Inclusive Growth: More than Safety Nets

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Foreword

Growth is less likely to be sustainable with high and/or growing inequalities, and inequality can hamper growth. The first paper in this series, by Naila Kabeer, explored these questions with regard to women's economic empowerment. In this Working Paper we look at the broader concept of inclusive growth, how this has emerged in the international debate, and how this differs from other and earlier concepts.

The need for more 'inclusive growth' has now been recognised in many countries. It has been the objective of the Indian Congress Party-led government since 2004, as response to the growing inequalities and neglect of those under the 'Shining India' model. International agencies have since adopted the term in increasing numbers. The Asian Development Bank proposed the concept as yardstick for its sector investment, and the African Development Bank has used the term in response to the Arab Spring, which is thought to have been prompted by failures of growth models to deliver progress in well-being.

A meeting hosted by the Indian Institute of Dalit Studies (IIDS), New Delhi and Canada's International Development Research Centre (IDRC), in December 2011, summarised the growth experiences in a dozen countries, across Latin America, Africa, and Asia. What these countries have in common is that they have had stable and often high rates of economic growth for a number of years: notably of course China and Vietnam alongside India, but also for example Mozambique and Bangladesh. But the extent to which this growth is shared, differs greatly, with many of the countries having seen increasing income inequalities.

As these countries experience economic growth, their development challenges remain. Income inequalities have risen in many countries. Regional inequalities tend to be deeply entrenched, such as in Ghana where the North has historically been deprived of access to opportunities. Inequalities between social groups remain stubbornly high, in Vietnam and India for example. Governments have put in place programmes to reduce these inequalities, but their successes remain limited, including in China despite years of declared commitment towards creating a 'harmonious society'.

There has also been good news. Many Latin American countries have reduced income inequalities substantially. Cash transfers played an important role in this, alongside other government investment, and macro-economic stability. Bangladesh has done well, not only in terms of economic growth but also in impressive improvements in human development indicators. But continued progress towards more inclusive economies and societies is not a given, because of the continued threat of economic instability, but also because more is needed than the sustained economic growth and the – very successful – human development and social protection programmes.

1. Introduction

This paper describes the history and genealogy of the debate on inclusive growth and comparable terms, and the conceptual and measurement issues that are relevant for the debate.[1] We focus in particular on the process aspects of growth, taking us beyond definitions that merely focus on the question whether the poor *benefit* from growth, important as those are, towards a conceptualisation that sees the poor, and non-poor, as *participants* in growth processes, as the people who *create* economic growth. This thus takes the debate on inclusion beyond a common focus on social protection and cash transfers, and investigates inclusiveness at the core of how growth is created, of investment, business and employment, and economic institutions and policies, thus setting out an ambitious research agenda. Considering these definitional issues and following research priorities is not merely an academic exercise, as there are links between what is measured and researched, and what is prioritised in policy.

This paper is written at a time of continued economic uncertainty, with unknown very significant political global and national implications and shifts. These are posing important questions for the future of the debate on inclusion, including because the sovereign debt has now pushed the economic crisis into a political phase. In the OECD, at least in Europe, the recession appears to deepen or be extended, and the austerity measures in many if not all of the countries does not provide confidence that inclusiveness will be a high priority – despite public protests about 'the other 99%'. The story in emerging economies is of course very different, and they have done well throughout the financial crisis, but are now also feeling the impacts of the downturn, while questions of inclusion remain central to their development paths. Many of the imbalances that caused that crisis and remain responsible for persistent deprivation continue to exist.[2] The need to find policies that promote growth *and* inclusion, thus, is as urgent as ever.

The rest of this paper discusses the follow themes. Section 1 reflects on the genealogy of the concept, and section 2 focuses on how inequality has come 'back on the agenda' after periods of dominance of adjustment and 'growth-first'. The third section looks in more detail at how a definition of inclusive growth can be, and in our view ought to be different from concepts that emphasise sharing the 'benefits of growth'. The subsequent section takes up the question whether definitions and measures can and should move beyond economic processes, and include or be accompanied by measures of governance and/or social cohesion. The concluding section discusses research priorities that follow from this discussion and approach to inclusive growth.

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[1] The current paper is a revised version of the background note prepared for the IDRC-IIDS workshop on Inclusive Growth. It includes insights gained at the workshop, and draws in particular on the papers by Binayak Sen (Bangladesh Institute of Development Studies) and Jose Fanelli (CEDES, Buenos Aires). Bibliographical research was provided by Tatiana Nesviginsky, at IDRC.

[2] Saith (2011), UNDESA (2011), Ortiz and Cummins (2011).

2. Where did the inclusive growth concept come from?

By and large, the discussion on inclusive growth has come from and has been led by public and policy debates in emerging economies.[3] This is not to say 'inclusion' has been absent in northern debates, and for instance the Commission on Growth and Development (2008) that was set up primarily to renew interest regarding economic growth, added the term 'inclusive development' to the title of its flagship publication.[4] However, much of the recent debate has surfaced in emerging economies, where increased rates of growth have been accompanied by growing inequalities, with associated perceptions of political risk, including that of national unity.

In India, inclusive growth emerged as a major theme with the change in government in 2004. This followed criticism that the growth model that had emerged during the previous years (and the slogan 'Shining India') had excluded large parts of the population, and had undermined earlier policies to promote the well-being of all. The 11th and 12th Five Year plan detail the type of development envisaged in an inclusive growth model, while recognising that a measure of inclusiveness is complex, and that data become available only with a lag.[5] In practice much emphasis has been put on 'flagship' social programs reaching out to the poorest and socially marginalised, for example in the National Rural Employment Guarantee Act, efforts that are likely to be intensified in the run-up to the next national election.[6]

The terminology in Brazil and South Africa has been different, but in all cases the extent to which the poor participate in growth has been central to policy processes and debates. In South Africa addressing deep-rooted racial inequalities with colonial origins of course has been a central objective of the post-Apartheid government, including in economic empowerment programs. However, overall income inequalities have not come down since 1994, and rising intra-group inequalities in fact have been highlighted as a challenge.[7]

Brazil's efforts to reduce inequalities have been well documented, and attributed to a combination of economic and social policies, with sustained targeted cash transfer programs a key part of the success to reduce income inequality.[8] Increasing attention also has been paid to the importance of racial disparities, with for example a recent bill for reservation of spots at prestigious universities.[9]

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[3] OXFAM (2011). The concluding comments at an OECD workshop (White 2011) provide a useful overview of the debate, including questions of definition, and global challenges to address inclusive growth effectively.

[4] Earlier origins of the debate can perhaps be traced in the new-Labour policies in for example the UK; see Porter and Crag (2004) for a discussion of 'inclusive neo-liberalism'. Concepts of social cohesion had earlier entered debates (e.g. Ritzen et al. [2000]), but attempts to integrate this within a notion of growth appears relatively new.

[5] Government of India, Planning Commission (2011). A recent interesting short exposé on the type of growth was presented by the deputy chairman of the Planning Commission, http://ibnlive.in.com/videos/190233/ftn-montek-singh-explains-the-rs-32-bpl-cap.html (also Ahluwalia 2011).

[6] See Dev (2008), Chandra (2010), Kannan (2012), Hussain (2012), Thorat and Dubey (2012) for discussion and critiques. Weisskopf (2011) argues why India should focus on inequality – among individuals and identity groups – alongside poverty.

[7] http://www.irinnews.org/Report.aspx?ReportId=88038.

[8] Ferreira *et al.* (2006), Ravallion (2009). Lopéz-Calva and Lustig (2010) describe trends in Latin America.

[9] See de Haan and Thorat (2011) for comparison of affirmative action approaches in major emerging economies.

China's growth path since 1978 involved a period of 'growth first' which contributed to enormous reductions in poverty but also a rapid increase in inequalities. From the early 2000s these have been addressed increasingly forcefully, under the motto of 'harmonious society', with the post-crisis stimulus package reinforcing these efforts, at least in the official policy language. Following the Asian Development Bank, Chinese leaders have also used the terminology of inclusive growth,[10] and international organisations including the IMF[11] share concerns around the need to enhance the inclusiveness of China's growth model, including as a way to stimulate domestic demand.

Finally, the social revolutions in the Middle East have brought inclusiveness to the centre of debates, often with (youth) unemployment as a key concern.[12] According to Egypt's Minister of Planning and International Cooperation, the "upheavals that occurred in Egypt and elsewhere in the MENA region, illustrate that economic growth is no guarantee against the existence of fragility within the society."[13] For Egypt's Five Year Plan, therefore, inclusive and pro-poor growth are seen as fundamental to the government's goals, with raising minimum wages, giving permanent status to temporary workers, consumer subsidies and pensions as key channels to enhance social justice.

Over the last couple of years, thus, the language of inclusiveness has found entry into the global debates, and vocabulary of international organisations and forums. Of course, the debates were not entirely new, as comparable concepts like pro-poor growth had been on the agenda before. The growth-distribution question notably in the idea – though not at the time empirically established – of the Kuznets (1955) curve – has been as old as development practice itself.[14] But the neo-liberalism of the 1980s and 1990s largely neglected these earlier concerns, as described next.

3. From structural adjustment and growth-first to inequalities

The period of the 1980s-90s was one where 'growth-first' ideas dominated. The global politics under which this occurred can be summarised under the term 'neo-liberalism'. Politically, the period was symbolised by the conservative policies of the the Reagan-Thatcher period, while in the South the Chilean turn towards dictatorship in 1973 marked a reversal from earlier democratisation, while much of the development world was deeply impacted by the continuation of the Cold War. The neo-liberalism of the Northern politics also drove much of the economic

[10] http://www.chinadaily.com.cn/china/2010-10/13/content_11405073.htm. The publication by the World Bank and DRC (2012) sets out a perspective on reform deemed necessary to promote inclusiveness alongside growth and environmental sustainability. Yu Min and Wang Xiaolin (2012) develop a measure of inclusive growth for China.

[11] http://www.imf.org/external/pubs/ft/survey/so/2012/CAR060812A.htm.

[12] For example in the 2011 Annual Report of the African Development Bank, with reference to Morocco, Tunisia and Egypt (AfDB 2011).

[13] http://www.pema.gov.eg/FileUpload/Publication/Files/328.pdf.

[14] In the classic development literature, the growth and inequality linkages have always been a major theme (e.g., Adelman and Morris 1973, Ahluwalia 1974, Acemoglu and Robinson [2002] on the political economy of a Kuznets curve), as has been the debate over 'trickle down' (Pernia 2003).

globalisation, which has been behind the Washington-Consensus style of structural adjustment particularly in Africa and Latin America.

While many economies stagnated in the 1980s, East Asia and South Asia took a different turn. An East Asia miracle transformed countries like Thailand, South Korea, and Indonesia,[15] which also were all heavily affected by the 1997 financial crisis. More recently, China and Vietnam have witnessed such an economic miracle, under a different political model which is unlikely to change in the short term, while firmly integrating in the global economy. Economic growth also picked up significantly with economic opening up and liberalisation in India and Bangladesh. While some of the interpretations of these miracles argued that this proved the need for a minimal state, analysis is the mid-1990s demonstrated that equal access to opportunities in terms of land and education were among the preconditions for East Asia's success stories (Birdsall et al. 1995).

As mentioned, in China and India, around the same period, concerns about redistribution reappeared and found political articulation in the early 2000s, after the 'growth-first' model promoted in China since 1978 (following three decades of egalitarianism), and the 'Shining India' model of the 1990s ran into political limitations. At least in China, the recent global economic crisis reinforced a more egalitarian and inward oriented development model, after growing inequalities had been regarded as a key condition for growth by China's political leaders.[16]

In Latin America too, there has been a distinct move back to more egalitarian policies, linked to a return to democracy over the last decades. Brazil has been the most noted example, particularly under President Lula who combined market-oriented reforms with successful redistribution, and many other countries have emulated this, with a rapidly grown body of evidence on 'what works'. The extension of new social protection programmes across the continent illustrates the wider renewed concern for redistribution, under a new 'social contract' (Barrientos *et al.* 2008) and in part supported by a resource-driven economic boom. As mentioned above, there also has been a resurgence of identity politics and articulation of voices of marginalised (ethnic) groups.

By contrast to East Asia, the period of neo-liberalism affected Africa mostly through Washington-consensus-style structural adjustment and associated economic crisis and stagnation. The South African transition in 1994, the reversal to democracy on the continent more generally (including 'hybrid regimes'), and the attention to poverty by the international agencies through debt relief and Poverty Reduction Strategy Papers, for the African continent too led to a renewed attention to equality alongside economic growth. This manifested itself mostly in the language of poverty reduction and human development, as expressed in the Millennium Development Goals. At regional level, the African Union (2006) has become a significant champion of an equity agenda, through its emphasis on comprehensive social policies. However, outside South Africa, the role of policies that address inequalities, outside the human development polices in health and education and despite a growing interest in cash transfers, remains limited.

Globally, since inequality came 'back on the agenda' (Kanbur and Lustig 1999), there have been a number of reports that have highlighted the importance of not only poverty reduction but of the

[15] The political economy of Indonesia's relative pro-poor growth was described by Timmer (2004), in his contribution to the multi-donor pro-poor growth research program (OPPG 2005).

[16] As Li Shi (Beijing Normal University) described at the Delhi workshop, China's social policy focus has been largely on poverty programs, but inequality has increasingly emerged as a policy concern, including with respect to the need to provide access to services for China's 'floating population'.

distribution of income, wealth, and opportunities.[17] *World Development Report* 2006 was about inequality,[18] with a focus on the instrumental case for reducing inequalities in opportunities, and many of the policies recommended not dissimilar from those put forward following the earlier emphasis on poverty. *World Development Report 2012* (World Bank 2011) carried forward the same emphasis with respect to gender inequalities.[19]

Alongside this shifting debate, which brought poverty centre-stage – with inequality tagging along, often focusing on the instrumental case for reducing inequalities in access and/or to reduce the potential for conflict – the measurement of well-being and poverty has broadened. That poverty and inequality are multi-dimensional has become generally accepted, notably through the *Human Development Report* which built on Amartya Sen's notion of capabilities, and recently reinforced by the Sarkozy Commission for example.[20] Participatory approaches and measures of poverty have become firmly embedded within the international development debate, as have been measures relating to governance and accountability. Similarly, gender differences have become an increasingly important element of the global development debate, and a number of internationally-comparable measures now exist (though this does not seem to be strongly reflected in the inclusive growth debate, as the discussion below demonstrates).[21]

The impacts of the recent global economic crisis are of course still unfolding. Depending on political constellation, this has moved the agenda back to growth in some countries, and it has renewed attention to addressing inequalities in others, like China and to some extent the US. The 2008 crisis led to analysis that the rapid rise of income inequality in the US was linked to the mortgage boom that contributed to the financial crisis, and recently an IMF working paper highlighted links between income distribution and risks of economic crisis.[22] Publications like that by the Commission on Growth and Development, as mentioned above, described systematic inequality of opportunity as 'toxic', partly because of its potential impact on political stability.[23]

There have thus been a number of reasons why and moments when the discussions about the distribution of the benefits of economic growth have resurfaced. Over the last two decades, this has come in the form of frameworks and concepts of inequality, growth-poverty linkages, pro-poor growth and inclusive growth, which the next section discusses in more detail.

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[17] See the debate on http://www.thebrokeronline.eu/Blogs/Inequality-debate, whether inequality should become part of post-2015 development goals. Saith (2012) provides a critique of the dominant inequality analysis, as under-emphasising the structural causes of extreme inequalities

[18] World Bank (2005); this followed the flagship 'breaking with history' report on inequality in Latin America (World Bank 2003).

[19] Similar to WDR 2006, Duflo (2011) focuses on the micro-evidence of links between inequalities and growth. Kabeer (2012) reviews the debates, concluding there is more evidence on how gender equality can promote growth that on the reverse link.

[20] http://www.stiglitz-sen-fitoussi.fr/en/index.htm; also Club de Madrid (2011).

[21] Additionally, debates on sustainability, climate change and most recently 'green growth' have queried the measures of growth.

[22] Kumhof and Rancière (2010); another recent IMF paper (Berg and Ostry 2011) argues that attention to inequality can bring significant longer-run benefits for growth. See *The Economist* March 17th, 2012, p.87, for discussion of recent papers, also with different results regarding income concentration and credit booms.

[23] http://www.growthcommission.org/storage/cgdev/documents/Report/LaunchPresentation.pdf; Commission on Growth and Development (2008); Kanbur and Spence (2010). Policy conclusions regarding inequality and inclusiveness, however, appear under-developed.

4. 'Sharing the benefits of growth' and 'inclusive growth': do definitions matter?

Much of the debate in the 1990s focused on the links between growth and poverty reduction, measured in terms of per capita income and number of people below an absolute poverty line – enabled by the increasing availability of internationally comparable data,[24] and given international attention through the Millennium Development Goals. One of earlier measures of what we may call inclusiveness of growth was the growth elasticity of poverty.[25] This highlighted large differences across countries and regions within countries,[26] in the extent to which economic growth reduces poverty, with recent evidence that this rate has been going down (Lenagala and Ram 2010).

Also, with the availability of comparable data, research (at UNICEF, WIDER, World Bank and elsewhere) started to look at global patterns and trends in income inequality. This indicated very large variations across the globe of course, and no clear links between growth and (changes in) inequality, and also started to question a presumed trade-off between growth and inequalities. Related, growth patterns were described in terms of growth-inequality decompositions (e.g. Tsui 1996, Datt and Ravallion 1992, Jain and Tendulkar 1991). Growing evidence emerged that high initial inequalities and increase in inequalities matters for speed of poverty reduction; the rate of decline in poverty tends to be less pro-poor in situation where initial inequality is high, and compared to where inequalities increase rather than decreases with the growth (Ravallion 2009).

Certain inequalities are found to be particularly bad in so far as these not only generate higher poverty now but also impede future growth and poverty reduction. Ravillion described these as bad inequalities, including among these social exclusion, discrimination, restrictions on migration, constraints on human development, lack of access to finance and insurance, corruption - all are sources of inequality and limit the prospect for economic advancement among certain segments of the population, pushing them in persistent poverty. There is limited empirical work which gives insight as to how social exclusion and discrimination cause poverty among excluded and discriminated groups. We have much less idea about the process of 'exclusion induced poverty'.[27]

These discussions, including the growing evidence that reducing inequalities and growth may not need to be conflicting objectives – as a simplified Kuznets curve had suggested – prompted a debate and research on 'pro-poor growth' (also at times 'broad-based growth'). While there is consensus that growth is pro-poor if it reduces poverty, various definitions emerged (OPPG 2005: 19; Besley and Cord 2006, OECD DAC 2006). A relative definition, promoted by UNDP researchers, posits that growth is pro-poor if inequality falls, or if the income share of the poorest increases.[28] An alternative definition focuses on the rate of income growth of the poor, and thus

[24] Ravallion (2001). Of course, this comparability remains highly problematic, as the recent revision of poverty headcounts, following revised global price estimates.
[25] http://go.worldbank.org/KDG62F9980. OPPG 2006: 81-2.
[26] Datt and Ravallion (2000), Nissanke and Thorbecke (2005: 10), Fosu (2009).
[27] Among the bad inequalities, the one that is particularly important is social exclusion and discrimination. Studies have begun to recognise close association with chronic and persistent poverty and (social) exclusion and discrimination. Discrimination reduces the opportunities to access and acquire assets, employment and social needs like education, health and food security schemes and to participate in governance and decision making process and create situation with less chances to come out of poverty trap (Braun et al 2010, Thorat 2010 and Newman 2010).
[28] While this may seem a very strict definition, it may be relevant to highlight that even when income shares remain constant with growth in average incomes, the absolute difference between income groups increases (see Ravallion

the rate of (absolute) poverty reduction, without necessarily a change in income inequality.[29] While much of the debate focuses on income and/or consumption (in which gender differences remain hard to trace), similar questions were asked in the context of other dimensions of well-being or progress (Klasen 2010).

One of the concerns that were raised – particularly against a relative definition of pro-poor growth – was that policies that follow might neglect improvements in the average and for the entire population distribution. In this sense, assessing policy would imply analysis of the extent to which policies – specific, or in aggregate – are biased towards the poor.

The most recent conceptual innovation in this field has been the notion of inclusive growth. As mentioned this came to the forefront of policy and research agendas in India in 2004 (Dev 2008), and has internationally been promoted by the Asian and African Development Banks, while the UNDP renamed its IPC to IPC-IG, International Policy Centre for Inclusive Growth, with a special workshop focusing on Brazil, India and China.[30] Stephan Klasen (2010) provides an overview of the various definitions encountered in the literature, in particular in work for the Asian Development Bank (citations in the following are all from Klasen 2010, unless otherwise indicated).[31] Importantly, for the discussion in this paper, he distinguishes between definitions that focus on *outcomes* and those that focus on *processes*, the first focusing on the extent to which the poor benefit from growth (as in a pro-poor growth definition), and the second focusing on the extent to which people participate in growth, whether growth is based on the inputs of poor people. Typically, like poverty and human development, these measures are at the level of individual attributes, and are also (less often) applied to group differences.[32]

Inclusive growth as outcome

- Rauniyar and Kanbur define inclusive growth as growth with declining income inequality, which is very close to the strong definition of pro-poor growth mentioned above. The same notion can be applied to non-income dimensions.
- Ali and Son apply a notion of social opportunities, focusing on the distribution of access to health and education according to income, how this changes over time, and whether these changes imply improvements for the income-poor (without considering changes in distribution of income).

Inclusive growth as process

- Compared to the above, a definition proposed by Ali and Zhuang shifts the focus to the processes of growth. This define inclusive growth as that which is based on and expands equal opportunities and access. It focuses less on the benefits of growth (e.g., through tax-funded progressive social protection schemes) and more on the participation in economic

2004 for a discussion on absolute and relative inequality). See Grinspun (2009) for a summary of the debate and definitions on pro-poor growth. Also Kakwani (2004), Osmani (2005).

[29] Pro-poor growth is defined as increase in the mean income that results in any decline in poverty, irrespective of the extent of increase in mean income or poverty reduction (Ravallion 2004).

[30] http://www.ipc-undp.org/pages/newsite/menu/inclusive/whatisinclusivegrowth.jsp?active=1; http://www.ipc-undp.org/PageNewSiteb.do?id=235&active=1).

[31] See also Ianchovichina and Lundstrom (2009).

[32] Thorat (2010), Thorat *et al.* (2005), for India, Ferreira and Gignoux (2008) for Latin America.

processes. Klasen (2010) emphasises this is more difficult to measure and would require significant conceptual work.

- The definition proposed by Ali and Zhuang is also the one that the Asian Development Bank puts forward in its Strategy 2020, and it applies this to various sectors, including human development and infrastructure. Inclusive growth is growth that creates opportunities and expands access. How this would be measured remains unclear.
- A World Bank definition put forward is also process related, and focuses on productive employment (the renewed attention to employment is of course reflected in *World Development Report 2013*, which resulted also in a call for significant investment in development of data). Implications for measurement also are not clear, according to Klasen, and indeed even definitions of good jobs or decent work continue to vary.

The UNDP definition has aspects of both process and outcome, and is defined as growth with equality. Klasen himself, more precisely but apparently going back to an outcome-based definition, suggests inclusive growth can be measured as growth episodes with: positive per capita income growth; growth rates for deprived groups at least as high as the average, as reflection of participation in growth; and expansion of non-income dimensions of well-being.

Policies

Finally, following WIDER research on inequality, Addison and Addison and Nino-Zarazua (2012) emphasise a policy angle: "Inclusive growth deals with policies that allow people from different groups – gender, ethnicity, religion – and across sectors – agriculture, manufacturing industry, services, to contribute to, and benefit from economic growth." They also distinguish the conditions of inclusive growth for low income countries from that of richer countries, notably related to the importance of asset inequality, and limited fiscal means for poorer countries. Their emphasis on business environment and boosting productivity in labour intensive production is important, for example against a common separation (e.g. Ahluwalia 2012) of the private sector's role in production and the state's role in redistribution.

The definitions thus clearly matter, in the extent to which distribution is taken into account, the dimensions of well-being, and access to economic opportunities (labour, business, assets) – which matches the IDRC working definition (without measurement) of inclusive growth as growth which improves the poor's access to expanding economic opportunities and reduces inequality.[33] Importantly, very different types of policies (may) follow from these different definitions. These may include human development approaches that likely emphasises social spending; 'productive' approaches that emphasises changes in market structures, access to finance, discrimination in labour and product markets, conditions in the 'informal sector',[34] and a development approach that stresses the need for engaging the private sector. This also raises the question, re-opened in *World Development Report 2013*, whether direct approaches for instance related to labour market institutions, or indirect approaches that focus on broader macro-economics are more important for achieving inclusion. We now move to questions of governance and social cohesion, and discuss whether these can and should be part of the measurement of inclusive growth.

[33] http://www.idrc.ca/EN/Documents/SIG-Prospectus-Public-version-English.pdf.

[34] In an earlier IDRC SIG Working Paper, Heintz (2012) emphasises the lack of consensus with respect to policies and definitions for the informal sector, and how this relates to inclusive growth.

5. Beyond economic process: governance and social cohesion

One of the case studies of the multi-donor research program Pro-Poor Growth, by Timmer (2004) highlighted an important paradox in terms of inclusive development. In Indonesia the authoritarian pre-1997 government led a pattern of economic growth that was very pro-poor, in the sense that the rate of income growth of the poorest was relatively high. The government did so through investing heavily in rural areas, which simultaneously enhanced political support among the rural population, and proved an effective poverty reduction strategy. Arguably, China is dealing with a similar paradox, as the 'harmonious society' project involves simultaneously an expansion of benefits to the entire population addressing the growing inequalities and improving governance and addressing corruption, while maintaining a close watch on the competitiveness of the Chinese economy.

At the same time, there is much evidence about positive links between (indicators of) governance and economic growth. [35] An institutional perspective on growth has been central to the work of Douglas North (1990) for example, and there has been a growing body of empirical research that looks at the inter-relationship between governance and growth,[36] partly prompted by the insight that aid can only promote growth of certain governance pre-conditions are fulfilled (Burnside and Dollar 2000). The seminal work of Peter Lindert (2004) on the long-run development of OECD welfare state adds evidence that governance – notably the expansion of voice – is important for the way in which state public expenditure and economic growth reinforce each other. Finally, more qualitative political analysis – such as presented by Prof P.B. Mehta at the Delhi meeting, and the recent growing interest in the role of middle classes (Birdsall 2007, 2010) – focuses on the politics and how they relate to economic growth and redistribution.[37]

While the links between governance, variously defined, and growth will remain disputed, and context-dependent, the relevant question here is whether and how to integrate this into a notion of inclusive growth, particularly if we are interested in the process aspects of it. There are clear arguments for keeping indicators separate, as forcefully argued recently by Matin Ravallion (2010), certainly if they are so qualitatively different. However, this does beg the question of an overall assessment as highlighted in the paradox above (and has been forcefully argued for the HDI, and for incorporating inequality and gender in how we assess 'growth'). One may argue that if 'inclusive growth' is meant to reflect citizens' values, and political pressure, it does seem important to consider bringing these indicators together. This may mean that we want to reserve the term inclusive *development* for this, but then it is important to ensure the growth definition is properly embedded in a broader definition of development, which is exactly what many people have argued is problematic.

Similar questions can be raised regarding indicators of social (as distinct from 'human') development, and whether these can be linked to growth, and potentially be incorporated into one indicator reflecting inclusive growth/development. Such questions have been prompted by studies that showed the importance of social capital for human capital development, economic

[35] Since 1996, the Worldwide Governance Indicators brings together measures of governance for 200 countries (voice and accountability, political stability, government effectiveness, quality of regulation, rule of law, corruption), data reflect subjective assessments of survey respondents and experts (www.govindicators.org). Similar data are available from the Corruption Perceptions Index, the Doing Business Project, the Ibrahim Index of African Governance.

[36] Knack and Keefer (1997), Kaufman and Kraay (2003), Khan (2009), for example.

[37] Robinson (2010), see Saith (2008) and Hanumantha Rao (2011) for a comparison between China and India.

performance and/or poverty reduction,[38] which – while variously defines – revolves around the question whether social relations play a role in broader economic development. The Indices of Social Development which has recently been made available,[39] and initial analysis suggest these can improve explanations of economic growth. Various and also contentious relationships emerge between economic growth as dependent variable, and indices of interpersonal safety and trust, civic activism, and gender equity (Foa undated). Dulal and Foa (2011) use a combined single ISD index to explain 'intangible capital', the residual in national income not explained by natural and physical capital; they combine a cross-country analysis with illustration for three African countries. Huang (2011) uses a Granger causality test to investigate if ISD 'cause' changes in income (per capita GDP), showing income has an impact on safety and trust, and on civic activism, while clubs and associations, and gender equity 'Granger cause' positive changes in income.

As with governance indicators, there is no presumption that these indices could or should be *incorporated into* one notion of inclusive growth. However, recent as well as longer-standing concerns on the inclusiveness of growth patterns do indicate that participation and accountability are a core part of the public debate, at global level perhaps increasingly so if indeed since the period of 'super-capitalism' (Reich 2008) institutions of sharing of wealth and political power have been eroded, and as economic growth where it does occur also can lead to growing concerns of unaccountable institutions. Thus, in our view, research into inclusive growth cannot neglect the institutions that promote the articulation of voice, of both workers and entrepreneurs, and particularly mote marginalised groups amongst them.

6. An inclusive growth agenda post-crisis

A better understanding of the process aspects of what may be termed inclusive growth is important for various reasons. Instrumental reasons relate to political concerns and stability, which highlight not only growth, but also distributional concerns, and the extent to which people feel they take party in the decisions that shape their life matters. Accountability and expansion of voice can promote these virtuous cycles. It is likely that many people want to be more than 'beneficiaries' of growth (important as this is in itself), and want to be in a position to use their creativity to shape those very growth patterns, and be part of the decision making processes that promote these patterns. This paper has discussed a wide range of possible indicators, which are summarised in the following Table.

[38] Coleman (1988), Putnam et al. (1993), Narayan and Pritchett's (1997).
[39] www.indsocdev.org; see de Haan et al (2011) for a broader discussion.

Table 1 Inclusive growth: measuring progress and inclusion

	Economic	Human capital	Political	Social
Progress (average)	GDP per capita / average income	Life expectancy Health Education HDI	Institutional strength (CPIA)	Social cohesion Trust Safety
Distribution	Gini coefficient Bottom 20% PPG	HPI GHDI		Inter-group cohesion Discrimination
Participation	Labour force participation, good jobs / decent work Market access	Entrepreneurship	Workers unions Organisations of entrepreneurs Competition institutions	Civic activism Associational life

Source: authors' compilation, based on analyses cited in the text.

The concerns within the debate on inclusive growth are by no means new, and have been captured under 1950s/60s concerns of structuralist development theories regarding distributional issues (which subsequently disappeared from the agenda), the 1990s growth-poverty debates, the concept of pro-poor growth, and the emphasis on capabilities and human development. However, the recent discussions on inclusive growth move us beyond – or can move us beyond – mere measures of outcome indicators, towards emphasis on and better understanding of the processes that appear relevant for understanding the dynamics of growth and development.

Inclusive growth cannot be reached simply by the state redistributing the gains from economic growth (generated by a private sector). Policies for inclusion need to focus also on the conditions under which small entrepreneurs including in the informal and rural sectors generate their livelihoods, on redistribution of assets and other opportunities to participate in growth processes, and on the conditions of jobs which is the single-most important source of livelihood of poor people. As important as redistributive schemes like cash transfers are, economic governance institutions, operating at national and international levels, such as tax regimes, competition authorities, consumer organisations, trade negotiations and institutions, etc.

While many low- and middle-income countries have weathered the economic crisis since 2008 well, and economic growth rates have remained high or have recovered, many of the imbalances that caused the crisis and remain responsible for persistent deprivation continue to exist. At the core of this global challenge is a need to enhance populations', and particularly poor and marginalised groups', access to productive opportunities, to find decent jobs, or to maintain and promote their small businesses. The nature of these challenges is different in each country and region. However, across these contexts it is important for research to move beyond the growth-redistribution dichotomy, and advance conceptual and empirical knowledge that identifies the conditions for inclusive growth.

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