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How Inclusive Has Growth Been in the Last Decade?

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The concept of inclusive growth plays an increasingly prominent role in steering the development debate in international policy circles. Yet the initial intrinsic obviousness of the concept proves fallacious when one embarks on operationally defining 'inclusiveness' and its consequences in cross-national comparative frameworks.

Although there is no consensus on the definition of inclusive growth, there is agreement that the core elements of pro-poor growth—poverty and inequality—are central to the meaning of inclusiveness (Ranieri and Ramos, 2013). The aspiration for a more comprehensive definition is, however, a distinctive characteristic of the debate on inclusiveness. In this sense, the notion that inclusiveness involves both participating in and benefiting from growth—as in Kakwani and Pernia (2000)—has been contemplated explicitly or implicitly.

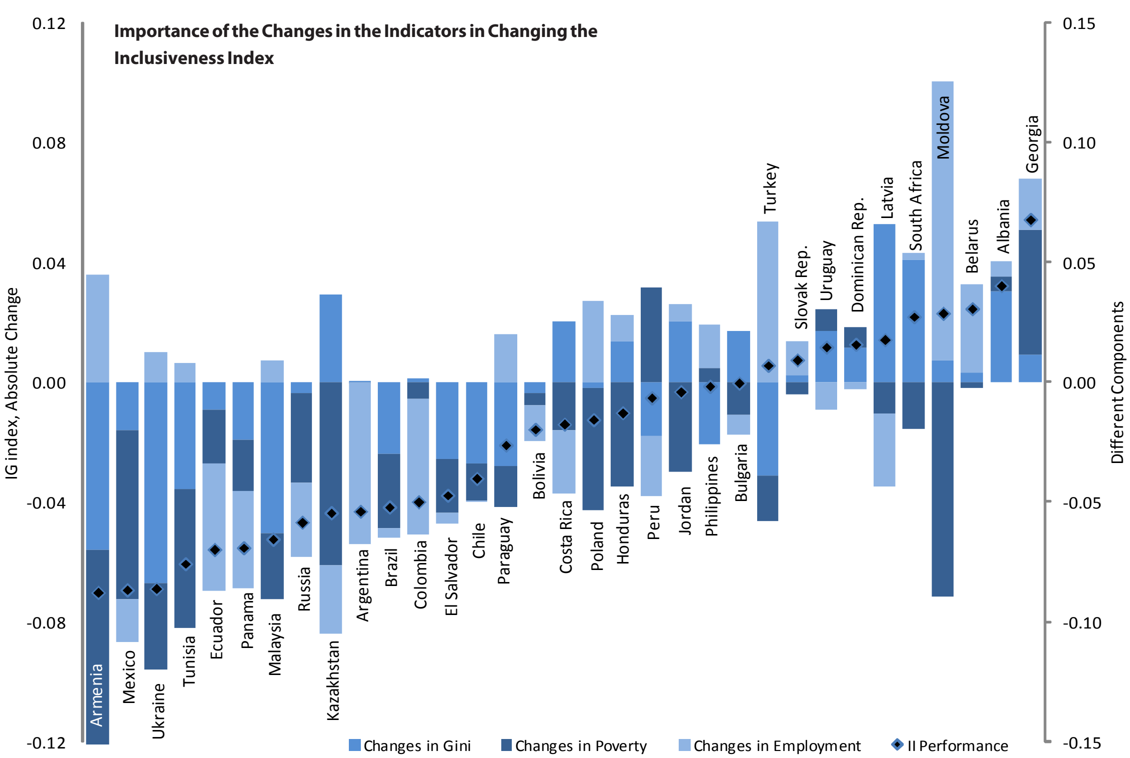
Ramos, Ranieri and Lammens (2013) provide an empirical analysis of the state of and the changes in 'inclusiveness' in 43 developing countries between two points in time (around 1996 and around 2006), suggesting the construction of an indicator of inclusiveness. The analysis includes poverty and inequality as proxies for benefit-sharing, and employment as the indicator of participation.

The use of the employment-to-population ratio (EPR) proves controversial. Although a low EPR can generally be deemed negative towards participation, a high EPR cannot be straightforwardly interpreted as positive. In countries with high poverty levels, it actually reflects a high number of 'working poor' people who are forcefully excluded from the benefit-sharing dimension. The paper suggests that, among the developing countries studied, such a non-linear relationship with the concept of inclusiveness is the case only when poverty rates exceed 65 per cent of the population. The EPR is thus considered uninformative, and inclusiveness is subsequently analysed only through the benefit-sharing dimension.

The outcome of the study paints a mildly positive picture, with most developing countries presenting significant progress in levels of inclusiveness (The figure presents the absolute changes from the indices calculated for 1996 and 2006, with the relative importance of each indicator).

Armenia, Mexico, Ukraine and, to a lesser extent, Tunisia, Ecuador, Panama and Malaysia demonstrated very good performances, for different reasons. Armenia, Ukraine, Tunisia and Malaysia showed progress in fighting poverty and inequality. Mexico, Ecuador and Panama showed improvements in all three indicators. To a lesser extent, but still significant, Russia, Kazakhstan, Argentina, Brazil, Colombia, El Salvador and Chile increased their level of inclusiveness.

Although a small majority of countries managed to achieve better inclusiveness levels, many still presented a negative performance, mostly due to increases in inequality or poverty. Georgia, the only country where all indicators worsened, had the worst performance. In the case of Moldova, a considerable decrease in employment offset poverty reduction. South Africa showed a significant increase in inequality, while poverty reduction remained very low. The negative performances of these countries are worrisome considering their low initial inclusiveness levels.



The study points out the lack of correlation between GDP growth and the foundational aspects of the concept of inclusiveness, thus raising a key issue for the conceptualisation of inclusive growth. Several countries achieved impressive results with low economic growth, and many of those with the worst performances presented high growth rates. This disconnection emphasises the need to shift the focus away from the size of the increase in economic output to how this output is generated.

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