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INCLUSIVE GROWTH AND ECONOMIC DEVELOPMENT IN INDIA

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Abstract- Comprehensive growth in India and China made these two countries to become the major players in world market. India and China both succeeded in attaining the attention of the world by promoting comprehensive growth in the fields like labor regulations, agricultural technology and infrastructure. The comprehensive growth also includes plans like assisting lagging regions of the country and empowering the poor through proactive policies so that they can take part in the market on equitable terms.

Indian market is elevated to a high growth path triggered mainly by macroeconomic reforms and expansion of economic activities across the sectors. However, there are some serious concerns about a number of imbalances in the growth scenario – inter-sectoral, interregional and inter-state. These imbalances have definitely a serious impact on the goal of "comprehensive growth" as envisaged in the Eleventh Five Year Plan. The study reveals that still poverty ratio is very high in the market despite high growth. There is no significant increase in employment in the unorganized sector of the market. With this backdrop, the paper focuses on concept of comprehensive growth; overall growth and institutional finance & growth

Keywords- Comprehensive growth, inequality, financial inclusion

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Introduction

Comprehensive Growth focuses on economic growth which is a necessary and crucial condition for poverty drop. Comprehensive Growth focuses on both the pace and pattern of growth. How growth is generated is critical for accelerating poverty drop, and any IG strategies must be tailored to country-specific circumstances. Comprehensive Growth focuses on productive employment rather than income redistribution. Hence the focus is not only on employment growth but also on productivity growth. Comprehensive Growth has not only the firm, but also the individual as the subject of analysis.

Comprehensive growth has become a buzzword across the world. Comprehensive ness - a concept that encompasses equity, equality of opportunity, and protection in market and employment transitions - is an essential ingredient of any successful growth strategy. The considers systematic inequality of opportunity as "toxic" as it will derail the growth process through political channels or conflict.

Indian market has been registering a steady growth in the recent years. However, poverty continues to be a major concern. While some level of growth is obviously a necessary condition for sustained poverty drop, there is an increasingly unanimous view that growth by itself is not a sufficient condition for eradicating poverty. Growth can marginalize the deprived sections and enlarge inequality. High and rising levels of inequality can hinder poverty drop, which in turn, can slowdown the growth process. One important indication of inadequate inclusion in India is that poverty drop has been muted in the last decade even with rising growth. The poverty rate has declined by less than 1 per cent per annum over the past decade, markedly below trends in neighboring countries such as Nepal and Bangladesh where both average income levels and growth are lower.

The importance of comprehensive growth is well acknowledged among the policy makers. The approach paper of 11th Five Year Plan adopted in December 2006 describes the need for comprehensive growth in its argument. The approach plan points out that the growth oriented policies should be combined with policies ensuring broad based per capita income growth, benefiting all sections of the population, especially those who have thus far remained deprived.

While the need for comprehensive growth is anxious, it is to be seen, whether it is the inadequate growth of certain sectors like agriculture or the inability of certain groups like SC/STs to form part of the growth process or the lack of both physical and financial infrastructure that pull back the particular regions/sections from enjoying the economic growth. It is possible that a mixture of all these factors is preventing certain sections/areas to be out of the growth process. In that case it is necessary to know the major determinants that pull down comprehensive growth. The inter linkages between different development indicators and growth in the context of various regions and sections needs to be analysed to understand the nuances of India's growth process. In this context, a study on regional perspectives of comprehensive growth is of utmost importance.

Comprehensive growth implies participation in the process of growth and also sharing of benefit from growth. Thus comprehensive growth is both an outcome and a process. On the one hand, it ensures that everyone can participate in the growth process, both in terms of decision making for organizing the growth progression as well as in participating in the growth itself. On the other hand, it makes sure that everyone shares equitably the benefits of growth. In fact, participation without benefit sharing will make growth unjust and sharing benefits without participation will make it a welfare outcome.

In view of the above, comprehensive growth can be observed from long-term perspective as the focus is on productive employment rather than on direct income redistribution, as a means of increasing income for excluded groups. Under the absolute definition, growth is considered to be pro-poor as long as poor benefit in absolute terms, as reflected in some agreed measure of poverty. In contrast, in the relative definition, growth is pro-poor if and only if the incomes of poor people grow faster than those of the population as a whole, i.e., inequality declines. However, while absolute pro-poor growth can be the result of direct income redistribution schemes, for growth to be comprehensive , productivity must be improved and new employment opportunities created, so that the excluded section forms part of the growth process. In short, comprehensive growth is about raising the pace of growth and enlarging the size of the market, while leveling the playing field for investment and increasing productive employment opportunities.

Overall Growth

During the three decades period from the early 1950s to 1980s, the Indian market was witnessing so-called "Hindu" rate of growth and the major concern was accelerated growth apart from ensuring equity. During that time, although inequality was a major problem, it was not as prominent as in the recent phase of accelerated growth. With the growth in GDP, the issue of rural-urban divide, regional divides and rich-poor divide became evident, which brought "comprehensive growth" on high priority. The Indian market has been growing at a faster rate in recent decades than it did earlier [Table-1] and [Chart-1].

Table 1- Average Rate of Growth of Real GDP in India

Period		Growth (per cent)
1900-2008		3.16
1950-2008		4.79
1980-2008		6.08
1990-2008		6.39
2000-2008		7.19
11th Plan Period (2007-12)		
2007-08	9.2	
2008-09	6.7	
2009-10	7.2	

Source: Bose & Chattopadhyay [1]

While the growth rate of the Indian market has been increasing in recent times, one phenomenon which was observed was that the growth performance of the three major sectors of the market, namely, agriculture, industry and services, has been diverse. The growth in the agriculture sector has been the most volatile and also the least among the three sectors most of the times. While the growth in the industrial sector has remained more or less constant, growth rate in the services sector has risen sharply [Chart-1].

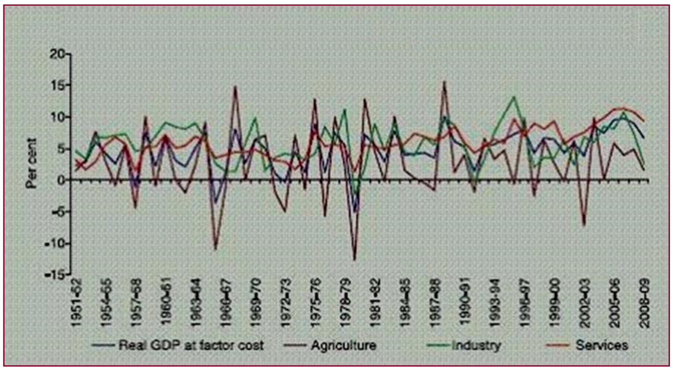

Chart 1- Annual growth rate of the major sectors

The consequence of the diverse growth rate in the three sectors has resulted in a structural change in the input of the sectors in the total GDP. The share of the agriculture sector in the overall GDP has declined more or less consistently since independence from 55.3 per cent in 1950-51 to 17.0 per cent in 2008-09. The share of the industrial sector has increased from 10.6 per cent in 1950-51 to about 19.0 per cent in 2008-09. The share of the services sector has nearly doubled from 34.1 per cent in 1950-51 to 64.5 per cent in 2008-09 [Chart-2].

Since a large section of the population continues to be dependent on the agriculture sector, directly or indirectly, this has serious implications for 'comprehensive ness'.

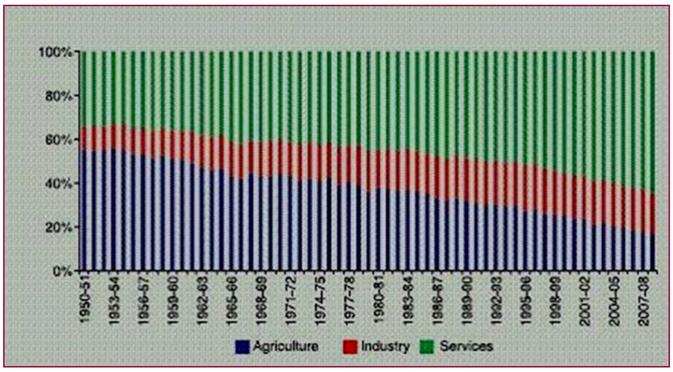

Chart 2- Shares of sectors in Real GDP

Potential Output

The Indian market grew at about 9.0 per cent during 2003-08, which decelerated to 7.0 per cent during 2008-10. Although a part of the gap is due to cyclical factor, different estimation methods suggest that the potential output growth would be around 8.0 per cent during the post-crisis period and 8.5 per cent during the pre-crisis period[3]. It is argued that the loss in potential output could be due to a slowdown of investment in various sectors, more specifically in the agriculture sector. In fact, the public investment in agriculture in real terms has witnessed steady decline from the Sixth Five Year Plan to the Tenth Plan. Trends in public investment in agriculture and allied sectors reveal that it has consistently declined in real terms (at 1999-2000 prices) from ₹ 64,012 crore in Sixth Plan to ₹ 42,226 crore during the Ninth Plan [Table-2]. However, during the Tenth Plan this has increased in absolute terms to ₹ 67,260 crore. It can also be observed that the public investment has gone down over the year, while private investment remained stagnant [Table-3]. The gross capital formation (GCF) in agriculture and allied sectors as a proportion of total GDP stood at 2.66 per cent in 2004-05 and improved to 3.34 per cent in 2008-09. Similarly, GCF in agriculture and allied sectors relative to GDP in this sector has also shown an improvement from 14.07 per cent in 2004-05 to 21.31 per cent in 2008-09.

Table 2- Plan-wise investment in Agriculture

See RBI Annual Report 2009-10	Investment (₹ crore)
Sixth Plan (1980-85)	64012
Seventh Plan (1985-90)	52108
Eighth Plan (1992-97)	45565

Source: Economic survey, GOI [2].

Table 3- Public and Private Investment in Agriculture & Allied Sector at 2004-05 Prices

	Investment in agriculture & allied sector (₹ crore)			Share in total investment (per cent)	
	Total	Public	Private	Public	Private
2004-05	78848	16183	62665	20.5	79.5
2005-06	93121	19909	73211	21.4	78.6
2006-07	94400	22978	71422	24.3	75.7
2007-08	110006	23039	86967	20.9	79.1
2008-09	138597	24452	114145	17.6	82.4

Source: Central Statistics Office, GOI [3].

Waning investment in the agriculture sector had a direct bearing on the productivity of food grains in the country. As can be observed from [Chart-3], although average yield/hectare (productivity) of food grains in India has increased over the years, the productivity is low compared to many other developing countries. The productivity of food grains has increased from 522 kg/hectare in 1950-51 to 1854 in 2007-08. While in 1979-80 the yield per hectare was 876 kg/hectare, it became 1380 kg/hectare in 1990. However, productivity growth remained stagnant at a very low level throughout the period. Various studies have been done on the agriculture sector and its associated issues. More recent, among these, studies is done by Mishra [4] which states that 'poor agriculture income and absence of non-farm avenues of income is indicative of the larger malaise in the rural market of India'. One of the manifestations of this has been the increasing incidence of farmers' suicide in various parts of the country, especially Maharashtra, Andhra Pradesh, etc.

As per the World Bank database, in respect of cereal productivity, India remained far below even China, Indonesia, Thailand and Sri Lanka [Table-4].

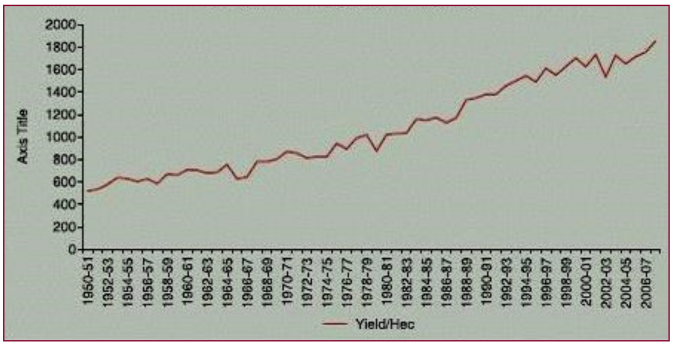

Chart 3- Yield/hectare of foodgrains

Table 4- Cereal Productivity (Kg/hector)

Country	1980	1985	1990	1995	2000	2005	2006	2007	2008
Brazil	1575.7	1827.7	1755	2513.1	2660.6	2882.5	3210.5	3553.1	3828.8
China	2948.7	3827.7	4322.7	4663.7	4756.3	5225.5	5313.3	5315.3	5535.3
Egypt	4094.4	4539.1	5702.9	5903.7	7280	7569.2	7541	7562.2	7506.4
Indonesia	2865.6	3513.3	3800.2	3842.7	4026.3	4311.3	4365.8	4464.7	4694.2
Poland	2336.8	2893.5	3283.7	3022.3	2534.7	3233	2598.2	3249.5	3217.2
Russia	NA	NA	NA	1223.5	1563.3	1860.1	1894.4	1994.9	2388.1
Sri Lanka	2501	2960.5	2965	3052.6	3338.1	3467.1	3619.4	3821.6	3659.8
Thailand	1911	2125.4	2009	2507.4	2719.1	3001.5	2963	3043.7	3013.7
Turkey	1855.1	1931	2214.1	2037.8	2311	2624.2	2661.9	2381.4	2601.2
Vietnam	2016.1	2691.7	3072.9	3569.9	4112.3	4726.1	4749.7	4833.6	5064.2
India	1350	1592.2	1891.2	2111.7	2293.5	2411.5	2455.6	2618.6	2647.2

Source: World Bank.

In short, the analysis at the all-India level shows that agricultural sector has lagged behind the growth process. Productivity in agricultural sector is low not only compared with other sectors, but also when compared to the agricultural productivity in other developing countries. In the next section we examine the comprehensive ness of growth across the states in India.

Institutional Finance and Growth

There is a general consensus among economists that financial development spurs economic growth. Theoretically, financial development creates enabling conditions for growth through either a supply-leading (financial development spurs growth) or a demand following (growth generates demand for financial products) channel. A large body of empirical research supports the view that development of the financial system contributes to economic growth. Empirical evidence consistently emphasizes the nexus between finance and growth, though direction of causality is debatable. At the cross-country level, evidence indicates that various measures of financial development (including assets of the financial intermediaries, liquid liabilities of financial institutions, domestic credit to private sector, stock and bond market capitalization) are robustly and positively related to economic growth. Other studies establish a positive relationship between financial development and industrial growth. Even the recent endogenous growth literature, building on 'learning by doing' processes, assigns a special role to finance.

For any productive activity, capital investment is vital and capital investment is possible only when finance is available. The endogenous growth literature stresses the importance of financial development for economic growth as many important services are provided by a country's financial system. Thus, as part of our comprehensive growth study it is useful to examine if there is finance-growth nexus in our market. Before the nationalization of banks in 1969, most of the needy sectors, viz, agriculture, small scale sector and other productive sectors were deprived of the institutional finance. Major sections of the population under these sectors were under the clutches of the money lenders. So in a way they were mostly excluded from the growth process of the market because of their indebtedness. Now, after 60 years of Independence of our country, although banking sector has developed to a great extent, it is worth examining whether formal finance did play any role in our growth process. At this stage, it is important to examine the relationship between finance and growth at the aggregated level.

Conclusion

Comprehensive growth implies delivering social justice to all, particularly the disadvantaged groups. One aspect of social justice is that all programmes that provide generalized access to essential services such as health, education, clean drinking water, sanitation etc. should be implemented in a way that ensures that disadvantaged groups get full access to these services. Further, designing and implementing schemes specifically targeted to these groups will go a long way in achieving comprehensive growth. This may need an innovative approach of Public Private Partnership in providing basic needs to these groups.

In this context, innovations are needed in products and services which reduce costs, economies on energy and serve the needs of the common man in an affordable manner. Innovations are also needed in processes and delivery mechanisms, especially in government delivery mechanisms which need to be redesigned so that they can deliver outcomes commensurate with the considerable resources they now absorb.

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