Group methodology (GOI, 1993). The new poverty line is not considered as it is still under discussion. The concept of measurement of pro-poor growth was first developed by UNDP in Brazil, the Asian Development Bank and the World Bank.

The speaker then defined inclusive growth. He said that there are two views on inclusiveness of growth. First, being that inclusive growth will raise the income of the poor which is pro-poor growth. It is important as this kind of growth increases capability, and enables participation in the growth process. These capabilities can be access to education, health, asset creation, etc. He then mentioned that due to limitations of time and data the paper only focuses on poverty in terms of income and the income concept of inclusive growth.

Since, the 11th and 12th Plan did not indicate the measures of pro-poorness; they have used earlier literature for reference. The various indicators used by them to measure pro-poor growth were listed. The first being that in the absence of income data, the growth in monthly per capita consumption expenditure (MPCE, proxy for income) compared to the preceding period were used such that comparisons amongst periods is made possible. The second step was to measure whether the annual rate of change (decline) in poverty in the current period exceeds rate of decline in the preceding period.

[7]*Chairperson, ICSSR*

If this was the case then pro-poor growth can be claimed. The third method used is the elasticity of poverty reduction with respect to MPCE in the current period and it is determined if it is higher than the previous period.

As growth effect is pre-dominant in poverty reduction compared to the distribution effect, the speaker explained the relevance of the poverty line. This was in the context of the new Dandekar poverty line not being used. Poverty line is a hotly debated issue, and an alternative poverty line is yet to be settled. However, for the purpose of studying the change over time a particular poverty line does not matter (Dubey and Gangopadhyay, 1998) and distribution does not matter with change in poverty line. This is because of the nature of the distribution of expenditure.

Four broad categories of religious groups used in the study were SC, ST, other Hindu, Muslims and Christians.

The analysis of the decline in rural poverty indicated that during 1993/2010, rural poverty declined at 2.5 % per annum with a major acceleration during 2004/10 from -2.2 % in 1993/2004 to -4.4 % during 2004/2010. During 2004/10 all the social and religious groups experienced accelerated decline in poverty, particularly at a high rate for STs, other, Muslims and Other Religious Minorities (ORMs). SCs have slightly lagged behind. In economic categories, during 1993/10, the self-employed households have done better than the wage labour households in poverty reduction; non-farm wage labour did better than farm wage labour. Between the two periods, there was substantial improvement in the rate of decline in poverty for all type of households. The Monthly Per Capita Expenditure (MPCE) increased at per annum rate of 1.5 % in the two periods, with lower variation among the social groups. During 2004/10, all groups experienced positive increase in the MPCE, with marked improvement for the STs and slightly higher for Muslims. All households experienced growth in MPCE, at a relatively higher rate for non-farm self -employed households. For non-farm self-employed, the per annum rate remained stagnant.

During 1993/2010, the elasticity of poverty reduction (EOP) was - 2.4 at aggregate level, varied narrowly across socio-religious groups, higher for Muslims and others, and relatively low for SCs and STs. The growth during the 11th Plan has been more pro-poor compared with the preceding period. It was more pro-poor for Muslims and others followed by SCs but relatively low for low for the STs.

The role of growth in distribution in reducing poverty indicates that between 1993/04 and 2004/10, change in the incidence of poverty for the entire rural sector, and for all the socio religious groups has been more than could have been realised solely through the growth effect. The distribution effect also contributed in reducing poverty, albeit moderately, which had been unfavourable in the earlier period. The distribution effect has been most beneficial to the Muslims. In general, therefore, the growth has been more pro-poor during the second period (2004/10).

The analysis of decline in urban poverty shows that it declined at 2.3 % annually for the sector as a whole, at a higher rate for the others among the social groups. For Muslims, the rate of decline was the lowest at 1.8 % per annum. All the social religious groups exhibited acceleration in the rate of poverty reduction in the second period. Among the religious groups, rate of decline has been the lowest for Muslims (3.1%). Thus, in the urban sector, growth has been more poverty reducing during 2004/10 as compared to 1993/04.

During 1993/2010 MPCE in the urban sector grew at 2.4% per annum, which was significantly higher than in the rural sector. Among the social groups, increase between 1993/04 and 2004-10 was uniformly high for all social groups, with the exception of self employed Muslims, as the group exhibited only a marginal increase. The elasticity for reduction in poverty in the urban sector has been -1.4, less than in rural sector at -2.4. Between the two periods, there was only a marginal improvement in the elasticity at an aggregate level. Marginal improvement was observed in case of SCs and others, decline for STs and stagnation for Muslims. Thus, as far as elasticity of reduction in poverty was concerned, it has been relatively less pro-poor for STs and Muslims. In the case of economic groups, all four groups experienced an increase in the elasticity of reduction in poverty. For the STs, the situation appeared grim.

The speaker then remarked that the role of distribution was reversed in the urban sector. Due to growth the overall decline in urban poverty should have been about 6.8 percentage points but close to 1.9 percentage points were offset because of changes in distribution. Due to the distributional changes, STs and Muslims lost out the most, by 6.2 and 2.2 % reduction in poverty respectively.

The sector wise conclusions and policy implications were also highlighted later on. For the farm sector, the elasticity of poverty for farmers was high and with investment there was a potential for poverty to decline.. The primary policy measure suggested for the farm sector was to focus on small and marginal farmers. For farmers, as their elasticity of poverty reduction (EOP) was high one needs to focus on small farmers but the flip side is that even if there is an increase in poor or medium farmers, increase in income of farm wage labour still lags behind as its elasticity was very low. The solution lies in generating employment. An example of an innovative employment generating policy is MGNREGA. There is a dire need to ensure that agriculture itself generates employment and income so the role of the state is reduced. Small farms may not generate employment as they primarily use family labour. Medium and large farmers will require wage labour as they grow. They can be encouraged to use labour intensive technology and given incentives to employ wage labourers.

The challenge that arises is how to achieve employment growth. In the rural nonfarm sector as the EOP is quite high the focus should be on the petty producer. They have potential due to the fact that the poor are largely located in traditional sectors. So, its productivity has to be increased and improvements in technology should be made. The nonfarm wage labour should be provided with the opportunity of getting an education and learning skill.

Since, various socio-religious groups face very different sets of problems, group specific policies are required. For tribals lack of access to land is not a problem as about 45 % of them have land yet 45 %of them are poor. There is a need to provide them with technology and undertake innovation. So, the issue is not about giving them land which would be difficult but about developing technology using which they can increase their productivity. Research programmes should be set up. The problem is more complicated for Scheduled Castes as they do not have land. 65 % of them are therefore wage labour. They face discrimination both in agriculture and non agriculture sector. The solution is to provide them with education and skills so that they can make use of nonfarm employment opportunities. Education, health, skill development and employment generation programmes and policy measures are required. For, non SC- poverty is very low at about 11 %. The speaker concluded his presentation by stating that poverty can be reduced if the poor farmers can develop their land.

The questions raised at the end were very insightful and critical of the paper presented. The first question was concerning the assumption of consumption and income taken to be same i.e., savings rate taken to be same throughout the period of study despite the fact that savings rates have increased in recent years. This point was well taken by the speaker as one of the limitations of the study. The second question was on the ongoing debate on the data base of consumption coming from National Survey Statistics (NSS) and per capita consumption data coming from National Accounts Statistics (NAC). This point was also well taken by him though he mentioned that it was a challenge to work with a diversified group.

A very interesting point was then made about the elasticity estimate of poverty with respect to income being estimated as 3 % in the study. If the income elasticity is indeed 3% then, India would be able to wipe out poverty in 5-6 years. As 1% increase in income will reduce poverty by 3% and with the GDP growth rate of 8.5 % in the last 6-7 years and population growth of 1.5%, India's per capita income increased at an average of 7% in the last seven years. With 7% per capita, income poverty should reduce by 21% every year and vanish in 4-5 years. So, the elasticity of 3 % is highly questionable. The speaker stated that the work is still in progress so they will look into the elasticity estimation.

The fourth question was regarding the poverty line taken. If one is looking at elasticities and observes that the elasticity for farmers is higher than the elasticity for landless labour, and it is known that landless labourers have a much lower income to begin with, as they are poor and so 1% is going to push up percentage of farmers over the line so that their elasticity is higher than of those who are farther away from the line. If this was true then the interpretation presented on the basis of elasticity has to be questioned. Amaresh Dubey agreed that intergroup comparisons should be interpreted carefully.

Session 3

Conceptualizing Inclusive Growth and Addressing Exclusion

Note Circulated to Working Group Facilitators

In this session, the participants will work on aspects that are important for developing an inclusive growth framework viewing the issue both from the macro policy framework as well as from the point of view of exclusion. This session is critical for building a shared understanding on the concept of inclusive growth and the theoretical foundations that enable the formulations of effective inclusive growth strategies. We would request you to kindly steer the discussion in manner that the following questions are addressed.

Indicative questions that the groups could address are listed below. The questions will be uniform across groups but each will address them as per their identified focus.

1. What are the essential requirements for growth to be inclusive in India?
2. What strategies are working well?
3. What strategies are not working well?
4. How to build on the successes achieved? How to address challenges?
5. What are the 3 additional strategic actions that need to be taken to ensure that economic growth is inclusive, sustainable and equitable?

We have pre-identified participants for each of the groups. A rapporteur has been identified for each group who will take notes and help you in presenting the main points to the plenary.

Group 1: Moderated by Rathin Roy

The group took all the five questions as the basis for discussion instead of pointedly answering them separately.

The group proceeded with each member discussing their idea of inclusive growth from what he/she took away from the conference. Then the group went on to discuss the measures that can be included in the planning process to see whether inclusive growth has taken place or not. Following is the crux of the discussion;

Though the very concept of inclusive growth is just another alteration or another dimension to the usual growth story, it is more about spreading growth as and when it happens, rather than relying on its trickling down to all sections of the society. It is the situation where more and more people are participating in the high growth process, contributing towards maintaining the growth and are benefiting from the same. This is against the earlier paradigm of redistribution, one that is still partly there with the Government. However it has been seen that the slow growth and redistribution have just led to persistent inequality and poverty. One has to also understand that "growth" can never be defined from the perspective of just one group of the society and that there are social groups which have had negative experiences from the process of growth witnessed in India. The entire group also felt that agriculture and the rural sector in general needs to be focused on, no matter how one defines inclusive growth. Also focusing on agriculture does not only imply increasing the production levels but also focusing on various aspects of agriculture like distribution, marketing, etc.

Paul Divakar brought forward another aspect which is, that inclusiveness of growth is not just about the way the benefits are distributed but also how historically the excluded groups have managed to be a part of the entire process of building up the economy. So, if one looks at it that way then SC, STs and some of the backward classes along with the Muslims form the excluded classes.

In the past we have seen incomplete allocation of funds towards schemes to promote inclusion and many ministries do not even have schemes to promote inclusion for the disadvantaged sections. Also as was pointed out the funds are not allocated properly, for e.g. Ministry of Rural Development allocates majority of their funds to the NREGA which despite its popularity and success, is not an asset creating scheme for the SC and STs. Similarly the Ministry of Women and Child Development allocates majority of its funds to the ICDS which again is not a development based programme.

This is not to say that there has been no move towards inclusion at all because as Ashima Goyal pointed out, we have had some recent critical works in development that have identified certain necessary interventions needed. The financial innovation scheme in Brazil where there is a transfer program and the government is the one who takes the risk of repayment, is a good example of the same. So what is clearly needed is to design a productive intervention i.e., mere transfer of income is not the key but one should also have special innovative policies to make it possible for the excluded group to participate in the growth process. Also a multi-sectoral approach which makes sure that the SC's in addition benefit from MGNREGA and ICDS are also made active participants in all sectors of the economy, would certainly be a welcome step. The group also agreed that providing incentives to the agents/states for bringing out policies that can lead to more inclusive growth have worked well in the past and the same can be continued with. The group also felt the need to have an economists' definition of what inclusion should be: it can be something like the growth rate of income of the bottom two deciles equal to double the national growth rate.

As Rathin Roy mentioned, one major obstacle that India faces in making growth inclusive is the lack of trust in the political economy. The recent record of high luxury spending and high corruption has led to loss of confidence and trust in the policy makers. This poses an important question to all concerned that does the correct political apparatus exist to bring about inclusive growth? This is one issue that will need to be addressed by the Planning Commission even though it is not of their own making, and to do

Rathin Roy

this, social issues will have to be at the forefront more explicitly than has historically been the case.

There was much discussion regarding the move from passive to active entitlement as more inclusive growth happens in situations where people's perception about their entitlement are far more active than in the past. This led to the group penning down the following dimensions of inclusive growth:

a) Inclusivity not only in terms of income but also in terms of assets

b) Caste, ethnicity and gender

c) Regional dimension

d) Urban- Rural dimension

Lastly as a closure to the discussion, the group established some basic indicators that if achieved in the 12th Five Year Plan, will signal that some inclusion is happening:

a) Jobs

The group agreed that there is a need to create sustained and quality employment with some prospect, if not in the current term then at least in the Five Year Plans, for improvement in the quality of work and remuneration. So having an employment target in the 12th Plan can work as a measure for inclusive growth.

b) Enrolment in school

Second measure on which the group agreed is enrolment in school. However the group was of the view that instead of using enrolment at the primary level it would be better to use the number of people who successfully completed the class 10th level as a measure. This would serve as a sign-post to inclusive growth happening in Indian economy.

c) Health

The third measure which the group suggested is health. The group proposed the idea of doing away with indicators such as MMR and IMR and suggested on using NRHM data to construct new indicators of health. It was proposed that an inclusive society is one which is free from epidemics and will also have better responses to disasters, natural or otherwise.

d) Energy

The fourth dimension that the group came up with is energy. It was felt that universal access to energy is an important dimension to inclusiveness and using indicators such as universal access to affordable electricity, as means to measure inclusion in this respect was discussed.

e) Mobility

Lastly, greater access to mobility for the purpose of searching for better opportunities, should be provided. The group however could not determine a proper measure that could be used as an indicator.

Group 2: Moderated by Sukhdeo Thorat

The group reiterated that the meaning of inclusive growth has been actively discussed in the past decade, and it has been understood that it is different from equitable growth, redistributive growth and 'trickle down growth'. There is one school of thought that says that inclusive growth helps everyone, i.e., the middle class, lower middle class, etc., but it is supplemented by the fact that it helps the poor more. In this manner the aspect of pro poor growth is brought in. They observed that the UNDP's definition focuses on pro-poor growth approach. It noted that while Ravallion had said that any decline in poverty due to a mean increase in income is inclusive growth. Kakwani refuted this by saying that eventually growth will always lead to some decline in poverty, but it does not mean that it is inclusive growth. Only when the proportionate increase in income of the poor is higher than that of non-poor can it be called inclusive growth. Osmani and others have added new criteria to inclusive growth, namely that current year's growth should be more than the preceding years growth.

The group thought that what all these economists were attempting to do, was to build the process of pro-poor growth in such a manner that the income of the poor increases. This is a deviation from the earlier concept of inclusive growth, wherein the poor were supposed to benefit from growth through the 'trickle-down effect'. What is also new in the line of inclusive growth is the importance being given to processes, which enable people to participate in growth and help in the increase of the overall income. These include the concepts of health, education, assets which play a major factor in enabling growth. The additional dimension which has been added to this, of which the group made a special mention, is the concept of 'non-discriminatory, disadvantage reducing growth'. Its propagator, Carlson, argued that if the notion of 'non-discriminatory, disadvantage reducing growth' is not taken into account, then there is a reduced access to the processes (health, education etc.) which lead to inclusive growth.

From this summary, the group realised that it had to determine what aspects they accepted as part of the definition of inclusive growth and what indicators should be considered for measuring it, especially in the Indian context.

The 11th Five Year Plan includes the concept of inclusive growth but does not define it. The initial viewpoint taken on inclusive growth was that it was about processes and not outcomes. Outcomes depend on a lot of factors which may or may not be under the control of policy makers, and comes under the realm of short term policy making. It should be seen that processes enable to bring more of all the factors of production into greater use. It was realised at the core of growth , there was a need to create capacities for production and increasing this capacity to produce to enable growth. These should be achieved by processes that not only create equality but will also increase the productive capacity of the economic system. It is motivated by recognition of the fact that almost all the factors of production in India are underutilised. Unskilled labour is grossly underutilised in India. Labour needs to be brought into more productive use; entrepreneurs, despite being in large numbers in India, have very low productivity which needs to be analyzed; and the overall productivity of land (including agricultural productivity) needs to be improved, so that the people who own this land get a fair share of the returns. Thus, there is a need to identify growth processes that help achieve higher growth through these underutilised growth processes.

The second aspect was to realize, how to increase the rate of accumulation in the economy over time. Today the situation is such that with any increase in savings, there is worsening of income distribution. Although this perception is well known, this problem is not dealt with properly when measuring it. With the problem of not knowing whether the marginal propensity to save for different society is the same or different, the issue is highly contentious. There is a large body of literature which says that the groups which are excluded have a higher propensity to save. Unfortunately, this has not been measured, so it cannot be confirmed.

However, inclusive growth is no longer limited to the idea of purely promoting growth and identifying processes. It is a much larger concept. Equitable growth is no longer the idea behind inclusive growth. The idea of inclusive growth is for everybody. This is covered in two ways. One is by looking at the Millennium Development Goals and the other is to look at the original concept of human development. The original objective of human development was to try and see how human beings develop over time, which also has a distribution angle and a participatory angle to it. However, it should also include the environmental aspect, the rights of an individual, the ability to live with dignity in the society and gender equality. Although various reports discuss these aspects, the measures only pertain to health, education and income. Thus, only after considering all these aspects, should the concept of improving every ones economic condition be considered. And here lies the economic problem of the Pareto concept i.e., to make somebody better off, you have to make someone worse off. To make a poor person better off, you have to tax the rich and hence make him worse off, but that is not Pareto improvement. This is not an acceptable solution. So somewhere in between, a solution has to be found. Although choice theory has gone far into dealing with this concept, it has not been able to find a very clear cut answer. The concept of inclusive growth should go beyond the basic needs approach and should not be limited to focussing on an increase in income.

However, it also needs to be realised that inclusive growth is somewhat different from balanced development. At the end, growth of the economy and the economic parameters have to be looked into. When we look at increase in productivity the constraints that hinder the factors from increasing productivity in the processes need to be identified to achieve the optimal level of utilisation of resources. The glass ceiling, which hinders women from participating in the economy, is taken as a part of this process. It is this progressive realisation of the constraints of factors of production that enable an economy in achieving higher growth. So ultimately, inclusive growth and its aspects do get reflected in the three economic dimensions while measuring. These constraints are different for different groups, although there are some general constraints for the poor. Groups such as the scheduled caste, the scheduled tribes and the general poor need to be identified separately since these groups face different constraints. Identifying these constraints for different groups leads to the realisation of productive potential. These get included in the process issues in growth, which, when resolved, lead to inclusive growth. Here the group addressed the constraints handled by different groups and how to tackle them.

The group first focused on the gender dimensions of growth. It identified that gender is interfaced with socio religious groups. It can be seen that there are wide variations in the work participation rate between marginalised women in the urban and rural areas, between dalit women and women of other castes as well as the work they undertake. Thus, within the women workforce, there are different levels at which women have access to growth. Of course, there are general constraints which limit women from participating in the growth process. Empirically, it has been seen that most of the women are part time workers. The NSS 2004 data shows that most of the women work part time. So the concept of taking inclusive growth to the women needs to be developed. Does such a concept exist? There are societal constraints which limit women from participating in the growth process as a full time labourer, even though they are equipped and qualified to do so. But given these constraints, the issue is to take meet the women halfway rather than completely change the situation that they are in. Understanding that women can only work part time due to these constraints has implications on the production structure and to organisations and local development. It also has an implication on the final rate of growth. This issue must thus be identified and recognised to understand that women can only contribute so much to the labour market, and it should be embraced rather than not having them participate at all. Multiple options and local/ region based solutions need to be provided. From the outset, it needs to be known that it is not just one constraint that prevents women from workforce participation. The programme of setting up crèches at work places was a failure because of the fact that it addressed only one constraint (specifically that of having a young child) that prevented women from working. It wasn't that the employers had not created crèches, but because there were other factors (social, family pressures, prejudice etc.) that were not taken into account when implementing the programme of setting up crèches.

Thus, it emerged from the discussion that marginalised sections in general are excluded from the process of growth at various levels. To ensure inclusive growth, the various groups need to be identified and group specific policies need to be implemented to help create opportunities for them. This is so as there are certain constraints which affect these groups collectively rather than at the individual level.

Programs such as SEWA were seen as failures as it was difficult to replicate these programmes in other settings. The primary cause of the failure was that the policy makers failed to find the problem in the program which posed problems in replicating it. MGNREGA was also seen to have limited success in helping inclusive growth because it only led to the transfer of income and did not lead to the creation of productive assets, although it admittedly brought growth in remote areas. But the question was raised as to whether it helped the marginalised people. This is because there is a systematic discrimination against the marginalised people (Dalit women and Muslim workers were taken as examples) in the organised workforce market. Most of the Muslim women, who have a high rate of participation in the urban areas, were seen to be self employed, indicating the possible exclusion from organised labour market. Even in the unorganised sector, Dalit and Muslim workers faced seller discrimination in the market. Dalit women were discouraged from selling dairy products and participating in activities involving cooking.

These two areas posed huge impediments for the marginalised workers. The first constraint is created in the process of growth itself. In the process of increasing the factor productivity, industries and sectors which have low productivity are dismantled and closed down to create resources for building new, high productive sectors (example of China closing down factories which had low productivity was taken). The problem is that the labour market of the low productive sectors and the unorganised sectors (artisans etc.) are dominated by marginalised sections of the society. The skills required in these sectors are handed down through generations and remain confined to the marginalised sections of the society. When these sectors are dismantled, they do not get absorbed in the new industries and sectors because of the fact that they have no identity and they face discrimination in these organised sectors (which is why they were in the unorganised sectors in the first place). Thus, the group felt that the low productive marginalised groups must be identified. They should be provided with financial assistance, and also with an insurance against discrimination in the market, because unless their products are selling in the market, they will automatically be pushed out of the sectors.

To help increase the productivity of these backward groups, the need to focus on health and education as factors that are ends in themselves was stressed. Investments in health and education have incremental effects on the growth of the economy, and must be incorporated while planning for inclusive growth. Education has always been years behind the industry standards, and has been delinked from the market scenario. Access to education for the semi-skilled workers has also been a problem. This has resulted in a snowballing effect over the decades, making it difficult for those involved in traditional sectors to make a transition to those industries which pay higher. Although MGNREGA caters to the unskilled workers, there is no such program for semi-skilled workers. A program is needed to ensure that there is some sort of linkage between what educational programmes deliver and what the industry requires for these workers. Here, it was highlighted that a 'National Vocational Council' has been set up to devise a curriculum along with the industries to help make courses which are demand driven. It is hoped that this will be an answer to the need to increasing the skills of workers and increase labour participation.

It should be noted that even in this sphere, there is a problem of discrimination in schools, which leads to high dropout rates. It is understood that the problem of discrimination, is not a single generation problem but a problem across three generations. Although programs such as Ashram schools have tried to deal with this issue, it has had only limited success. It is hoped that with better implementation this program will achieve better results.

Health was also highlighted as one of the instruments to facilitate inclusive growth. A national health policy is the need of the hour. But there was no clear answer to the question of inclusion of non productive workers (old, disabled etc.) into the framework of a national health policy, although there was an agreement to a need to accommodate them.

The group finally concluded with the notion that inclusive growth should be spatial, as opposed to having growth poles in the economy. Opportunities needed to be identified to distribute growth spatially across socio-religious groups. As of now, there is a high migration of workforce in the economy. Focus should be placed on backward regions and backward blocks at the local level so that inclusive growth is spatial in the economy. For example, in agriculture, local distribution systems must be organised and developed so as to increase growth in these areas, although in the short term, growth might decrease. Markets should be created at the local level and based on this, a large framework of markets needs to be created. This will only require low amount of resources and might involve lesser risks. This is better than investing huge resources at the national level to create a market for the produce.

Also discussed...

The real focus of inclusiveness is in those activities that have low levels of capitalisation. Here, the marginal productivity of capital is extraordinarily high, much higher than in any capital intensive activity. But systems will not permit capital to move towards this area because of a risk factor that is associated with it. Inclusive growth would thus identify these risk factors and mitigate them. So a businessman might make productive use of capital in a particular context.

While talking about inclusive growth, other aspects of social welfare functions (malnourishment etc.) do not vanish. These are considered separately and are an end in itself, but not in the purview of incorporation in the processes of inclusive growth. Income growth process must itself be inclusive in addition to what it is doing on the social side. The inclusive growth process might not address some of the social issues while aiming for inclusive growth. The end may not be in the objective function. Planning problem involves a multidimensional set of objectives which is optimised over the horizon which are ends in themselves. One important component of that plan is economic growth. It is the generation of income within the economic system which allows the individuals to buy what they want and the planner to meet other objectives of social welfare problem. Inclusive growth is thus concerned only one part of the planning process. The other part (social welfare) is not being considered at the moment).

Thus, we are looking at a growth model that is different from a capital accumulation model. Today the growth component of the plan is a purely capital accumulation model which is not right. Once we have the model, we integrate it with the overall planning framework, and these objectives will continue to be an end in themselves.

Group 3: Moderated by Rodrigo Octávio Orair

The problem of conceptualizing inclusive growth and addressing exclusion was intensely discussed. The discussion was structured on the five questions and each question was dealt with after sharing the experiences from Brazil, India and Mexico. Similarities in the socio- economic structures of the three emerging economies allowed the panellists to recommend strategies which had worked well in either Brazil or Mexico for problems which India is currently facing in its path to achieve inclusive growth and address exclusion. The questions were based on identifying the essential requirements for growth to be inclusive in India, identifying strategies which have worked well in the three countries and also identifying strategies that have not worked well. The group was required to recommend strategies to build on the successes achieved and to address the challenges faced in the process. Further the group was also required to suggest three additional strategies that need to be taken to ensure that economic growth is inclusive, sustainable and equitable.

The essential requirements for growth to be inclusive in India were discussed and identified. It was observed that the poor need to be a part of production process and not just remain beneficiaries of the process. There is a need to look beyond the economic aspects of growth as these are inadequate and there is a need to broaden the scope of the growth process so that it incorporates both social and environmental aspects. Another basic requirement is to ensure equitable distribution and access to resources, power and social services during the growth process and not before or after it. An example demonstrating the lack of equity is the plight of Dalits in India, as 65 % of them are landless labourers which severely hinders their participation in the growth process. Constitutional provisions guaranteeing equality of all needs to be implemented and anti-discrimination legislations should be passed. To make growth inclusive, institutional mechanisms are required to deal with the excess supply of unskilled labour. The mechanisms should include providing education and skill based training to the poor and other mechanisms in the form of Condition Cash Transfers (CCT) or minimum wage schemes. The intervention by the government should not be seen as introduction of distortion in the market but it must be realized that the real distortions are the excess supply of labour and a large portion of the population being deprived from opportunities and hence these measures are required to remove these distortions. Employment and enterprise should be brought closer to the place of residence of the labour households as the households who have to migrate in search of work face discrimination and relocation problems such as inability to understand local language and culture which may also hinder the education of children in the migrating labour households. This has partly been dealt with through the MGNREGA but more needs to be done as it only provides hundred days of wage-employment.

A major reason for the lack of inclusive growth in developing countries is the absence of specific contracts and more specifically the absence of opportunities which should otherwise be provided by the market or through state intervention. Market incentives should be provided that encourage job-creating processes and this includes adapting technology to be simple, practical and labour intensive. In Brazil, the infrastructure provided by the government mainly suits the large farmers who practice mechanized agriculture and which is not employment generating. Thus, policies are required for making small scale farming both productive and sustainable and a multi-pronged strategy should be adopted that not only involves providing access to land but also access to inputs such as credit, infrastructure, marketing support, skill training and education and avenues for entrepreneurship. Public spending needs to be progressive and should focus on housing, health, education and other basic social services particularly for the marginalized regions and groups. Public spending in these areas is essential as the profit driven private sector cannot be expected to provide these social services. An example of the poor state of health services in India is the case of Maleghat district in Maharashtra where out of three hundred villages only ten of them have a primary health centre and the incidence of child mortality and malnutrition in these villages is very high. When a large proportion of the population is deprived, a general growth process may not work and differentiated policies are required to remove discrimination, provide equal opportunities to the deprived and include them in the mainstream economy. However, a basic problem when policies are framed targeting specific segments of the population is that these policies prevent the market from acting as one unit and segment the market itself which leads to several externalities. Hence, focus should not be on policies focusing on segments of the population but rather on identifying and interlinking the segments.

The private sector needs to be regulated to ensure transparency and competition which works to enhance productivity, efficiency and innovation which will generate employment opportunities and raise incomes. The model of economic growth should not be dualistic in nature and the gains of higher productivity and technological innovation should diffuse to the other productive sectors of the economy. An example of this dualistic growth in India is the presence of a technology driven information technology sector which yields very high incomes and profits to some individuals. On the other hand there exists a large languishing informal sector which is gaining very little from the booming IT sector. This is because the private sector is market driven and it prioritizes profit maximization while ignoring people who are not a part of the business plan. Also, the market process is often discriminatory towards the backward classes and often entry barriers are placed on the basis of social origin. An example is when the government employs individuals from the scheduled castes as cooks for the mid-day meal system in schools it is often observed that students refuse to eat food cooked by them. Therefore, solely depending on market forces to lead economic growth results in a growth process that is neither equitable nor sustainable. According to the 2001 Indian Census the youth aged between 13-35 make up 41 % of the entire populations and hence the growth process should also aim to build on the 'youth dividend' to contribute to its progress.

The strategies that are working well in Brazil and Mexico can be adapted in India. The strategies already working well and that need to be further bolstered are Government transfers in the form of CCTs along with universal rights to basic education and basic health. The CCTs must not be viewed as just costs to the government and must be seen as part of a process for imparting dynamism to the local economy as the cash is spent almost entirely on consumption by the poor who have the highest propensity to spend . Another impact of the CCTs is that they increase the bargaining power of the workers. Also, a multi-pronged approach with social security for the elderly is working well in Brazil. Financial innovations which link credit to government transfers has been successful in both Brazil and Mexico. In Brazil credit has been linked to pensions and in Mexico it has been linked to CCTs. India can explore these strategies for providing credit to the poor especially when micro-finance in India is mired in controversy. Quotas for Scheduled Castes and Scheduled Tribes in the government are working well in India as they are helping in joining these backward sections with the mainstream of society. Hence, it is important that entitlements for the backward sections are well implemented. The information technology revolution has led to an Improvement in communication services which has led to greater access to information for the general masses. The Right to Information Act (RTI) has also been successful in improving transparency and accountability in government functioning.

There are many strategies which aim at inclusive growth but are not working well in India. Public spending on social services and rural development is not progressive and of a poor quality. And the Public Private Partnerships are not working well as public money is being used for private profit as in the case of prime land being allotted to large private hospitals at concessional rates on the condition that they will treat poor patients for free but this rarely happens in practice. Also, there is lack of coordination between federal and provincial governments in Brazil, India and Mexico. There is lack of adequate co-ordination between government ministries and programs and there is a lack of result orientation in government spending. Another drawback is the lack of a proper evaluation of government programs which would have very important implications for the efficiency and delivery of services.

The strategies that have been successful and need to be built on are the current IT revolution that can be used to spread education, health and other social services across regions and also to encourage greater engagement of the community in the monitoring of development outcomes. The challenges for achieving inclusive growth are due to absence of an Inclusive growth framework for emerging economies and the lack of an environment of political, economic and price stability which are essential for creating an environment conducive for growth.

There are three additional strategic actions that have been identified and need to be adopted to ensure that economic growth is inclusive, sustainable and equitable. These are the equitable distribution of resources and basic social services including improvement in social security; fostering employment and entrepreneurship which are development oriented and creating an environment of political and economic stability.

Group 4: Moderated by Ashwani Saith

The group made an attempt to comprehensively answer all the five questions posed to them.

At the onset of his presentation Ashwani Saith said that if there is a need to have a clear conceptualisation of inclusive growth it should be from the people who are actually excluded The presentation progressed with him drawing a map of how people get a good life. He accentuated that they start with a vector of endowments and that vector converts into a vector of entitlements which in turn translates into a vector of basic needs or functionings, which definitionally are constituents of wellbeing. He then went on to label the endowments and the entitlements vector as part of the primary process focussing fundamentally on production. The basic needs or functioning vector is linking up to the secondary process of transfers wherein the adjustment of distributional outcomes takes place. The group felt that there is a tug of war in a policy sense between the primary and the secondary processes. On the one hand there are people pulling on the growth side and on the other hand are the representatives of the excluded groups who are pulling on the secondary side of the economy as they are not getting adequate purchase on the primary front. He stressed that the two forces together seemed to have formed a strategy which is primarily the framework within which we are thinking.

The group agreed that the central discussion should be on how to help the poor get a greater share in the distribution of income by enhancing their productivity. The group uniformly voiced the opinion that growth should originate from the people who are excluded. But the poor people lack assets and although we can raise productivity the impact on growth process will be constrained. Thus, it is imperative to focus here on the possibility of redistribution of assets to get the required scale effects. Therefore, the core concern here is clearly employment as there are bound to be institutional constraints on assets strategy.

The group members also pointed out that it is important to lay stress on the question what do we actually mean by growth? Suryanarayana contributed to the flow of the discussion by citing one of his works which said that inclusion should be looked at in the domain of production, income and expenditure. His emphasis was on studying the aspects of inclusion from the primary process side rather than just expenditure which focuses on the secondary side of the economy.

The group then went on to argue that we must go beyond this and look at things which are not included in the measurement process. One of the issues was the way in which we deal with the environment and natural assets, second was how we deal with unpaid labour. A very important point that the group unequivocally emphasised was that of inclusion of these aspects ex ante and not after the actual realisation of the problem. Inclusive growth needs to be seen as one of the cornerstones of fiscal policies and thus post-ante inclusive strategies which serve only remedial purposes need to be avoided. The mechanisms of creating fiscal spaces to fund growth need to come from a comprehensive analysis of India's realities i.e., its informal and complex labour markets and pervasive poverty which in themselves cannot be served through incremental responses. It was also felt that if these issues do not get embedded in the measurement process then we become prisoners of the idea that faster growth is better. The group discussed at length the idea that 'Slower Growth May be Better'. Though this notion might not go down well with many economists and social scientists, but slower growth would be more purposive as it would facilitate the inclusion and participation of the excluded players in the production process.

The three crucial aspects of growth that need to blend harmoniously are faster, sustainable and inclusive growth. There is friction between the faster and the inclusive aspects of growth. A target that is smaller in terms of a conventional definition of growth would be more acceptable in a wider definition of growth.

The group's perspective as to what worked well and what did not:

Primary process:

- ICT services exports have done brilliantly well in India.
- Agriculture has not worked well.
- Access to productive assets and environment is not efficient.
- Urban development and migration have not done well on the primary front.

Secondary process:

- Done very well on MGNREGA in terms of it being a very powerful intervention, but with poor implementation. MGNREGA is about generation of productive assets and on that front the scheme fails to give a positive feedback.
- Another aspect which was brought up in the discussion was that of an institutional failure in the light of a contractual black hole. There is a principal agent issue wherein the agent would be willing if the created asset gets destroyed. The right of destruction of an asset rests with the people who actually created it. If functional rights on property are established then we can work out returns not only to a day's labour but also returns on longer term profits. This would enhance their productivity and thus production.
- Rights driven approach which has largely come from the civil society is a great plus. Quality of norms in terms of accountability is not up to the mark.
- A major failure in terms of health services. This gap if not filled will lead to erosion of assets and livelihoods. A framework where health services are free at the point of delivery is a significant step.
- Insurance is the greatest market failure.

Institutions:

- Governance issues (schemes/scams) with poor performance.
- Very poor recognition of poverty.

There should be more creative thinking as to how inequality at the top can be harnessed or controlled and can be linked to redistributive aspects.

The group also pointed out that it is essential to look at what are the factors in terms of the capabilities and constraints that allow a particular group in the society to grow while the others do not. Measures of inclusive growth should identify that a particular section of the society is unable to access the productive process adequately. For instance women and the physically disabled are less advantaged in terms of social inclusion. We should look at people who want to be workers but cannot be workers because of a disability. They should have a greater share in the process of cash transfers.

Another key point that was highlighted was a demand for equal citizenship. Residents of a country are equal in front of the court of law but are actually not equal. The focus of the policies should be addressing the issue of internal exclusion in terms of quality of provision of education and health services. Here again the question of equal citizenship comes up. Success of policies should not only be judged in terms of numbers, quality of inclusion should be brought into limelight.

Growth in agricultural productivity is a key challenge. As per estimates, 75 % of the population lives in rural areas of which 60 % is dependent on agriculture. There is a need to shifting focus from service sector which has a skewed employment structure to agricultural productivity as that is what would actually impact inclusion in the growth process.

Overall growth means three sources of well-being which are the market, environmental services and the unpaid services. The question is how should these three sources be included as none of these can be left out of the ambit of the growth process. The path to better inclusion needs to integrate economic growth with faster poverty reduction strategies, enhanced human capabilities and equitable distribution of income.

Session 4

Synthesis of the Emerging Features of an Inclusive Growth Framework

K. Seeta Prabhu[8]

The closing session of this consultation aimed at determining how inclusive growth can be understood better, what are the indicators of inclusive growth and how further queries about inclusive growth can be resolved. For this purpose those who are concerned with social exclusion and those who deal with macro-economic framework can communicate to understand the factors that can be the underpinning for inclusive growth in the Indian context. It is important to learn from the experiences of other countries not in terms of policies and programs but about the elements of framework that could help. In the plenary session it was pointed out that inclusive growth is not only pro-poor growth but includes many other elements like rising food and fuel prices, and rising inequalities. In this context, as Kuznets suggested, the growth models point to increasing inequalities as growth occurs and then falling inequalities as growth continues to rise but there is no certainty about the latter part. Thus, inclusive growth is not just poverty reduction but it is a multi-dimensional concept. There is a need for better understanding of the concept and aid the emergence of a theoretical framework. Rathin Roy emphasized two changes that should be incorporated in the inclusive growth approach. First, is that the objective should not be to maximize growth itself but to achieve a preset growth target and second is to ensure that scarce resources are utilized to their full potential, i.e., there should be factor exhaustion. Moreover, Sajjad Zohir pointed out that the extent to which factor payments arise directly out of the growth process reaches a wider segment of population on account of the latter having user rights over factors. Extending factor payments using both forward and backward linkages and secondary activities on subsequent factor payments arising out of multiplier effects through consumption is also essential. Another point which was raised was the absence of viable contracts for the needs of the excluded to be corrected. Some factors like inclusion of business communities, environment factors and unpaid work were also stressed as factors without which it is difficult to create an inclusive growth framework.

The process of inclusive growth is a long term process as it takes a long span of time for fruits to fructify if the foundations are laid now. Also, slower growth can also be a target. It is not necessary to maximize the target while we aim for inclusive growth but it is important to include people in a manner so that everybody contributes equally to growth that occurs across all the sectors of the economy. To ensure this, equitable access to land, credit, basic services (like shelter, health, education) have to be fixed so that there are no disadvantages to growth. With this we arrive at another feature of inclusive growth i.e., Inclusiveness is not an after-thought, it is embedded into the growth process itself.

Another important point raised in the consultation was about productivity, but, it was realized that it is not possible to just talk of productivity enhancing measures since access to resources is limited and there are constraints on land, credit, labour, etc. The need of the hour is to address specific constraints

[8]*Senior Advisor, UNDP India*

K.Seeta Prabhu

placed on the excluded group and focus on assets that would enable excluded groups to participate in the growth process. For the country to develop, productivity capabilities should also be enhanced which should be an end in itself.

Rathin Roy also pointed to the implications for macro-economic growth model when there is redistribution of income or cash transfers. An increase in incomes of the poor due to these measures will increase consumption and worsen savings, which in turn will have implications for the macro-economic growth model.

Rodolfo do la Torre emphasized on measurement issues which make it difficult to track inclusive growth as data comes in after significant time lags. It is not possible to determine poverty incidence and growth in income across groups because of persistence of variations across categories (rural/urban, social and religious). So, there is need for more systematic data collection on poverty, consumption expenditure and income across groups and at the state level. Another issue is that indicators that are chosen for measuring impact of inclusive growth are not necessarily devised to capture the element of inclusion. Vertical equity and horizontal equity indices were looked at wherein concentration coefficients were computed and presented, these enable identification of the progressiveness and inclusiveness of policy measure. Also, suggestions were made regarding indicators that could be there in the 12th Plan, for instance, successful completion of class 10th by students, universal access to affordable energy. The group also suggested that inclusiveness includes indicators that are beyond MMR and IMR, which might take some indicators from NHRM.

After discussing the definition of inclusive growth, certain policy responses were also examined. To achieve inclusive growth those areas and sectors have to be targeted where the poor are located and where they work and ensure equitable distribution to achieve social security. For this equitable redistribution, low prices of food and other basics is a pre-requisite. Thus, distribution aspect should be integrated into analytical framework rather than as a stand-alone after thought. To facilitate positive progression of growth it is important to link productivity with endowments and for this, policies based on caste and quota are required. It is important for the government to play a vital role in addressing discrimination, making poorer sections more productive by emphasizing employment and entrepreneurship and building a youth dividend. A great deal of attention has been paid to agriculture, particularly small farmers but their productivity is not improving even though they possess lands to work on. So, the group suggested that policies involving access to credit, land, input, market and skill training are required to make sure that agriculture is sustainable and it absorbs the large workforce efficiently. In the Indian context, transfers are heavily counted upon for provision of basic education and health status but the examples of Mexico and Brazil suggest that transfers have worked quite well but only when accompanied by universal entitlements. Institutional mechanisms have to be placed well for provision of education, skill based training and to deal with excess of unskilled labour. Allocation of resources is also important to consider while we talk of inclusive growth. Allocation should be such that the focus is not on sections that are already doing well.

Lack of coordination between federal and provincial governments is aproblem which persists not only in India but also in countries like Brazil and Mexico. Therefore, the challenges for the government are universal and these must be tackled in a systematic manner across countries. Human Development needs integrated public spending across health, education, agriculture, water supply and sanitation. Elimination of institutional failures in these sectors and enhancing the efficiency of delivery of services should be the thrust of policy response. But this also brings in the issue of transparency in the delivery of services which can be ensured if information technology is used effectively. Another suggestion which was made was to ensure transparency and promoting private sector and private public partnerships. This would also bring in competitiveness, employment, efficiency and innovation. Public resources being used for private profits and trust deficit in various actors of the economy are some the issues that need to be sorted out.

Discussant: Ashwini Deshpande[9]

This discussion was about the regional patterns of inequality within India and attempts to study the various aspects of the standards of living and not just the consumption expenditure of various caste groups. For this purpose the variables used are- Caste Development Index (CDI) based on five indicators of standards of living (land holding, occupation, education, ownership of consumer durables, and of livestock), gap between values of index for SCs and others, and the rate of growth of state domestic product or absolute level of state domestic product. The objective was to determine the pattern between richer and poorer or faster growing and slower growing states in India. But there was no visible pattern because there were rich states with higher value of CDI for SCs with high disparity and rich states with low value of CDI and low disparity. Similar patterns were also observed for poor states. Therefore, patterns of group disparities do not represent how well SCs are doing. This observation can be well exemplified in case of Delhi: outcomes for SCs are good but the gap between SCs and others is too high. So we need to understand the policy objective clearly because the two might not coincide, whether it is to raise the standard of living of SCs or to lessen the gap between SCs and others. Though these patterns do not take us anywhere, we could find some clues about which policy is working and which is not. Thus, we can make certain generalizations but the diversity within states in India makes it difficult to figure out which combination of policies will work for which states. what is clear however is that affirmative action is needed to provide a level playing field to members of the SC/ST communities.

Creation of rural non-farm employment has been recognized as the key because of existence of constraints to land but with creation of large scale industrial employment the process of land acquisition has to be negotiated. This conflict of interest of small and medium farmers and those who lack access to land is known as competing rights. Within inclusive growth both the sections have to be included but balancing the notion of competing rights will be a challenge. Another controversy is about the public domain as the focus is on group interests rather than on individual interests. The question has yet to be settled in the context of India while in France they have variations in affirmative action and they are going to have colour-blind policies that target individuals regardless of groups but the criteria they will set will be such that certain groups are disproportionately likely to fall within it. Conflicts between group and individual based entitlements need to be worked out so that both can be part of the inclusive growth agenda. It is convincingly argued that discrimination is neither a relic of the past nor is it confined to rural areas, but is very much a modern, formal sector phenomenon. It not only exists in the labour market but also in self-employment, as the disadvantaged group has not been able to succeed anywhere in the world. Also, before advocating a solution to labour market discrimination, we need to understand what are the discriminatory patterns that are in operation..

[9]*Professor, Delhi School of Economics*

Discussant: Rathin Roy

Inclusive growth is a narrow concept which incorporates growth in income. Therefore, to track inclusive growth it is important to measure income correctly but a large section of GDP wage is unmeasured which is unpaid work. This would not affect inclusive growth profoundly but it is an important variable and as such cannot be missed. It was also argued that inclusive growth is about how people are involved in the process of producing growth and not how people are benefiting from growth. In the context of India, the challenge that the commission faces is that of social exclusion. There were schemes designed for the same which have been spectacular failures over the last 60 years. A question that remained unanswered is: Is the 12th Five Year Plan focusing on inclusive growth the place to address this?

Inclusive growth includes all the services that are targeted and delivered under the Plan. Inclusive growth will be measured based on what it delivers. It should be measured with a long term perspective so that consistent non-accountability in the past can be rectified. It is problematic when we say that inclusive growth is multi-dimensional because district level data which is required to measure this multi-dimensionality is difficult to get.

It is not easy to produce regular data on something as important as GSDP on a comparable basis. This issue has not been addressed even in 12th Plan. Also, no major macroeconomic or over-riding fiscal constraint has been traced in the process of inclusive growth.

Open Discussion

Exclusion has been a bottleneck in the process of inclusive growth and there are certain exclusion measures that cities have taken up in the urban space primarily on account of fiscal issues because cities are burdened with the responsibility of development. It is extremely important how individuals in the city get counted in the BPL list or any other category as citizens of that city. But many cities have failed to bring out BPL data because it is a contentious political issue and the details are never looked into. Another issue is concerned with large scale exclusion in shelter security which is a basis for social protection. While we consider cities as engines of growth, we forget its role as a habitat for people and spaces for mobility of people. People are being stopped from entering the cities through policy measures including urban planning paradigm. So, cost of living in cities comes under the realm of speculation and subsidy is being misdirected. Speculation is being subsidized and housing is no longer affordable for those in the BPL category and this has emerged as a serious issue in urban development. Regulations are required to achieve exclusive growth.

Increasing food prices also fuels exclusion and it is because of some agricultural policies that there was such price distortion. To ensure inclusiveness, nutritional security and access to food at a reasonable price, it is suggested that agriculture be expanded to create employment and entitlements. Additionally inflation should stabilize for the benefits to reach the excluded group.

Measurement issues and lack of data is another hurdle in the process of inclusiveness. These problems prevent the provision of data in concrete form but evaluation of whatever is available offers us a way of understanding the outcome of interventions. Also, rounds of NSS should coincide with plan periods to guarantee accountability.

Inefficient allocation of resources and failure of implementation of policies brings exclusion rather than inclusion. Money is not allocated to growth sectors instead it is used for building roads, common wealth stadiums, jails, etc. And any failure of policy makers in implementation of policy should not make the policy redundant. It is important to build entitlements and improve monitoring and transparency of the system. For instance, various employment guarantee schemes and NREGA made a huge difference in the way it was implemented.

Participation and non discrimination provide us with the indicators which will measure inclusive growth. In Brazil, no program was looked on as a program for an individual, be it child grants or old age pensions. Rather the focus was on family entitlements.

When we talk about inclusive growth the thoughts should go beyond Five Year Plans, Planning Commission and what government is doing. It is important for governments to coordinate and communicate to achieve inclusive growth. If inclusive growth is missing, it creates lack of a sense of belonging and fuels violence, conflict and disagreement.

Importance should be given to capabilities and assets along with productivity. The aim to drive growth and productivity of lower deciles can be fulfilled with transfers, but it does not work in the long run unless it is accompanied by possession of assets. Thus, asset capability divergence needs to be addressed.

A workable definition of inclusive growth is not mentioned in any of the plans. Income, consumption, poverty, and mortality have been identified as indicators of inclusive growth and once indicators are known targets can be easily set and monitored. For inclusive growth non-discriminatory and disadvantage reducing growth is important but there is also a need to determine the natural forms of discrimination. Also, there should be markets to safeguard the interest of those who are excluded.

The Way Forward

Inclusive growth is something beyond redistribution and there are a range of responses to challenges like greater focus on agriculture, generating growth in places where the poor liove, notion of capabilities in assets and viable contracts for the poor which are important domains and are subject to further inquiry. Similarly, there are more persisting questions on the tug of war between policy, growth and inclusion. Responses from participants from Mexico, Bangladesh and Brazil indicated thatthese countries are also grappling with similar issues. Rising inequality is a current issue and needs to be dealt with and each country has come up with different approaches to do so. Incentive compatibility and demand consistency are parts of the planning problem, and in the absence of these it is doubtful if inclusive growth would be possible. In view of the similarity of the challenges faced and diversity of solutions suggested, it would be useful to have greater exchange if views and experiences across countries so that all can work together and contribute towards the emergence of a robust paradigm for ensuring inclusive growth.

THE WAY FORWARD

Annexe 1

List of Participants

	Name	Designation and Organisation	Email id
Consultation Speakers International			
1.	Ajay Chhibber	UN Assistant Secretary General, Assistant Administrator and Regional Director for Asia and the Pacific, UNDP	ajay.chhibber@undp.org
2.	T Palanivel	Chief Economist and Chief Regional Strategy and Policy Unit, Regional Bureau for Asia and the Pacific, UNDP	t.palanivel@undp.org
3.	Sajjad Zohir	Research Director, Economic Research Group, Bangladesh	sajjadzohir@gmail.com
4.	Rathin Roy	IPC-IG, Brazil	rathin.roy@ipc-undp.org
5.	Ashwani Saith	Professor, ISS, the Hague, Netherlands	saith@iss.nl
6.	Rodolfo de la Torre	Director, HDR office, UNDP Mexico	rodolfo.delatorre@undp.org
7.	Rodrigo Octavio Orair	IPEA, Brazil	rodrigo.orair@ipea.gov.br
Consultation Speakers Indian			
8.	Indira Hirway	Director, Centre for Development Alternatives	indira.hirway@cfda.ac.in, indira_hirway@yahoo.com
9.	S K Thorat	Chairman, ICSSR	thoratsukhadeo@yahoo.co.in
10.	Amresh Dubey	Professor, JNU	amareshd@yahoo.com
Government Officials			
11.	Montek Singh Ahluwalia	Deputy Chairperson, Planning Commission	dch@nic.in
12.	Pronab Sen	Pr Advisor, Planning Commission	pronab@nic.in
13.	M. Govinda Rao	Member, EAC and Director, NIPFP	mgr@nipfp.org.in ; mgrao@vsnl.com
14.	T.C.A. Anant	Secretary, Ministry of Statistics & Programme Implementation, Sardar Patel Bhavan, New Delhi	tca.anant@nic.in
15.	Ashok Sahu	Principal Adviser, Planning Commission, Yojana Bhavan, New Delhi	asahu@nic.in
Other Invitees			
16.	Anushree Sinha	Senior Fellow, NCAER	asinha@ncaer.org
17.	Ratna Sudarshan	Director at Institute of Social Studies Trust	ratna@isst_india.org
18.	Shovan Ray	Professor, IGIDR	shovan@igidr.ac.in; shovan_ray@yahoo.com
19.	Ashima Goyal	Professor, IGIDR	ashima@igidr.ac.in
20.	Biswajit Chatterjee	Professor, Jadhavpur University;	bchatterjee@economics.jdvu.ac.in, chatterjeeb@vsnl.net, biswajit3@hotmail.com

21.	Nighat Ahmad	Aligarh Muslim University	nigahmad.edu@gmail.com
22.	Paul Divaker	Convener, National Campaign on Dalit Human Rights	pauldivakar@ncdhr.org.in
23.	Rajendra P Mamgain	Director, Indian Institute of Dalit Studies	director@dalitstudies.org.in
24.	Aromar Revi	Director, Indian Institute of Habitat Studies(IIHS)	arevi@iihs.co.in
25.	M H Suryanarayana	Professor, IGIDR	surya@igidr.ac.in, surya.igidr@gmail.com
26.	Annie Namala	Head, Centre for Programming Inclusion and Equity	annie.namala@gmail.com
27.	Poonam Muttereja	Population Foundation, New Delhi	pmuttreja@populationfoundation.in
28.	Azra Razzack	Professor, Jamia Milia Islamia	arazzack@jmi.ac.in, azrarazzack@ yahoo.com
29.	Amitabh Behar	Wada Na todo Abhiyan	amitabh.behar@gmail.com
30.	Vimal Thorat	Professor, IGNOU	thorat_vimal@yahoo.com
31	Darshini Mahadevia	Professor, CEPT, Ahmedabad	d_mahadevia@yahoo.com
32.	Devaki Jain	Senior Feminist Economist	devakijain@gmail.com
33.	Asha Kapur Mehta	Faculty, Indian Institute of Public Administration	aasha2006@gmail.com; aashakapurmehta@gmail.com
34.	Nidhi Sadana Sabharwal	Principal Research Fellow - Gender and Social Exclusion, Indian Institute of Dalit Studies	nidhi@dalitstudies.org.in
35.	Jessica Seddon	Head of Research, Indian Institute for human settlements	jseddon@iihs.ac.in
36.	Mukesh C. Gupta	Senior Specialist, Employment Intensive Investment, ILO	gupta@ilo.org
37.	Amit Thorat	Researcher, IIDS	amitthorat@gmail.com
UNDP Development Partners			
38.	Annick Mathis	Counsellor, Global Issues, Embassy of France, 2/50-E Shantipath	annick.mathis@diplomatie.gouv.fr
39.	Tonilyn Lim	Industrial Development Officer, UNIDO	t.lim@unido.org
40.	Elodie Maria- Sube	Attache, Programme Officer, Delegation of the European Union to India	elodie.maria-sube@eeas.europa.eu
41.	Julie Fallourd	Deputy Regional Financial Counsellor - India & South Asia Regional Economic Department French Embassy in India	Julie.FALLOURD@dgtresor.gouv.fr
42..	Valdimir Vazquez Hernandez	first Secretary, Political Multilateral and Bilateral, Embassy of Mexico	oaambmx@gmail.com
43.	Amy Wielkoszewki	Program Officer, Program support office, USAID	awielkoszewski@usaid.gov

44.	Laurent Le Danois	Project Manager, Delegation of European Union	Laurent.LE-DANOIS@eeas.europa.eu
45.	Edouard Beigbeder	Officer In charge, UNICEF	
46.	Joaquin Gonzalez - Aleman	Chief of Social Policy, Planning Monitoring and Evaluation, UNICEF	
47.	Meera Mishra	Country Coordinator, IFAD	m.mishra@ifad.org
48.	Roberto Mignone	Deputy Chief Of Mission, UNHCR	mignone@unhcr.org
49.	Anne F Stenhammer	Regional Programme Director, UN Women Project	anne.stenhammer@unwomen.org
50.	Cristina Albertin	Representative of UNODC ROSA	
51.	Sonam Yangchen-Rana	Director, UNOPS	sonamr@unops.org
UNDP Participants			
52.	Patrice Coeur-Bizot	UN Resident Coordinator and UNDP Resident Representative	Patrice.Coeur-Bizot@undp.org
53.	Caitlin Wiesen	Country Director, UNDP India	Caitlin.Wiesen@undp.org
54.	Alexandra Solovieva	Deputy Country Director, UNDP India	alexandra.solovieva@undp.org
55.	Fadzai Gwaradzimba	Chief, South and West Asia Division, RBAP New York	
56.	Surekha Subarwal	Regional Communications Advisor (South Asia)	surekha.subarwal@undp.org
57.	K. Seeta Prabhu	Senior Advisor	seeta.prabhu@undp.org
58.	Prema Gera	Head, Poverty Unit	prema.gera@undp.org
59.	Sumeeta Banerjee	Head, Governance Unit	sumeeta.banerji@undp.org
60.	Alka Narang	Head, HIV-AIDS Unit	alka.narang@undp.org
61.	Srinivasan Iyer	Head, Environment and Energy Unit	srinivasan.iyer@undp.org
62.	J Radhakrishnan	Head, Disaster and Risk Management Unit	j.radhakrishnan@undp.org
63.	N C Saxena	Advisor	nc.saxena@undp.org
64.	Meenakshi Kathel	Gender and Inclusion Analyst	meenakshi.kathel@undp.org
65.	Shashi Sudhir	Programme Officer, Poverty Unit	shashi.sudhir@undp.org
66.	Ratnesh	Programme Officer, Poverty Unit	ratnesh@undp.org
67.	Shefali Misra	Programme Officer, Poverty Unit	shefali.mishra@undp.org
68.	Meenaz Munshi	Research Associate	meenaz.munshi@undp.org
69.	Nandita Surendran	Communications Officer	nandita.surendran@undp.org
70.	Rekha Nayar	Management Assistant	rekha.nayar@undp.org
71.	Garima Sharma	Project Assistant	garima.sharma@undp.org

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United Nations Development Programme
55 Lodhi Estate, P.O. Box 3059
New Delhi - 110003, India
Tel.: +91-11-46532333, Fax: +91-11-24627612
Web.: http://www.undp.org.in
Email: info.in@undp.org