

Inclusive Growth

resorting to the basics

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Background

- Objectives of policies and programs as well as strategies are often captured by simple terms or phrases, such as, ‘inclusive growth’. Over almost last half a century, the development partners and national policymakers relied on such concepts as, ‘basic needs’, ‘structural adjustment’, ‘liberalization’, ‘human development’, ‘PRSP’, ‘MDGs’, etc. While ‘pro-poor growth’ had been in vogue, emphasis on ‘inclusive growth’ is recent.
- Normally the question posed is: if a growth process has been inclusive or not – clearly an *ex post* proposition. Thus, the focus has mostly been on outcomes for the purpose of monitoring, often in the form of *ad hoc* indices with little consistency. An example is the ADB report titled: “Inclusive Growth Criteria and Indicators: An Inclusive Growth Index for Diagnosis of Country Progress” (2010).
- Planning one’s actions requires *ex ante* perspective and framework as opposed to *ex post* monitoring.

Two Examples of Current Perception among DP

- “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 livelihoods 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 those belonging to ... women and children ... minorities and other excluded groups.” UNDP
- An ADB report (Inclusive Growth Criteria and Indicators: An Inclusive Growth Index for Diagnosis of Country Progress, 2010) proposes an inclusive growth index with following variables and weights:
 - Growth (0.25), employment (0.15), economic infrastructure (0.10), poverty (0.10), inequality (0.10), gender equity (0.05), health and nutrition (0.05), education (0.05), sanitation and water (0.05) and social protection (0.10).

Entry Points redefined

- Discourse on ‘inclusive growth’ takes ‘growth’ as the central theme and chooses to define its ‘inclusiveness’ as an **attribute**. Development practices had often endeavored to reach out to the ‘excluded’. Exclusion, broadly defined, provides one entry point to conceptualize ‘inclusive growth’.

We assume that $I + E = W$ (constant), i.e., $I \cap E = \emptyset$ in a given sphere.

- It is proposed that ‘exclusion’, and therefore, the degree of ‘inclusion’, are ‘equilibrium’ outcomes. Corner solutions with complete inclusions in all spheres of human society is a rare accident! The proposed view justifies tampering with various factors that underlie a given ‘equilibrium’, thus providing wider set of entry points beyond programs to reduce exclusion.
- A ‘growth process that is inclusive’ and ‘redistribution of growth premium’ (without transfers/fiscal space) may be perceived as elements of same equilibrium defined over economic, social and political space. Within the limited bound of ‘political economy’, this takes one to a familiar ground of economy-wide modeling (IO-SAM) within which variants of ‘inclusive growth’ may be defined.

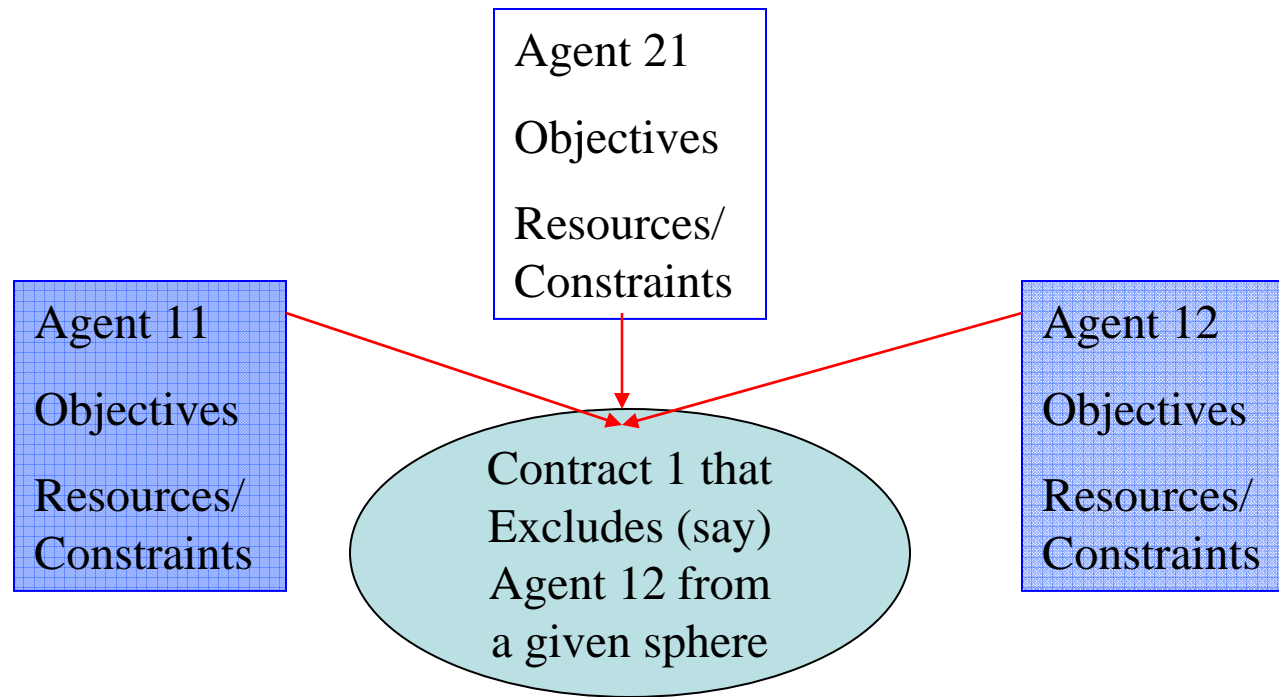
3 basic principles underlying abstraction

- A basic analytical category called 'agent' is used (the set may include, 'class', households, individuals, communities, governments, political party, etc.). Each agent is assumed to have pre-defined objective. The choice of agents and their objectives are inseparable.
- Agents are considered 'rational' only to the extent that they adhere to pre-defined decision rules to realize those objectives under a set of constraints; and the 'actions'/decisions may only be defined over spaces on which these objectives are defined.
- Exchanges between agents take place under various structures of power relations, and are sustainable only if all parties in exchange 'gain' from such exchanges. Implicit or explicit, market-based or not, I am loosely coining the term '**contract**' to account for all the terms & conditions of exchanges, including the physical characterization of the 'object' being exchanged.

Inclusion has non-negative relation with number of viable 'contracts'

- *Ex-ante* perspective: Contracts exist if they are viable. Exclusion in a given sphere is defined as *presence of an 'agent' with whom no viable 'contract' may be defined involving other agents in the society in that sphere.*
 - Exclusion is an equilibrium solution; and one needs to explain why it exists
 - It may have emerged in a different setting and the whys may be explained only in that context. Yet it is possible that subsequent adjustments in equilibrium found it convenient to keep a given exclusion undisturbed.
- *Ex-post* perspective: The general definition of exclusion applies to the subset of contracts that manifest in the forms of goods & services exchanged between providers/producers and consumers at (say) prices that ensure net benefits to both parties.
- Thus, efforts towards 'inclusion' may be termed as 'search for viable contracts'; and growth is more inclusive if it succeeds in establishing viable 'contracts' with the once-excluded ones.

Ways to tamper with ‘equilibrium inclusion’



Can we think of an alternative contract so that Agent 12 is not excluded from the given sphere? HOW?

(i) Introduce new agent; (ii) Change/influence objectives; (iii) Change constraint – resource endowments, technology and delivery mechanism

Contracts: Macro perspective

[Global growth pattern has implications for national growth pattern as well as for distribution of income within national boundaries. Discussion here focuses primarily on a ‘truncated’ national economy.]

- One may resort to identifying agents in terms of ‘classes’ or similar categories, assess the nature of economic and social contracts amongst them and identify issues for bigger alliance. Search for viable contracts to increase inclusiveness may thus be extended to domain of politics.
- The focus is however on economic growth and inclusiveness. One generally expects growth premium (from domestic production of goods & services) to be distributed amongst the various factor (payments). Contracts embedded in production structure and factor-ownership are conventionally captured by IO-SAM coefficients.

Inclusiveness of Growth in National Economy

One may distinguish between various growth patterns by considering the implications of the following aspects:

1. To what extent factor payments arising directly out of the growth process reach wider segments of the population on account of the latter having ownership or user rights over those factors (institutional block);
 2. One may extend the above by including forward and backward production linkages (ignoring expenditure block);
 3. In addition to (2) above, include secondary activities and subsequent factor payments arising out of multiplier effects through consumption (expenditure block).
 4. Transfers that **are not** mediated through formal agencies
 5. Transfers that are mediated through formal agencies, which include government, multilateral agencies and the NGOs.
- I propose that '**inclusiveness of growth**' be defined with three variants – considering (1) only, (1 and 2), and accounting for all three (1, 2 and 3).

Defining the sphere of government

- Inclusiveness of growth may be defined independent of any role of the ‘government’. Note the omission of transfers.

Yet,

- If the government considers ‘growth process’ externally given, its social policies may be shaped to support redistribution that allow upgrading or transfer (to the ‘excluded’ group) of factors that are in demand for such growth. Thus, the government may only make growth more inclusive and thereby scale up the size of growth.
- The government may however have a role to shape the growth process which demands resources. Examples include, within our framework, shaping the objectives of agents, provide incentives to introduce new agents and to change constraints to increase inclusiveness. Thus, it is important to formally acknowledge the trade-offs involved in resource allocations to redistributive measures and to growth process.

Unfortunately ...

- Discussion on inclusion (or, reduce exclusion) has long been confined to programs associated with ‘transfers’, be those under the government or through NGOs.
- Rather unfortunately, the trend appears to continue in the guise of ex post approach to conceptualize ‘inclusive growth’ (refer to the two examples).
- Note however, the proposition of finding viable contracts to increase inclusion is better exemplified in such micro-level programs.
- There are lessons to be drawn from those, which may apply to the economy at macro level as well.

Few concluding observations/remarks

- There are trade-offs in resource allocations for ‘inclusive growth’ and increasing ‘inclusion’ in the short term through transfers. The details have rarely been addressed in the literature; and the politics with short-term concerns have traditionally dominated allocations.
- Dispersion of growth centers at sub-national levels will increase income of those away from the center, increase the size of distant markets to attract other service providers, all of which will increase inclusion.
- Sustained innovation in ‘products’ and ‘agencies’ is called for – and pluralist perspective needs to be nurtured. Social business is one to cite.
- Keep an eye on the negative fallouts in the guise of increased segmentations (and inefficiency). It applies to macro environment as well.
- Tampering with equilibrium (and an irreversible move towards a new one) require actions beyond economics – shaping the ‘objectives’ of the new generation. Investments on ‘social processes’ that shape those objectives have long been neglected; and a fresh look into priority areas of public investment (and policy changes), such as on next generation, is called for.
- Do all these call for an ‘auctioneer’ to enforce contracts? Or, do we look for viable contracts that may justify emergence of such enforcers? Both?

Annex

(additional slides from earlier work)

Exclusion of domestic workers from education

An example

- Consider 3 parties in contract, hh head, domestic help, community – plus a potential 4th agent called service provider
- Let, $Z = (w_1, w_2, w_m, e_1, e_2, e_n, c_1, c_2, c_0, s_1, s_2, s_r)$, be the vector of current contract that defines, say, the work hours, types of activities to be performed, payment received, holidays availed, and mobility allowed for a domestic worker. The vector also has information on characteristics of domestic workers and employers, as well as community level practices and facilities available in the apartment building and in the neighborhood
- Let Z^*_0 be the optimal contract prior to the program, and let $\{Z_1\}$ be the set of all possible contracts involving a service provider willing to offer education for the domestic workers

Ex ante search for a program to ‘include’

- Let $V_{ij} = V_i(Z_j)$ be the perceived net benefits of the i -th ($i = w, e, c$) agent in state j (0 and 1),
- Search for a viable contract with a service provider amounts to finding a Z^*_1 such that,
 - $V_i(Z^*_1) \geq V_i(Z^*_0)$, for all $i = w, e$ and c ; and
 - $V_s(Z^*_1) =$ net returns to the service provider \geq normal profit.
- Note that the vector $\{s_1, s_2, \dots, s_r\}$ in Z^*_1 defines the new ‘goods & services’, whose introduction have implications for the values of elements in Z -vector.

Ways to Reduce Exclusion

Various ways to Reduce exclusion	Innovation reducing production cost (1)	Price subsidy (2)	Innovation introducing differentiated product (3)	Innovation in delivery reducing Delivery cost (4)	Improve connectivity (5)	Promote/ avail agencies with network capital (6)	Social awareness/change objective function (7)	Increase income/transfer (8)	Address competing factors (9)
Types of Exclusion									
1. Voluntary exclusion									
2. Lack of awareness									
3. Exclusion for survival/competing factors									
4. Market exclusion/lack of effective demand									
5. Receipt<payment – social exclusion									
6. Receipt<payment – poor connectivity, etc									

Note: From a household perspective, availing a good or service is not always a binary choice. Thus, multiple types of exclusions may underlie a given choice.

Social exclusion may be associated with negative relation between earnings of providers and inclusion.

Implications for Segmentation

Intervention type	Implication
Innovation reducing production cost (1)	Inclusive in nature, no segmentation
Price subsidy (2)	If applied to all, inclusive. Targeting requires segmentation.
Innovation introducing differentiated product (3)	Segments, which may be irreversible in the short to medium term and may percolate into other spheres
Innovation in delivery that reduces 'Transaction' cost (4)	Reduces segmentation
Improve connectivity (5)	Reduces segmentation
Promote/ avail agencies with network capital (6)	If governed properly, reduces delivery cost and therefore reduces segmentation
Social awareness (7)	If rightly pitched, reduces social differences
Increase income/transfers (8)	If accompanied by reduced inequality, reduces segmentation
Address competing factors (9)	Reduces segmentation

Note: NA = Not Available. 'Delivery' (cost) captures the difference between what a consumer pays and what a provider receives.