Indian Economic Policies Towards Inclusive Growth

John Joseph Puthenkalam*

Abstract

Developing countries aim to improve the low indices of development goals by targeting high economic growth rates as we have seen in recent decades in the emerging economies of the world. Globalization opened the doors of markets and economies started to taste the fruits of liberalization. It has long been known that spurts of rapid economic growth can increase inequality as we notice in emerging BRICS countries (Brazil, Russia, India, China, & South Africa) and a debate has arisen out of this scenario: growth versus equality. As the debate continues about growth-equality, in this article, I would like to show how India's policy makers are striving towards the concept of inclusive growth and how it can change the lives of millions of people who suffer from an unequal distribution of wealth. India's development path is based on the policies and allocation of resources through its Five Year Plans. In the following discussion, we focus on the policies and programmes that aim at the concept of inclusive growth of Eleventh Five Year Plan and draw a vision towards the Twelfth Five Year Plan of India that begins in the year 2012.

Keywords: Indian Economy, Five Year Plans, Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), Right to Education Bill (RTE), & Inclusive Growth

I Introduction

Developing countries aim to improve the low indices of development goals by targeting high economic growth rates as we have seen in recent decades in the emerging economies of the world. Globalization opened the doors of markets and economies started to taste the fruits of liberalization. It has long been known that spurts of rapid economic growth can increase inequality as we notice in emerging BRICS countries and a debate has arisen out of this scenario: growth versus equality. Joseph Stiglitz, the Nobel Prize-winning economist, believes that low growth and inequality are interconnected, but he believes that the causal arrow moves in the opposite direction. As he put it in a recent interview, "I think it's inequality that's causing low growth." In his new book *The Price of Inequality*, he writes that, "Politics have shaped the market, and shaped it in ways that advantage the top at the expense of the rest."[1)] Rent-seeking, the ability of entrenched elites to allocate resources to themselves and smother opportunity for others, invariably leads to a less competitive market and lower growth.[2)] This finding dovetails with the work of Harvard University's Benjamin Friedman, who argues in The Moral

* Department of Economics, Sophia University
E-mail: j-puthen@sophia.ac.jp

Consequences of Growth that "economic growth more often than not fosters greater opportunity, tolerance of diversity, social mobility, commitment to fairness, and dedication to democracy."[3] Similarly, lack of growth tends to breed xenophobia, intolerance, and a negative attitude toward the poor — the US and Europe in recent decades serve as cases in point for Friedman. "People in the 30th percentile are desperate not to fall into the 20th or tenth percentile," he concludes. Thus, a slow-growth/high-inequality economy may become a self-perpetuating cycle. But both Stiglitz and Thomas Piketty do not think that it must be so. "First of all, the Scandinavian countries, which have the greatest equality, are also among the fastest-growing advanced economies, and take the example of Japan, which has experienced deflation for about 20 years but successfully maintained a decent level of equality and standard of living," Stiglitz argues. French economist Thomas Piketty of the Paris School of Economics argues that our "obsession with growth" merely "serves as an excuse for not doing anything about health, about education, or about redistribution." And it is an obsession rooted very much in the present. "We forget that for centuries growth was essentially zero," he writes. "One percent real growth means doubling the size of your economy every 30 or 35 years."[4] And so the debate continues about growth-equality. In this article, I would like to show how India's policy makers are striving towards the concept of inclusive growth and how it can change the lives of millions of people who suffer from an unequal distribution of wealth. India's development path is based on the policies and allocation of resources through its Five Year Plans. In the following discussion, let us focus on the policies and programmes that aim at the concept of inclusive growth of Eleventh Five Year Plan and draw a vision towards the Twelfth Five Year Plan of India that begins in the year 2012.

II Contextualizing India

As the world's population crossed the 7th billion, India's total population, as recorded in Census 2011, at 1.21 billion, is slightly more than what was forecast. But the population growth rate has decelerated from 1.97 per cent per annum between 1991 and 2001, to 1.64 per cent per annum between 2001 and 2011. Notably, it declined in almost every State including those of the populous Gangetic plains. The deceleration reflects a much-needed decline in the Total Fertility Rate (TFR) which is estimated to have fallen to 2.6 per cent and is expected to decline to 2.3 per cent in the first half of the present decade. The Southern States have reached, or are close to reaching, the replacement level of fertility. Fertility levels in the northern states are also falling, but are still much higher than the replacement level. India has a younger population not only in comparison to advanced economies but also in relation to the large developing countries. As a result, the labour force in India is expected to increase by 32 per cent over the next 20 years, while it will decline by 4.0 per cent in industrialized countries and by nearly 5.0 per cent in China. This 'demographic dividend' can add to growth potential, provided two conditions are fulfilled. First, higher levels of health, education and skill development must be achieved. Second, an environment must be created in which the economy not only grows rapidly, but also enhances good quality employment/livelihood opportunities to meet the needs and aspirations of the youth.[5]

III Employment and Livelihood

For growth to be inclusive it must create adequate livelihood opportunities and add to decent employment commensurate with the expectations of a growing labour force. As noted above, India's young age structure offers a potential demographic dividend for growth, but this potential will be realized only if the extent and quality of education and skill development among new entrants to the workforce is greatly enhanced. One of the most remarkable things brought out by the 66th round National Sample Survey Organization (NSSO) survey on Employment (2009-10) is that the number of young people in education, and therefore, out of the workforce, has increased dramatically causing a drop in the labour participation rate.[6] The total number of young working-age (15-24) people who continued in educational institutions doubled from about 30 million in 2004-05 to over 60 million in 2009-10. The survey also shows that between 2004-05 and 2009-10, the overall labour force expanded by only 11.7 million. This was considerably lower than comparable periods earlier, and can be attributed to the much larger retention of youth in education, and also because of lower labour force participation among working-age women. Over the same period, 18 million job opportunities were created on current daily status basis. Thus, in absolute terms, unemployment came down by 6.3 million; and the unemployment rate which had increased from 6.06 per cent in 1993-94 to 7.31 per cent in 1999-2000 and further to 8.28 per cent in 2004-05, came down to 6.60 in 2009-10.

The lower growth in the labour force is not expected to continue in future and we can assume that much larger numbers of educated youth will be joining the labour force in increasing numbers during the Twelfth Plan and in the years beyond. The clear implication of this is that the pace of job/livelihood creation must be greatly accelerated. Part of this must come from a significant boost to the manufacturing sector of the economy, such that it grows at a rate that is faster than most other parts of the economy. However, this may not be enough, in part because not all categories of manufacturing are labour intensive. Although GDP from manufacturing increased at 9.5 per cent per annum between 2004-05 and 2009-10 along with some increase in employment in the organized manufacturing sector, the survey suggests that overall employment in manufacturing actually declined during this period. The implied shake-out of labour from the un-organised manufacturing sector needs to be examined in detail and appropriate steps taken so that the obvious potential of the MSME sector as a source of jobs/livelihoods is realised fully.

The 66th round NSSO Survey of Employment shows that the vast majority of new jobs created between 2004-05 and 2009-10 was in casual employment, mainly in construction. While such jobs are often more attractive for rural labour than casual work in agriculture, there is a potential for an accelerated pace of creation of more durable rural non-farm jobs/livelihood opportunities. Such job opportunities could come from faster expansion in agro-processing, supply chains and the increased demand for technical personnel for inputs into various aspects of farming that is undergoing steady modernization, and also the maintenance of equipment and other elements of rural infrastructure. The service sector too has to continue to be a place for creation of decent jobs/livelihood opportunities, in both rural and urban areas.

IV Concept of Inclusive Growth

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 term, inclusive growth, is finding its way increasingly in the lexicon of government leaders, economists, planners, academicians and businessmen, not just in India but even internationally. Robert Zoellick, former president of the World Bank group, focussed on the theme of ‘An Inclusive and Sustainable Globalization,’ at a recent meet in Washington DC. “Globalization must not leave the ‘bottom billion’ behind,” remarked the former chief of the World Bank. “This assertion is based on more than respect for the worth of our fellow men and women, and beyond an appreciation that any of us might have been born in similar circumstances. Inclusive globalization is also a matter of self-interest. Poverty breeds instability, disease, and devastation of common resources and the environment. Poverty can lead to broken societies that can become breeding grounds of those bent on destruction and to migrations that risk lives." [7] Indian Prime Minister Manmohan Singh notes that his government recognizes that high national income growth alone does not address the challenge of employment promotion, poverty reduction and balanced regional development. Nor does growth in itself improve human development. Consequently, all the major initiatives of his government – in agricultural and rural development, in industry and urban development, in infrastructure and services, in education and health care – sought to promote 'inclusive growth'. According to 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 government also went in for a variety of legislative interventions to empower the disadvantaged. Addressing the annual general meeting of the Confederation of Indian Industry (CII) recently, Singh had urged Indian industry to make growth processes both efficient and inclusive. He also drew up a ten-point social charter, to ensure that "our growth process is both inclusive and broad-based." [8] Former Indian Finance Minister P. Chidambaram wants to take India from 'a high rate of growth' era to one of 'more inclusive growth.' "Growth is necessary but not sufficient," points out Chidambaram. "Growth has to be inclusive. Growth with equity is the only road that India can take." According to him, growth is not an end in itself, but the means to an end – which is the participation of all 1.2 billion Indians in the growth story. But today, 26 per cent Indians still live in 'abject poverty,' and many, who had enough to eat, did not have access to water, sanitation, healthcare and education. The government has taken measures to increase the allocation to social sectors; for instance, allocations to education had quadrupled to $7.2 billion over the last four years, and to the health sector it had doubled to $3.6 billion. [9]

India's economic growth has passed through four major phases over the past 60 years, and is now set to enter a new phase. The first 30 years after Independence, GDP (Gross Domestic Product) grew at an unremarkable 3.5 per cent per annum. During the 1980s, with the initial whiff of reforms, it accelerated to 5.6 per cent per annum. In the reforms era of the 1990s, the average growth rate of the GDP went up slightly to 5.8 per cent. But the last five years have seen the fastest pace of growth in the country's history – to an average of 8.5 per cent per annum. In fiscal 2006-07, GDP accelerated to an impressive 9.4 per cent, and the government is now determined to boost this to double-digit rates. Montek Singh Ahluwalia, deputy chairman, Planning Commission, believes that if the reforms process continues, India's growth rate will touch the 10 per cent rate by the end of the 11th Five Year plan (2012). "The Plan has a lot for those people living below poverty line, including farmers and labourers," he says. "We are confident that the growth process we are witnessing today is more inclusive and will do more for the poor than in the past." India's government has made "inclusive growth" a key element of their policy platform, stating as a goal: "Achieving a growth process in which people in different walks in life... feel that they too benefit significantly from the process." [10] Former Union Commerce and Industry Minister Kamal Nath warns that the high growth rates witnessed in recent years would become unsustainable if growth is not inclusive and uniformly spread across the country. The urban-rural divide has to be bridged and rural areas integrated with the economic processes to ensure equitable and inclusive growth. The Minister feels the private sector has an important role to play in enhancing employment opportunities in farm and non-farm enterprises in rural areas, and should provide the necessary expertise to these areas. From the discussion on inclusive growth, we can propose a definition of inclusiveness that involves four attributes:

Opportunity: Is the economy generating more and varied ways for people to earn a living and increase their incomes over time?

Capability: Is the economy providing the means for people to create or enhance their capabilities in order to exploit available opportunities?

Access: Is the economy providing the means to bring opportunities and capabilities together?

Security: Is the economy providing the means for people to protect themselves against a temporary or permanent loss of livelihood?

Consistent with this definition, 'inclusive growth' is a process, in which, economic growth, measured by a sustained expansion in GDP, contributes to an enlargement of the scale and scope of all four dimensions.[11)]

V Strategy of Inclusiveness in the Eleventh Plan

The Eleventh Plan (2007-08 to 2011-12) sought to build on the gains achieved in the Tenth Plan and shift the economy to a path of faster and more inclusive growth. The Eleventh Plan viewed inclusiveness as a multi-dimensional objective and listed 27 monitorable targets. Of these, two were: (a) growth of GDP and (b) the growth of agricultural GDP. There were also 25 other parameters relating to poverty reduction, employment, education, health services, child nutrition, gender balance, access to basic infrastructural services, and environmental sustainability. Inclusiveness, a critical element in the strategy, was to be achieved by ensuring that growth was broad-based and was combined with programmes aimed at overcoming deficiencies in critical areas, which affect large numbers of the vulnerable sections of Indian population, particularly the Scheduled Castes (SCs), Scheduled Tribes (STs), the Other Backward Classes (OBCs), women, and the minorities. The Plan sought to deal with these deficiencies through programmes aimed at providing access to health, education, and other essential services and programmes of livelihood support.

VI Experience with Growth

The Eleventh Five Year Plan (2007-08 to 2011-12) had aimed at achieving faster and more inclusive growth. Rapid GDP growth, targeted at 9.0 per cent per annum, was regarded necessary for two reasons: first, to generate the income and employment opportunities that were needed for improving living standards for the bulk of the population; and second, to generate the resources needed for financing social sector programmes, aimed at reducing poverty and enabling inclusiveness.

The economy has performed well on the growth front, averaging 8.2 per cent in the first four years. Growth in 2011-12, the final year of the Eleventh Plan was originally projected at around 9.0 per cent continuing the strong rebound from the crisis, which saw an 8.5 per cent growth in 2010-11. Instead, the economy actually slowed down somewhat in 2011-12 compared to the previous year - a phenomenon common to all major economies reflecting the fact that 2010 was a rebound from depressed levels in 2009. Growth in 2011-12 is likely to be around 8.0 per cent. The economy is therefore, likely to achieve an average GDP growth of around 8.2 per cent over the Eleventh Plan period, which is lower than the 9.0 per cent targeted originally, but higher than the 7.8 per cent achieved in the Tenth Plan. This implies a nearly 35 per cent increase in per-capita GDP during this period. It has also led to a substantial increase in government revenues, both at the Centre and the States, resulting in a significant step-up of resources for the programmes aimed at inclusiveness. A healthy increase in aggregate savings and investment rates, particularly in the private sector, testifies to the strength of our economy as it enters the Twelfth Plan period. The acceleration in the growth in the Eleventh Plan period compared with the Tenth Plan is modest, but it is nevertheless a good performance, given the fact that a severe global economic crisis depressed growth in two of these five years, and also that in the year 2009 India had the weakest monsoon in three decades. The slowdown in 2011-12 is a matter of concern, but can be reversed if the investment climate is turned around and fiscal discipline is strengthened.

VII Resilience of the Economy

The Eleventh Plan aimed at an average growth rate of 9 per cent per annum, beginning with 8.5 per cent growth in the first year and accelerating this to reach 10 per cent in the last year. The economy exceeded expectations in the first year of the Eleventh Plan (2007-08) with a growth rate of over 9 per cent but the momentum was interrupted in 2008-09 because of the global financial crisis. As in other countries, the government responded to the global recession by introducing fiscal stimulus and monetary accommodation which continued into 2009-10 when the economy was further hit by a severe drought. The growth rate in 2008-09 declined to 6.7 per cent but rebounded to 7.4 per cent in 2009-10, despite the fact that agriculture showed negligible growth at 0.2 per cent. The drought also led to an increase in inflationary pressure, especially in food prices, which were also affected by high international commodity prices, as well as some of the food prices that were high. Bringing inflation under control has thus become a priority. In 2012, Growth was 5.5% in the April to June period from a year earlier. Most analysts had forecast a rate of 5.2%. India's economy grew faster than expected in the three months to the end of June, 2012, easing some fears about a sharp slowdown in Asia's third-largest economy. The relatively modest slowdown in the face of an exceptionally sharp contraction in output in the industrialized world has established the resilience of the Indian economy in terms of its ability to manage a downturn despite greater openness. While the advanced economies saw their growth decline from a trend rate of 2.0 to 2.5 per cent to (-) 2.0 to (-) 3.0 per cent, growth in India declined by only about 2 percentage points. Since this reduction applied to an underlying growth rate that was much higher, the outcome was a GDP growth rate that remained relatively robust. China and other East and South-East Asian countries have also had a similar experience.[12)]

There are several reasons for the superior performance on the growth front. First, India's financial system was not exposed to the 'toxic' assets which affected the financial system in most industrialized countries. This was the result of a traditionally conservative approach to bank regulations and of a conscious government decision to adopt a cautious approach in liberalizing capital flows, especially short-term debt, combined with building up ample foreign exchange reserves. If the financial system had suffered a severe shock, the disruptive effects of the crisis on the real economy would have been much greater. Second, although the economy is much more open now than it was in the past, it still is much less dependent on exports as a demand side driver of growth than some other countries. The growth in demand which supported rapid growth in GDP was predominantly domestic demand, particularly domestic investment, which increased rapidly in the pre-crisis years. Third, the underlying macro-fundamentals were strong. The level of private savings has been high and fiscal consolidation in previous years had improved public savings performance. As a result, the domestic savings rate had increased to 36.4 per cent of GDP in 2007-08 and then declined to 32.5 per cent in 2008-09 because of the adverse effect of the crisis on tax revenues coupled with the fiscal stimulus. However, the private savings rate was more or less unchanged. Gross investment declined from 37.7 per cent in 2007-08 to 34.9 per cent in 2008-09 and recover to 36.2 per cent in 2009-10. Gross fixed capital formation remained at about 33 per cent through these years. The high rates of domestic savings and investment are important strengths of the economy that will help ensure an early return to high growth. Equally important is the considerable entrepreneurial and managerial capacity in the private sector. Private corporate investment was particularly buoyant in the years before the crisis and confidence levels remain high. This should help ensure an early return to higher growth. Slower growth in world trade will, however, be a problem area in the coming years. Exports, which grew at an annual rate of 25 per cent (in US$) from 2003-04 to 2007-08, are likely to grow at a much slower rate.

VIII Growth in the States

The pattern of Gross State Domestic Product (GSDP) growth across states in recent years has some interesting positive features. Such data as are available (up to 2008-09) suggest that all the states have experienced some acceleration in growth and even the states in the lowest quartile have experienced significant acceleration. This pattern is also reflected in the performance in agriculture across states. The median growth rate of GSDP in the states was 7.6 per cent in the Tenth Plan and 8 per cent in the first year of the Eleventh Plan. In states for which data is available for 2008-09 the median growth rate dropped to 6.4 per cent on account of the slowdown caused by the global crisis. The distribution of growth across states appears to have improved in favour of the slower growing states. The median growth rate for the lowest quartile of the states (ranked by descending order of growth rates) did not exceed 4.9 per cent in the Seventh, Eighth, and Ninth Plans. It rose to 6.3 per cent in the Tenth Plan and remained at that level in 2007-08 suggesting that all states have benefited by the improved growth climate. Although growth rates continue to differ across states, the variation has tended to decline.

One important feature of the growth experienced in the Eleventh Plan, which is relevant for inclusiveness, is that high rates of economic growth have been more broadly shared than ever before across the States. While most States have shown sustained high rates of growth, several of the economically weaker States have demonstrated an improvement in their growth rates. Amongst them are Bihar, Orissa, Assam, Rajasthan, Chhattisgarh, Madhya Pradesh, Uttarakhand and to some extent Uttar Pradesh. According to the available data, no State has averaged GSDP growth of less than 6.0 per cent during the Eleventh Plan period. While the economically-weaker states are catching up in growth rates, there is growing concern about the backwardness of individual districts, several of which are located in States that are otherwise doing well. Many of these districts are also affected by Left-wing Extremism. The Backward Regions Grant Fund (BRGF) and various other regional initiatives have been specially designed to address this problem.[13)]

IX Prospects for Agriculture

An important sectoral target of the Eleventh Plan was to raise the rate of growth of GDP in agriculture from about 2.5 per cent in the Tenth Plan to 4 per cent during the Eleventh Plan period. Higher agricultural growth was expected to contribute directly to overall GDP growth and even more so to inclusiveness. Since more than half of the labour force still derives its income from agriculture, faster agricultural growth is perhaps the most effective instrument for reducing rural poverty. It would mean raising farm incomes for landowning farmers and wage income for landless labourers. It is difficult to judge growth performance in agriculture based on short periods because of the volatility to which agriculture is subjected. The average growth rate of agriculture in the first two years of the Eleventh Plan was 3.2 per cent, which was better than that of the Tenth Plan, but the drought in 2009-10 reduced the average for the first three years to a little over 2 per cent. Achieving the target of 4 per cent growth in agriculture would require an average growth of 7 per cent per annum in the next two years. This may be difficult but with normal weather conditions there is a good chance of agricultural growth averaging 3.0 to 3.5 per cent over the Eleventh Plan period. If this happens, agriculture would at least have overcome the prolonged deceleration which occurred between 1996 and 2003 and returned to the earlier high growth path from which a transition to 4 per cent could be attempted in the Twelfth Plan (2012-2017). There are several positive developments in agriculture:

Total public and private investment in agriculture as a percentage of agricultural GDP has improved from 14.1 per cent in 2004-05 to 19.5 per cent in 2008-09 according to the new national accounts series.

The write-off of farm debts in 2006 gave many farmers the opportunity to start afresh and the flow of agricultural credit has expanded considerably in the Eleventh Plan period with the Kisan Vikas Card experiment proving to be very successful.

Programmes such as the Rashtriya Krishi Vikas Yojana (RKVY), the National Horticulture Mission, and the National Food Security Mission are doing well.

Minimum support prices have been raised to give farmers greater incentives to produce food grains.

Investment in irrigation is being expanded significantly and the Accelerated Irrigation Benefit Programme (AIBP) has stepped up allocations in support of state government efforts.

The Mahatma Gandhi National Rural Employment Guarantee (MGNREG) programme, which is focussed on schemes that improve water conservation, together with enhanced efforts at watershed management, holds out the hope of greatly improving access to water in rain-fed areas.

Improved rural road connectivity through the implementation of the Pradhan Mantri Gram Sadak Yojana (PMGSY), has given farmers improved access to markets supporting faster growth in farm incomes.[14]

None of this should detract from the fact that a great deal more needs to be done in the coming years to achieve a decent growth in the agricultural sector.

X Growth in Agriculture for Reducing Poverty

Recent literature suggests that while sustained economic growth must be a necessary condition for significant poverty reduction, it is not a sufficient condition: sectoral composition of economic growth also matters. Opinions differ, however, on which particular sectors are the sources of more pro-poor growth. Ravallion and Datt (1996)[15] found that because poverty in most developing countries is concentrated in rural areas, growth in the agricultural sector and in the rural economy has been highly beneficial to reduce rural poverty. In another study of China, Ravallion and Chen (2007)[16] found that the impact of the primary sector on headcount poverty reduction is 3.5 times higher than the impact of either the secondary sector or the tertiary sector; poverty reduction elasticity of agriculture is estimated at -7.85 as compared with the elasticity of -2.25 for non-agriculture. Virmani's study of India (2007)[17] and Topalova (2008)[18] confirm the importance of growth in agriculture for reducing poverty. Suryahadi et al (2009)[19] also find that growth in agriculture has been decisive in reducing poverty in Indonesia. This literature confirms that growth originating in agriculture generates among the highest benefits for the poorest households and the unskilled workers. Construction industry is the next best source of poverty reduction – also because of its unskilled worker intensity. De Janvry and Sadoulet (2010)[20] find that growth originating in agriculture is nearly three times more poverty reducing than growth originating in manufacturing and nearly double that of growth originating in construction. Hasan and Quibria (2004)[21] reported, however, that whilst agriculture was the most effective in poverty reduction in South Asia and Sub-Saharan Africa, poverty reduction resulted in East Asia more from the industrial sector and in Latin America from the services sector. Other studies (De Janvry and Sadoulet 2010, Habito 2009) have also added public investment in social services, particularly education and health, and the quality of governance to conditions most likely to reduce poverty.[22]

India's agricultural sector grew strongly in the wake of the Green Revolution.[23] But, the contribution of agriculture to GDP has been on the decline in recent decades, dropping from 36 percent of GDP in 1980 to about 18 percent in 2007. The deceleration in agriculture has contributed to rural distress in many parts of the country and has affected both large and small farmers. The government of India has developed a strategy of accelerated growth, incorporating a near doubling of the rates of growth of agriculture, during the 11th Five Year Plan (2007-12). If it were to materialize, rapid growth in agriculture should generate more opportunities for the poor to get employment and earn income. Agricultural growth will also generate higher demand for industrial products and assist the budgetary situation of the governments through higher growth of tax revenues, which could then be used to finance various anti-poverty programs. One critical parameter to examine the degree of inclusiveness is to see what has happened to the real farm wages in the rural areas. The largest numbers of poor, primarily landless workers, are in rural areas and the majority of them still rely on farm work for their livelihood. It is comforting to see that during the period 2007-10, the average real wage rates increased by 16.0 per cent at the all India level. The growth was the fastest in Andhra Pradesh (42%) and Orissa (33%). Even in states like Bihar and Uttar Pradesh, real farm wages went up by 19 and 20 per cent respectively, over the three year period.

XI The Manufacturing Sector

The Eleventh Plan had noted that the high growth of the economy in recent years had not been accompanied by rapid growth in manufacturing as happened in other fast developing economies. The Plan called for double digit growth in manufacturing and emphasized that this was essential if we wanted to shift substantial numbers of the labour force out of agriculture into the formal sector. Performance in this dimension in the first three years of the Eleventh Plan has been below expectations. Manufacturing grew at an average 9.3 per cent during the Tenth Plan, and reached 10.3 per cent during the first year of the Eleventh Plan, but thereafter it was hit by the global slowdown in 2008-09, causing the rate of growth in the sector to decline to 3.2 per cent. It recovered to 10.8 per cent in 2009-10 and our objective should be to maintain the growth of manufacturing at double digit levels in the last two years of the Eleventh Plan.

Several institutional and policy reforms are needed to achieve this objective. Improved power supply is particularly important since shortages of power or poor quality of power supply have an adverse effect on the competitiveness of manufacturing. The Micro, Small, and Medium Enterprise (MSME) sector needs special attention because it creates more jobs than large companies do. It is also an important seed bed for entrepreneurship and innovation. Credit is, however, a key constraint for this sector and this calls for continued deepening and strengthening of the financial sector as well as the mechanisms for expanding access to equity financing. 'Clustering' is an effective way of providing small units with infrastructure support and should be encouraged. Manufacturing units in India are also burdened by a plethora of regulations, including many at the state level, resulting in low scores on indices of the ease of doing business. There is an urgent need to review these regulations in individual states. The need for greater flexibility of labour laws also has to be addressed if labour-intensive manufacturing is to be encouraged. The fear that any change in labour laws which increase flexibility would necessarily be anti-labour is misplaced and must be overcome. In fact, more flexibility, broadly in line with what exists in other countries, would help increase the demand for labour and expand the size of the labour force in the organized sector. This would be in the interest of unorganized workers who would be absorbed in the organized sector in larger numbers thereby increasing the worker base and their bargaining power in this sector. Rapid industrialization also requires release of land for industrial projects and infrastructure and this has become more difficult over time. The existing land acquisition laws are widely seen to be inequitable and unfair to those from whom land is acquired, especially since acquisition is sometimes used to benefit projects being developed by the private sector.[24)]

XII Progress in Reducing Poverty

The Eleventh Plan target was to reduce the percentage of poverty by 10 percentage points over the Plan period, or 2 percentage points per year, which is more than twice the pace observed in the past. An issue that has attracted considerable attention is whether the poverty lines used in the official estimates, which were fixed in 1973-74 and have been updated for inflation since, need to be revisited in view of the many changes that have taken place in our economy. A High Level Committee under Professor Suresh Tendulkar was appointed in December 2005 to consider this issue.[25)] The Committee has recommended that the urban poverty line need not be changed, but the rural poverty line should be raised to reflect the basket of commodities that can be purchased at the urban poverty line after allowing for the difference in urban and rural prices. The Tendulkar Committee has recomputed poverty lines for individual states for 2004-05 on this basis. The revised poverty lines recommended by the Tendulkar Committee have been accepted by the Planning Commission for 2004-05. They indicate no change in urban poverty estimates, but the rural poverty line has been revised upwards significantly and as a consequence the percentage of the population below the poverty line in rural areas is higher than it was in the earlier estimates. The Tendulkar Committee has specifically pointed out that the upward revision in the percentage of rural poverty in 2004-05, resulting from the application of a new rural poverty line should not be interpreted as implying that the extent of poverty has increased over time. The findings of the Tendulkar Committee, therefore, endorse the earlier Planning Commission assessment that the growth process witnessed in India led to a reduction in poverty between 1993-94 and 2004-05, though the reduction was less than what might have been expected. With GDP growth having accelerated after 2004-05 and its distribution across states being somewhat better, with some improvement in performance in agriculture, and with the introduction of programmes, such as the MGNREGA and Bharat Nirman, there is reason to expect that there will be a significant reduction in poverty over the Eleventh Plan period as a whole. However, this can only be verified much later when the data for the Eleventh Plan period become available. Reducing poverty is a key element in our inclusive growth strategy and there is some progress in that regard. According to previous official poverty estimates, the per centage of the population living below the poverty line had declined by 8.5 per centage points between 1993-04 and 2004-05.

The Eleventh Plan had set a more ambitious target of achieving a decline in poverty ratio of 2 percentage points per year. While the actual performance in this regard was below this target, it was better than it was in the earlier decade. Preliminary estimates using the latest NSS survey for 2009-10 suggest that the percentage of the population in poverty declined, at a faster pace than before, by approximately one percentage point per annum, during the five-year period 2004-05 to 2009-10. Since 2009-10 was a drought year, and poverty in that year could have increased temporarily, the underlying rate of decline is probably more than one percentage point per year. It is also possible that the pace of poverty reduction accelerated in the last two years of the Eleventh Plan period, since by then several Eleventh Plan programmes aimed at increasing inclusiveness would have begun to have a fuller impact. A summary assessment is that the pace of poverty reduction has accelerated, though it may still be short of the target. Nevertheless, it is heartening to note that looking ahead; India is well poised to meet the Millennium Development Goal target of 50 per cent reduction of poverty between 1990 and 2015. In spite of all these claims of poverty reduction, in India a heated debate is going on about the criteria of determining the below poverty line (BPL) population. Since this has varied implication, let us have a brief look at the BPL debate.

Below Poverty Line (BPL) is an economic benchmark and poverty threshold used by the government of India to indicate economic disadvantage and to identify individuals and households in need of government assistance and aid. It is determined using various parameters which vary from state to state and within states. The present criteria are based on a survey conducted in 2002. Internationally, an income of less than $1.25 per day per head of purchasing power parity is defined as extreme poverty. By this estimate, about 40% percent of Indians are extremely poor. Income-based poverty lines consider the bare minimum income to provide basic food requirements; it does not account for other essentials such as health care and education. That is why some times the poverty lines have been described as starvation lines. In its Tenth Five-Year Plan (2002-2007) survey, BPL for rural areas was based on the degree of deprivation in respect of 13 parameters, with scores from 0-4: landholding, type of house, clothing, food security, sanitation, consumer durables, literacy status, labour force, means of livelihood, status of children, type of indebtedness, reasons for migrations, etc. The government of Kerala is one of the few state governments which has formulated its own criteria. In Kerala there are nine parameters. Family which lack access to four or more parameters are classified as BPL. The nine parameters for urban areas are:

- No land or less than five cents of land
- No house or dilapidated house
- No sanitation latrine
- Family without colour television
- No regular employed person in the family
- No access to safe drinking water
- Women-headed household or presence of widows or divorcee
- Scheduled castes and scheduled tribes (SC/ST)
- Mentally retarded or disabled member in the family

The nine parameters for rural areas are the same, but the colour television criterion is replaced by "family with an illiterate adult member" criterion.

Poverty in India is widespread, with the nation estimated to have a third of the world's poor. In 2011, World Bank stated, 32.7% of the total Indian people falls below the international poverty line of US$ 1.25 per day (PPP) while 68.7% live on less than US$ 2 per day. According to 2010 data from the United Nations Development Programme, an estimated 37.2% of Indians live below the country's national poverty line. A 2010 report by the Oxford Poverty and Human Development Initiative (OPHI) states that 8 Indian states have more poor than 26 poorest African nations combined which totals to more than 410 million poor in the poorest African countries. According to a new poverty Development Goals Report, as many as 320 million people in India and China are expected to come out of extreme poverty in the next four years, while India's poverty rate is projected to drop to 22% in 2015. The report also indicates that in Southern Asia, however, only India, where the poverty rate is projected to fall from 51% in 1990 to about 22% in 2015, is on track to cut poverty in half by the 2015 target date.

In 2012, Planning Commission further reduced poverty line to Rs 28.65 per capita daily consumption in cities and Rs 22.42 in rural areas, scaling down India's poverty ratio to 29.8 per cent in 2009-10, the estimates which are likely to raise the hackles of civil society. An individual above a monthly consumption of Rs 859.6 in urban and Rs 672.8 in rural areas is not considered poor, as per the controversial formula. Furthermore, the Plan panel has kept the poverty threshold even lower than it submitted to the Supreme Court last year, which created an outcry among the civil society. The Plan panel had said in its affidavit before the apex court that the "poverty line at June 2011 price level can be placed provisionally at Rs 965 (32 per day) per capita per month in urban areas and Rs 781 (26 per day) in rural areas". The civil society had questioned this definition stating it was very low. As per estimates released, the number of poor in India has declined to 34.47 crore in 2009-10 from 40.72 crore in 2004-05 estimated on the basis of controversial Tendulkar Committee methodology. The methodology recommended by the Committee includes spending on health and education, besides the calorie intake. Among religious groups, Sikhs have lowest poverty ratio in rural areas at 11.9 per cent, whereas in urban areas, Christians have the lowest proportion of poor at 12.9 per cent. Poverty ratio is the highest for Muslims, at 33.9 per cent, in urban areas. Further, poverty in rural areas declined at a faster pace than in urban cities between 2004-05 and 2009-10. It is in this context that we need to discuss inclusive growth and analyze to make economic growth pro-poor.

XIII Making Growth Pro-poor

How a country may achieve a self-sustaining transition from traditional to industrial economies has been addressed by many contributions to development theory. Economic growth models do not establish or suggest, however, an explicit causal-effect relationship between a country's rates of economic growth and the resulting poverty reduction, although policymakers often assume an implicit connection. The current literature provides some guidelines about conditions under which economic growth might be 'inclusive' or 'pro-poor', although how these concepts should be defined remains controversial. One view is that growth is 'pro-poor' only if the incomes of poor people grow faster than those of the population as a whole, i.e., inequality declines.[26] An alternative position is that growth should be considered to be pro-poor as long as poor people also benefit in absolute terms, as reflected in some agreed poverty measure (Ravallion, 2004).[27]

The nature of this debate can be illustrated in **Figure 1**, which depicts the share of GDP for the richest 30% population on the vertical axis and that for the poorest 30% of population on the horizontal axis. From a hypothetical base case scenario equilibrium represented by point A, potential benefits

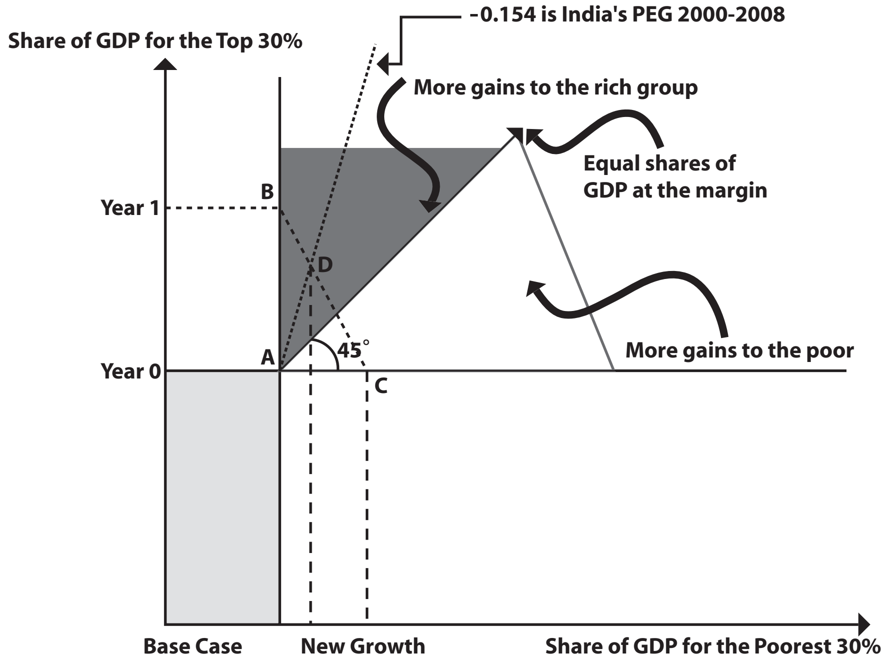

Figure 1 Pareto Optimal and Pro-poor Growth

of a Pareto optimal growth strategy may be viewed to fall anywhere within the space bounded by the points BAC. For example, movement from point A to point B in Year 1 represents a situation in which economic growth has raised the GDP share of the rich population, without making the poor any worse off. Alternatively, movement from point A to point C depicts the case in which the benefits of 'new growth' have raised the plight of the poor, but without making the rich any worse off. Any point situated on the 45 degree line would make the rich and the poor equally better off by dividing the benefits of growth equally between the two groups. Any point lying in the blue triangle would depict the larger share of the benefit going to the rich, just as any point in the unshaded triangle would depict the larger share of benefits accruing to the poor. Kakwani and Pernia's definition would require the impact of a pro-poor growth strategy to lie in the unshaded triangle (where the poor benefit more from growth), whereas Ravallion and Chen (2007) would accept growth to be pro-poor so long as the poor also benefit from growth (i.e., new equilibrium point lies anywhere to the North-East of point A, irrespective of which triangle). This is because by their definition, growth is still pro-poor, even if it results in greater inequalities. Indeed, that is precisely what has happened in India; the rich have benefited more than the poor from economic growth since 2000.[28)]

The measurement of poverty has also been not without controversy. Much of the literature on poverty relies on different measures of income-based poverty: defined in terms of national or international poverty lines (e.g., US$ 1.00 per day or US$ 1.25 per day).

Recent studies, including the United Nations Development Program (UNDP 2008), have embraced the concept of multidimensional poverty: which includes income, consumption expenditure, malnutrition, literacy, and other indicators of welfare. Often, a country's performance in reducing poverty may turn out to be very different depending on whether multidimensional poverty or income poverty headcount ratios are used. For example, while Indonesia's performance in income poverty reduction between 2000 and 2008 was ranked at the top of the 15 countries studied by Habito (2009), that ranking dropped to fourteenth when the comparison was made using UNDP Human Poverty Index (HPI).[29)]

In India, poverty is measured in terms of household per capita consumption expenditure. Poverty lines, determined by the government for each Indian state are updated regularly. The latest poverty lines are based on the recommendations of the Tendulkar Committee Report (2009). At the national level, poverty line for rural population is Rs. 446.68 while for urban population it is Rs. 578.8. Based on these poverty lines, 37.2% of India's total population was poor in 2004-05. In rural India, poverty was higher (41.8%) than in urban areas (25.7%). The Tendulkar Committee also updated the poverty lines for 1993-94 to allow comparisons to be made between the two periods. On the basis of these figures, it is possible to conclude that poverty headcount ratio for all India declined from 45.3% in 1993-94 to 37.2% in 2004-05. Thus, based on these figures one can safely conclude that growth in India has been pro-poor, as poverty has declined since 1993-94. Not everyone accepts this conclusion, however. The critics question the methodology used in the official estimates and argue that the actual number of poor is significantly higher than the official estimates and that poverty had actually increased between 1993-94 and 2004-05 (Patnaik 2010, and Mehrotra and Mander 2009).[30)]

In a recent study, Habito (2009)[31)] has published international comparisons of 15 Asian countries in reducing poverty. For 2000-2008, these comparisons paint a sobering picture of India's performance in achieving inclusive growth in recent years, because India ranks 11th, followed by Philippines, Mongolia, Singapore and Myanmar. Ahead of India in this league were (in that order) Indonesia, Pakistan, China, Malaysia, Thailand, Vietnam, Sri Lanka, Nepal, Bangladesh and Cambodia. The comparisons are made in terms of the poverty elasticity of growth (PEG), which measures percentage reduction in poverty for every one percent of growth in GDP. In Indonesia, Pakistan and China, PEG exceeded one, implying that one percent growth in GDP resulted in more than one percent reduction in poverty. For the other countries that were also ahead of India in this comparison, the values of PEG ranged from -0.806 for Malaysia to -0.469 for Bangladesh. India's PEG was -0.154, implying only modest reduction in poverty for every one percent increase in GDP. In terms of **Figure 1**, India's new growth could be said to have moved from point A in 2000 to point D in 2008, signifying that both the poor and the rich benefited from growth, but that the rich benefited far more than the poor.

The empirical evidence about the relationship between economic growth and poverty reduction suggests that no particular development model is uniquely pro-poor and that the relationship can only be considered empirically, at the case-by-case level. Nonetheless, it should be possible to draw some general conclusions regarding the major sources of pro-poor growth. The international evidence suggests that the rates of poverty reduction have been helped by rapid growth in agriculture, public expenditure on social services, particularly education and health, infrastructure and the quality of governance. For example, Ravallion (2008) concludes that China's success would not have been possible without strong state institutions implementing supportive policies and public investments: "China has had a tradition of building and maintaining the administrative capacities of governments at all levels, including the countless villages that were the frontline for implementing the crucial rural reforms that started in the late 1970s."[32)] He further adds that promoting agriculture and rural economy is crucial to pro-poor growth, particularly in the early stages, given the potential for small-holder

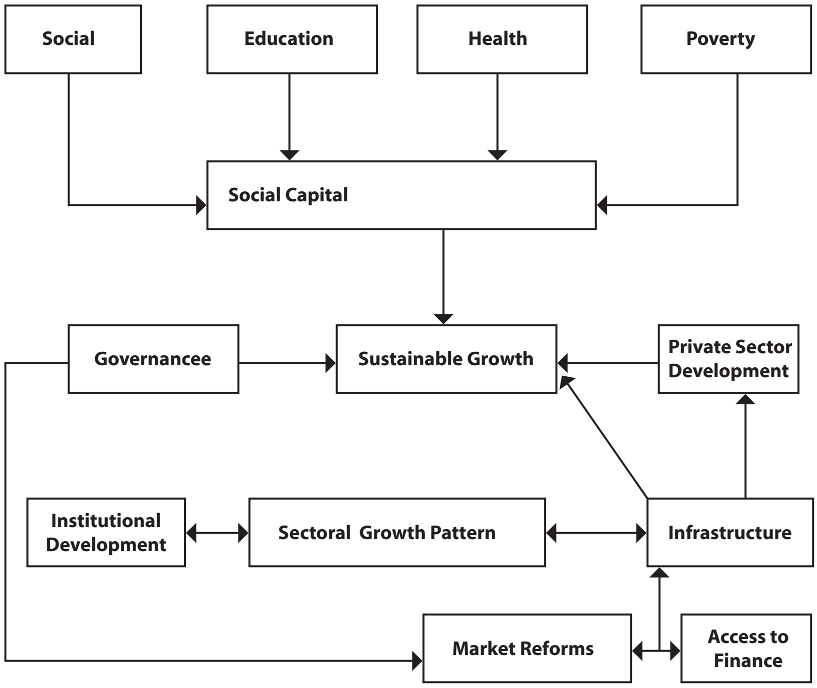

Figure 2 A Coordinated Strategy for Pro-poor Growth

farming to rapidly absorb unskilled labour. Policies targeting social capital development and market reforms to address institutional and socio-cultural constraints should be adopted. The elements of the proposed strategy and the linkages among the various processes are summarised in **Figure 2**.

XIV MGNREGA as Inclusive Growth Programme for Poverty Reduction

An important programme contributing to poverty reduction in rural areas is MGNREGA,[33)] which began in the first year of the Eleventh Plan and was quickly expanded to cover the entire country. This programme is expected to generate about three times the volume of employment generated by the rural wage employment programmes that were in place before it was introduced in 2009-10. There is evidence that implementation of the MGNREGA programme has reduced distress migration and improved the bargaining power of agriculture labour leading to higher wages.[34)] However, it must be emphasized that while the MGNREGA programme provides much-needed minimal employment security, it is not a substitute for a long-term solution to rural poverty. That requires shifting significant numbers of the labour force out of low productivity employment in the agricultural sector to higher productivity employment in the non-agricultural sector, such as in labour-intensive manufacturing and the organized sector in general. With a people-centred, demand-driven architecture, completely different from the earlier rural employment programmes, MGNREGA has directly led to the creation of 987 crore person-days of work since its inception in 2006-07. In financial year 2010-11, MGNREGA provided employment to 5.45 crore households generating 253.68 crore person-days. It has also successfully raised the negotiating power of agricultural labour, resulting in higher agricultural wages, improved economic outcomes leading to reduction in distress migration. This is not to deny that with better project design, implementation leakages could be greatly reduced; and the assets so created could make a larger contribution towards increase in land productivity. Reforms in implementation of Plan schemes are a priority and should receive focussed attention in the Twelfth Plan. There is need for more flexibility in the design of the schemes to reflect the ground realities across the States. Additional provisions should be considered for encouraging innovation; also special efforts to promote convergence at the level of implementation to prevent duplication and to create synergies that improve the quality of outcomes.

XV Access to Education

The Eleventh Plan recognized that higher growth rates would require a large expansion in both the quantity and quality of formal education and skill development. It also recognized that for growth to be inclusive, access to quality education must be broadened so that all sections of the population could benefit from the new and more productive employment opportunities generated by faster growth. There is substantial progress in these areas.

Elementary Schooling: The Sarva Shiksha Abhiyan (SSA), in combination with the Mid-Day Meal (MDM) scheme, has succeeded in achieving near universal enrolment in primary schools. The number of rural habitations with at least one primary school increased from 87 per cent in 2002 to 99 per cent in 2008 and those with upper primary schools within a radius of 3 km from 78 per cent to 92 per cent in the same period. Enrolment has increased for both boys and girls with a welcome narrowing of the gender gap. Similarly, the disparity between SCs/STs and the general population in this area has narrowed, though it has not been entirely eliminated. While enrolments are impressive, dropout rates remain high with as many as 43 per cent of the children dropping out before completing elementary school. The quality of schooling is also a matter of concern. The Annual Status of Education Report (ASER) 2010, which reports learning achievements based on a survey conducted in 2009, shows that as many as 38 per cent of the children in Class V could not read a text meant for Class II and 37 per cent could not do a simple division. In this regard, the percentages have not changed significantly from the past. Several steps are necessary to improve the quality of teaching and a number of initiatives have been taken:

The Pupil-Teacher Ratio in primary schools has improved from 45:1 in 2006-07 to 33:1 in 2008-09.

The Right of Children to Free and Compulsory Education Act (RTE), which became effective from 1 April 2010, provides a framework for universalizing elementary education and also lays down standards which all schools must meet.

The Thirteenth Finance Commission has provided additional grants to the states to meet their share of the expenditure on education and the Central Government has increased its allocation.

Efforts are being made to improve teacher training.

The responsibility for improving the quality of education lies with the state governments. Lacunae in systems of governance make it difficult to enforce teacher accountability. This problem is sought to be tackled by making schools responsible to the elected Panchayati Raj Institutions (PRIs) and some steps have been taken in this direction. However, the effectiveness of these oversight mechanisms is often limited in practice because PRIs do not have effective administrative control over teachers in most states, in large part because teachers belong to state cadres and appointments are highly politicized. More effective devolution and empowerment of PRIs, combined with better system of school inspections, is needed if the quality of teaching is to be improved.

Secondary Education: As the flow of children completing elementary school increases, attention will have to be focussed on the development of adequate infrastructure to absorb them into secondary and higher secondary schools. The primary responsibility for developing schools lies with the state governments, but the Eleventh Plan recognizes that the Centre has to play a supporting role as it does in the case of SSA.[35)]

In the age group of 5-14 years, 89.3 per cent of children were in school in 2009-10, up from 82.4 per cent in 2004-05. Further this increase was higher for girls, rising from 79.6 per cent in 2004-05 to 87.7 per cent in 2009-10. In the 15-19 years age group, 59.5 per cent of young people were in the educational system in 2009-10 as compared to 46.2 per cent in 2004-05. Once again, the increase was more for girls, from 40.3 to 54.6 per cent. In the next higher age group of 20-24 years, 22.5 per cent of boys and 12.8 per cent of girls were still in the educational system in 2009-10 against only 14.9 and 7.6 per cent, respectively, in 2004-05.

XVI Public Expenditure on Education

As noted above, several studies suggest that there is a correlation between inclusive economic growth and the level of public expenditure on social development (including education and health) (e.g., Habito 2009).[36)] Literacy is arguably the most significant factor in poverty reduction as it enhances employability. The role played by literacy has been found to be particularly notable by Ravallion and Datt (2002),[37)] who reported that nearly two-thirds of the difference between the elasticity of the headcount index of poverty to non-farm output for Bihar (the state with lowest absolute elasticity) and Kerala was attributable to the latter's substantially higher initial literacy rate.

In 2009, the Right to Education Act[38)] (RTE) was passed, guaranteeing free and compulsory elementary education to children between six and 14 years old. The 86th Amendment to the Constitution of India makes education a fundamental right. The Act also obliges private schools to admit and educate at least 25 percent of children free of cost. Between 2003 and 2009, the number of enrolees in elementary education has increased from 57 million to 192 million (World Bank 2010). An estimated eight million children, who do not currently attend schools, are expected to benefit from the programme. Literacy in India (for the age group five years and above) increased from just 18.3 percent in 1951, to 43.6 percent in 1981 and to 65.2 percent in 2005. However, the level of literacy varies significantly across states, genders and rural-urban areas. For example, Kerala has more than 90 percent literacy compared with Bihar at around 50 percent. There are large differences in urban - rural literacy rates in different age groups. It is disturbing, however, to note that literacy rate actually declined between 2001 to 2004-05 particularly in male literacy in most states including Kerala.

XVII Public Expenditure on Healthcare

India's public expenditure on health care, at 0.9 percent of the GDP, has been low even by developing country standards. The corresponding share is higher in Pakistan (1.0), Bangladesh (1.5), Nepal (1.5) Sri Lanka (1.8), and Bhutan (3.6) (UNDP 2004). India's public expenditure on health has been not only low, but has declined from 1.05 percent of GDP to 0.91 percent in the same period (GOI 2006c).[39)] Thus, the growth in GDP did not translate into corresponding increase in public spending on health. By comparison, public health expenditure in most of the OECD countries averages around five percent of their GDP (WHO 2006).[40)] India not only spends less on overall health, but public expenditure favours the rich quintile of the Indian society (NRHM 2006).[41)] One consequences of this imbalance is that skilled health personnel attend just 16.4 percent of births among the poorest 20 percent compared with 84.4 percent in the richest 20 percent. Only 35 percent of the population has access to medicines. At this stage of economic growth India needs to consider a new model to extend access to healthcare including medicines to its entire population. Malhotra provides an equity-based healthcare model,[42] which is affordable, implementable and sustainable. Less than three percent of India's population has private health insurance. India's attempts in recent years to provide health insurance for the poor have not been successful. Around 25 percent of the poor do not even seek healthcare because of the costs (World Bank 2002). A case study by Singh (2010)[43] shows that even in the wealthy state of Punjab, healthcare costs have led to farmers' sale of immovable assets and irrecoverable indebtedness.

XVIII Other Inclusiveness Programmes

The Eleventh Plan contains a number of other programmes aimed at promoting inclusiveness. Some such critical programmes are:

The Integrated Child Development Services (ICDS) focusing on pre-school education and supplementary feeding;

The Accelerated Rural Drinking Water Supply Programme, which aims at covering all un-served villages with a safe source of drinking water;

The Total Sanitation Programme, which aims at providing individual household latrines to combat the widespread practice of open defecation;

The Indira Awas Yojana (IAY), which provides assistance for construction of houses to those among the BPL population who do not have housing;

The Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY), which aims at electrifying all un-electrified villages and providing free connections to BPL households; and

The National Social Old Age Pension, which provides pensions to the below poverty line (BPL) population above the age of 65 years.

The total allocation to these programmes, which essentially aim at inclusiveness is budgeted at Rs 40,490 crore for 2010-11.[44]

Most of these programmes are Centrally Sponsored Schemes (CSS), which are implemented by State Government agencies, but are largely funded by the Central Government with a defined State Government share. The total expenditure on these schemes by the Central Government in 2011-12 (budget estimate) is Rs. 188,573 crore, and the total expenditure during the Eleventh Plan period is almost Rs. 700,000 crore. As one would expect, the effectiveness of their implementation varies from State to State. Instances of misuse of funds are frequently reported in studies and press reports, and these are a legitimate source of concern that needs attention. However, it must be kept in mind that while instances of misuse or leakage present serious problems, they do not necessarily imply that the overall impact of the programme is not positive. For example, Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), which was started in 2006-07 and extended to cover the whole country during the Eleventh Plan, has seen several instances of misuse of funds, but it has also notched up a remarkable success. It must be admitted, however, that there has been a proliferation of Centrally Sponsored Schemes over a period of years. This has led to poor implementation, duplication, lack of convergence and sub-optimal results. There is an urgent need to transform the system and sharply reduce the number of schemes. This will enable more focused and effective implementation. A Committee under Shri B. K. Chaturvedi, Member, Planning Commission, has been appointed to review the entire gamut of Centrally Sponsored Schemes and make recommendations for rationalization and consolidation leading to a significant reduction in their number.

XIX Inclusiveness and Empowerment

The progress towards inclusiveness is more difficult to assess, because inclusiveness is a multidimensional concept. Inclusive growth should result in lower incidence of poverty, broad-based and significant improvement in health outcomes, universal access for children to school, increased access to higher education and improved standards of education, including skill development. It should also be reflected in better opportunities for both wage employment and livelihood, and in improvement in provision of basic amenities like water, electricity, roads, sanitation and housing. Particular attention needs to be paid to the needs of the SC/ST and OBC population. Women and children constitute a group which accounts for 70% of the population and deserves special attention in terms of the reach of relevant schemes in many sectors. Minorities and other excluded groups also need special programmes to bring them into the mainstream. To achieve inclusiveness in all these dimensions requires multiple interventions, and success depends not only on introducing new policies and government programmes, but on institutional and attitudinal changes brought about, which take time. Available evidence suggests that there have been significant gains on many of these fronts, even though there are shortfalls in some areas on which further work is needed. An important consequence of the focus on inclusion during the Eleventh Plan has been heightened awareness about inclusiveness and empowerment amongst people. A greater desire to access information about the rights and entitlements made available by law and policy, and eagerness to demand accountability from the public delivery systems augurs well for the future.[45)]

XX Towards 12th Five Year Plan

The economy has weathered an exceptionally difficult global environment very well during the Eleventh Plan. As India is at the threshold of 12th Five Year Plan, macroeconomic policies have to ensure that fiscal consolidation takes place as planned, the investment environment remains supportive, and in particular, that investment in infrastructure is given renewed thrust, if it keeps its objective of inclusive growth to be a reality. Rapid growth will also promote the inclusiveness agenda if the growth is associated with faster growth in agriculture and greater absorption of labour in manufacturing. Greater effort is needed to improve the implementation of social sector programmes in the field. These programmes receive assistance from the Central Government but they are implemented by state agencies. Much greater devolution of power to PRIs,[46)] together with effective participation by the local community is needed to achieve better oversight and accountability. Progress in the governance agenda is critical for achieving the goal of inclusiveness and should be given high priority by state governments.

The Indian economy on the eve of the Twelfth Plan is characterized by strong macro fundamentals and good performance over the Eleventh Plan period though clouded by some slowdown in growth in the current year with continuing concern about inflation and a sudden increase in uncertainty about the global economy. The objective of the Eleventh Plan was faster and inclusive growth and the initiatives taken in the Eleventh Plan period have resulted in substantial progress towards both objectives. Inevitably, there are some weaknesses that need to be addressed and new challenges that need to be faced. Some of the challenges themselves emanate from the economy's transition to a higher and more inclusive growth path, the structural changes that come with it and the expectations it generates. There are external challenges also arising from the fact that the global economic environment is much less favourable than it was at the start of the Eleventh Plan. These challenges call for renewed efforts on multiple fronts, learning from the experience gained, and keeping in mind global developments.

India's growth prospects depend largely on an ability to tackle supply side constraints in the domestic economy, but they cannot be viewed in isolation from developments in the world economy, if only because our economy is now much more globally integrated. The share of exports of goods & services in GDP has increased from 14.0 per cent in 2000-01 to 22.0 per cent in 2010-11 and India is now viewed as an important destination for FDI. Global economic prospects are clouded with uncertainty. The world has avoided a prolonged downturn that was feared at one stage as a possible consequence of the 2008 crisis. The industrialized countries have resumed positive growth after contracting in 2009, but growth in these countries remain anaemic with serious macro-economic imbalances and concerns about sovereign debt. Emerging markets are growing much more robustly, and India has been one of the leaders in this process. However, concern about sovereign debt and fiscal un-sustainability in industrialized countries not only weakens the prospects of an early return to robust growth in these countries, but also creates uncertainty about the export markets in industrialized countries. An adverse development globally, which affects India directly, has been the rise in oil prices, and also the prices of other commodities, including food. Economic management over the next two to three years will have to cope with this uncertainty. Taking a longer view, however, the changes taking place in the world economy, with a shift in economic strength towards emerging markets and especially in Asia, are inherently favourable for India. According to recent projections of global economy, industrialized countries are likely to grow at about 3.5 per cent per year in nominal US Dollar terms between 2010 and 2025, while developing and emerging economies are projected to grow at around 8.0 per cent. Within this group, developing Asia is projected to grow, again in nominal US Dollar terms, at around 10 per cent per year. These projections are, of course, subject to the usual qualifications that attend long-term forecasts, but they are not out of line with the current perceptions. The advanced economies' share in global GDP is projected to fall from 65.0 per cent in 2011 to 51.0 per cent by 2025, while the share of emerging economies is projected to increase from 35.0 per cent to about 49.0 per cent over the same period.[47)] The important point emerging from these projections is that India has the potential to become the third largest GDP in the world in two decades. However, to realize this potential India must ensure sustained rapid growth. China has grown around 10.0 per cent per year in real terms for 30 years and is now expected to slow down. India is currently behind China, but the evidence suggests that India has now developed the potential for sustained rapid growth over the next two decades, provided appropriate supportive policies are put in place. These policies must promote and support changes in many sectors. Our infrastructure, industrial sophistication, management of cities, and also management of a whole range of knowledge promoting institutions, particularly the universities, will have to change dramatically. Institutional changes will be necessary. These changes take time to bring about, but it is important to begin now if we want the Indian economy to occupy its rightful potential in the world. The message emerging from this overview is that the economy has gained in strength in many dimensions and is therefore well placed to achieve faster, sustainable and more inclusive growth. Having achieved 8.2 per cent growth during the Eleventh Plan, it is reasonable to aim at 9.0 per cent growth for the Twelfth Plan. This is a feasible target from a macro-economic perspective but it cannot be viewed as an assured outcome. Global economic conditions are very uncertain and energy prices are likely to remain high. To achieve rapid growth, the economy will have to overcome constraints posed by limited energy supplies, increase in water scarcity, shortages in infrastructure, problems of land acquisition for industrial development and infrastructure, and the complex problem of managing the urban transition associated with rapid growth. Greater efforts also need to be made in agriculture, health and education to ensure inclusion of the most excluded and sometimes invisible parts of our population. These difficulties suggest that a 9.0 per cent growth target for the next five years is ambitious and already there is a view to downgrade this target. But it is not impossible, if we have the political will to do what is necessary. Economic reforms over the last twenty years have resulted in the citizens of India having high expectations. The Twelfth Plan has to meet the aspirations of millions of young men and women. This cannot be done by following a business-as usual approach. All sections of society - government, farmers, businesses, labour and concerned citizens - have to adopt newer, more effective ways of pursuing their activities, so that we can collectively achieve our lofty goals.[48)]

India's record of achieving inclusive growth was examined in the context of the experiences of global economy. These comparisons show that although India's growth since 2000 has been beneficial to the poor, India's achievements are fairly modest relative to the other Asian countries. This calls for a concerted effort to make India's growth more inclusive in the future. Several measures are outlined to strengthen the sources of inclusive growth. The main thrust of inclusive growth strategies has to be on the following key areas: (i) employment and growth in agriculture; (ii) increased public expenditure on education and health; (iii) improved infrastructure; and (iv) more effective governance at all levels. Let us hope that the objectives of the Twelfth Five Year Plan "Faster, Sustainable and more Inclusive Growth" be a reality for all its citizens during the years 2012-2017.

As we celebrate the centennial year of the Faculty of Economics at Sophia University, while we cherish the one hundred years of its existence with all its achievements, it is good to challenge ourselves with the Institute for New Economic Thinking (INET) edited volume under the provocative title "What's the Use of Economics?" as the economic and financial crisis hit us again and again. It seems the existing [economic and financial] models could offer only a limited help or rather in the face of the crisis, policy makers felt abandoned by conventional tools. According to Stephen King, Group Chief Economist of HSBC, "Young economists arrive in the financial world with little or no knowledge of how the financial system operates." To paraphrase, are our graduates equipped to face the firms, markets and in general the nations especially the 150 or more developing nations of the 21st century? Together with the core economic courses, let us hope economic growth and development subjects that deal with the developing world like India and their development goals, be embedded in the curriculum of the future. Let us be ambitious to make challenges, our opportunites!

Notes

1) Joseph Stiglitz: "The Price of Inequality: How Today's Divided Society Endangers our Future", WW Norton, 2012, U. S. A.
2) In Japan times, (September 3, 2012), *Alexander Stille*, "*The heirs of Inequality*".
3) Benjamin Friedman, *The Moral Consequences of Economic Growth*, New York: Alfred A. Knopf, 2005.
4) In Japan times, (September 3, 2012), *Alexander Stille*, "*The heirs of Inequality*".
5) Data is from the "Approach to the 12th Five Year Plan": The Planning Commission has started the process of preparing an Approach to the 12th Five Year Plan and is adopting a new and more

consultative approach. In addition to consultations conducted across the country by organizations representing various citizens' groups e.g., women, dalits and youth, the Planning Commission has for the first time adopted consultation from interested stake holders via the Commission's web-site.

6) 66th round National Sample Survey Organization (NSSO) survey: NSSO's survey, presently the most credible and widely respected sample survey in India. New employment data released by the National Sample Survey Organization (NSSO) shows that the UPA government generated only 2 million jobs between 2004 and 2009, even as the economy grew at the rate of 8.43 percent annually. The employment numbers present a stark contrast to the Planning Commission's target of 58 million jobs in the five years between 2007 and 2012. Many are now referring to this tenure as the phase of *jobless growth*. The figure, 2 million new jobs, looks worse when one looks at the number of new jobs the NDA government generated between 1999 and 2004 – 62 million.

7) "An Inclusive & Sustainable Globalization" Robert B. Zoellick, President of the World Bank Group, The National Press Club, Washington D. C., October 10, 2007.

8) Manmohan Singh, India's fourteenth Prime Minister, Dr. Manmohan Singh is rightly acclaimed as a thinker and a scholar. He is well regarded for his diligence and his academic approach to work, as well as his accessibility and his unassuming demeanour. In what was to become the turning point in the economic history of independent India, Dr. Singh spent five years between 1991 and 1996 as India's Finance Minister. His role in ushering in a comprehensive policy of economic reforms is now recognized worldwide. Dr. Manmohan Singh was sworn in as Prime Minister on 22nd May after the 2004 general elections and took the oath of office for a second term on 22nd May 2009. PM is the Chairman of Planning Commission.

9) Chidambaram, P. is the current Finance Minister after Pranab Mukherjee was elected as the President of India. The Minister of Finance, also known as the Finance Minister of India is a cabinet position in the Government of India and heads the Ministry of Finance. He drafts the general budget of the country, and is in charge of the national economy.

10) Montek Singh Ahluwalia is currently the Deputy Chairman of the Planning Commission for India. He has been a key figure in India's economic reforms from the mid 1980s onwards. The Planning Commission was set up by a Resolution of the Government of India in March 1950 in pursuance of declared objectives of the Government to promote a rapid rise in the standard of living of the people by efficient exploitation of the resources of the country, increasing production and offering opportunities to all for employment in the service of the community. The Planning Commission was charged with the responsibility of making assessment of all resources of the country, augmenting deficient resources, formulating plans for the most effective and balanced utilisation of resources and determining priorities. Jawaharlal Nehru was the first Chairman of the Planning Commission. The first Five-year Plan was launched in 1951 and in 2012 is the concluding year of the Eleventh Five Year Plan.

11) Subir Gokarn (2007): For details, see, http://www.business-standard.com/india/news/subir-gokarn-dimensionsinclusivenes.

12) This is excerpted from the 8th Dr. R. L. Sanghvi AMA Endowment Lecture, titled 'Inclusive Growth in India: Dream or Reality?' delivered at the Ahmedabad Management Association, on December 6, 2007.

13) The Mid-Term Appraisal (MTA): Eleventh Five Year Plan as approved by National Development Council on 24th July 2010 (2007-2012).
14) Ibid
15) Martin Ravallion and GauravDatt, (1996), "How Important to India's Poor Is the Sectoral Composition of Economic Growth?" World Bank Economic Review, Volume 10, Issue 1, Pp. 1-25.
16) Martin Ravallion and Shaohua Chen (2007), "China's (uneven) progress against poverty", Journal of Development Economics, Vol. 82, Pp. 1-42.
17) Arvind Virmani., (2007), "Poverty and Hunger in India: What is Needed to Eliminate Them", The Pakistan Development Review, Vol. 5, Issue, 2, Pp. 241-259.
18) Petia Topalova (2008), "Inclusive Growth: Is the Rising Tide Lifting All Boats?", in Kochhar, K. and C. Kramer (eds.) India: Managing Financial Globalization and Growth, Business Standard 2009.
19) Asep Suryahadi et al (2009), "Review of Government's Poverty Reduction Strategies, Policies and Programs in Indonesia", The SMERU Research Institute, Jakarta.
20) Alain de Janvry and Elisabeth Sadoulet, (2010), "Agricultural Growth and Poverty Reduction: Additional Evidence", World Bank Research Observer, Volume 25, Issue 1, Pp. 1-20.
21) Hasan Rana, Quibria M.G., "Industry Matters for Poverty: A Critique of Agricultural Fundamentalism". Kyklos 2004; 57 (2): 253-64.
22) This is excerpted from the 8th Dr. R. L. Sanghvi AMA Endowment Lecture, titled 'Inclusive Growth in India: Dream or Reality?' delivered at the Ahmedabad Management Association, on December 6, (2007). Also, see, Habito, Cielito (2009), 'Patterns of Inclusive Growth in Developing Asia: Insights from an Empirical Growth-Poverty Elasticity Analysis' (ADBI Working Paper no. 145), Asian Development Bank Institute, Tokyo.
23) Green Revolution. The Introduction of High-yielding varieties of seeds and the increased use of fertilizers and irrigation are known collectively as the Green Revolution, which provided the increase in production needed to make India self-sufficient in food grains, thus improving agriculture in India. Genetically modified high-yielding wheat was first introduced to India in 1963 by Dr. Norman Borlaug. Borlaug has been hailed as the Father of the Green Revolution. The methods adopted included the use of high yielding varieties (HYV) of seeds. The production of wheat has produced the best results in fueling self-sufficiency of India.
24) The Mid-Term Appraisal.
25) The Report of the Tendulkar Committee is available at: www.planningcommission.gov.in; About BPL discussion, see, http://rural.nic.in/sites/BPL-census-2011.
26) "Inclusive Growth in India: Past Performance and Future Prospects", B. Grewal, P. Malhotra & A. Ahmed, Paper presented at Centre for Strategic Economic Studies, Victoria University, Melbourne, Australia 3/1/2011. Also, see, Nanak Kakwani and Ernesto M. Pernia, "What is Pro-Poor Growth?", *Asian Development Review*, vol. 18, no. 1, Asian Development Bank.
27) Ravallion Martin, (2004). "Defining Pro-poor Growth: A Response to Kakwani" Brasilia: International Poverty Center, UNDP.
28) Ibid
29) Habito (2009), ADBI Working Paper no. 145 and see, UNDP Human Poverty Index (HPI).
30) Ila Patnaik & Ajay Shah, 2010. "Asia confronts the impossible Trinity", Macroeconomics Working Papers 22973, East Asian Bureau of Economic Research. See, also, Santosh Mehrotra, Harsh

Mander, (2009), "How to Identify the Poor? A Proposal", Vol. xliv, no. 19, Economic & Political Weekly.

31) Habito (2009).

32) Ravallion Martin, Chen Shaohua, Sangraula Prem, (2008), "New Evidence on the Urbanization of Global Poverty", Background paper for the World Development Report 2008, World Bank.

33) MGNREGA: The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) is an Indian job guarantee scheme, enacted by legislation on August 25, 2005. MGNREGA aims at enhancing the livelihood security of people in rural areas by guaranteeing hundred days of wage-employment in a financial year to a rural household whose adult members volunteer to do unskilled manual work. The scheme provides a legal guarantee for one hundred days of employment in every financial year to adult members of any rural household willing to do public work-related unskilled manual work at the statutory minimum wage of ₹120 (US$2.17) per day in 2009 prices. The Central government outlay for scheme is ₹40,000 crore (US$7.24 billion) in FY 2010-11. (this symbol ₹ is for Rupees).

34) For details, see, John Joseph Puthenkalam and M. K. George, (2012), "Human Development Strategy of MGNREGA", Rawat Publications, New Delhi.

35) The Mid-Term Appraisal.

36) Habito (2009), ADBI Working Paper no. 145.

37) Ravallion, Martin and Datt, Gaurav (2002), 'Why Has Economic Growth Been More Pro-Poor in Some States of India than Others?', Journal of Development Economics, 68, 381-400.

38) RTE: The Right of Children to Free and Compulsory Education Act or Right to Education Act (RTE), which was passed by the Indian parliament on 4 August 2009, describes the modalities of the importance of free and compulsory education for children between 6 and 14 in India under Article 21A of the Indian Constitution. India became one of 135 countries to make education a fundamental right of every child when the act came into force on 1 April 2010.

39) John Joseph Puthenkalam and Sabu Thomas, (2010), "Human Development Approach to Health and Longevity", Loyola Publications, Kerala.

40) The World Health Report, (2006), "working together for health". WHO.

41) NRHM: Recognizing the importance of Health in the process of economic and social development and improving the quality of life of our citizens, the Government of India has resolved to launch the National Rural Health Mission (NRHM) to carry out necessary architectural correction in the basic health care delivery system. The Plan of Action includes increasing public expenditure on health, reducing regional imbalance in health infrastructure, pooling resources, integration of organizational structures, optimization of health manpower, decentralization and district management of health programmes, community participation and ownership of assets, induction of management and financial personnel into district health system, and operationalizing community health centers into functional hospitals meeting Indian Public Health Standards in each Block of the Country. The Goal of the Mission is to improve the availability of and access to quality health care by people, especially for those residing in rural areas, the poor, women and children.

42) "Inclusive Growth in India: Past Performance and Future Prospects", B. Grewal, P. Malhotra & A. Ahmed, Paper presented at Centre for Strategic Economic Studies, Victoria University, Melbourne, Australia 3/1/2011. For details, see, Malhotra, P (forthcoming), "Impact of TRIPS in India: An Access to Medicines Perspective", Palgrave Macmillan, London, UK.

43) "Faster, Sustainable and more Inclusive Growth: an Approach to the Twelfth Five Year Plan, 2012-2017", Government of India, Planning Commission, 2011. For details, www.planningcommission.nic.in.
44) The Mid-Term Appraisal.
45) The Mid-Term Appraisal.
46) For details on Panchayati Raj Institutions (PRI), see, John Joseph Puthenkalam and George Joseph Thenadikulam, (2011), "Gender, Democracy and Development", Loyola Publications, Kerala.
47) Source: The World Economic Outlook database of the International Monetary Fund. This data up to 2010 in most cases (up to 2009 and earlier in a few) is actual data. Thereafter the figures up to 2016 are projections by the IMF. The projections for India and other countries beyond 2016 have been made internally in the DPPP Division of the Planning Commission. For details, www.planningcommission.nic.in.
48) "Faster, Sustainable and more Inclusive Growth: an Approach to the Twelfth Five Year Plan, 2012-2017", Government of India, Planning Commission, 2011. For details, www.planningcommission.nic.in.