

# Inclusive Growth in India: A perspective

By Dripto Mukhopadhyay<sup>1</sup>

India is an independent country for more than 70 years. The country's economic performance in recent years had been phenomenal whether we compare it with its own historical economic performance or with other countries. For instance, during the period 2010 to 2016 the annual average real GDP growth in India was about 6.7% in comparison to that of the global economy at only 2.7%. However, when we are one of the fastest growing nation in the world, did this growth touch entire population of the country? In other words, did all sections of population benefitted and participated during this income growth of the country? The answer is no. we are still struggling to reach the benefit of this growth to more than one-third of Indian population, as per conservative measure.

This brings the importance of inclusive growth for India's development landscape. Concept of inclusive development can be expressed as "economic growth that is distributed fairly across society and creates opportunities for all".<sup>2</sup> in other words, inclusive growth is to create a direct linkage between macro-economic and micro-economic nuances. World Economic Forum (WEF) publishes Inclusive Development Index (IDI) report every year. The latest report was published in January 2018. The report compared progress of 103 countries basis three individual pillars, i.e., growth and development, inclusion and inter-generational equity. This index took into account the living standards, environmental sustainability and protection of future generations from further indebtedness.<sup>3</sup>

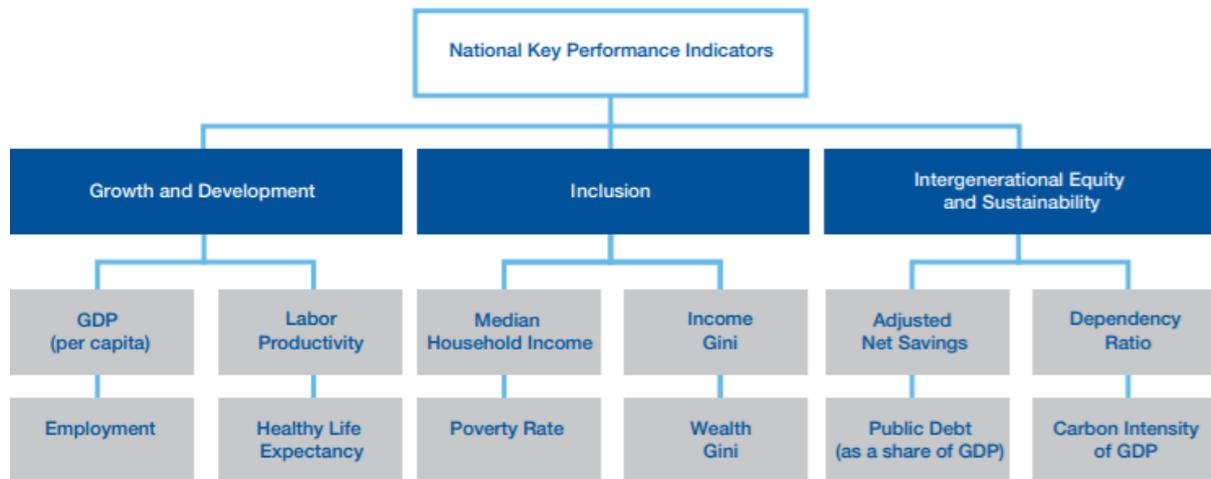
India was ranked at 62<sup>nd</sup> among 74 emerging economies on Inclusive Development Index 2018 released by World Economic Forum (WEF). Norway again ranked as world's most inclusive advanced economy. Among the emerging countries Lithuania topped list of emerging economies. India's position was much below China (26<sup>th</sup>) and even Bangladesh (34<sup>th</sup>) and Pakistan (47<sup>th</sup>) among emerging countries. In 2017, India's position was 60<sup>th</sup> among the emerging countries.

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<sup>2</sup> <https://www.oecd.org/inclusive-growth/>

<sup>3</sup> The Inclusive Development Index 2018 [http://www3.weforum.org/docs/WEF\\_Forum\\_IncGrwth\\_2018.pdf](http://www3.weforum.org/docs/WEF_Forum_IncGrwth_2018.pdf)



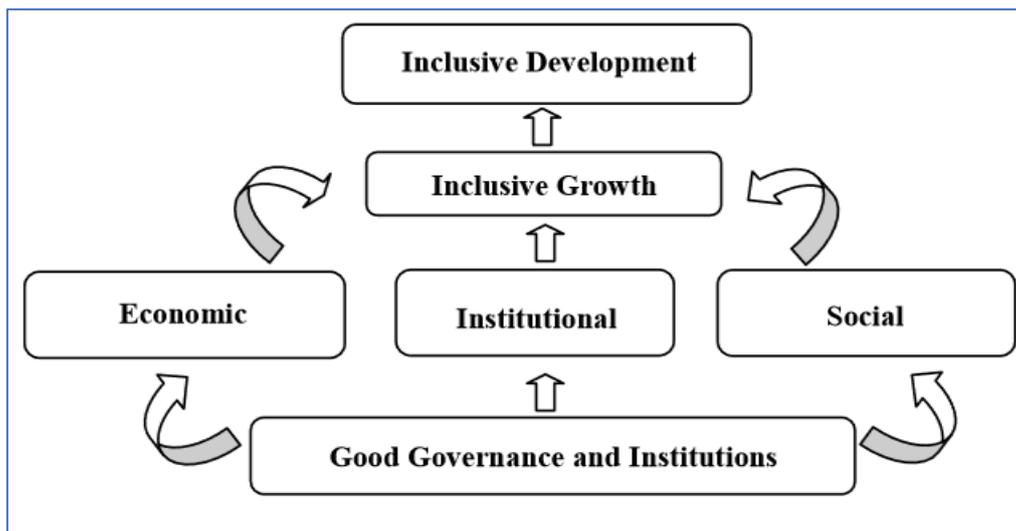
Source: World Economic Forum, The Inclusive Development Report 2018

Though the country has experienced strong economic growth during last decade, job growth was only approximately 2% average a year in the formal sector. It is a big concern when one considers growing population. About 12-15 million Indians will enter the labour force each year. With current level of job growth scenario not even 50% of them will be able to secure any sort of formal employment. Already about 80% of India's labour force is engaged in informal economy. Informal economy employment is typically insecure where no employment contract or regular payment is ensured. Often workers are engaged on a day-to-day basis with working conditions resembling a low-productivity trap. In informal economy workers are effectively excluded from accessing many of the resources they need to make themselves more productive and thereby improve their life chances. Thus it is exactly the opposite of what inclusive growth tries to achieve.

At present, Indian economy is performing far below its true potential. The ways must be looked for to promote mobility of workers from informal to formal employment to escape the trap of low productivity. Measures have been taken in recent reform initiatives for higher inclusion level. Introducing Aadhaar is one such step to ensure that the poor are no longer invisible and more empowered. Universal access to financial services has been promoted through bank account opening of every adult India, at least in principle. These measures together should accelerate financial inclusion. Introduction of the new national goods and services tax should gradually expand India's tax base and eliminate incentives for businesses to operate in the shadow of the formal economy, if implemented properly.

It is critical that the policy recommendations are in consonance with inclusive development of the country. This requires a holistic approach that consider factors that enhances productivity through other enabling routes apart from employment. Education, health, skill development and social inclusion are equally important for the purpose. Providing short term benefits from myopic political gains need to be avoided in case the country desires to achieve inclusive growth in true sense. The nexus between vested interest groups within the domain of politics and governance coupled with corruption still play a significant role of stumbling block between benefits and the those at the bottom of the pyramid. True political willingness to reach it to the deserved is the key to achieve including growth in reality.

**Figure 2: Policy Pillars of Inclusive Growth**



Source: Adopted from “The Experience of India’s Inclusive Growth”<sup>4</sup>

The skewed national income distribution in India is presented in Table 1 and Table 2 below. These tables are referred from World Inequality Report 2018 published by The World Bank. The numbers narrate the story of extent of inequality present in India and the gap between rich and poor. Need of the hour is to bridge this gap with government policies that find means to distribute the wealth created in the nation in more equitable manner. This would be the only path to avoid crippling the economy from low productivity trap and grow in its full potential. Also this would help in containing the social unrest in various parts of the country due to abject poverty and social exclusion.

**Table 1: Distribution of National Income in India, 2014**

Income group	Number of adults	Income threshold (€)	Average income (€)	Comparison to average income (ratio)	Income share
<b>Full Population</b>	794 306 000	-	6 200	1	100%
<b>Bottom 50%</b>	397 153 000	-	1 900	0.3	15.3%
<b>Middle 40%</b>	317 722 000	3 100	4 700	0.8	30.5%
<b>Top 10%</b>	79 431 000	9 200	33 600	5	54.2%
Top 1%	7 943 000	57 600	134 600	22	21.7%
Top 0.1%	794 000	202 000	533 700	86	8.6%
Top 0.01%	79 400	800 100	2 377 000	384	3.8%
Top 0.001%	7 900	3 301 900	11 589 000	1871	1.9%

<sup>4</sup> Burange, L. G., 2014, “The Experience of India’s Inclusive Growth” in Review of Development and Change

Source: World Inequality Report 2018 by The World Bank<sup>5</sup>

Table 2: Total Income Growth by Percentile in China, France, India and the us, 1980–2014

Income group	India	China	France	US
Full Population	187%	659%	35%	61%
Bottom 50%	89%	312%	25%	1%
Middle 40%	93%	615%	32%	42%
Top 10%	394%	1074%	47%	121%
Top 1%	750%	1534%	88%	204%
Top 0.1%	1138%	1825%	161%	320%
Top 0.01%	1834%	2210%	223%	453%
Top 0.001%	2726%	2546%	261%	636%

Source: World Inequality Report 2018 by The World Bank<sup>6</sup>

In a recent article by Aruni Mitra and Debasmita Das (2018) measured inclusive growth Inclusive Growth Index (IGI). The index was constructed based on 24 developmental indicator variables with four broad pillars, expansion of economic opportunities, sustainability of economic activities, equity in access of socio-economic opportunities and efficiency of economic activities and institutions. The authors have employed two kinds of weighting schemes in constructing the index - an ad hoc subjective weighting scheme and a weighting scheme based on principal component analysis (PCA). The study covered 16 Asian countries including India. A comparison of United Nations' HDI and IGI with two methods are presented in Table 3. The table shows that India's position in these 16 countries in terms of inclusive growth is much below compared to many smaller countries who are not known for their economic performance.

Table 3: Country-wise IGI and HDI Scores Country HDI Rank Ad hoc IGI Rank PCA IGI Rank

Country	HDI Rank	Ad hoc IGI Rank	PCA IGI Rank
Malaysia	1	1	1
Maldives	5	2	2
Thailand	3	3	3
Bhutan	10	4	7
China	4	5	4
Vietnam	8	6	5
Sri Lanka	2	7	6
Indonesia	12	8	8
Philippines	7	9	9

<sup>5</sup> The World Bank, 2018, World Inequality Report, <https://wir2018.wid.world/>

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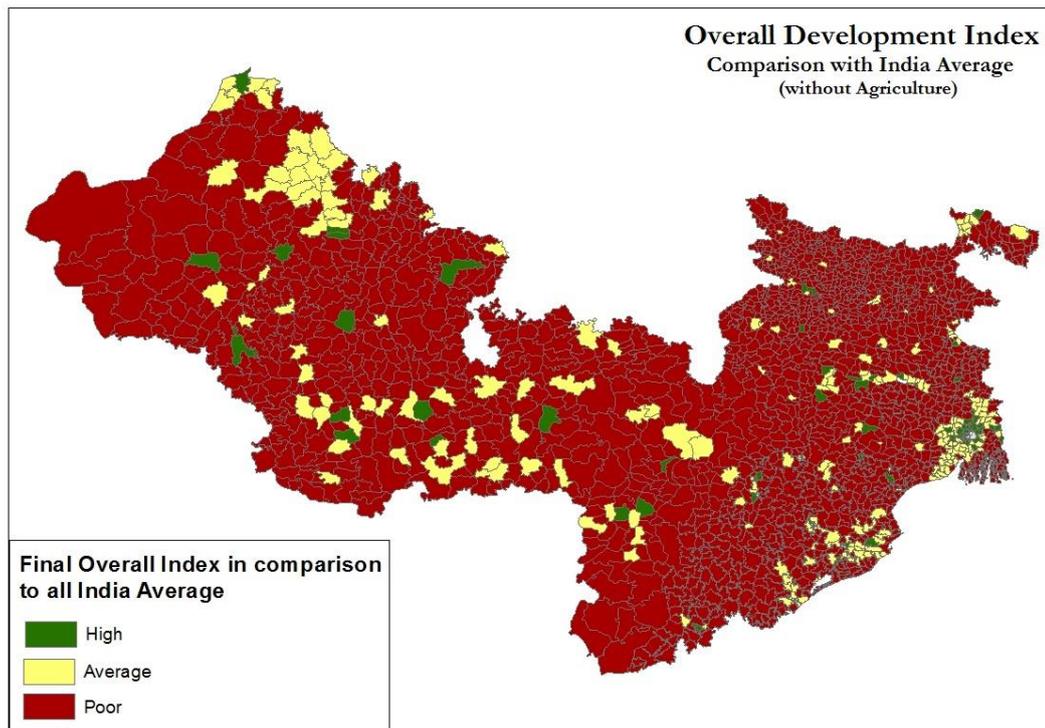
Nepal	14	10	10
India	9	11	11
Cambodia	11	12	13
Lao PDR	6	13	12
Bangladesh	13	14	15
Pakistan	15	15	14
Afghanistan	16	16	16

Source: "Inclusive Growth: Economics as if People Mattered" by Aruni Mitra and Debasmita Das, Global Business Review 19(3) 1–15, 2018, SAGE Publications

While household income as given above portrays an imbalance in income distribution in the country, this in fact affects every sphere of life in the country. Inclusiveness needs to be looked into in relation to two critical dimensions. One is inter-person and the other is over space or geography. Inequality in both has created extreme level of imbalance in India. In an unpublished study done by the author for Pradan in 2013, an NGO, on identifying poorest clusters in East West Corridor of the country revealed some stunning facts about spatial inequality in the country. East West corridor include 7 states, namely, West Bengal, Bihar, Jharkhand, Odisha, Madhya Pradesh, Chhattisgarh and Rajasthan. Coincidentally these are the poorest states of the country also. Though the objective of the study was to understand poorest clusters within the East West corridor, it also looked into extent of inequality within this corridor from India's average scenario.

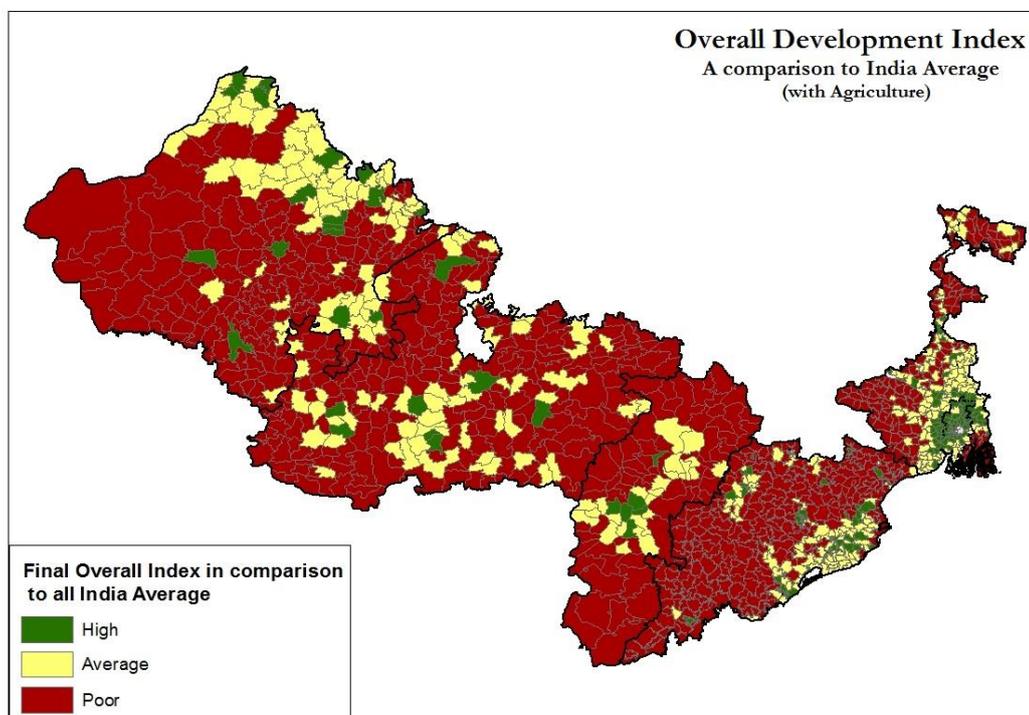
The broad parameters included in the study were Demographic Characteristics, Economic activities other than agriculture, Agriculture, Consumer demographics, Physical and social infrastructure and Standard of living. Using a robust statistical model it arrived at various indices. One of the indices was to showcase overall development of the sub-districts of all these states in comparison to India's average development scenario. Distribution pattern of sub-districts basis their index values are presented in Figure 1 and Figure 2 below (with and without agriculture since sub-district level data were not available for couple of states). The map itself reveals the poor status of development in this region compared to that of average development scenario of the country. It is important to highlight here as an anecdote that this is the region which has also seen extremist activities to a large extent in each of the states.

Figure 1: Overall Development Index in Comparison to India's Average Scenario



Source: Identification of Poorest Clusters in Seven Poor States in India: A Sub-District Level Analysis, an unpublished report of PRADAN, New Delhi, 2013.

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## Conclusion

Inclusiveness of the population is essential for any country's development. Though India is one of the top ranking countries in terms of economic growth as well as one of the top countries of the world in term of size of the economy, the growth distribution is distorted and imbalanced significantly. The imbalance is seen both inter-personal as well as over the geography. Our policy makers and politicians need to keep in mind that inequality and exclusiveness act as time bomb since it creates social tension and de-stabilise the entire system. Fortunately, India's problem is not resource availability or skill availability, but it is more lack of proper implementation of the plans and policies that are targeted to include bottom of the pyramid. The sooner the country managers understands that is better.

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