

FT.com site : How to be 'inclusive'.

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As economic growth accelerates in India, so does concern over the issue of 'inclusiveness' - ie whether large numbers of people are getting left behind even as what is commonly referred to as the 'middle class' (in reality, the better off) gets still better off.

That concern gets heightened as the findings dribble out regarding the latest National Family Health Survey, showing little or no progress in an area like nutrition. Meanwhile, the debate over whether the rate of decline in absolute poverty matches faster growth continues, even as UNDP's Human Development Report chronicles how little progress the country is making on basic development indicators - the worst case being sanitation. Then there is the issue of jobless growth - that rapid growth is simply not creating enough jobs that pay a living wage or better.

It seems inadequate to point, by way of a response, to the World Bank's commission on growth and development (headed by the Nobel laureate, Michael Spence) and its staff finding that all 11 of the economies that have grown rapidly after World War II have made huge progress in poverty eradication - in other words, that growth by itself is the answer to poverty.

Another Nobel laureate was in Delhi this week, Joseph Stiglitz, and he addressed at several meetings the issue of inclusiveness. He contended that this has become a global issue - China (which has seen a sharp increase in inequality) has made inclusiveness the focus of its current five-year plan, though it uses the phrase 'harmonious society'.

He argued that wage disparities are growing because most people don't have the minimum skills required to get better-paying jobs. And further, that the standard reformist argument about flexible labour laws is not the answer - in South America, they merely served to depress minimum wages, even as organised sector employment did not increase, and unemployment continued to grow. The implicit solution: spread education.

Prof Stiglitz's basic position was that rapid economic growth would not solve India's inclusiveness problem; for that, you need strong agricultural growth. But he opposed subsidies on electricity to farmers (they are already getting free groundwater in a country that has water scarcity), positing that what was needed was a second Green Revolution. He would not be drawn into a question about making job-creation the purpose of policy, arguing instead that job-creation should be done in sectors like tourism and construction (housing), which create more entry-level work and therefore help inclusive growth.

He was in favour of an active industrial policy, but added that the aim should be not to pick winners but to pick 'externalities' - in other words, push the industries that have the maximum forward and backward linkages, like automobiles. Also, the government could not be indifferent to a choice between 'computer chips and potato chips' - the former has the externality of knowledge-creation, which is a public good.

Prof Stiglitz also argued against specific protection to any particular group (in other words, cut tariffs); instead, there should be generalised protection through an under-valued exchange rate - the policy that China has followed. He was also in favour of using foreign exchange reserves as China has done - to lend the money to banks or government-owned companies that in turn buy up firms overseas, especially those that have access to technology.

In short, you cannot leave things to markets, the government has to play an active role. The danger in India is that the prescription in favour of an activist government role will be adopted without the nuances that help steer clear of bad policy, and end up creating the growth-retarding distortions of the past.

Besides which, the challenge in India is not policy formulation or finding the money, rather it is making the government machinery execute policy well - whether it is an employment guarantee scheme or an immunisation programme, running public schools or doing agricultural extension work. The duality is between reformed markets and an unreformed government. The former helps those who are in the market, the latter is unable to help those left out of market forces.

TN Ninan is the editor and publisher of Business Standard, one of India's leading business newspapers. An award-winning journalist and a member of various boards and professional bodies, he is a familiar figure on Indian national television as a commentator on economic issues. His weekly column, devoted to analysis of the Indian economy and business environment, now appears on FT.com every Tuesday. Visit the Business Standard website at <http://www.business-standard.com> [<http://www.business-standard.com>]

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