

The long journey towards inclusive growth

Rajesh Shukla and Sandeep Ghosh | The Financial Express | January 22, 2016 02:29 am

The Indian economy has come a long way, with the country's GDP crossing the \$2 trillion mark in 2014. While it took us 60 years to hit the \$1 trillion figure, we added the next trillion in just seven years.

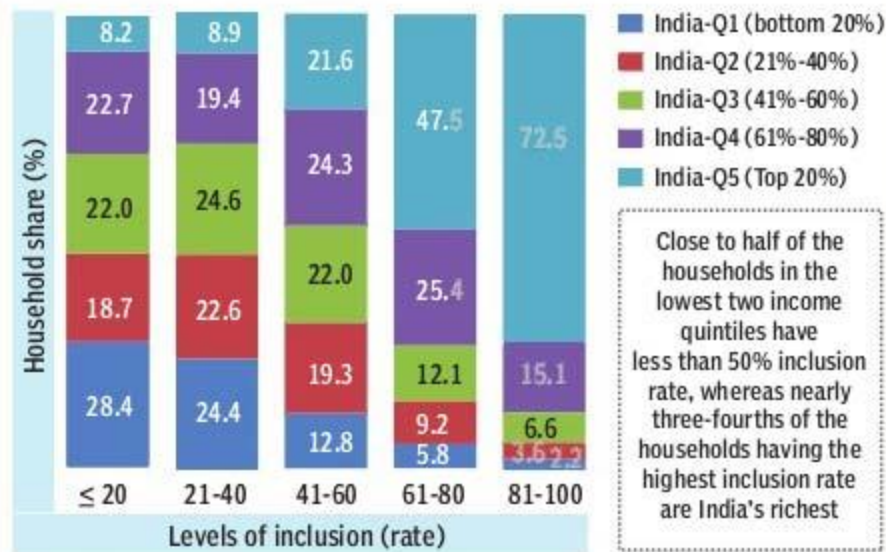
The Indian economy has come a long way, with the country's GDP crossing the \$2 trillion mark in 2014. While it took us 60 years to hit the \$1 trillion figure, we added the next trillion in just seven years. According to IMF's predictions, we are all set to cross the milestone of \$3 trillion by 2019. In income terms, even though the bulk of this growth has been driven by the rich households (top 20%), the bottom 40% has also enjoyed an 8%-plus CAGR between 2004-05 and 2013-14. However, the road to inclusive growth continues to be a long and hard one. Inclusive growth goes far beyond monetary income and encapsulates equity, stability, respect for diversity, equality of opportunity, and participation in the development process; we still score poorly on many of these measures.

The World Summit for Social Development held in March 1995 established the concept of social integration to create an inclusive society as one of the key goals. The Copenhagen Declaration and Programme of Action, a key outcome of the summit, pledged to make full employment, eradication of poverty and social integration the vital objectives of development. Member states made a commitment to promote social integration through fostering inclusive societies that are stable, safe, justice-oriented, respect diversity, and offer equality of opportunity and participation of all people, including disadvantaged and vulnerable groups and persons, in the development process. Following the Copenhagen Declaration, significant policy commitments were adopted at the Millennium Summit in September 2000. The Millennium Declaration further embodies social inclusion principles as well as the goals set out in the Copenhagen Declaration. Thus, "inclusion" is the amalgamation of various outcomes, including equity of participation in the labour market, financial access, social integration, access to critical infrastructure that determines quality of life, access to networks and opportunities, and a fulfillment of our fundamental right to education, especially skill-based education.

Using the ICE 360° survey data of 2014, we have derived a composite measure of inclusion to understand how Indian households perform in terms of social inclusion. Five types of inclusion measures—labour market participation, highest level of education within the household, access to amenities and infrastructure, financial inclusion, and social inclusion—were constructed using the ICE 360° survey data keeping in mind the broad thematic of the Millennium Declaration. These were then amalgamated and indexed for a maximum score of 100 to form the final inclusion index score for each surveyed household.

The modal class (of inclusion rate that ranges between 0 and 100) is 41-60% which accounted for 36.2% of Indian households (97.7 million). The all-India inclusion average being 45.8 and median being 45, which is actually decisively low considering that nearly 140 million households register a sub-par inclusion rate. While close to 59% of India's earning households have an inclusion score of 40 and above, there are wide variations across background variables. The average inclusion rate for urban households is just over 55 but dips to around 41 for rural households. The same analysis when done using population quintiles based on per capita income reveals that the 'least included' (with an inclusion rate of less than 40) are constituted by households across four income quintiles (except for the richest 20%) in nearly equal measure. On the other hand, the 'most included' households are almost exclusively those who belong to the highest income quintile (72% contribution).

Distribution of households across levels of inclusion for each population quintile based on per capita income (%)



Source: ICE 360^o Survey (October 2014) from People Research on India's Consumer Economy (PRICE)

Given this reality, there is a need to introspect as to why we see over 40% of Indian households with an inclusion value of 40 or less (and indeed this number inflates to over 50% for rural)? Secondly, why is there a direct correlation between income and inclusion when only one of the five indices of inclusion has to do with financial inclusion? India as a whole has enjoyed significant economic growth over the past decade. The average annual household income have grown from

R2,19,500 in 2004-05 to R3,35,600 in 2013-14. And we expect this to go up to R4,75,000 by 2020. The bottom two income quintiles have also experienced benefits of this growth with their average annual household incomes growing by over 2.2 times over the past decade. Despite such growth, as many as 111.2 million Indian households remain excluded from India's growth story (less than 40 inclusion rate) and nearly 50% of them belong to the bottom two income quintiles.

In an effort to throw light on the reasons for such low levels of inclusion, we conducted a factor-loading exercise, using the overall inclusion index as the dependant variable, and cluster location, income quintiles and each of the five constituent inclusion indices as the seven independent variables. Interestingly, the findings reveal that while each of the five constituent indices exerted significant influence of the overall inclusion score, labour market participation and the level of education have had the most influence on outcomes than any other construct (together, they explain over 62% of the variation in overall inclusion scores). This clearly indicates that while households with at least one graduate enjoy an inclusion score of 65.5, the rate for households with no member having crossed primary education level falls to 24.7. Similarly, the inclusion score for casual wage labour households is 32.8, but that for salaried employees of any kind is nearly 25 points higher. This wide level of variation is symptomatic of these two inclusion categories and that's why they have exerted the highest influence on overall scores.

In this context, the government's Skill India and Make-in-India programmes are much-needed initiatives. The high correlation between education, income and inclusion for development are clear pointers to the fact that the agenda of universal and quality education has to be aggressively implemented. Nurturing skill-based education will go a long way in not just increasing employability, but also positively impacting the earning capabilities of millions of households that depend on self-employment as a source of income.

Appropriate initiatives at the regional/state levels in conjunction with central-government-led programmes are needed to build the capabilities of a large population of low-skilled, poorly-educated, unemployable youth if we are to succeed in breaking the vicious cycle of social exclusion and underemployment.

Shukla is director & CEO, Ghosh is senior fellow, People Research on India's Consumer Economy (ICE 360°)