

## Inclusive growth in India: Challenges ahead and prospects

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### Abstract

The concept of inclusive growth finds place more frequently in the debates and discussions at different forums. The Government aimed at promoting *inclusive growth* as it recognized that high national income growth alone did not address the challenge of employment promotion, poverty reduction and balanced regional development or improving human development. The Indian economy, which has over the last six decades passed through various phases of growth, is now all set to enter an altogether different orbit, one marked by a high rate of expansion, combined with inclusive growth. The orientation is most visibly manifested in the theme of the 11<sup>th</sup> Five Year Plan. The theme is towards faster and more inclusive growth, which clearly reflects the need to find a sustainable balance between growth and inclusion. The 11<sup>th</sup> Plan defines inclusive growth to be a growth process which yields broad-based benefits and ensures equality of opportunity for all. The Governments have initiated several projects are like Jawahar Rozgar Yojna, Integrated Rural Development Program, Rural Housing Scheme, Swarnjayanti Gram Swarozgar Yojana and Mahatma Gandhi National Rural Employment Guarantee Act to promote inclusive growth. The Government and private sector can play complementary roles in driving inclusive growth. The paper presents to need to build Inclusive growth in India, the opportunities available for building an inclusive India by indicators levers are in Governance, education, energy and resources, telecom and technology, infrastructure, healthcare, financial inclusion and business model innovation. The inclusive growth and development the efforts and progress in the direction of inclusive growth and development appears to be quite satisfactory, however, challenges, problems and constraints in achieving the goals of inclusive planning have emerged that require multiple approaches and strategies to address them effectively and efficiently and examine the emerging challenges in achieving inclusive development and growth in India.

**Keywords:** promoting inclusive growth, challenges, prospects

### Introduction

The inclusive growth is a major concern for human development in India with rising inequalities. The tremendous growth of economy, failure on distributive front has aggravated the progressive journey towards collective well-being. The inclusive growth has become the buzzword in policy-spheres with recent phenomenon of rapid growth with characteristic patterns of exclusion. The exclusion continued in terms of low agriculture growth, low quality employment growth, low human development, rural-urban divides, gender and social inequalities, and regional disparities etc. The sectoral, social and spatial inequalities have raised questions about welfare approaches of Government planning and emphasized the role of the private sector in addressing development issues in the country. The employment generation, social and developmental infrastructure, health-care and rural diversification are some of the major concerns. Due to faulty approaches and often politically motivated policies, growth has generated inequalities. It is imperative for the planners and policy-makers to make growth inclusive through adoption of pragmatic policies. The journey towards balancing the outcome of economic growth involves many challenges. The dominant challenges include the imperative of maintaining the acceleration of economic growth without compromising on human development and sustainability. The 11<sup>th</sup> five year plan strategy is towards faster and more inclusive growth. The designed to reduce poverty and focus on brining the various divides that continue to fragment our

society. These are the broad objectives that successive Five Year Plans in India have sought to achieve in some form or the other right from the beginning. In the context of economic reform, involving changes in the economic policy framework since 1991, has called for a careful scrutiny of the distributional consequences of the growth process and an appropriate strategy to deal with the emerging issues. The 11<sup>th</sup> plan defined inclusive growth as a growth process which yields broad-based benefits and ensures equality of opportunity for all it stands for equitable development or growth with social justice. The majority population living in rural areas, it is often identified with the agriculture sector. However, it is the unorganized non-farm sector that is increasingly absorbing most of the labour force. The sector has huge potential for growth once there is sufficient investment in infrastructure ensuring linkage to markets and easier access to assets and skills. Infusion of appropriate technology, skills and easier access to credit, especially start-up capital, apart from facilitating market development, can make this segment an expanding base for self-sustaining employment and wealth generation and also foster a culture of creative and competitive industry. Thee entrepreneurial development has to be encouraged by having an enabling competitive environment and easy availability of finance for newer projects and enterprises. The factors considered for inclusive growth. The need for raising the allocate efficiency of investment and resource use across different sectors of economy this can be met by addressing two basic supply-side

issues viz. (I) effective credit delivery system to facilitate productive investment in employment impacting sectors especially, agriculture, micro, small and medium enterprises and (II) large scale investment in infrastructural facilities like irrigation, roads, railways, communication, ports, power, rural/urban reconstruction and in social infrastructure such as health care, education and sanitation.

The Indian economy has been growing at an impressive rate of 8 per cent per annum during the last decade or so, while the agricultural sector has been maintaining a growth rate just above three percent during this period. The high dependence of the population on agriculture resulted in the widening of rural-urban income disparity. Therefore, necessary that Indian agriculture must grow faster for an inclusive economic growth. In order to accelerate and sustain agricultural growth, the ecological foundations (land, water, genetic resources) should be strengthened and higher investment both from public and private sources should be encouraged. The necessary reforms to ensure participation of disadvantaged regions and groups in the growth process should be intensified. The agricultural growth rate of more than 3 per cent is not disappointing but this should be seen in terms of economic viability of small farmers and high incidence of rural poverty in some parts of the country. The agriculture sector must grow to increase farm income and reduce rural poverty. The experience of East Asian countries shows that higher growth can be realized in smallholder agriculture but there should be rapid transfer of people from agriculture to industrial or rural non-farm sector. In India, when employment elasticity is low in agriculture, the growth of non-farm sector becomes critical and this again depends on agricultural growth and rural infrastructure. There are three major growth trends in Indian agriculture. The first trend relates to higher growth rates of coarse cereals, particularly maize, oilseeds and cotton in recent period. The growth in maize and cotton is primarily technology driven. In oilseeds, area expansion, price incentive and better seed varieties were responsible for yield growth. The second major welcome trend is impressive agricultural growth in developed states is Gujarat where institutional reforms to expand irrigation and transfer of technology were the major contributing factors. The third major trend has been the rapid growth of high value commodities like fruits, vegetables, livestock and fisheries. The price incentives mainly because of rising demand and strong market linkages prompted farmers to diversify towards these commodities. The accompanied by supply-side factors like improved availability of seed and other planting material. The evidence indicates that these sectors will continue to grow faster and, therefore, will compete for area with food grains. Thus, there is a need for raising productivity of food grains so as to release area for the high value commodities, and this will require better technologies and input delivery system in newer regions like eastern India.

### **Inclusive growth in India**

The high economic growth and a moderation in population growth rate, the per capita income of the country also increased substantially in the recent years. The agricultural sector which provides employment to around 60 per cent of the population lost its growth momentum from that point, though there has been a reversal of this trend since 2014-15. The percentage of India population below the poverty line has

declined from 36 per cent in 1993-94 to 26 per cent in 2011. The concerns about financial exclusion, especially in rural areas have surfaced in India in recent years following the results of the NSSOs and All-India Debt and Investment Survey (AIDIS), 2002. According to the Survey results, though the share of non-institutional sources of credit for the cultivator households had declined from 92.7 per cent in 1951 to 38.9 per cent in 2012, due to increase in moneylenders share. The share of institutional sources such as commercial banks, co-operative societies, etc. increased from 7.3 per cent in 1951 to 61.1 per cent in 2012, the improvement in the share of institutional sources. The Banks have identified about 73,000 such habitations for providing banking facilities using appropriate technologies. A multi-media campaign, Swabhimaan, has been launched to inform, educate and motivate people to open bank accounts. During this year, banks will cover 20,000 villages.

### **Need for inclusive growth in India**

The inclusive growth is necessary for sustainable development and equitable distribution of wealth and prosperity. The inclusive growth is the biggest challenge in a country like India. In a democratic country like India, bringing 600 million people living in rural India into the mainstream is the biggest concern. The challenge is to take the levels of growth to all section of the society and to all parts of the country. The best way to achieve inclusive growth is through developing people skills. The challenge of skills shortage can be addressed through public private partnership. Since independence, significant improvement in India economic and social development made the nation to grow strongly in the 21<sup>st</sup> century. The following factors encouraged the India to concentrate more on inclusive growth

- India is the 7<sup>th</sup> largest country by area and 2<sup>nd</sup> by population. It is the 12<sup>th</sup> largest economy at market exchange rate and 4<sup>th</sup> largest by PPP. The India is far away from the development of the neighborhood nation, i.e., China.
- The exclusion in terms of low agriculture growth, low quality employment growth, low human development, rural-urban divides, gender and socialine qualities, and regional disparities etc. are the problems for the nation.
- The reducing of poverty and other disparities and raising of economic growth are the key objectives of the nation through inclusive growth.
- The child labour has been banned by the law in India and there are stringent provisions to deter this inhuman practice. Still, many children in India are unaware of education as they lives are spoiled to labour work.
- The literacy levels have to rise to provide the skilled workforce required for higher growth.
- The economic reforms in the country are overwhelmed by out dated philosophies and allegations by the politicians and opposition parties in India.
- The achievement of 9 per cent of GDP growth for country as a whole is one of the boosting factor which gives the importance to the Inclusive growth in India.
- The inclusiveness benchmarked against achievement of monitor able targets related to Income & Poverty, education, health, women & children, infrastructure and environment.

- Even at international level also, there is a concern about inequalities and exclusion and now they are also taking about inclusive approach for development.

### Elements of inclusive growth

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

### Challenges ahead and solutions

The challenge is expressed in different ways improving quality of public expenditures or increasing institutional capacity or more effective implementation or better service delivery. Since independence, India has been successful on a number of fronts as the country has maintained electoral democracy, reduced absolute poverty by more than half, dramatically improved literacy, and vastly improved health conditions. Its achievements have, however, created new challenges. The most prominent are,

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

### Constraints to overall growth

**Infrastructure:** India needs to invest an additional 3-4 per cent of GDP on infrastructure to sustain current levels of growth and to equalize its benefits. Although this will clearly require a Government role, the relative roles of the Government and private sector need to be defined. The massive demands now on power networks, transport, urban infrastructure, and ports are the result of India's success in promoting economic growth. The danger is that poor economic infrastructure now will put a brake on that overall growth. The infrastructure is also important to equalize growth investments that raise productivity and farmer incomes in agriculture, infrastructure that help jobs move to people, as well as the infrastructure that is needed to connect rural India

with the benefits of a growing economy.

**Fiscal deficit:** It is a major concern that in the recent budget (2014-15) the fiscal deficit has risen to 6 per cent of the GDP from 3 per cent of the GDP in the 2014-15. This excess expenditure over income is to be funded almost wholly through government borrowing. Fiscal discipline is vital to contain this problem.

### Reforms to improve economic efficiency

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

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

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

### Agriculture and the rural economy

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

### Lagging States

The faster economic growth has seen rising inter-state disparities. The lagging states need to bring more jobs to their people by creating an attractive investment destination. The reforming cumbersome regulatory procedures, improving rural connectivity, establishing law and order, creating a stable platform for natural resource investment that balances business interests with social concerns, and providing rural

finance are important. A good understanding and coordination between the Government machinery is essential for development and inclusive growth.

### **Right to information act**

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

### **Public-private partnerships**

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

### **Social Development**

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

### **Environment**

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

### **Empowerment and Opportunity**

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

### **Accountability of reforms**

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

### **Inclusive growth with respect to employment**

- The generation of productive employment for labour
- force in the economy, as employment is a key to inclusive growth,

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

### **Land**

While raising agricultural productivity is a must to cope with the shrinkage of agricultural land, the very slow growth of non-farm opportunities for employment, demand for industrialization, including SEZs, and for housing in expanding urban areas and livelihoods and social security for small holders poses a challenge and argue for a careful and calibrated approach for land acquisition.

### **Social Security**

The providing social security is a challenge. As in the previous plans, the 11<sup>th</sup> plan proposes targeted livelihood support programmes aimed at increasing productivity and incomes of the poor in several low income occupations, such as small and micro enterprises weavers, artisans, crafts men, etc., the lack of concern and commitment by the government poses a threat for the plight of these unorganized sections. The recent suicides of weavers in certain parts of the country reflect lack of concern. In this context, the recommendation of National Commission for Enterprises in the Unorganized Sector-NCEUS 2006) assume significance. The Government has introduced schemes to provide social security coverage through life cover, health insurance and old age pension on the lines recommended by NCEUS, but by restricting to sections of below poverty line (BPL) households. It will be better if this is extended to middle class households also.

### **Conclusion**

India seems to be improving its economic growth. The post-reform period witnessed increase in disparities across regions and social groups and between rural and urban areas. There is a need to have a broad based and inclusive growth to benefit all sections of the society. The challenges in most important elements of inclusive growth are agriculture, poverty and employment, social sector and regional. There are strong social and economic reasons for achieving broader and inclusive growth. To inclusive growth is a wider connotation encompassing social, economic and political factors. Socially, lack of inclusive growth leads to unrest among many people. The measures which raise equity also promote economic growth. The political argument is that no Government in a democracy can afford to ignore large sections of workers and non-working population. Thus, politically, for having a stable

and democratic society one needs to have inclusive growth. The important for reducing exclusion, social tensions, inequality and improve overall economic development. The focused Government interventions, enlightened civil society including NGOs are important for the success of macro policies, sectoral interventions, targeted poverty alleviation programmes and to go beyond millennium development goals. The States has to learn lessons from the failures in the last 60 years and focus on the above priority areas in the next decade or so in order achieve *Golden India* and reach the state to one of the top performing states in the country. Otherwise the India may lag behind many other countries in achieving broad based inclusive growth.

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