

Call for a consensus on inclusive growth

It needs a more dynamic private sector and better governance for delivery of public goods

The East Asian miracle that has seen Japan and South Korea reach the status of developed economies (with per capita incomes higher than \$10,000), over the same time as India's per capita income rose only to about \$750, has been based on rapid and sustained growth. Following Deng's leadership, China also jettisoned the past Maoist baggage of achieving the three-fold balances and walking-on-two-legs, etc in favour of rapid and sustained economic growth. China's approach was to attract investment from any source to achieve this and it has reaped the benefits—its poverty levels are now far below ours and all social and human development indicators are almost uniformly twice as good as in India. A similar growth story is seen in Taiwan, Malaysia, Vietnam and Thailand.

With the West Bengal government also adopting a pro-growth and pro-private sector policy stance in the past few years, it seemed that India had learnt its lessons and that strong consensus was emerging. But unfortunately, the recently published critique by the CPM and the Kerala State Planning Board of the Approach Paper for the Eleventh Five Year Plan seems to question the Paper's emphasis on raising and sustaining economic growth rates and instead urges the Planning Commission to "reorient the planning approach and clearly define the social goals, by having targets with regard to employment, poverty reduction and social sector achievements."

The media, as always, looking for emerging conflicts and dissonance, has exaggerated the issue. So, for the public it seems once again to be a question of

choosing between rapid growth and higher social development targets. This is a spurious choice. Exaggerating this trade-off between growth and social development is a dangerous game. It obstructs the emergence of a consensus on the necessity of rapid growth, as well as a subsequent discussion on policy measures needed to ensure that such growth leads to reduction of poverty economic disparities.

Both the Approach Paper and the CPM's comments have been careful enough not to pose this trade-off but, instead highlight the fact that growth and achievement of social targets actually go together. The Approach Paper says: "This (growth) must be accompanied by a major effort to provide access to basic facilities such as health, education, clean drinking water etc," and adds: "Access to these services is not necessarily assured even when growth leads to rising income levels." The Approach Paper thus recognises that rapid and sustained growth is a necessary but not a sufficient condition for raising welfare levels. The same sense is given in the CPM's comments, when it states: "The problems of unemployment and poverty cannot be solved only through the achievement of a higher growth rate." We can see a consensus on this



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- ▶ A focus on growth saw Japan, S Korea cross per capita incomes of \$10,000
- ▶ It seemed India had learnt the lesson that poverty falls with rapid growth
- ▶ Kerala planning board's critique of 11th Plan approach doc hurts such consensus

issue even in these two documents.

The real disservice to the need for achieving a minimal consensus on growth has been done by the Kerala State Planning Board's observations. It says: "It is not the magnitude of the growth but the nature of it, and hence the regime within which it occurs that is crucial for poverty (I hope it meant poverty reduction) and unemployment." This is simply unacceptable, as it does not even give a minimal rate of growth that must be achieved to attain social targets. Hopefully, the Kerala State Planning

Board does not believe that growth rates like those achieved in Cuba, Albania of yesteryears and Myanmar are sufficient to achieve poverty reduction, howsoever much those in power in these countries may be committed to social targets and human development.

Jobs are created when growth takes

place; putting in place a reasonable public education and health system requires resources that would come with growth. Why should then the authors of this paper not ascribe to the necessity for rapid and sustained growth when all historical and cross-country evidence so strongly points to this?

Clearly, jobless growth is not desirable. But the assertion that the 90s was a period of jobless growth has been proved to be misplaced by the recently published results of the economic census. When jobs were not growing so rapidly in the

industrial sector as it restructured its capacities to acquire international competitiveness, they were growing in the rural sector in off-farm employment and agro-based industries. Today, after four years of strong manufacturing and industrial growth, skill shortages and high rates of labour mobility are reported from a range of sectors.

But it does take sustained growth to create a dent on the labour markets. The issue, as pointed out by the Approach Paper and earlier by the National Manufacturing Competitiveness Commission, is to promote rapid manufacturing sector growth. This will not only generate jobs, but also help reduce the rural-urban and regional divides.

The infrastructure deficit, which is the main constraint on raising manufacturing sector growth in an open economy framework, requires much higher levels of public investment. And far more attention to improving governance is a precondition for this. The CPM note repeatedly asserts the need for higher state intervention, but does not mention the need to improve the quality of governance in the delivery of public goods and services. This displays its narrow goals of appealing only to its public sector and trade union constituency. If we cannot address the prevalent rent-seeking behaviour and endemic corruption, then we can't expect positive results from increasing public expenditure and broadening areas of state intervention.

A two-fold emphasis on creating conditions for even more dynamic private sector activity and improving governance for more efficient delivery of public goods and services will achieve inclusive growth that all of us are hoping for.

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