International Policy Centre for Inclusive Growth

The International Policy Centre for Inclusive Growth is jointly supported by the Poverty Practice, Bureau for Development Policy, UNDP and the Government of Brazil.

One pager No. 205

June, 2013

What is Inclusive Growth? An Alternative Perspective

by M. H. Suryanarayana, Indira Gandhi Institute of Development Research, Mumbai, India

Ever since UNDP started advocating for 'inclusive growth', developing countries have set it as an avowed goal of their long-term strategies. However, there is no universally accepted definition of the concept or how to measure it, which are important considerations for policy formulation as well as evaluation.

UNDP calls it a "Million Dollar Question" (UNDP, 2008). Listing the diverse conceptualisations of inclusive growth, Ranieri and Ramos (2013) call it an "exploratory debate", still far from "a clear and concise consensual definition".

This note (i) provides a critical perspective on some such diverse conceptualisations and, therefore, policy advocacy to realise the outcomes specified; and (ii) proposes a concept and measure to address such issues.

The conceptualisations are diverse, ranging from an emphasis on participation in the growth process and enjoying its benefits, to depending on distributional value judgements and policy priorities, emphasising 'reduction in poverty' (absolute pro-poor growth) or 'reduction in both poverty and extent of inequality' (relative pro-poor growth) or a progressive improvement involving a reduction in the 'disadvantages of the most disadvantaged people'. Finally, there is a perspective of multiple dimensions of deprivation, calling for a composite emphasis on improvements in both income and non-income dimensions.

As regards outcome evaluation, the contemporary approach emphasises a reduction in deprivation measures such as incidence of poverty and extent of inequality—hence public advocacy of programmes such as the universal public distribution system and cash transfers in India.

How valid are such diverse characterisations from a methodological perspective? How sustainable would the advocated policy measures be for realising the proposed inclusive growth outcomes from an economic perspective?

The diverse conceptualisations assess economic performance using an estimate of an average value of an outcome indicator (say, income) such as per capita income (what a statistician would call 'mean-based estimator of average') and percentage changes therein. But a mean-based estimator is a robust measure of average only when the distribution is equal or normal or at least symmetrical. For a skewed distribution, which in general is the real-life profile, a mean-based estimator generally reflects changes in the upper percentiles (higher values) and not changes in the location of the distribution. It is this inherent limitation of the mean-based estimator that has necessitated diverse conceptualisations with reference to absolute or relative or progressive versions of distributional outcomes.

As regards policy advocacy, a moot question pertains to sustainability of a programme based only on redistributive mechanisms. For instance, food grains guaranteed at prices lower than the actual cost of production would act as a disincentive for small cultivator households. To be sustainable, an inclusive growth strategy should involve participation in the economic activity (employment), receiving rewards for it (productivity/income) and enjoying it (consumer expenditure).[1]

Thus, conceptually, the composite emphasis should be on three alternative macroeconomic perspectives of production, income and expenditure, which are all skewed in their respective distributional profiles. Since policy interest lies in general in an overall improvement of such skewed distributions, order-based averages such as the median would provide robust estimates of changes in the location of the distribution.

The median is the 50th percentile, and half of the population has income less than the median. Given the concern for the poor people in a society, one option could be to consider the median as the benchmark, focus on the bottom 50 per cent and examine the proportion of the bottom 50 per cent that lies in the neighbourhood of the median. The neighbourhood may be defined in terms of an interval whose length is a fraction (δ) of the median—say, from 40 per cent. An improvement in the fraction of the bottom half of the population in the median neighbourhood would indicate inclusion, and vice versa. Thus, one could define such a measure or coefficient of inclusion (ψ) for each of the three macroeconomic perspectives.

How feasible is this proposal for process/event/outcome evaluation when virtually no country has comprehensive distributional information on production (work participation) and income generation? At best, countries have only national accounts statistics (NAS) and household-level consumption distributions. Hence, profiles of inclusion could be examined to some extent by examining a mean-based estimate of average income and consumption (NAS) and order-based estimates of inclusion in consumption distribution.

The relevant measures could be as follows:

(i) elasticity of mean consumption with reference to mean income (η), which would be >1 if growth is inclusive, since Marginal Propensity to Consume (MPC) <1 would ensure that growth in mean consumption is greater than growth in mean income;

(ii) elasticity of median consumption with reference to mean consumption (ε), which would be >1 if growth is inclusive, for the same reason as above; and

(iii) inclusion coefficient (ψ) for consumption distribution which measures the proportion of the bottom half of the population (ordered with respect to per capita income) in the mainstream (neighbourhood of the median, however defined).

Such a framework could also be generalised to analyse inclusion/exclusion of different social groups in a plural society (Suryanarayana, 2008).

References:

Ranieri, R. and R.A. Ramos (2013). 'After All, What is Inclusive Growth?', *IPC-IG One Pager*, No. 189. Brasília, International Policy Centre for Inclusive Growth.

Suryanarayana, M.H. (2008). 'What Is Exclusive About "Inclusive Growth"?', *Economic and Political Weekly*, Vol. 43, No. 43: 91–101.

UNDP (2008). 'A million dollar question: what is inclusive growth?'. Report prepared by Uyanga Gankhuyag from a learning event organised by the UNDP Learning Resource Centre, *Poverty Reduction News Update*, No. 13. New York, NY, United Nations Development Programme.

Note:

1. One important reason for deprivation in rural India is the lack of productive employment; not employment *per se*.

International Policy Centre for Inclusive Growth (IPC - IG)
Poverty Practice, Bureau for Development Policy, UNDP
SBS, Quadra 1, Bloco J, Ed. BNDES, 13º andar
70076-900 Brasilia, DF - Brazil

E-mail: ipc@ipc-undp.org ▪ URL: www.ipc-undp.org
Telephone: +55 61 2105 5000