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Operationally Defining Inclusive Growth: **One Challenge, Two Approaches**

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Analyzing inclusive growth involves facing the need to establish an operational definition of a concept that has been widely yet loosely used in discourse and practice. It requires addressing the meaning of inclusive growth before confronting the issue of determining sensible measures. Many times, however, in spite of lively considerations of the concept of inclusive growth preceding their presentation, operational definitions have not objectified the evolving conceptual richness on the term.

Operational definitions usually associate variations in measures of economic growth and inclusion. Yet two distinct approaches are identifiable. One presumes a connection between the magnitude of variations in growth and inclusion, whereby measuring inclusive growth is a matter of determining the extent to which growth promotes inclusion. An array of measures of inclusion and growth may be combined to create definitions following this approach.
The operational definition proposed by M.H. Suryanarayana (2013) involves the covariation between growth in income (as measured by the National Account Statistics – NAS) and the expansion of consumption as a proxy for inclusion. It includes a measure of the elasticity of mean consumption with reference to mean income along with two complementary measures of distribution of consumption and income to provide greater insight about inclusion. A positive aspect of this definition is that it emphasizes inclusion rather than economic growth, moving away from measures that include considerations about how much growth was generated. As it assesses how much inclusion is generated per unit of growth in income, it allows identifying growth experiences most effective in promoting inclusion.

However, this operationalization of the concept includes the drawback of excluding the participation dimension of inclusive growth. Production is considered important only to the extent that it triggers higher benefits and yet this conception of the role of production is lost when the production sphere is replaced by the use of income indicators. By doing so, an important aspect of inclusive growth is left out: the focus on the economic process and the importance of expanding participation across society.

Moreover, in presuming a connection between mean income growth and mean consumption, the measurement assumes a causal relationship that is difficult to demonstrate and in fact may not necessarily exist. It is possible that gains in inclusion take place without growth in national income, by virtue of changes in the dynamics of the economy. It is also possible that greater inclusion results not from intrinsic virtues of the economy but from transfers of income. In this case, although the gains in inclusion are welcome, they will build a frailer socioeconomic situation than if the gains resulted from a better integration of the poor in the economic process.

A way to avoid these shortcomings is to abstain from presuming a connection between economic growth and changes in levels of inclusion. Ramos, Ranieri and Lammens (2013) adopt this approach, prioritizing the assessment of changes in constitutive elements of inclusion both individually and combined into an index. From the understanding of inclusion through two main aspects, namely enjoying the benefits of the economic process and taking part in it, the analysis focuses on poverty and inequality (proxies for benefit-sharing) and employment (an indicator of participation). Despite the challenges of employing the latter, it aggregates a sense of the productive involvement of the population in the economy.

These measures provide a picture of societal trajectories in the benefits and participation dimensions of inclusion. Whether there are identifiable patterns of growth related to these trajectories is an assessment that comes into play only after determining what happened in terms of inclusion. As the analysis indicates that several countries achieved impressive results in terms of inclusion with low economic growth, while many of those with the worst inclusion-performances had high growth rates, it raises a key conceptual question. The lack of correlation between economic growth and foundational aspects of the concept of inclusion emphasizes the need to shift the focus from increases in economic output to the intrinsic characteristics of the economic process.

These two approaches highlight distinct ways of assessing inclusive growth. The approach of zeroing in on inclusion and subsequently investigating the socioeconomic processes behind what is happening provides an unprejudiced perspective that brings the prospect of greater discernment about inclusion, both conceptually and analytically. In turn, the approach that presumes a connection between variations in inclusion and growth can be an asset to investigating both possible correlations between changes in growth and in inclusion and what is behind different performances. Both approaches help assessing which set of policies can deliver inclusion more successfully. Therefore, both can contribute to a better understanding of the importance of the character of growth relative to that of the magnitude of growth for promoting inclusion. Perhaps the most productive approach is to work with them in a complementary manner.

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