

# **Inclusive Growth – Poverty, Inequality and Employment**

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- **Inclusive growth has become a central idea in the development literature and in the political discourse in many countries.**
- **However, there is no clear consensus about what it entails and how to measure it.**
- **How does it differ from the concept(s) of pro-poor growth?**
- **How would an inclusive growth approach contribute to the development policy thinking?**

➤ IPC papers:

Ramos, R. and Ranieri, R. (2013) “Inclusive Growth: Building up a concept”. IPC-IG Working paper series, N. 104.

<http://www.ipc-undp.org/pub/IPCWorkingPaper104.pdf>

Ramos, R; Ranieri, R and Lammens, J. (2013) “Mapping Inclusive Growth”. IPC-IG Working paper series, N. 105.

<http://www.ipc-undp.org/pub/IPCWorkingPaper105.pdf>

Ramos, R. and Ruhl, D. (2013) “The Employment to Population ration as an indicator of Participation and Inclusiveness”. IPC-IG Policy Research Brief, N. 39.

<http://www.ipc-undp.org/pub/IPCPolicyResearchBrief39.pdf>

### 1950s – 1970s:

- Trade-offs between growth and income inequality
- Trickle-down effects of growth
- Development as an inevitable progression

### 1970s – 1980s:

- Poverty constrains economic growth
- Development requires engagement

### Since the late 1990s:

- MDGs: targets require policies & coherent strategies
- Growth alone is not sufficient. How to ensure that growth ameliorates the lot of the poor? – pro-poor
- What about inequality? Gradually integrated

- **Kuznet's hypothesis – inverted U relationship between growth and inequality.**
- **Natural evolution process – one should not worry about inequality – it is positive for growth and it will eventually be brought down by the growth process itself through a trickle down process.**
- **Experience of many developing countries defies this interpretation as different growth trajectories were observed and a turning point was not a natural result.**
- **Growth that generates inequality could bring down growth potential as the poor would under-invest in their human capital bringing down productivity and wages.**

- **Redistributive policies have the potential to promote/enhance the growth process.**
- **Growth and equity can and should go hand in hand as a result of the rejection of the Kuznet's hypothesis.**
- **Asian tiger's had a major role in showing that rapid and sustained growth could take place with stable and low inequality.**
- **Despite recognizing the centrality of growth for poverty reduction, the literature started acknowledging that redistributive growth was more effective for poverty reduction than distribution-neutral growth.**

- **The notion of pro-poor growth was a clear response to the trickle down approach. But there was no consensus with regard to its definition... Is pro-poor growth any growth that benefits the poor?**
- **“Weak absolute pro-poor growth” (Glosse et al. 2008) – any growth episode during which the poverty rate declines, regardless to what happens to inequality.**
- **“Weak relative pro-poor growth” – it requires that the poor people income grows at a higher rate than the richer people. In this case, pro-poor growth also decreases inequality.**
- **“Strong absolute inequality” – absolute increases in income of the poor are larger than absolute increases in the income of the wealthier.**

- **Policy implication: how to promote pro-poor growth?**
- **Bias toward the poor? (Kakwani & Pernia, 2003)**
- **Promoting growth would favour the poor? (Dollar and Kray, 2000)**
- **Growth with redistribution would help to accelerate poverty reduction. (Ravallion, 2004).**
- **Non-income dimension: multidimensional poverty makes brings more complexity to the assessment of pro-poorness of growth.**



- **Kakwani and Pernia (2000) “pro-poor growth as a growth process that enables the poor to actively participate in and significantly benefit from economic activity” - a inclusive economic growth.**
- **Pro-poor growth: focus on poverty and inequality (level and distribution of income) with non-income dimension incorporated later (still as outcomes – benefit sharing).**
- **Inclusive growth: process – the idea of participation, beyond benefit-sharing. Opposite of participation is exclusion – vulnerable groups.**

- **Other views: all should benefit from the growth process. Non-zero sum game – the benefit of the poor helps to increase benefit for the richer.**
- **Ali and Son (2007) focus on opportunities rather than outcomes.**
- **Ianchovichina and Lundstrom (2009) focus on the sustainability of the growth process and emphasis on the need to foster “productive employment”.**
- **Pro-poor and inclusive growth can be differentiated by the focus on the “process” of the latter: extensive contribution of inputs from the labour force and non-discrimination (Klassen, 2010).**

### **Empirical challenge – how to measure IG:**

- **Benefit-sharing: poverty and inequality (Outcome)**
- **Participation: participation in the labour market in a productive/decent fashion and no discrimination of specific groups (ethnic, age and gender based discrimination) – process and outcome.**

**McKinley (2010) IG index based on ADB Long-Term Strategic framework 2008-2020 based on the notion that IG entails:**

- i) Achieving sustainable growth that will create and expand economic opportunities, and**
- ii) Ensuring broader access to these opportunities so that members of society can participate in and benefit from growth.**

**Components: productive employment; economic infrastructure, income poverty and equity, gender equity, human capabilities and social protection.**

## **Difficulties in measuring the process:**

### **Productive employment –**

**identified as the key missing element/input, but how to define what is productive employment.**

**Classification may vary from country to country.**

**Sector/wage-based classification may lead to different results. Lack of data.**

**EPR is more general: low EPR is not inclusive, but high EPR is not always good, given large proportion of working poor in very poor countries.**

## Inclusive Growth

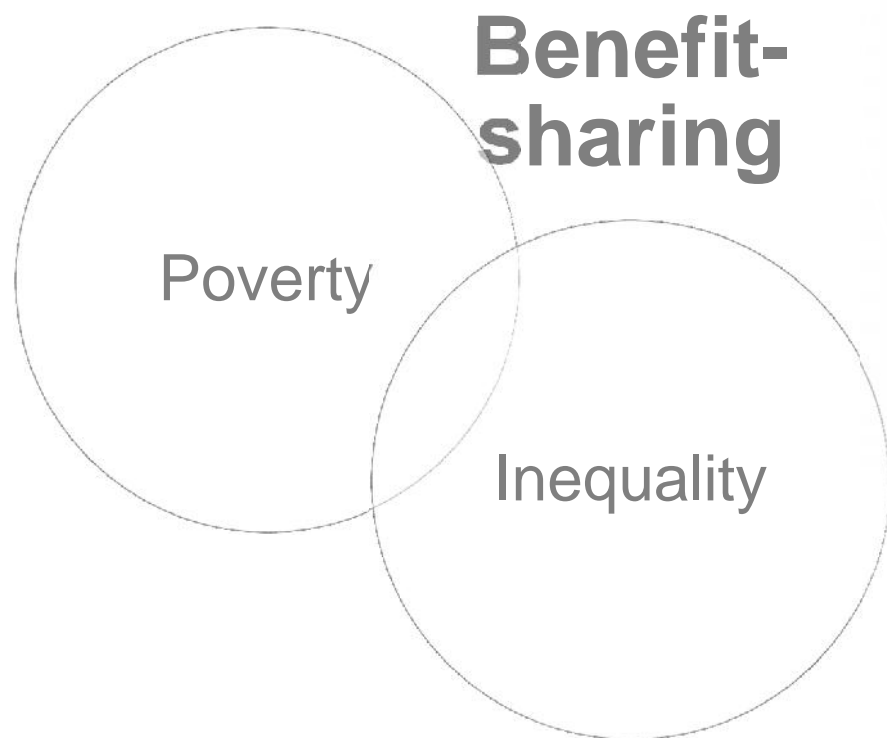
|   | Poverty | Inequality | Benefits of growth | Growth | Participation | Productive employment | Capabilities / Empowerment | Opportunity | Gender Inequality | Access to infrastructure | Social Protection Targeted Policies | Basic Social Services | Good governance | Barriers for investment |
|---|---------|------------|--------------------|--------|---------------|-----------------------|----------------------------|-------------|-------------------|--------------------------|-------------------------------------|-----------------------|-----------------|-------------------------|
| Ravallion and Chen (2003)                   | x       |            |                    |        |               |                       |                            |             |                   |                          |                                     |                       |                 |                         |
| Osmani (2004)*                              | x       |            |                    |        |               |                       |                            |             |                   |                          |                                     |                       |                 |                         |
| Stewart (2004)*                             | x       |            |                    |        |               |                       |                            |             |                   |                          |                                     |                       |                 |                         |
| Bhalla (2007)                               | x       |            |                    |        |               | x                     | x                          |             |                   |                          |                                     |                       |                 |                         |
| Ianchovichina, Lundstrom and Garrido (2009) | x       |            |                    | x      |               | x                     |                            |             |                   |                          |                                     |                       |                 | x                       |
| Habito (2009)                               | x       |            |                    |        |               |                       |                            |             |                   |                          |                                     |                       |                 |                         |
| McCulloch and Baulch (2000)                 | x       | x          |                    | x      |               |                       |                            |             |                   |                          |                                     |                       |                 |                         |
| Kakwani and Pernia (2000)                   |         | x          |                    |        |               |                       | x                          |             |                   |                          | x                                   |                       |                 |                         |
| White and Anderson (2001)                   |         | x          |                    |        |               |                       |                            |             |                   |                          |                                     |                       |                 |                         |
| Son (2003)                                  | x       | x          |                    |        |               |                       |                            |             |                   |                          |                                     |                       |                 |                         |
| Kakwani, Khandker and Son (2004)            | x       | x          |                    | x      |               |                       |                            |             |                   |                          |                                     |                       |                 |                         |
| Son and Kakwani (2004)                      | x       | x          |                    | x      |               |                       |                            |             |                   |                          |                                     |                       |                 |                         |
| Kraay (2004) - IMF                          | x       | x          |                    |        |               |                       |                            |             |                   |                          |                                     |                       |                 |                         |
| Minujin (2004)*                             | x       | x          |                    |        |               |                       |                            |             |                   |                          | x                                   |                       |                 |                         |
| Lipton (2004)*                              | x       | x          |                    |        |               |                       |                            |             |                   |                          |                                     |                       |                 |                         |
| White (2004)*                               |         | x          |                    |        |               |                       |                            |             |                   |                          |                                     |                       |                 |                         |
| Ali and Son (2007)                          |         | x          |                    |        |               |                       |                            | x           |                   |                          |                                     |                       |                 |                         |
| Grosse, Harttgen, and Klasen (2008)         | x       | x          |                    |        |               |                       | x                          |             |                   |                          |                                     |                       |                 |                         |
| Son and Kakwani (2008)                      |         | x          |                    | x      |               |                       |                            |             |                   |                          |                                     |                       |                 |                         |
| Klasen (2010)                               |         | x          |                    |        |               |                       |                            | x           |                   |                          |                                     |                       |                 |                         |
| Rauniar (2010)                              |         | x          |                    |        |               |                       |                            |             |                   |                          |                                     |                       |                 |                         |
| Kanbur (2010)                               |         | x          | x                  | x      | x             |                       | x                          | x           |                   |                          | x                                   |                       |                 |                         |
| McKinley (2011)                             | x       | x          |                    | x      |               | x                     | x                          |             | x                 | x                        | x                                   | x                     | x               |                         |

## The concept of Inclusive Growth

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**Outcome**

**Process**



**Participati  
on**



### **Inclusive Growth:**

**An intuitively straightforward and yet elusive concept; that determines policy objectives!**

**What makes growth inclusive?**

**How to assess the relationship between growth and any element of inclusiveness?**

**Deeming a growth episode inclusive is sufficient to establish that the process of growth and the country are inclusive?**

**GDP versus Family's income: National accounts and Household survey data.**



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**Many Thanks**