

How Inclusive is 'Inclusive Growth'?

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The interest of the international development community in 'Pro-Poor Growth' appears to have waned.¹ This Development Viewpoint examines the pros and cons of adopting its most popular replacement, 'inclusive growth'.

A 'pro-poor' approach did have the advantage of *focus*: concentrating on the most deprived. Judging progress involved attaching greater weight to the advance of the poor (e.g., "the incomes of the poor grew faster than those of the non-poor").

But what about the great mass of the non-poor, many of whom have only meagre incomes? Don't they need greater equity? 'Inclusive growth' appears to address this concern. But the question remains: what exactly do we mean by including them?

If 'pro-poor' growth is discarded, the most 'inclusive' option seems to be 'distribution-neutral' growth (namely, the incomes of the poor would grow as fast as everyone else's)? So the poor would no longer be 'unfairly excluded' from growth?

Advocates of 'inclusive growth' often base their moral justification on upholding 'equal opportunities'. And for the poor, in particular. But pre-determined circumstances, such as entrenched economic, social and political inequalities, usually hamper any significant progress in 'levelling the playing field'.

This should imply that the poor need an extra boost in some form, in order to scale, individually or collectively, such pre-existing barriers. The implication is that the poor should progress faster for a while, until they have managed to reach the same starting-point as everyone else. This looks like we still need some form of 'pro-poor growth'. Or direct redistribution.

The debate on 'pro-poor growth' has revolved, to some extent, around the definition of equity. For example, is it being defined primarily in *absolute* or *relative* terms? Most measures of inequality, such as the Gini coefficient, focus on one's *relative* position in the distribution.

But most discussions of poverty have defined the poor as those whose income levels fall below a fixed or 'absolute' poverty line (held constant in real terms across time or across countries). Success is judged by the proportion of the population that moves above this fixed line. Whether the position of these individuals moves closer to that of the non-poor (or the rich) has not been considered relevant.

Let's test the 'equity intensity' of 'inclusiveness' by using an absolute standard. We construct a simple thought experiment. Since we are discussing 'inclusiveness', let us concentrate on the

Inclusive Growth and Absolute Income Gaps

| Growth Scenario | Year | Income of the Poorest 40% | Income of the Richest 10% | Absolute Income Gap between Them |
|--|------|---------------------------|---------------------------|----------------------------------|
| Starting Point | 0 | 100 | 2000 | 1900 |
| 5% growth for all | 1 | 105 | 2100 | 1995 |
| 10% growth for all | 1 | 110 | 2200 | 2090 |
| 10% growth for poorest 40%; 5% growth for richest 10% | 1 | 110 | 2100 | 1990 |

income share of the poorest 40 per cent (instead of, for example, the most deprived 10 or 20 per cent). And let us compare this share to that of the richest 10 per cent.

In Brazil or Colombia, the ratio of the income share of the richest 10 per cent to that of the poorest 40 per cent is about 5 to 1. So the ratio of their respective per capita income levels is 20 to 1 (see the table).

Thus, if the per capita income of the poorest two-fifths is 100 units, that of the richest tenth is 2,000. There is a gap of 1,900 in purchasing power. Assume an 'inclusive' (i.e., distribution-neutral) growth process of five per cent per year for the whole population. A year later, the richest tenth ends up with 2,100 and the poorest two-fifths with 105: the absolute gap in income between them widens to 1,995—and widens further every year thereafter.

Assume even faster growth for all, such as 10 per cent—surely better for everyone. The absolute gap between our two population groups widens more: to 2,090 in a year. In fact, even if the income level of the richest tenth increased by only five per cent while that of the poorest two-fifths increased by 10 per cent (i.e., achieving 'pro-poor growth'), the gap would still widen to 1,990—and widen further every year thereafter.

What is the point? We are stressing that there is considerable room for redistribution of income without even altering the basic structure of such an inequitable distribution. Since the concept of 'pro-poor' growth is usually defined in relative terms, its redistributive implications tend to be marginal. Its substitute, 'inclusive' growth, appears even less demanding.

We have tried to underscore the need for greater precision in defining 'inclusiveness' and, by implication, our general equity standard. Adopting a broader concern for equity (beyond poverty) is certainly welcome. But should this be done by adopting a standard that is more diffuse, and less insistent on the need for redistributing economic and social opportunities?

Note:

1. See [One Pager #45](#) (Nov. 2007) by the same author, published by the International Poverty Centre.