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Inclusive Growth in India – Learning from Best Practices of Selected Countries

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Abstract

Globally, there is a clamour for creating a more inclusive world and India is also a frontrunner. Government of India is fully committed to its resolve towards achieving inclusive growth. To achieve this goal, efforts are being made to harmonise the national development priorities with international efforts and a number of policies, strategies, programmes / schemes and actions have been implemented at the national level.

In this context, this paper[1] analysis India's current position in achieving inclusive growth and sustainable development *vis-a-vis* 17 selected developed and developing countries including the Turkey, South Africa, Mexico, Brazil, China, Korea, Indonesia, United States, United Kingdom, Australia, France, Canada, Indonesia, Argentina, Russia, Italy, Germany and Japan. The paper is based on an in-depth analysis of secondary information. A comparative analysis of India's inclusive growth position is done with that of the selected countries through a comparison of scores and ranking of these countries *vis-a-vis* India's position, across key policy and outcome indicators of inclusive growth. In addition, the paper presents specific policies that have a positive impact on both growth and inequality, and that can be the focus of policy action to achieve inclusive growth across different sectors in India. Based on this analysis, best practices that India can adopt have been identified.

Key words: *Inclusive Growth, Sustainable Development, Development, Fiscal Policy, Equity*
JEL classification: *O15, O19, O23, O38, O40, O57, P46, Q01*

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[1] *The paper is based on the research undertaken by the authors at ICRIER during 2018.*

Inclusive Growth in India – Learning from Best Practices of Selected Countries

Suresh Chand Aggarwal, Divya Satija and Shuheb Khan

1. Introduction

Globally, there is a clamour for creating a more inclusive world. Discontentment from existing growth outcomes especially huge inequalities was evident in many protests starting with the 'Occupy Wall Street Protests' in 2011, which later on spread to many other countries. The rise of protectionism and anti-globalisation leading to Brexit and similar right-wing sentiments in few other countries is perhaps the expression of dissatisfaction towards existing growth strategies being adopted across different countries. This is because some of these growth strategies have resulted in high unemployment and huge disparities between countries and within countries.

This shows that economic development requires sound foundations. Universal access to education and health services, access to financial services, new technologies and affordable bank loans, gender equality and more equal distribution of resources can all support economic development. A stable and predictable operating environment is a prerequisite for public and private sector investments. Good governance should be promoted and corruption tackled at all levels in both private and public sectors. Hence, measuring the right issues matters.

The Sustainable Development Goals (SDGs) 2030 embody an international commitment to a development agenda that is necessary for a peaceful world order. India along with other countries signed the declaration on the 2030 Agenda for Sustainable Development, at the Sustainable Development Summit of the United Nations in September 2015.[2] Government of India is fully committed to its resolve to achieve SDGs and their related targets by 2030. In order to harmonise the national development priorities with international efforts a number of policies, strategies, programmes / schemes and actions have been implemented at the national level.

While India is still in the process of achieving its objectives, it is interesting to analyse how far has it reached compared to other countries and what could be the right policy improvements needed for achieving its target in terms of inclusive growth and sustainable development.

In this context, this paper is based on an analysis of India's position in inclusive growth and identification of specific policies that are expected to have a positive impact on both growth and inequality, and can be the focus of policy action by India. The paper thus outlines the definition, the need, and the challenges of inclusive growth in the next section. The fiscal policy implications and need for specific policies for inclusive growth are highlighted in section 3. The methodology to identify a host of policy and outcome indicators that could be used to

[2] For details see UNGA Resolution Text, available at http://www.un.org/ga/search/view_doc.asp?symbol=A/RES/70/1&Lang=E (last accessed November 9 2018)

measure status and pattern of inclusiveness in India and the selected countries[3] - 9 developed countries including Australia, Canada, France, Germany, Italy, Japan, Russia[4], United Kingdom (UK) and United States (US), and 8 developing countries including Argentina, Brazil, China, Indonesia, Korea, Mexico, South Africa and Turkey on these indicators is included in section 4. Analyse India's position compared with these selected countries within the domain of inclusive growth and sustainable development. Based on the status and pattern of inclusive growth, section 5 presents a comparative picture of India's position *vis-à-vis* the selected countries and identify best practices from which India can learn and issues that India might face. The opportunities and challenges which India faces in its quest for inclusive growth are discussed in section 6. The section also spells out the successful government interventions which have been adopted by different countries to improve inclusiveness. Finally, conclusion and policy recommendations are part of section 7.

2. Definition of Inclusive Growth

To begin with, first important thing is to understand the meaning of inclusive growth. Globally there is no universal definition of inclusive growth. It is defined differently by different sources and there is no dearth of literature on inclusive growth.

The OECD defines inclusive growth as economic growth that creates opportunity for all segments of the population and distributes the dividends of increased prosperity, both in monetary and non-monetary terms, fairly across society.

The United Nations Development Programme's (UNDP)[5] perspective is based both an outcome and process. Inclusive growth implies participation and benefit-sharing ensuring that while everyone can participate in the growth process (both in decision-making and in participating in growth) and benefits of growth are shared equally.

The UN SDGs, though do not directly mention about Inclusive growth but some of the targets under these Goals, if achieved would help in moving towards inclusive growth. These include - targets of removal of poverty by half by 2030 (Goal 1); ending hunger by 2030 (Goal 2); reducing maternal mortality rates and infant mortality rates to fixed targets by 2030 (Goal 3); completely free, equitable and quality primary and secondary education to all girls and boys by 2030 (Goal 4); ensuring equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university by 2030 (Goal 4); sustained per capita economic growth and reduction of youth unemployment(Goal 8); developing quality, reliable, sustainable and resilient infrastructure, promoting inclusive and sustainable industrialisation and, by 2030, significantly raise industry's share of employment and gross domestic product (GDP) (Goal 9); the promotion of shared prosperity in every society, the latter being defined (for the purpose of statistical computation) as the promotion of growth of

[3] UN (2018)

[4] According to the UN (2018) classification, Russia is neither a developed nor a developing country and is rather classified as an economy in transition.

[5] For details see OECD, (2014), pp. 9

the per capita real income of the poorest 40 percent of each society; etc. These are some of the targets in the direction of inclusive growth and are also some of the indicators used covered in the Inclusive Growth index. This study also includes indicators that match with these SDGs.

To summarise, inclusive growth is both a process and an outcome. As a process the focus is on wider participation in the process of growth and as an outcome it concerns with benefit sharing-removal of poverty and reducing income inequalities. Inclusive growth has become central focal point of all policies, fiscal policy, monetary policy, trade policy, labour market policy, price policy, etc., across the globe.

2.1 Need for Inclusive Growth

Inequalities in most part of the world have increased during the last three decades (Alvaredo F. et. al. (2018)). Some of the plausible reasons are rapid growth in GDP, liberal and expansionary fiscal policy, large public debt, rapid improvement in technology and the changes in the nature of production using more capital, increasing share of services in GDP, unfavourable policies and institutions, etc.

Beyond the rise of inequality, there have been other profound changes in labour markets over recent decades. These arise from technological change, increased migration, ageing societies in some countries and youth bulges in others, and shifting employment patterns. The direction of these changes have unfortunately often drifted the economies away from inclusiveness and social justice and these forces will also continue to evolve.

The new 'disruptive' technology and new global digital infrastructure has changed the face of 'work'. Many existing jobs are vanishing and new ones are emerging. Rajan (2018) shared the challenges of changing technology on the jobs and mentioned that robotics and automation may impact many routine and skilled jobs. For India, Rajan cautioned that there is need to move from routine and less productive work like agriculture and low productive industry and services and seize the opportunity in other spaces in areas of exports, tech startups, etc.

Inequality in participation of women in the workforce is another important economic and social issue. Overall, female labour force participation is an important driver of growth in any country and even the SDGs have targeted to reduce this gender gap. The McKinsey Global Institute (MGI) (2015), states that in a "full potential" scenario in which women play an identical role in labour markets to that of men, as much as $28 trillion, or 26 per cent, could be added to global annual GDP by 2025. India is expected to gain the maximum from parity in labour force participation - complete parity would imply a 60 per cent increase in GDP by 2025[6].

[6] Mckinsey and Company (2015), "The Power of Parity: How Advancing Women's Equality can add $12 Trillion to the Global Growth" pp. 25, available at https://www.mckinsey.com/globalthemes/employmentand-growth/how-advancing-womens-equality-can-add-12-trillion-to-global-growth (last accessed December 15, 2017)

Questions have been raised about appropriate policies, which lead to 'inclusiveness' in an economy and how these policies may be formulated to obtain the desired results. Some studies have attempted to identify some approaches to inclusive growth, factors affecting inclusive growth and possible policy options.

Anand, Tulin and Kumar (2014) examined the role of growth and distribution across Indian States and concluded that developmental spending, in particular social sector spending are closely linked to inclusive growth and poverty reduction. They also argued that robust economic growth is imperative for strong government revenue growth and, as a result, for ensuring adequate fiscal space for such expenditure.

Basu and Stiglitz (2016) brought into focus the debate about growth and poverty. They argued that it is possible that growth may reduce poverty but the fact that despite long period of high growth, 14.5 percent of the population in the World in 2011 still faced poverty, is a testimony that growth has not been all inclusive and policies have to go beyond just promoting growth.

Mamgain and Verick (2017) pointed out that success of a future inclusive growth agenda would depend on the strategy for promoting investment in employment potential sectors and ensuring equal participation across various regions, gender and social groups and argues that public investment on universal quality education and universal quality health care hold the key to inclusive growth in India.

The ESCAP (2017), study highlighted that public finance – and tax policies in particular – are vital for this purpose. Taxes provide the primary source of financing for public education, healthcare and investment for the jobs. Taxes are also the financial backbone for social security networks and basic welfare, providing essential support to poor people against unexpected risks and preventing them from falling back into poverty during difficult times. Crucially, progressive tax policies are central to fostering a fairer distribution of income and wealth. In OECD countries, for instance, tax and transfers together bring down overall income inequality by more than a third, on average.'

2.2. Challenges to Inclusive Growth

Some of the challenges include slow economic growth, technological development and job displacement, etc. Since the financial crisis of 2008-09, the global economy has not fully escaped recession. Overall, recovery has been fragile and uncertain, and this is reflected in growing jobs deficits (deficits in terms of both the quantity and quality of new jobs) in many countries.

With advancements of robotics and artificial intelligence, disruptions in labour markets are likely to be huge. Workers' skills set are likely to become obsolete at much faster pace. It is estimated that between 400 million and 800 million individuals could be displaced by automation and need to find new jobs by 2030 around the world (McKinsey, 2018). On the one hand, large

scale disruption in labour market is likely to occur; on the other hand concentration of wealth is likely to increase.

Recent studies by International Labour Organisation[7] and other international organisations show that widening inequality is also associated with the declining share of total GDP that goes to working people through their pay checks. In addition to unemployment and underemployment, the significant slowdown in wage growth in most advanced and some emerging countries is responsible for the decline in the labour share of national income, and this feeds into overall household inequality and personal income inequality.

In the face of weak growth and disappointing employment creation, monetary policy interventions have been extensive and even unprecedented in some cases. Of course, this has also had spill over effects on other economies, with the emerging economies including India benefiting from capital inflows, but now unfortunately suffering from capital outflows as the end of monetary stimulus begins to appear on the horizon. Hence, there is a need to think of different policy instruments to tackle the issue at hand.

3. Inclusive Growth and Fiscal Policy Implications

Fiscal tools available with government are important means to effectively improve inclusiveness. Studies show that state fiscal policies can reduce inequality as well as aid incomes of the poorest citizens. Evidence from OECD countries indicates that public spending has a noticeably larger effect on inequality than taxation and other fiscal revenue policies, although crucial resources required to spend come from revenue side. Among the different components of public spending, transfers can significantly reduce inequality (Heshmat et al 2014).

With ever increasing role of governments in economic sphere, use of resources in efficient and effective methods to achieve sustainable economic development has become the most important aspect of public finance. Governments are under pressure to improve public sector performance and at the same time contain expenditure growth. According to Tanzi (1997), to achieve multiple objectives of stabilisation, growth and equity require not only reducing expenditures, where necessary, but improving efficiency and composition of public expenditures. This can be achieved by reducing unproductive expenditures while shifting budgetary resources towards areas that support development of essential physical infrastructure and human capital, including basic health and primary education (Tanzi, (1997)). Countries have adopted various approaches to enhance efficiency of public sector like 'increasing devolution and decentralisation, strengthening competitive pressures, transforming workforce structure, size, and human resource management arrangements, changing budget practices and procedures, and introducing results-oriented approaches to budgeting and management' (Curristine, (2007)).

[7] For details see http://www.ilo.org/newdelhi/info/public/sp/WCMS_412430/lang--en/index.htm (last accessed on December 20, 2017)

On the taxation side, widening of the tax base, plugging tax loopholes, fairly taxing rents from natural resources, progressive taxation on income and wealth tax and property tax can be used more effectively to generate more resources. In most of the developing countries, including India, tax-GDP ratio is poor. In 2016-17, combined tax revenue of central and state government in India was only 15.9 percent[8]. It lowers their ability to intervene effectively to improve inclusiveness. The challenge before governments in these countries is to expand revenue without stifling economic growth. Implementation of Goods and Services Tax (GST) is one such example, done with the objective to collect higher tax revenue, which would give more fiscal space to the government.

On the expenditure side, better targeting of social schemes and rationalisation of subsides is required to make an impact. Government expenditure can be restructured and transformed into effective instruments for reducing poverty, narrowing structural inequality, and promoting environmentally sustainable growth (López et al., 2010). Governments are expected to use the fiscal tools to minimise the painful adjustments and support the re-skilling programs of workers to keep them employable.

3.1 Need for Specific Policies for Inclusive Growth

Making growth inclusive has become a global priority, by international organisations like the OECD, the World Bank and the IMF. This change is triggered by the fact that the benefits of growth have become concentrated in the hands of a wealthy few while the share of income going to workers has fallen in most Western countries for more than a generation. Fewer than 10 percent of publicly traded companies account for over 80 percent of profits globally.[9]

However, the commonly adopted go-to policy response to the changing nature of work, promoting skills-training and education, is increasingly becoming insufficient in today's changing times. In addition to educational opportunities, workers need higher minimum wages, a strong collective voice, effective dispute-resolution mechanisms, health benefits, retirement benefits, paid time off, and affordable, quality basic services (such as housing, child care, transit and education). There is a need to shift the focus away from redistribution to changing the "pre-distribution" on making the economy fairer to begin with.

Over the past the resulting geopolitical uncertainty, combined with the pressures of climate change and population aging, has slowed growth globally. In an environment of slow growth, the dangers of rising inequality have become more apparent. Notably, instead of democratising the economy, the rise of new technology and the "gig economy" are threatening to worsen

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8 For details see Economic Survey 2017-18, Volume I, available at http://mofapp.nic.in:8080/economicsurvey/pdf/001-031_Chapter_01_ENGLISH_Vol_01_2017-18.pdf (last accessed March 27, 2018)

9 For details see http://www.policynote.ca/wp-content/uploads/2017/11/Yalnizyan_RosenbluthLecture_Nov2_2017.pdf (last accessed on December 25, 2017)

inequality by further increasing corporate concentration and reducing bargaining power for workers. Hence, there is need to develop an inclusive growth model.[10]

4. Methodology

This paper presents policy and outcome indicators of inclusive growth across India and the selected countries. These countries have been identified because India's growth trajectory is similar to some developing countries like China and India is facing challenges similar to those faced by countries like Indonesia and Argentina. Other developed countries are included so that India can learn from their best practices and because they have a strong presence in several international forums like the UN and G20, etc., India can develop synergies with them. By learning from their best practices it is expected that India can align its international agenda, and develop policies and cooperation. Accordingly, the following methodology has been used:

1. To draw a comparative analysis of India's position *vis-à-vis* these countries, an empirical framework representing the status of inclusiveness across these countries is presented using the following methodology:

    a. A list of indicators for developing a framework for inclusive growth are identified based on an analyses of different sources including World Economic Forum's (WEF) 'Inclusive Growth Index', (WEF (2017), Inclusive Development Index framework, Asian Development Bank Framework of Inclusive Index (ADB, 2010), Fostering Inclusive Growth Framework (IMF, 2017), Inclusive Growth Framework (OECD, 2014), and from UN Sustainable Development Goals (SDGs) (UN (2017)).
    b. The framework using indicators for inclusive growth is developed on the basis of the WEF's inclusive growth framework presented in the 'Inclusive Growth Index', (WEF (2017)

        i. These indicators are grouped into sub-pillars and pillars of inclusive growth and a value / score and rank for each pillar and sub-pillar is calculated using the following methodology: The value for each indicator is either a score, which is perception based and is on a **scale of 1 to 7** (worst to best) or is a quantitative value.
        ii. In the case where data for a particular indicator is presented in terms of quantity, the quantitative values are converted into scores to make them comparable across the board. The normalisation formula is applied, which is based on a linear min-max transformation, and preserves the order of, and the relative distance between country scores. The equation used is:

$$6* \frac{(country\ score - sample\ minimum)}{(sample\ max - sample\ min)} + 1$$

The sample minimum and sample maximum are, respectively, the lowest and highest country scores of the indicator among the economies covered. For those

[10] For details see http://www.policynote.ca/armine2017/ (last accessed on December 25, 2017)

indicators where a higher value indicates a worse outcome (1 to 7 is from best to worst), the transformation formula used is:

- $$6* \frac{(country\ score - sample\ minimum)}{(sample\ max - sample\ min)} + 7$$

iii. Adjustments are made to account for extreme outliers using the Winsorisation technique, in which the extreme values are replaced by the succeeding (for lower values) or the preceding (for high values) value

iv. After the transformation, the average of all the indicators within a sub-pillar was calculated to find the score of the sub-pillar,

v. Then, average of the sub-pillars is calculated to find the score of the pillar. The overall score of the inclusive index is the average of the scores of pillars. **All scores are presented on a scale of 1-7.**

vi. Finally, sub-pillars and pillars of a country within the group of selected countries are ranked for comparability. Ranking of indicators is obtained to find the relative status of each country on these indicators.

2. A framework for inclusive growth is developed for the selected countries including India, based on which a strategy for inclusive growth is presented.
3. Identified challenges and common issues related to inclusive growth across these countries and have developed policy recommendations that have both domestic and international implications for India.

The study is based on an in-depth secondary information analysis. The indicators used for the empirical analysis are detailed in Appendix A1. The data on these indicators has been obtained from different sources including the World Economic Forum, World Development Indicators, the World Bank, ILOSTAT and OECD.

5. Status and Pattern of Inclusive Growth

Inclusiveness requires that each country identifies its own areas of strength where it has a competitive advantage. This needs to be further developed not only to boost gross domestic product (GDP) growth but also to create more employment opportunities to absorb the labour force by using suitable technology for reducing mass poverty and widespread inequality. In addition, focus should be on designing effective tools for redistribution, such as fiscal policy measures. Countries must try to achieve sustainable inclusive growth by incorporating four points in public policy: opportunity, capability, access and security. The system of accountability, check and balance in the delivery system must be incorporated to pave the way for equal opportunities and shared prosperity for all irrespective of caste, class, gender and regions.

In view of its importance and significance, attention has been paid on the question of how do we define and measure inclusiveness and what are its determinants. There are so many dimensions to the concept of inclusiveness; it is very difficult to identify the complete list of all the indicators and the choice of the set of indicators may influence the overall and

disaggregate ranking of the countries within the group. The present analysis has identified some of the key aggregate indicators to compare the status of the selected countries on inclusiveness. The data on these indicators has been extracted from different sources, based on the methodology detailed in Section 2. The selected indicators have been grouped into five broad pillars of inclusive growth (see Appendix A1), and each pillar is further classified into sub-pillars, which in turn are estimated from individual indicators representing a particular sub-pillar. The pillars and sub-pillars include five pillars[11], 14 sub-pillars and 64 indicators that are used to calculate the overall inclusiveness index. The status of selected countries is compared on the basis of these five pillars, which are obtained as an average value of the sub-pillars. The overall ranking on inclusiveness is based on the average score of the five pillars. This is based on framework given in the Inclusive Development Index (IDI) but it has been suitably modified to make it India-centric[12] and which could capture the spirit of SDGs[13].

5.1. Status and Pattern of Inclusiveness across Selected Countries – Key Findings

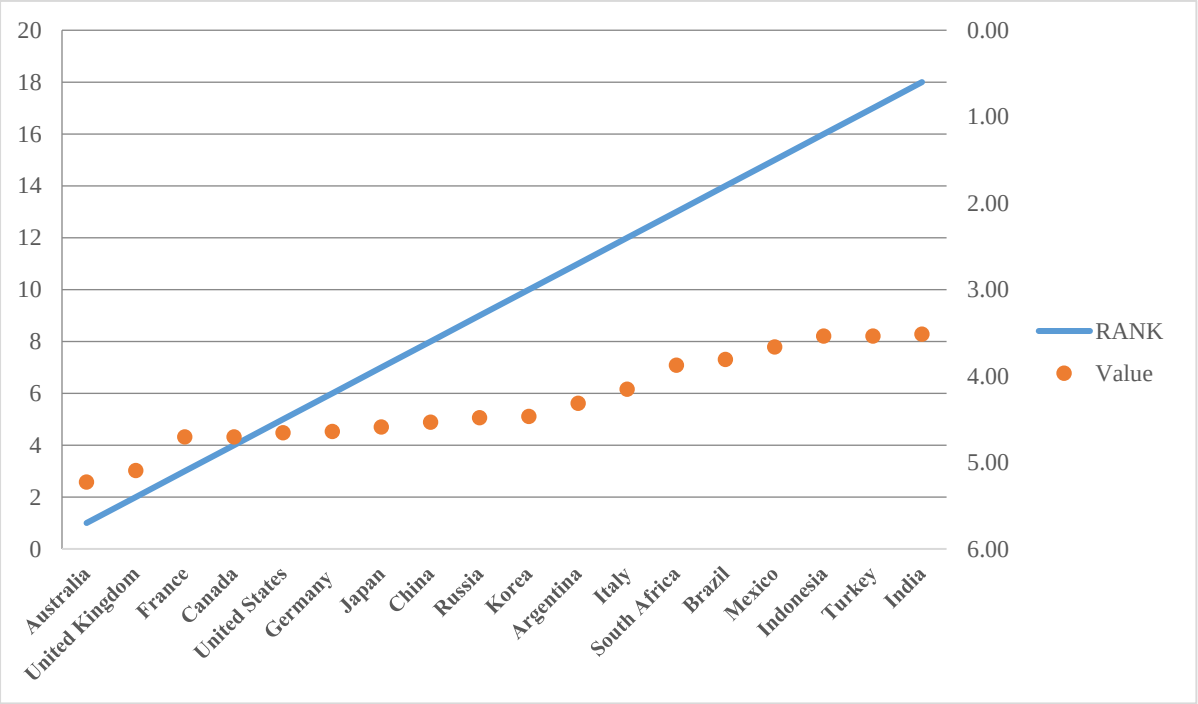
Based on the list of indicators detailed in Appendix A1, and methodology detailed in Section 2, India and the selected countries are ranked on an inclusiveness index. The solid line (see Figure 1) is derived from the inclusiveness ranking for selected countries and the scatter indicates relative position of each country with respect to inclusiveness. Countries like South Africa, Brazil, Mexico, India, Turkey and Indonesia are farther away from the inclusiveness line and have low inclusiveness score. However, these are the countries which show the maximum percentage change in the inclusiveness index over the period of 2012-16 (see Table 1). It could partially be because of the low base effect. On the other hand most of the high income countries like the US, UK, Australia, Canada, and France have high score and rank but low trend growth (see Table 1). France, Italy and Brazil have even shown a downward trend in terms of inclusiveness and have experienced a negative trend.

[11] The Inclusive Development Index (2017) has included seven pillars but the study has compressed it in to five pillars as per the requirement.

[12] It is done by including indicators which are crucial for India, e.g. employment to worker ratio, size of the informal economy, etc.

[13] The framework has included educated unemployment rate, share of industry in GDP and in employment among the indicators as envisaged by SDGs 8 and 9.

Figure 1: Status of Inclusiveness across Selected Countries



Source: Based on Authors' calculations, using data extracted from The Inclusive Growth and Development Report (2017), World Economic Forum, and others.

Inclusiveness rank of the selected countries across the selected pillars is shown in Table1. The results show that overall inclusive index rank of a country is influenced by its rank on all the five pillars and may be relatively high/low just because of high/low rank on any one or two of the pillars (such as in the case of France, China, etc.) but it is the consistency, rather than skewed performance which is important. While Australia, Germany, Canada, UK and Japan are more inclusive economies on the parameters, US's lower rank is because of low rank on fiscal efficiency and employment and labour compensation pillars. As expected, while all developed economies are in the top of the rankings, other emerging economies have relatively lower ranks, with China at 8; Argentina at 11; Mexico at 15; Brazil at 14; South Africa at 13; Turkey at 17; Indonesia at 16; and India at the bottom at 18. Even among the BRICS countries, India is the least inclusive economy and thus is a matter of great concern. While South Africa's and Brazil's performance is comparatively uniform on most of the pillars, China, because of a different political system have done well on employment and skill pillar (mainly because of very high worker population ratio and low dependency ratio) and on asset building pillar, and therefore score an overall higher rank on inclusive growth.

Table 1: Inclusiveness Score and Rank for Selected Countries and Overall 5-Year Trend IDI

					Pillar I		Pillar II		Pillar III		Pillar IV		Pillar V	
List of Indicators→	**Overall IDI**		**Education and Skills**		**Fiscal Efficiency**		**Employment and labour compensation**		**Equitable growth**		**Asset building and entrepreneurship**		**5-Year trend IDI**	
Country↓	**Value**	**RANK**	**Value**	**RANK**	**Value**	**RANK**	**Value**	**RANK**	**Value**	**RANK**	**Value**	**RANK**		
Argentina	4.31	11	4.89	7	4.59	8	4.54	10	3.65	15	3.91	8	0.93	
Australia	5.22	1	5.47	2	5.22	3	5.03	2	4.75	3	5.64	1	0.46	
Brazil	3.81	14	3.79	14	3.73	16	4.58	9	3.34	18	3.60	12	-3.26	
Canada	4.70	4	5.08	4	4.69	6	4.97	3	4.47	6	4.32	7	0.29	
China	4.53	8	3.86	13	4.35	12	5.19	1	4.15	10	5.12	3	2.94	
France	4.71	3	5.00	5	5.39	2	4.00	15	4.67	4	4.47	6	-0.55	
Germany	4.64	6	4.53	11	5.01	4	4.94	4	5.06	1	3.68	11	1.72	
Indonesia	**3.54**	**16**	3.35	17	3.70	17	4.06	14	3.85	12	2.73	18	**2.57**	
India	**3.51**	**18**	**3.02**	**18**	**3.40**	**18**	**4.38**	**11**	**3.49**	**17**	**3.29**	**15**	**2.29**	
Italy	4.15	12	4.53	10	4.68	7	3.95	16	4.25	9	3.36	14	-1.69	
Japan	4.59	7	4.92	6	4.92	5	4.74	6	4.84	2	3.54	13	1.14	
Korea	4.47	10	4.80	8	4.39	11	4.68	7	4.65	5	3.83	10	2.2	
Mexico	3.66	15	3.51	16	3.94	14	4.26	13	3.76	13	2.84	17	0.66	
Russia	4.48	9	4.62	9	3.86	15	4.67	8	3.94	11	5.31	2	0.48	
South Africa	**3.87**	**13**	4.08	12	4.08	13	3.79	17	3.56	16	3.86	9	**2.49**	
Turkey	**3.54**	**17**	3.56	15	4.53	9	3.01	18	3.71	14	2.88	16	**2.48**	
United Kingdom	5.09	2	5.57	1	5.51	1	4.88	5	4.46	7	5.05	4	0.42	
United States	4.65	5	5.13	3	4.51	10	4.29	12	4.43	8	4.91	5	1.62	

Source: Inclusiveness score and rank is computed by Authors from the data set for pillars and sub-pillars and 5-year trend IDI, data is extracted from The Inclusive Growth and Development Report (2018), World Economic Forum. pp. 2

It is observed that the relationship of pillar I - education and skills with overall inclusive growth index is strongest with the correlation being 0.91. Within the education pillar, it is access to education, which has the highest implications for inclusive growth. It could mean that it is first the access which is important and in its absence, the quality and digital literacy-the other two sub-pillars may not have much meaning for inclusiveness. So a country like India which still has limited access to education should first focus on it before it spends its limited resources on quality and digital literacy. Equitable growth pillar also has a correlation of 0.80 with overall inclusive growth. Pillar 5 of asset building and entrepreneurship is also important for inclusive growth as it has a high correlation of 0.78, with the sub-pillar 'small business ownership' being predominant with a correlation of 0.85. It thus indicates that promoting small business would help in achieving the goal of inclusiveness.

For few of the selected countries it has been possible to have a relatively higher rank on inclusiveness due to large size of the government, which made it possible and easy for these economies to spend a higher proportion of their GDP for infrastructure and social protection (correlation between inclusiveness and fiscal efficiency being 0.76). Both India and China though have consistently high growth rates in GDP per capita but the level of GDP per capita is still at the lower end of selected countries because of large population base. They also have relatively high poverty rates despite pulling millions out of poverty in last 2-3 decades. India, however is almost at the bottom on access to health (rank 14 out of 18 selected countries) and education scores (18th /18 rank). It is also evident by India's low rank on Human Capital index (34 for China and 103 for India out of 130 countries as reported by The Global Human Capital Report (2017). India also has lower rank than China on inequality, as revealed by the World Inequality Report (2018) by showing that the share of top 1 percent of the population in national income in India has witnessed a sharper increase during the period 1980 - 2015 than in China. While in India it increased from around 7 percent to 22 percent, in China it increased from 6 percent to 14 percent only[14].

In addition, to encapsulate the the progress these countries have made over a period of time in terms of inclusiveness, a five-year (between 2012 and 2016) trend overall IDI (using indicators available during both the years) is given in Table 1 Countries with lower inclusiveness score including India, South Africa, Turkey and Indonesia, have reported the highest 5-year trend averages compared to other selected countries. Hence, while overall IDI of these countrie at a given point in time compared to other selected countries, especially the advanced economies, is lower, but their 5-year trend average is higher indicating that these countries have been taking substantial measures towards attaining greater inclusiveness. Particularly in the case of India, its score is the highest for 'employment and labour compensation', followed by 'equitable growth' (see Table 1). It thus shows that India has to do lot of catching up on other parameter.

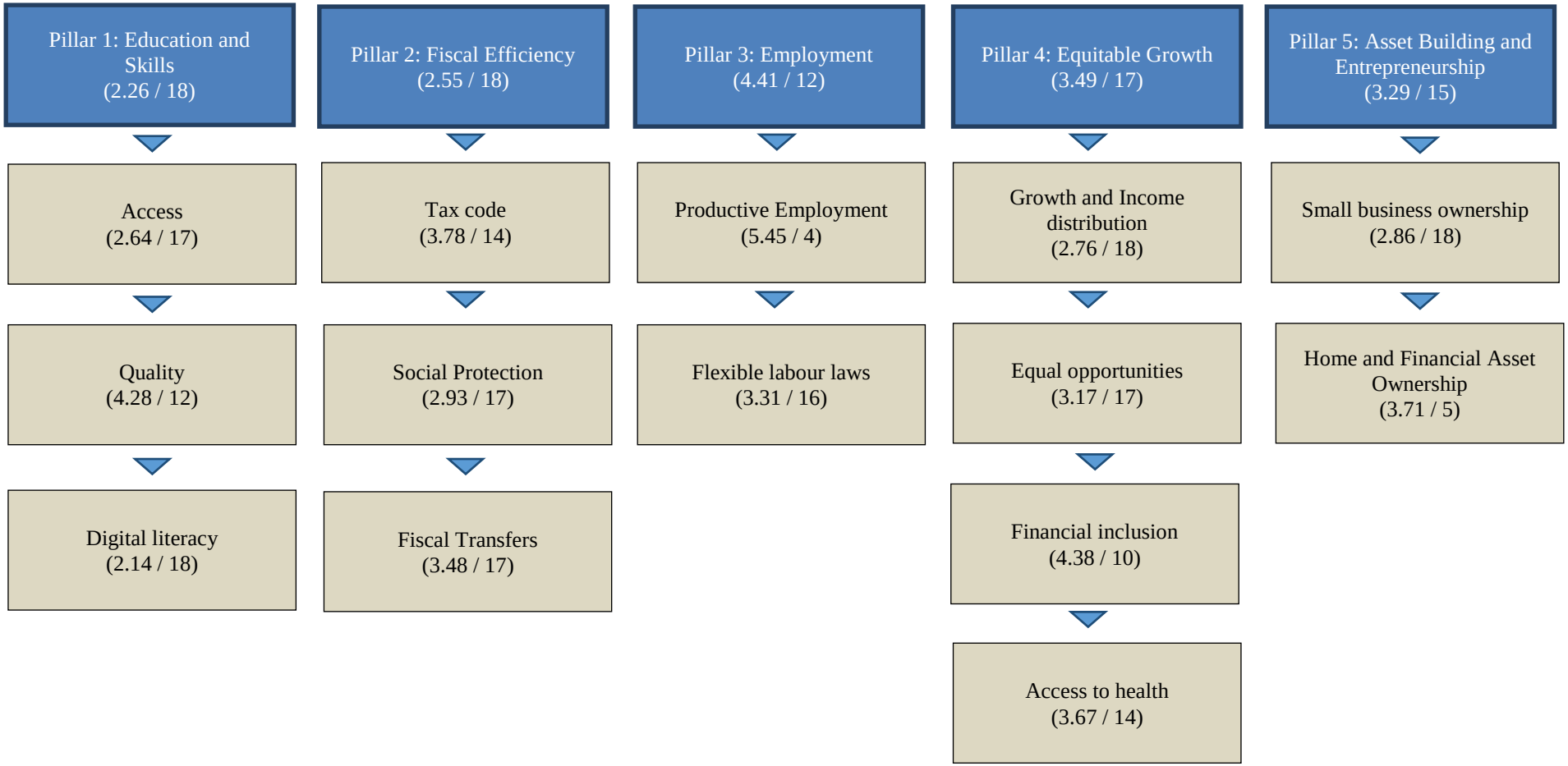
[14] World Inequality Report (2018), pp 296

Based on the WEF framework for achieving inclusive growth, a framework has been compiled for India (see Figure 2). The policy and institutional domains portrayed in this framework represent the ecosystem of structural policy, incentives and institutions that together and as part of the growth process help to diffuse the benefits of inclusive growth. Structural reforms include measures aimed at boosting economic efficiency and macroeconomic stability by sharpening market signals and improving the health of public finances. India has unexploited potential to simultaneously increase economic growth and social equity and effective policy measures and reforms can help in attaining this objective. A more detailed analysis at sub-pillar level of disaggregation shows that (see Figure 2), India's score is significant for sub-pillars including productive employment, financial inclusion, quality of education, tax code and home and financial asset ownership. But there a few indicators access to education, digital literacy, social protection, growth and income distribution, and small business ownership where the score is very low and lot of catching up is to be done.

Within this framework, India's score and rank across each of the selected pillars and sub-pillars indicates India's position *vis-à-vis* other selected countries. Among them, India's rank is highest for 'productive employment' at number '4' (see Figure 2). Clearly there are many areas where India needs to up its relative score. For this concerted efforts are needed in expansion and improving the quality of services provided.

Most countries today share similar challenges in achieving the objective of inclusive growth and are introducing structural, fiscal and monetary policies. While developing countries are focussing more on expansion and quality of services, developed countries' focus is on the delivery of services. India can learn from their best practices adopted by these countries, in designing and implementing suitable country-specific policies. For instance, countries like Argentina, Indonesia, Brazil and Japan, have introduced policies that promote inclusive growth in terms of productive employment, equity, promoting innovation and entrepreneurship and social protection. Despite low per capita income, countries like Argentina and Indonesia have been achieving success in achieving the basic tenets of inclusive growth including growth, participation and redistribution across the economy. They have achieved this through reforms to create jobs and other structural reforms and fiscal policy reforms. In 2017, Argentina and Indonesia introduced certain structural, fiscal and monetary policies as a part of their respective growth strategy (see Boxes 1 and 2). India can possibly learn from these countries and develop measures that will facilitate inclusive growth.

Figure 2: Inclusive Growth and Development Framework for India



Source: Extracted from The Inclusive Growth and Development Report (2017), World Economic Forum, pp. 13.
Note: Score / Rank is given in parenthesis

Box 1: Policies adopted by Argentina

Focus is on inclusive and sustainable growth

Fiscal policy:

- Greater investment in infrastructure (through public-private partnerships (PPP)) (to reduce primary deficit, increase productivity and increase output, and stronger GDP
- Tax amnesty programs (taxpayers to report undeclared assets and income)
- Reduction of burden on low income households and pensioners (**15% percentage point VAT refund**)
- Expansion of social security schemes (**social services to account for 64% of total public expenditure and 15% of GDP**)

Structural reforms:

- Enhancing transparency in public accounts (National Open Data portal set up)
- Greater awareness about public policies through communication programs
- Greater investments in sectors such as renewable energy (to ensure long-term sustainable development)
- Education sector reforms – expansion of universal child care allowance limit; public systems to be offered to children of the age 3 and above and new kindergartens to be opened

Monetary policy and Financial sector reforms

- Policies to reduce inflation (absorb excess liquidity and clearly communicate intentions behind the monetary policy to public)
- Free-floating exchange rate
- Increase in level of international reserves
- Encourage deposits
- Ensure long-term credit supply in the market
- Improve efficiency of financial and payments system

Source: G20 Growth Strategy Indonesia (2017)

Box 2: Policies adopted by Indonesia

Focus is on promoting growth and enhancement of people's welfare supported by sustainable growth, resilient economic sector, inclusive economic development, and macroeconomic and financial stability.

Fiscal policy

- Tax amnesty program
- Tax reforms will continue in both tax administration and tax policy
- Optimizing revenue and reduce budget deficit and debt ratio
- Enhancing fiscal transparency by exempting tax authority from bank and financial secrecy laws

Monetary policy:

- Reduce inflation
- mitigating systemic risks and enhancing macro-surveillance to better assess of the potential risks
- promote efficient payment transactions, implementing clean-money policies, as well as supporting financial inclusion
- Channelling Ultra Micro Credit Program for Small Micro Enterprises through Non-Bank Financial Institutions

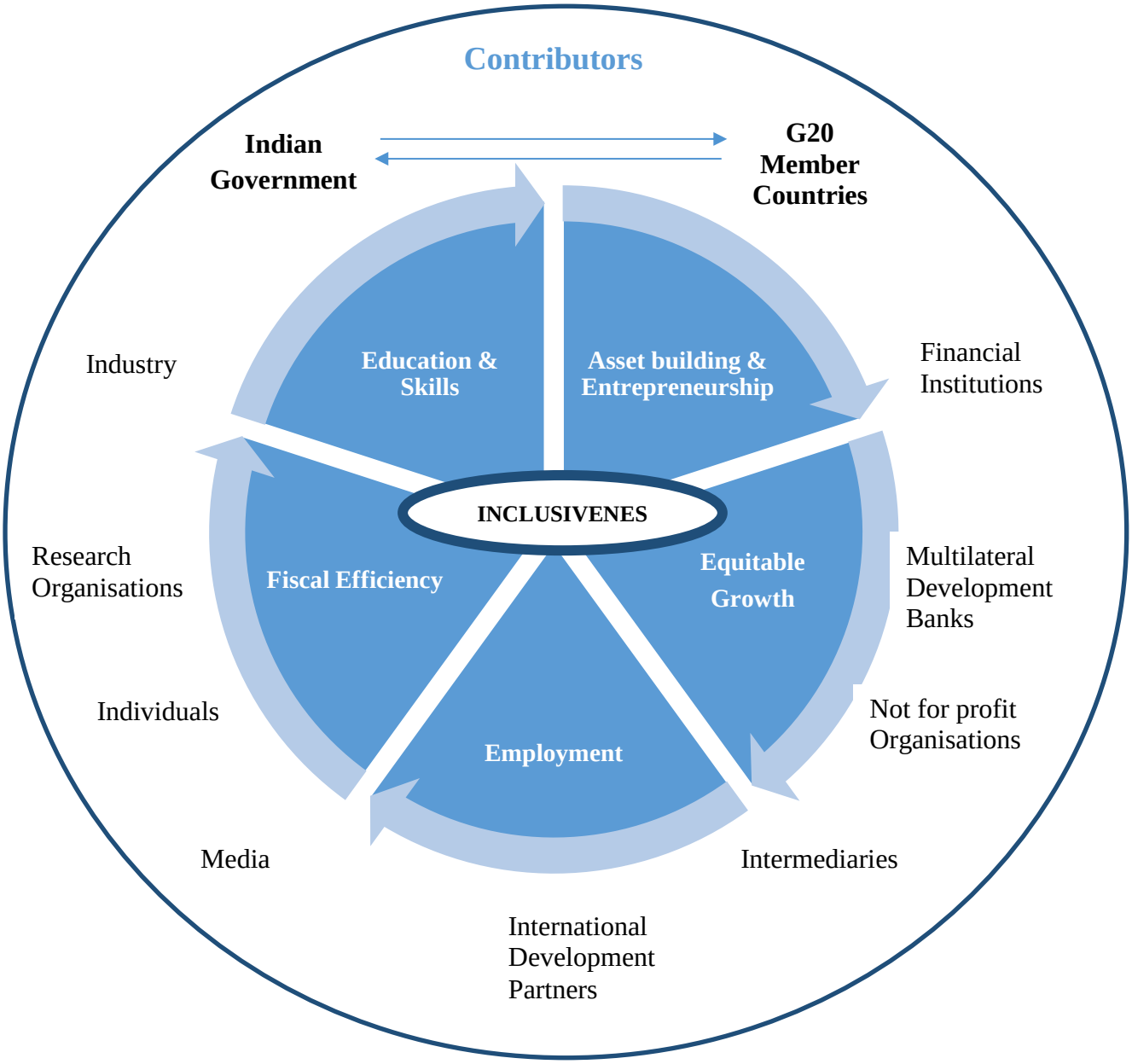
Structural reforms

- Increasing competition through national logistic improvement
- Earmarking 25% of General Transfer Fund (Dana Transfer Umum) for infrastructure spending in the region

Source: G20 Growth Strategy Argentina (2017)

Overall a conducive environment is needed to achieve a broad-based impact on the economy. In achieving inclusive growth, a variety of stakeholders have a role to play, but the key player is government (see Figure 3). Governments play a key role in enabling all actors to pursue inclusive business and operating models and integrate those at the bottom of the pyramid into their core strategies and operations. A conducive enabling environment and a well-functioning financial infrastructure provided by governments can help other stakeholders to effectively contribute to inclusive growth.

Figure 3: Key Contributors and Pillars towards achieving Inclusive Growth



Source: Extracted from G20 (2015), pp. 7.

From the above discussion we can conclude that in case of India, focus has to be on all the five pillars to achieve inclusive growth. While these are just the outcomes, it is important to devise

a strategy to ensure that there is growth in the economy, as that will facilitate the expansion of services and improvement of quality of services.

6. Inclusive Growth - Opportunities and Challenges for India

India's economy continues to grow at an impressive rate. In April 2019 (9th April), the IMF has projected India's GDP to grow at 7.3 percent in 2019-20. The RBI has also forecasted (6th April 2018) the Indian economy to grow at 7.4 percent in fiscal 2018-19 and 7.2 percent in 2019-20. India's economic successes are being translated into increased well-being for its population. As GDP per capita has more than doubled in ten years, extreme poverty has declined substantially. Access to education has steadily improved, and life expectancy has risen and India is gradually progressing towards meeting some of the goals set in SDGs. India is working towards overcoming the problem of unemployment. Like other countries, India is also facing the twin challenge of repairing the damage caused by the global economic and social crisis and creating quality jobs for the tens of millions of new labour market entrants every year. However, dropping-out of school, poor educational outcome attainments in schools[15], and mismatch of skills of the labour force are the problems India has to pay its attention both in the short and the long term.

As is evident from existing literature on inclusive growth, recent growth in GDP in most of the countries, especially the emerging economies, has led to significant reductions in poverty but a simultaneous increase in inequalities of income and wealth. India started working on the agenda of inclusive growth from 11th plan (2007-12) and under the current Government also adopted the strategy of pursuing all public policies aimed at inclusive growth. 'It shuns favouritism and aims at justice and welfare to all through equality of opportunity and non-discriminatory participation.'

Several steps have been taken in India towards reducing the inequality. One of the most important steps has been the Mahatma Gandhi National Rural Employment Guarantee scheme (MNREGA). Started in 2006, it is the largest works program in the world. MNREGA has been an effective fiscal tool to provide support to the poorest section of the society. Transfer of wages directly in basic *Jan Dhan* accounts of the workers has improved the targeting of beneficiaries.

India has made advances in integrating in global value chains and developing a competitive advantage in fields such as information and communication technology. Now is the time to secure continued progress by boosting competition and further lowering barriers to trade and investment. Looking at the future, it will be vital to fully tap into the potential offered by India´s young population. This means investing in the large numbers of young people entering the labour market. Likewise, the rapid pace of development must be matched with the upgrades to

[15] Pratham Report (2018) highlights how the children in class IX to XI are not able to read and solve Mathematics problems of the level of IV and V classes.

infrastructure necessary to support it. Multiple opportunities present themselves for India, and the right mix of policies is needed to take advantage of them.

Reducing the size of the informal economy is pivotal to inclusive growth and that is one of the focus areas of the current government. Recent reform initiatives in India are preparing the ground for greater inclusion. The biometric-based unique identification system, *Aadhaar* now ensures that the poor are no longer invisible and, therefore, more empowered. A bank account for every adult now ensures universal access to financial services. When combined with *Aadhaar*, such access will accelerate financial inclusion.

The government and private sector both have imperative roles in driving inclusive growth. In India, governments have introduced many projects and schemes for affordable housing, skill development, and improved access to education, financial inclusion, encouraging start-ups and innovations, among others. Some of these include *Pradhan Mantri Jan Dhan Yojna, Pradhan Mantri Jeevan Jyoti Bima Yojana, Pradhan Mantri Suraksha Bima Yojana, Sukanya Samriddhi Yojana, Beti Bachao-Beti Padhao* Scheme, all helping to promote inclusive growth. In addition, in 2015, the National Skill Mission was launched under the Skill India initiative. It has been launched to empower the youth of the country with skill sets which make them more employable and more productive in their work environment. The private sector has started contributing with initiatives, such as the ICICI Foundation having been established with the purpose of promoting inclusive growth.

Government's targeted policies like the 'Digital India' and 'Make in India' campaigns have taken the agenda for inclusive growth to a higher level. To weed out black money and corruption from public life, Government has been leveraging digital transaction ecosystem. Majority of government agencies have now adopted a digital infrastructure and a digital way of transacting to ensure inclusive growth. 'Digital India' consists of three core components of creation of digital infrastructure, delivery of services digitally and digital literacy. 'Digital India' is not only transforming India but also helping to achieve the United Nations Sustainable Development Goals Agenda 2030. 'Digital India' is giving thrust to affordable devices, internet access and digital literacy and financial inclusion is expanding. Government is enabling fintech innovation and is actively investing in internet infrastructure. In addition, public-private-partnership models for infrastructure expansion, cross-sectoral knowledge sharing and technology transfers are being encouraged. National Digital Literacy Mission also called Digital *Saksharta Abhiyan* has been initiated with the vision to make at least one person in every family digitally literate with digital literacy skills by 2020 and provide digital literacy to 60 million rural households, including *Anganwadi* and *Asha* workers and authorized ration dealers across the country.

India is working towards a comprehensive tax reform that would promote inclusive growth. The shock of demonetisation to curtail black money, the introduction of the new national GST and steps taken to curb *benami* transactions, are expected to gradually expand India's tax base and eliminate incentives for businesses to operate in the shadow of the formal economy. Besides the government is taking steps to make tax policy making more robust and have

established the Tax Policy Research Unit and Tax Policy Council for the same. Reforms in the direct tax structure are also on the anvil and an expert committee has been constituted to give its recommendations. Some of these reforms would also help India in its Ease of Doing Business ranking.

To address the 'twin balance sheet challenge' faced by India's banking sector, government has introduced recapitalisation reforms in the banking sector and amended the Bankruptcy Law. Recently, fixed-term employment[16] has been extended to all sectors to boost ease of business. The Cabinet has also approved the Implementation of Universal Health Coverage Plan – also known popularly as 'Modi Care' to extend the benefits of health insurance to the masses of India.

While these and more steps have been taken in the direction of inclusive growth, India needs an inclusive growth development agenda to achieve its short term and long term goals. This agenda should be more comprehensive and should set the tone for government's strategies for all sectors of the economy. Based on the experience of other countries and research by scholars, some of the policies which India might have to adopt to further improve its inclusiveness score and rank are summarised.

Macroeconomic stability, human capital and structural changes are found to be key determinants of inclusive growth in emerging markets. Macro-financial stability, with particular attention to inflation risks, is also critical for promoting inclusive growth. Targeting inflation, through its impact on purchasing power is supposed to be helpful in reducing poverty. Social expenditures, spending on education and skill development and educational attainment rates are also important for fostering inclusive growth. Attention also has to be paid to the specific policies aimed at addressing the problems of different sectors of the economy.

Among other instruments, existing literature shows that effective fiscal policy plays an important role in promoting growth and equity. An efficient tax system should not only be simple but equitable and should satisfy the canons of taxation. It should also provide enough incentives for everyone to participate in the process of growth. Expenditure policy should not only facilitate expansion of infrastructure but help in the provision of decent standard of living to the citizens through access to health, education, social and income security, among others. In this context, the next sub-sections discuss the status of India relative to the selected countries on these key social infrastructure-health, education and social security.

6.1. Public Expenditure on Health

High incidence of market failures in the health sector and desire to provide health care to every individual has motivated extensive government involvement in this sector in advanced and

[16] The facility for hiring on fixed term contract was initially available only for the apparel manufacturing sector as per the Industrial Establishment (Standing Order) 1946. According to the notification to amend the order, words "fixed-term employment in apparel manufacturing sector" will be replaced by "fixed-term employment" meaning that facility would be available for all sectors.

emerging economies[17]. In developed countries, public health services provided either directly or indirectly (through insurance) have a wide coverage and out of pocket expenses are significantly low.

Compared to other selected countries, public expenditure on health in India is quite significantly low. India spends around one percent of its GDP on public health. Out of pocket expenses are quite high and low public expenditure on health is one of the main reasons behind this trend. Only 30 percent of the total health spending comes from public spending and more than 60 percent is accounted by out of pocket expense (see Table 2). Government expenditure on health in India is largely on providing direct health care to patients. High cost of healthcare is a major hurdle for the poor in accessing proper healthcare. To overcome this problem government has launched the '*Ayushman Bharat* National Health Protection Mission' to cover over 10 crore poor and vulnerable families (approximately 50 crore beneficiaries) providing coverage upto 5 lakh rupees per family per year for secondary and tertiary care hospitalisation[18]. This Mission is expected to have a major impact on reduction of Out of Pocket expenditure, increased access to quality health and medication. In addition, the unmet needs of the population which remained hidden due to lack of financial resources shall be catered to.[19]

Table 2: Expenditure on Health across Selected Countries (2014)

	Total	**Public**	**Out of Pocket**	**External Resources**	**Per Capita**	**Per Capita**
Country	**% of GDP**	**% of total**	**% of total**	**% of total**	**$**	**2011 PPP $**
Argentina	4.8	55.4	30.7	0.8	605	1,137
Australia	9.4	67	18.8	..	6,031	4,357
Brazil	8.3	46	25.5	0.1	947	1,318
Canada	10.4	70.9	13.6	..	5,292	4,641
China	5.5	55.8	32	0	420	731
France	11.5	78.2	6.3	..	4,959	4,508
Germany	11.3	77	13.2	..	5,411	5,182
India	**4.7**	**30**	**62.4**	**1**	**75**	**267**
Indonesia	2.8	37.8	46.9	1.1	99	299
Italy	9.2	75.6	21.2	..	3,258	3,239
Japan	10.2	83.6	13.9	..	3,703	3,727
Korea, Rep.	7.4	54.1	36.1	..	2,060	2,531
Mexico	6.3	51.8	44	0.4	677	1,122
Russian Federation	7.1	52.2	45.8	..	893	1,836

[17] For details see https://www.imf.org/external/np/pp/eng/2010/122810.pdf (last accessed March 27, 2018)
[18] For details see http://www.indiabudget.gov.in/ub2018-19/bs/bs.pdf (last accessed February 12, 2018)
[19] For details see https://www.india.gov.in/spotlight/ayushman-bharat-national-health-protection-mission (last accessed April 4, 2019)

	Total	Public	Out of Pocket	External Resources	Per Capita	Per Capita
Country	**% of GDP**	**% of total**	**% of total**	**% of total**	**$**	**2011 PPP $**
Saudi Arabia	**4.7**	**74.5**	**14.3**	**0**	**1,147**	2,466
South Africa	**8.8**	**48.2**	**6.5**	**1.8**	**570**	1,148
United Kingdom	**9.1**	**83.1**	**9.7**	**..**	**3,935**	3,377
United States	**17.1**	**48.3**	**11**	**..**	**9,403**	9,403

Source: World Economic Indicators Data Base available at https://data.worldbank.org/indicator

Due to low government expenditure and lax regulatory environment, healthcare service providers in the private sector have multiplied. Privatisation of health care creates affordability problem and is considered one of the biggest impediment in creating an inclusive society. Government of India (2014) states that, 'incidence of catastrophic expenditure due to health care costs is growing and is now being estimated to be one of the major contributors to poverty. The drain on family incomes due to health care costs can neutralise the gains of income increases and every government scheme aimed to reduce poverty.' Over 63 million people are pushed towards poverty every year due to rising health related expenses[20]. Low public expenditure on heath also adversely affects availability of physicians and paramedics. In terms of availability of health care service staff, India's position is only above Indonesia compared to other selected countries (see Table 3).

Table 3: Availability of Health Care Service Staff across Selected Countries

	Health Care Service Staff		Specialist Surgical Workforce
	Physicians	**Nurses and midwives**	
	Per 1,000 people	**Per 1,000 people**	**Per 100,000 population**
Country	**2008-15**	**2008-15**	**2009-16**
Argentina	3.8	NA	10.5
Australia	3.4	12.3	72.6
Brazil	1.9	7.4	34.7
Canada	2.5	9.5	35.3
China	1.9	1.9	40.1
France	3.2	10.6	58.6
Germany	4.1	13.5	112.9
India	**0.7**	**2**	**6.8**
Indonesia	0.2	1.4	NA
Italy	3.9	6.5	114
Japan	2.3	10.8	37.4

[20] Government of India (2014).

	Health Care Service Staff		Specialist Surgical Workforce
	Physicians	**Nurses and midwives**	
	Per 1,000 people	**Per 1,000 people**	**Per 100,000 population**
Country	**2008-15**	**2008-15**	**2009-16**
Korea, Rep.	2.2	5.7	49.6
Mexico	2.1	2.5	NA
Russian Federation	3.3	4.6	88
Saudi Arabia	2.6	5.2	NA
South Africa	0.8	5.1	11.5
United Kingdom	2.8	8.4	90.5
United States	2.6	NA	54.7

Source: Extracted from World Economic Indicators database available at https://data.worldbank.org/indicator

6.2. Fiscal Policy and Health

Several health care protection programs have been developed and adopted across selected countries. Globally, healthcare system largely falls under two main systems of service provision either (i) delivered through insurance coverage; or (ii) government-funded programmes. For instance, the US health care system is largely based on insurance coverage. The Affordable Care Act (ACA), enacted in US in 2010, aims to achieve universal insurance coverage through shared responsibility among government, individuals, and employers[21]. In the UK, National Health Service (NHS) is a government-funded universal healthcare system.

Apart from such direct tools, government can also use the fiscal policy effectively to introduce efficiencies in provision of healthcare services. Some of the government instruments include taxes and subsidies direct provision of certain health services for free or at subsidised rates, taxing products which are harmful for health and subsidising products that promote healthy lifestyle. Appropriate tax policy can promote provision of health care services, discourage consumption of harmful products and increase government revenue.

6.3. Fiscal Policy and Education

Increasing access to education enhances human capital, which is the primary asset especially for the weaker and disadvantage sections[22]. Education is not only an important vehicle for upward mobility, but also has significant positive externalities. Government support becomes

[21] For details see https://www.ncbi.nlm.nih.gov/pmc/articles/PMC3001814/ (last accessed March 27, 2018)

[22] For details see https://www.adb.org/sites/default/files/publication/150415/ewp-423.pdf (last accessed March 27, 2018)

necessary because of both these factors. In the absence of government support access to education might get marginalised to the rich section of the population.

Studies show that government expenditure on education; particularly on primary education is one of the most effective means of reducing inequality[23]. Public expenditure on education in India is only 3.8 percent of GDP (see Table 4). To benefit from demographic dividends Indian government needs to increase public spending on education. Compared to other selected countries, pupil-teacher ratio at primary level in India is quite high at 31 and the trend is similar at secondary level also (see Table 4).

Inadequate and poor quality of spending leads to higher dropouts and lower learning levels. Only 81 percent of total students enrolled in grade 1 reach last grade of primary education in India (see Appendix A3). For male students, ratio is only marginally better. Compared to other selected countries, for which data is available, survival rate in India, is poorest (see see Appendix A3).

Table 4: Public Expenditure on Education across Selected Countries (2015)

	Government Expenditure on Education		Pupil-Teacher ratio	
Country	**% of GDP**	**% of Total Government Expenditure**	**Primary Pupil-Teacher ratio**	**Secondary Pupil-Teacher ratio**
Argentina	5.3	14.7	..	..
Australia	5.2	13.9	..	..
Brazil	6	16	21	17
Canada	..	..	..	..
China	..	..	16	14
France	5.5	9.7	18	13
Germany	5	11.1	12	12
India	**3.8**	**14.1**	**31**	**32**
Indonesia	3.6	20.5	17	15
Italy	4.1	8	12	11
Japan	3.6	9.3	16	..
Korea, Rep.	5.1	..	17	15
Mexico	5.3	19.1	27	16
Saudi Arabia	..	..	11	11
South Africa	6	19.1	34	..
Turkey	4.8	12.4	19	19
United Kingdom	5.7	13.9	17	16
United States	5.4	14.5	15	15

Source: Extracted from World Economic Indicators database available at https://data.worldbank.org/indicator

[23] For details see https://www.adb.org/sites/default/files/publication/150415/ewp-423.pdf (last accessed March 27, 2018)

6.4. Fiscal Policy and Social Security

Social security is one of the most important aspects of inclusive growth. Direct and indirect support to the vulnerable sections of the population is an important responsibility of welfare state. Unemployment benefits, food for work, old age, disability pension etc., are prime examples of welfare activities undertaken.

With increasing old age population, pension has become most critical part of any government spending. With increasing life expectancy and lower birth rate, old age dependency is rising and in many advanced economies it is more than 30 percent[24].

Table 5: Pension Coverage across Selected Countries

Country	Recent year	First Beneficiaries Coverage Definition (old-age pensioners/pop 65+)	Second Beneficiaries Coverage Definition (all pensioners / tot. pop.) (%)	Schemes Included	General Government Debt (% of GDP)
Argentina	2010	139.8	14.8	ns	54.23
Brazil	2010	92.6	11.4	ns	78.32
Canada	2007	78	14.4	ns	92.40
China	2011	146.3	12.4	ns, ss	44.29
France	2010	139	27.8	ns	96.34
Germany	2010	106.2	28.7	ns	68.08
India	**2010**	**54.4**	**2.6**		69.58
Indonesia	2010	8.2	0.2	cs	27.86
Italy	2010	108.1	27.4	ns	132.62
Japan	2003	127.6	24.1	ns	239.27
Korea, Rep.	2011	60.9	7	ns, cs, ss	38.32
Mexico	2010	25	1.6	ns	58.43
Russian Federation	2007	154.6	25.3	ns	15.65
Saudi Arabia	NA	NA	NA	NA	13.06
South Africa	2010	122	5	ns, cs	51.70
Turkey	2008	137.1	11.1	ns	28.13
United Kingdom	2010	118.8	22.4	-	89.26
United States	2008	82.6	14.9	ns	107.11

Source: Extracted from World Economic Outlook Database, 2018, available at https://data.worldbank.org/indicator/SP.POP.DPND.OL (last accessed March 27, 2018)
Note: ns: National Scheme; cs: Civil Servants scheme; ss: Special scheme

Both advanced and developing countries are fiscally constrained to manage old age pensions. In several countries, debt-GDP ratio is more than 75 percent (see Table 5). In developing countries, low tax-GDP ratio hampers the ability of state to provide adequate pension coverage

[24] For details see https://data.worldbank.org/indicator/SP.POP.DPND.OL (last accessed March 27, 2018)

to aging population. In advanced countries, higher old age dependency creates fiscal sustainability problems.

As shown in Table 5, pension coverage in India is only 2.6 percent and is quite low compared to other selected countries. For instance, pension coverage in Russian Federation, France, Germany, Italy, Japan and UK is more than 20 percent. Similarly, compared to other countries, public spending on pension in India is very poor. India spends only 4.3 percent of its GDP on pension, out of which social spending is only 0.1 percent and the remaining is from contributory / earnings related schemes (Appendix A2).

6.5. Successful Government Interventions to Improve Inclusiveness

Governments need to design tax and expenditure policies carefully to balance the distributional and efficiency aspects (International Monetary Fund, (2014)). Several countries have adopted effective policies to create inclusive society, which provide opportunities to all sections of the population and protection to vulnerable sections of the population. Some of the most effective measures include Bolsa Família in Brazil, Arbeitslosenversicherung and ALG II *or* Hartz IV in Germany, National Health Service in UK, dual- track educational system in Germany, MNREGA in India and Social Security System in France. Brief descriptions of these schemes are given in Table 6. Emerging economies like India need to spend higher percentage of GDP on health, education and social security.

Table 6: Government Schemes for Inclusive Growth in Selected Countries

Schemes	Countries	Description
Bolsa Família	Brazil	Under Bolsa Família scheme, Brazillian government transfers cash to families in return for them keeping their children in school and attending preventive health care visits (Wetzel 2013). The scheme is credited for significant reduction in poverty in Brazil.
Unemployment insurance (*Arbeitslosenversicherung and ALG II* or *Hartz IV*)	Germany	Employees and employers contribute 1.5 percent of the employee's gross income. Unemployment compensation is a combination of subsistence allowance and contribution-based claims. People receive around 60% of your previous net income for a period of six to 24 months of unemployment. Beyond this period unemployed people will receive, standardized subsistence allowance. An important condition for receiving subsistence allowance is people's willingness to accept all job offers, even low paid ones or menial tasks[25].
National Health Service	UK	Among the government initiatives on health care, NHS model is **most equitable and ensures widest risk pooling. It is considered one of best healthcare systems in the world. To improve the functioning of the Indian health system, government can draw lessons from it.**
Dual-track *vocational education* system	Germany	Education system in Germany at secondary and beyond puts a lot of emphasis on vocational, or skills-oriented, training that encompasses a wide variety of occupations—everything from industrial mechanics to retail sales*(* Bhagwati *et al*. 2014). As part of the dual system, small and medium sized companies and schools cooperate to provide classroom and workplace training. India can draw lessons to improve the functioning of Skill India mission.

[25] For details see https://www.internations.org/germany-expats/guide/29458-social-security-taxation/social-security-in-germany-15970

Schemes	Countries	Description
Mahatma Gandhi National Employment Guarantee Scheme	India	It is an Indian social security measure to provide guaranteed 100 days work to marginalised sections of the population. Given large scale unemployment and seasonal employment, India launched this scheme to provide relief to vulnerable population. Countries at similar levels of development can learn from Indian experience.
Social Security System	France	France has an extensive statutory social security system, which is based on the principles of universality and unity (PWC 2014). Comprehensive social sector schemes have five components; general scheme, covering the majority of employees and other categories of people (students, recipients of certain benefits, residents), the special employee schemes, the agricultural scheme, schemes for non-agricultural self-employed persons and unemployment schemes (EC 2013). General scheme accounts for about three quarters of total expenditure (Ministry for the Economy and Finance 2013). Revenue of general scheme comes from national insurance contributions paid by employers and workers and from taxation and earmarked charges (EC 2013). Schemes cover covers health insurance, compensation for occupational injuries and illnesses, pensions and family benefits (Ministry for the Economy and Finance 2013).

Source: Compiled by authors from different sources

Thus, India's relative status on health, education and social protection which are all integral to inclusive growth is very low and learning from selected countries could help to improve the access and the quality of these services.

7. Conclusion and Policy Recommendations

Against the backdrop of the discussions presented in the preceding sections, some recommendations are given in the following sub-sections.

7.1. Recommendations

7.1.1. Inclusive Growth Model Representing Issues Affecting Developing Countries

A number of studies have been examined to analyse the pattern of inclusiveness across India and the selected countries. This paper presents what other studies highlight and findings on pattern and status are mainly based on the WEF 'Inclusive Growth and Development Report'. The paper finds that existing literature focuses on using indicators for inclusive growth that are largely developed-country centric and do not completely reflect the priorities and policy initiatives taken recently by developing countries like India and hence their ranking remains quite low. Their empirical findings, scientific evidence and data is more aligned to developed countries priorities and state of development. For instance, the existing inclusive index does not give sufficient weightage to indicators such as governance and corruption while measuring inclusiveness for different countries, even though these have cross effects and are emerging as important indicators. Another shortcoming of the existing indicators is that these indicators do not give due weightage to new and emerging tools such as public finance and fiscal policy that are emerging to be important from the inclusive growth perspective.

Each country is different and hence will have different focus sectors for achieving inclusive and sustainable growth. While developing countries are focussing more on expansion and quality of services, developed countries' focus is on the delivery of services. Therefore, this study recommends that there is a need to develop an inclusive growth index which equally reflects priorities and growth indicators of developing countries as well. This index will measure the overall inclusiveness of selected countries and will cover issues by way of indicators that affect both developing and developed countries. The index may also include some of the recent concerns of the new 'Global Order' affecting both developed and developing countries. It may include the following additional indicators:

i. Regional economic growth indicator- how is the growth contributed and shared by different economic regions (or States) within an economy- an indicator of regional inequality and inclusive growth;
ii. Ratio of GDP per capita of general population to OBC/SC/ST- an indicator of how the marginalised sections of population are benefited from growth;
iii. Relative growth rate of GDP per capita between general population to OBC/SC/ST- an indicator of how the marginalised sections of population are sharing the benefits of growth,
iv. Quality of delivery of services- educational outcomes (quality), health outcomes, personal physical security-effectiveness of policing system- an indicator of quality of Governance;
v. Relative share of tax paid by different income groups at a time and over time within an economy- an indicator of participation in the process of growth;
vi. The progressivity of tax –both direct and indirect- an indicator of participation in the process of growth by rich and poor;
vii. Sustainability of growth- environmental concerns- carbon footprint, etc.

It may also identify indicators which have cross linkages and could be given higher attention and weight in the index- e.g. the Governance indicators have bearing on the access and the capacity of the people to earn income and hence can be given more weightage.

7.1.2. Inclusive Public Finance and Fiscal Policy for Inclusive Growth

Fiscal policy can act as a powerful instrument for tackling inequality and creating a more equitable economy. Experiences of advanced countries show that targeted cash transfers, progressive taxes and different components of public spending can significantly reduce inequality. In developing countries, fiscal policy through spread of education and employment could bring in economic growth and reduction in inequality. A similar trend is evident in the case of India. Post the implementation of the recommendations of the fourteenth finance commission, components and objectives of the central government schemes and programmes are targeted and implementation of these schemes and programmes is effectively and timely monitored by the government. For instance, under the Direct Cash Transfer scheme, transfers made to the beneficiaries under different central or state government schemes like MNREGA, Social Security pension, Handicapped Old Age Pension etc., are directly transferred to

beneficiaries' bank accounts. In addition, schemes and programmes are closely monitored. For instance, under the *Pradhan Mantri Awas Yojna* scheme, all houses to be constructed under the scheme are tagged and their construction progress can be mapped and viewed on smart phones. This helps in monitoring the release of funds to the beneficiaries. It is basically tagging geographical view of the extent of construction to the release of funds.

7.1.3. Learning from Best Practices

In view of the huge challenge before the Indian economy to bridge the gap across all pillars of inclusiveness with other selected countries, it will be useful if India learns from the best practices of these countries (for details see Table 7). For instance, in terms of 'education and skills', India can learn from the experience of countries like Argentina, China, South Africa and Japan; besides its old partners US, UK, Canada and Australia (see Table 7 for policy details). On 'fiscal efficiency', there are lessons to be learnt from policy initiatives adopted by SELECTED countries like France, Germany and South Africa. Australia, Indonesia, Korea and Germany have adopted 'employment' policies' some of which could be replicated in India. India can collaborate with countries like Korea, Turkey, Japan, Germany and Canada on policies related to 'equitable growth'. On the pillar of 'asset building' India can learn best practices from Australia, China and Turkey.

Table 7: Recommendations for Policies to Achieving Inclusive Growth

S. No.	Pillars	Recommendations	Country
1	Education and Skills	• Improve educational outcomes by reducing the prevalence of school dropouts • Continue improving access to education at the secondary and college level and improve the quality of education • Build human capital through massive interventions to improve nutrition, early childhood education, and improved quality of basic education • Establish a countrywide workplace training-based vocational education system; enhance career guidance and better disseminate information on jobs • Develop digital skills at all levels of education and training • Promote digital literacy - Develop skilled, and trained manpower, and engaging people who can create, sustain, and maintain infrastructure and online content and services is critical to development of the Internet. Local entrepreneurs are important to develop local content and services, while also enabling income and jobs growth • Target the low skilled in lifelong learning by facilitating integration into formal education through part-time programmes in post-secondary education and vocational training • Increase and incentivize expenditure on R&D, both by Government as well as by private sector	• Argentina • China • South Africa • Japan
2	Fiscal efficiency	• Invest more in rural infrastructure, such as roads connecting villages to market towns, crop storage infrastructure and access to sustainable irrigation technologies such as drip irrigation • Take further steps towards sustainable and inclusive urbanization by: (i) improving urban infrastructure, especially housing, transport and sanitation; and (ii) increasing the resources and capacity of municipal governments, including through increased collections of property taxes • Introduce regional infrastructure projects and introduce regional jobs and investment package • Increasing economic transparency to build investor confidence • Develop a robust, fiscally sustainable, and coherent social protection system • Lower social security contributions further by shifting the financing of benefits that accrue to society at large, such as those for families, to less distortive taxes • Streamline social assistance and integrate social security payments with the income tax system • Boost funding for the most efficient measures, such as conditional cash transfers. • Strengthen expenditures on eradicating extreme poverty and simplify the administrative procedure for accessing cash transfers. • Continue efforts to create a unified database of beneficiaries • Target transfers more effectively, improve the effectiveness of the anti-poverty programmes	• France • Argentina • Germany • South Africa • Japan
3	Employment	• Reduce barriers to formal employment further by introducing a simpler and more flexible labour law which does not discriminate by size of enterprise and by gender	• Australia • Indonesia • Korea

S. No.	Pillars	Recommendations	Country
		• Reduce labour market mismatch for young people by expanding vocational schools and by enhancing links between schools and firms, and periodically updating the curriculum • Strengthen active labour market and productive inclusion programs. • Encourage more women to join the formal labour force by improving access to quality child-care for children under three years of age and old-age care for senior citizens, and extend active labour market policies • Focus on policies on skill development to expand the employable pool and re-skilling of those in the existing labour pool	• Germany
4	Equitable Growth	• Promote gender diversity in leadership positions in public sector and private companies, notably by establishing gender goals in management • Improve health infrastructure and encourage private-sector participation, but avoid creating a two-tier health system by requiring private hospitals to treat patients from the public scheme • Need to improve the healthcare system, including rural primary care, which is too hospital-centric and fragmented and the health insurance scheme provides insufficient coverage of out-of-pocket expenses by poor and rural households • Introduce targeted legislative amendments to manage country's public sector banks and to enhance the government's ability to detect and deter money laundering and terrorism financing activities • Improve efficiency of financial and payments system	• Korea • Turkey • Japan • Germany • Canada • Argentina
5	Asset building and entrepreneurship	• Support growth in the manufacturing sector by developing comprehensive measures for each sector including developing key technologies, laying a foundation for strong market infrastructure and industrial structure innovation • Support regional development, fostering domestic production in strategic sectors and high technology industries, giving incentives to research and development and innovation through project based incentives • Support entrepreneurial and innovative activity by facilitating business operations and collaboration between industry, researchers and government, and improving access to investment and capital • Expand investment actively and guide more fund to fields that will help to strengthen weak areas, drive structural adjustment, and encourage innovation • Increase broadband speed, lower rates for Internet services • Decrease cost and time of starting a business and promote startups.	• Australia • China • Turkey

Source: Compiled by Authors from OECD-WBG (2017), pp. 23-30.

7.2. Conclusion

Due to the wave of anti-globalisation, anti-migration and clouds of trade war between US and China, which may spread to the entire World; advanced economies especially of Europe, are now divided over the future policy agenda. India has also been hit hard by the protectionist policies adopted by the advanced countries during last few years. India has to choose its options carefully, which serve the interest of the Indian economy and its people.

Since many countries today are facing a lot of resistance on the domestic front, it is a challenge for all of them to adopt policies, which are perceived to be friendly not only to their domestic audience but also to their international friends. As a result there is a lot of competition for the same limited space. Since there is a lot of gap on the indicators of education, health, infrastructure, corruption, governance, etc., between India and other countries, it is a challenge to find and get suitable support-financial and technological from these countries.

Despite the challenges India can collaborate with some of the selected countries. It could be able to attract the right kind of support for the expansion of quality education and health in the country. Since large infrastructure of roads, railways, housing, urban infrastructure, etc., is still to be developed in the country, India could draw the financial and technological support of the developed countries. With proper coordination and agreements with advanced countries and by curbing its own protectionist tendencies, India could boost its exports and achieve faster growth.

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Appendices

Appendix A1: Complete List of Pillars; sub-pillars and indicators

Overall IDI				
Pillar I	**Pillar II**	**Pillar III**	**Pillar IV**	**Pillar V**
Education and Skills	**Fiscal Efficiency**	**Employment and labour compensation**	**Equitable growth**	**Asset building and entrepreneurship**
Access to education (Score / Rank)	**Tax Code**	**Productive employment**	**Growth and Income distribution**	**Small business ownership**
Net primary enrolment (% of population of primary age)	Total tax revenue (% GDP)	Unemployment rate (% of labour force)	GDP Per Capita ($)	New businesses registered (per 1,000 working age individuals)
Gross secondary enrolment (% of population of secondary age)	Tax on goods and services (% of total tax revenue)	Youth unemployment rate (% of labour force)	Labour productivity ($)	Time to start a business (total number of days)
Gross tertiary enrolment (% of population of tertiary age)	Total tax on capital (% GDP)	Share in Temporary Employment (% of employed persons)	Poverty rate (%)	Cost required of starting a business (% GNI per capita)
Availability of high quality training services (1-7 scale)	Time spent paying taxes for small businesses (total number of hours per year)	Employment by education (advanced education - as a % of total education)	Net Income Inequality GINI	Time required to enforce a contract (total number of days)
Quality	**Social Protection**	Educated Unemployment rate	Wealth Inequality GINI	**Home and financial asset ownership**
Quality of education system (1-7 scale)	Efficiency in public goods and services provision (1-7 scale)	Employment to population ratio (%)	Share of Industry in GDP (% of GDP) - 5 year average	Home ownership rate (% of population)
Expenditure on education (% of GDP)	Social safety net protection (1-7 scale)	Dependency ratio	Share of Employment in Industry - 5 year average (% of total employment)	Housing Loan Penetration (% of adult population)
Ease of finding skilled employees (1-7 scale)	Total spending on social protection (% GDP)	**Flexible labour laws**	**Equal opportunities**	Affordability Gap, Urban housing
Digital Literacy	Progressivity of pensions (0 to 100 scale)	Pay linked to productivity (1-7 scale)	Gender gap in education	
Internet access in schools (1-7 scale)	**Fiscal Transfers**	Wage dispersion (minimum relative to median wage)	Female labour force participation female to male ratio)	
Internet users (% of population)	Governance	Cooperation in labour-employer relations (1-7 scale)	Gender Gap in Estimated Earned Income (female to male ratio)	
Mobile cellular subscription (per 100 people)	Corruption	Workers' Rights (violations)	Paid maternity leave (total number of days)	
	Quality of overall infrastructure	Strictness of employment protection (0-6 scale)	Gender Gap in Financial Access (female to male ratio)	
	Access to electricity (% population)	Trade Union density (% of employment)	**Financial inclusion**	
		Extent of Informal economy (1-7 scale)	Affordability of financial services for businesses (1-7 scale)	
			Ease of Access to Loans (1-7 scale)	
			Financing of SMEs (1-7 scale)	
			Account at a formal financial institution (% of respondents in bottom 40%)	
			Access to Health	
			Healthy Life Expectancy Quality of healthcare services (1-7 scale)	
			Accessibility of healthcare services (1-7 scale)	
			Out of pocket (% of total health expenditure)	

Note: Rows highlighted in yellow are for Main Pillars, in grey are sub-pillars and the others are indicators.

Appendix A2: Total Public Pension Spending in G20 countries

	Contributory / Earnings related schemes:						
		National Scheme		Civil Servants	Social Pensions		Total Spending
	Recent Year	**(% GDP)**	**(% GDP)**	**Recent Year**	**(% GDP)**	**Recent Year**	**(% GDP)**
Argentina	2015	12		2013	0.035	2011	12.035
Australia	2014		1.38	2013	2.12	2014	3.5
Brazil	2015	6.8	1.6	2013	1.246	2013-2015	9.646
Canada	2013-2014	1.85	0.9	2011	1.55	2014	4.3
China	2014	0.3	0.2	2014	3.1	2014	3.6
France	2013-2014	11.397	2.15	2012	0.253	2014	13.8
Germany	2014	9.1	1.5			2014	10.6
India	2011	0.4	3.8	2011	0.1	2011	4.3
Indonesia	2015	0	1	2015	0	2015	1
Italy	2014	15.8				2014	15.8
Japan	2013-2014	9.95	0.25			2014	10.2
Korea, Rep.	2014	1.73	0.15	2011	0.32	2014	2.2
Mexico	2015	0.7	0.8	2015	0.2	2015	1.7
Russian Federation	2014	8.5		-		2014	8.5
Saudi Arabia	2013	0.32		-		-	0.32
South Africa	2015		2.1	2015	1.31	2014/5	3.41
Turkey	2014	7.5		-		2014	7.5
United Kingdom	2013-2014	4.85	2.28	2011	0.47	2014	7.6
United States	2013-2014	5.87	0.83			2014	6.7

Source: Extracted from World Bank Pension Data available at http://www.worldbank.org/en/topic/socialprotection/brief/pensions-data (last accessed March 27, 2018)

Appendix A3: Glossary of Abbreviations

ESCAP	Economic and Social Commission for Asia and the Pacific
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNI	Gross National Income
GST	Goods and Services Tax
IDI	Inclusive Development Index
IMF	International Monetary Fund
MGI	McKinsey Global Institute
MNREGA	Mahatma Gandhi National Rural Employment Guarantee Act
NHS	National Health Service
SDGs	Sustainable Development Goals
SMEs	Small and Medium-Sized Enterprises
UK	United Kingdom
UNDP	United Nations Development Programme
US	United States
WEF	World Economic Forum

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7. Asian Economic Integration with focus on South Asia
8. Multilateral Trade Negotiations and FTAs

International conferences, seminars, public policy workshops, public lectures and publications form an integral part of ICRIER's outreach activities. ICRIER maintains a wide network of resource persons from India and abroad. It strives to attract well-qualified researchers, provides them a stimulating and scholarly work environment and encourages researchers to work in teams. ICRIER's research is widely cited by both academia and the popular press, and has over the years provided critical inputs for policy making.

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