INCLUSIVE GROWTH: DEFINITION AND APPROACHES TO IDENTIFY

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Rapid pace of growth is unquestionably necessary for substantial poverty reduction, but for this growth to be sustainable in the long run, it should be broad-based across sectors, and inclusive of the large part of the country's labor force. This definition of inclusive growth implies a direct link between the macro and micro determinants of growth. The micro dimension captures the importance of structural transformation for economic diversification and competition, including creative destruction of jobs and firms.

Inclusive growth refers both to the pace and pattern of growth, which is considered interlinked, and therefore in need to be addressed together. The idea that both the pace and pattern of growth are critical for achieving a high, sustainable growth record, as well as poverty reduction, is consistent with the findings in the Growth Report: Strategies for Sustained Growth and Inclusive Development (Commission on Growth and Development, 2008). The commission notes that inclusiveness – a concept that encompasses equity, equality of opportunity, and protection in market and employment transitions – is an essential ingredient of any successful growth strategy. Here we emphasize the idea of equality of opportunity in terms of access to markets, resources, and unbiased regulatory environment for businesses and individuals [2].

The Commission on Growth and Development (2008) considers systematic inequality of opportunity "toxic" as it will derail the growth process through political channels or conflict.

The inclusive growth approach takes a longer-term perspective as the focus is on productive employment rather than on direct income redistribution, as a means of increasing incomes for excluded groups. In the short run, governments could use income distribution schemes to attenuate negative impacts on the poor of policies intended to jump start growth, but transfer schemes cannot be an answer in the long run and can be problematic also in the short run [1].

In poor countries such schemes can impose significant burdens on already stretched budgets, and it is theoretically impossible to reduce poverty through redistribution in countries where average income falls below US$ 700 per day. According to a recent OECD study, even in developed countries, redistribution schemes cannot be the only response to rising poverty rates in certain segments of the population [2].

The inclusive growth definition is in line with the absolute definition of pro-poor growth, but differs from it in the following ways: absolute pro-poor growth can be the result of direct income redistribution schemes, but for growth to be inclusive productivity must be improved and new opportunities for employment created; and the pro-poor growth concept has traditionally focused on growth and poverty measures whereas the inclusive growth definition focuses on ex-ante analysis of the sources of, and constraints to sustained, high growth and poverty reduction [3].

To help narrow the gap between aspiration and action, the World Economic Forum System Initiative on Shaping the Future of Economic Progress last several years introduced a new economic policy framework and performance metric in its Inclusive Growth and Development Report 2017. The framework identifies 15 areas of structural economic policy and institutional strength that have the potential to contribute simultaneously to higher growth and wider social participation in the process and benefits of such growth.

The structural policies and institutions in these domains collectively represent the system through which modern market economies diffuse gains in living standards.

Governments often fail to appreciate the potential of policy in these areas to increase the rate of growth and spread its benefits more widely, particularly in demand-constrained and low-productivity contexts. This policy imbalance is reinforced by the prevailing metric of national economic performance, the gross domestic product (GDP), which measures the aggregate amount of goods and services produced in an economy. Most citizens evaluate their respective countries' economic progress not by published GDP growth statistics but by changes in their households' standard of living – a multidimensional phenomenon that encompasses income, employment opportunity, economic security, and quality of life. And yet, GDP growth remains the primary focus of both policymakers and the media, and is still the standard measure of economic success [4].

GDP growth is best understood as a top-line measure of national economic performance, in the sense that it is a means to the bottom-line societal measure of success: broad-based progress in living standards. As many countries have experienced and the Inclusive Development Index data illustrate, growth is a necessary but not sufficient condition for robustly rising median living standards. Policymakers and citizens alike would benefit from having an alternative, or at least complementary, bottom-line metric that measures the level and rate of improvement in shared socioeconomic progress.

Literature:

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