

GPID Briefing Paper 3

WHAT IS INCLUSIVE GROWTH?

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SUMMARY

This brief discusses inclusive growth. Research has tended to show almost all economic growth to be, at least minimally, inclusive, although there are emerging signs that some are empirically questioning this once again. It is argued that common approaches to defining inclusive growth have tended to be limited to absolute poverty lines. This brief argues that a broader set of measures are important in garnering a deeper understanding of the inclusivity of growth in terms of who is included, how much, and in what way.

About the GPID research network:

The ESRC Global Poverty and Inequality Dynamics (GPID) research network is an international network of academics, civil society organisations, and policymakers. It was launched in 2017 and is funded by the ESRC's Global Challenges Research Fund.

The objective of the ESRC GPID Research Network is to build a new research programme that focuses on the relationship between structural change and inclusive growth.

See: www.gpidnetwork.org

THE DEVELOPER'S DILEMMA

The ESRC Global Poverty and Inequality Dynamics (GPID) research network is concerned with what we have called 'the developer's dilemma'.

This dilemma is a trade-off between two objectives that developing countries are pursuing. Specifically:

1. Economic development via structural transformation and productivity growth based on the intra- and inter-sectoral reallocation of economic activity.
2. Inclusive growth which is typically defined as broad-based economic growth benefiting the poorer in society in particular.

Structural transformation, the former has been thought to push up inequality. Whereas the latter, inclusive growth implies a need for steady or even falling inequality to spread the benefits of growth widely. The 'developer's dilemma' is thus a distribution tension at the heart of economic development.

A brief history of inclusive growth

Inclusive growth has received a considerable amount of attention in academic and policy literature with reference to developing countries.

Interest in the broad area—defined in the first instance as who benefits from growth and by how much—grew from debates in the early 1970s that were critical of the then distribution of the benefits of growth (see Adelman and Morris 1973; Chenery et al. 1974). Such issues received a lot of attention in the late 1990s through to the mid-2000s under different umbrella terms. For example, ‘growth with equity’ drew on disputed debates on East Asian development (see Fei et al. 1979; Jomo 2006; World Bank 1993).

Growth with equity was supplanted by the label of ‘pro-poor growth’ (see Besley and Cord 2006; Grimm et al. 2007) that in turn was supplanted by the term ‘inclusive growth’ (see McKinley 2010; Rauniyar and Kanbur 2010) which became the umbrella term for considering who benefited from growth.

The different labels entail some differences in approach. For example, ‘growth with equity’ was typically defined as growth where inequality does not rise or may even fall (and is a term associated with World Bank 1993). In contrast, ‘pro-poor growth’ was taken to be absolute pro-poor growth if it was growth with a falling poverty headcount (or rising incomes of the poor by a poverty line or fractile line), or relative pro-poor growth if that fall in poverty headcount was accompanied by falling inequality of outcome (see discussions in Kakwani and Pernia 2000; Ravallion 2004).

‘Inclusive growth’ has been framed as poverty

reduction both in monetary and non-monetary terms. However, the relationship between multidimensional poverty and growth is more complex than the mathematical identity for monetary poverty.

The inclusivity of growth revisited

There is a generally accepted notion that economic growth is inclusive in a simple sense: on average, the poverty headcount falls and the incomes of the poorest rise in line with average income growth (see Dollar and Kraay 2002; Kraay 2006; Dollar et al. 2013). However, two recent contributions have reopened this debate.

First, Shaffer (2016) notes that in a not inconsequential, 10–15 per cent of episodes of growth, absolute poverty actually rises with per capita growth and he connects this with historical debates on ‘immersing growth’.

Second, Sen (2014) finds that there are a surprising number of growth episodes that are not inclusive based on ‘traditional’ interpretations of inclusive growth (that of falling poverty with or without non-rising income inequality). Sen separates types of growth episodes between ‘growth acceleration’ and ‘growth maintenance’ and finds that the former is much less likely to benefit the poor than the latter. Sen argues that this is because the institutional factors that lead to growth accelerations are different from those that lead to growth maintenance.

In fact, the average relationship during a growth acceleration episode was negative for the poorest and on average the Gini coefficient rose. In contrast, during a growth maintenance episode the income of the poorest quintile, on average, rises

and the Gini falls. This suggests that during periods of growth potentially when structural transformation is most rapid—a growth acceleration episode—inclusive growth may suffer and only recover when or if that growth acceleration becomes a ‘growth maintenance’ episode and institutional arrangements change.

There is further the issue that the average inclusivity of growth across countries can be misleading as it is subject to enormous variation across countries and highly sensitive to where the poverty line is set (see discussion of Sumner 2016). Much debate turns on whether inequality is high or rising, as high and rising inequality can hamper not only poverty reduction but also future growth prospects, which can impact future poverty reduction.

Who is included, how much, and in what way?

The debate about the inclusivity of growth raises a number of normative issues: should the poor (by whatever poverty line) see their standards of monetary and non-monetary living improve more than the non-poor? If so, where to draw the poverty line? At the global or national poverty line? Or should the line be at median consumption or even at \$10 per day which is a line associated with permanent escape from the risk of falling back into poverty (see López-Calva and Ortiz-Juarez 2014)? That level of daily consumption would capture most of the population of many developing countries. Then, once the poverty line is set and a normative decision is made to favour those below the line more so than above the line, what are the intra-poor weightings? Again, this is a normative question. If the poor are 90 per cent

of the population, their lives could improve at a faster rate than the top 10 per cent across the 90 per cent, but within the 90 per cent should there be progressive weighting with the strongest weighting on the poorest decile? These questions point towards the complexity of defining precisely what an ‘inclusive growth’ episode should look like.

Approaches to inclusive growth

Several approaches to the concept of IG are discernible. The first type of inclusive growth is the most commonly utilised and entails a focus on the benefits of growth to those under a poverty or population fractile line and their absolute or relative consumption which depends on changes in inequality of outcome.

The second approach to inclusive growth is growth which focuses on ‘equalizing opportunities’ (ex ante or redistributing opportunity in the future). This is more in keeping with the recent evolution of the field of enquiry. This refers to growth accompanied by the expansion of education and better access to health care and social protection and is configured to ensure an equalizing of opportunity across the whole population. Finally, there is an approach to inclusive growth that focuses on employment growth. This refers to a situation whereby growth is accompanied by substantial employment generation as an outcome of productivity growth. This ensures that the opportunities presented by growth are broad-based and productivity gains are spread widely across a larger section of the population due to the extent of employment growth.

This brief is based on Sumner (2017).

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