“Inclusive growth” is a fashionable term these days, used widely in a large number of emerging and developing countries in the context of the neo-liberal policy framework, which is expected to deliver growth, and also inclusive growth. Empirical evidence from most of these countries however indicates that the neo-liberal policies have not been very successful in including the excluded in the mainstream development process. The paper observes that there is an urgent need to give a fresh look at the macroeconomic framework underlying the present policies. To start with, there is a need to end the tug of war between the growth and redistribution phases of neo-liberal policies. This is because the mainstream growth process that creates exclusion as well as inequalities tends to overpower the redistribution process and intensifies exclusions. The macroeconomic policies such as fiscal and monetary policies will have to play a much larger role in achieving developmental goals. There is also a need to expand the boundaries of macroeconomics to include natural resources as well as unpaid work within its purview to make it relevant and real.

This is a revised version of a paper presented at the consultation on inclusive growth organised by Planning Commission and UNDP in New Delhi on 24-25 October 2011. The author is thankful to Ashwani Seith, Pronab Sen, Rathin Roy, Seeta Prabhu and others for their comments on the earlier version of the paper. The author, however, is responsible for the errors.

Indira Hirway (indira.hirway@cfda.ac.in) is with the Centre for Development Alternatives, Ahmedabad.
is also defined in terms of reduction in inequalities in incomes, assets as well as in vertical inequalities (individual inequalities) and horizontal inequalities (group inequalities). It is defined as growth that reduces disparities among per capita incomes in agriculture and non-agriculture, in rural and urban areas, and in different socio-economic groups, particularly between men and women and among different ethnic groups. These horizontal inequalities have received considerable importance in the recent literature on the basis that it is an important area of inequalities that has been a relatively neglected dimension of development (Stewart 2001).

In short, in the context of developing countries, inclusive growth should have the following characteristics:

• To start with, economic growth is a precondition for inclusive growth. However, the nature and composition of growth has to be conducive to inclusion. That is, growth has to include the poor and lagging socio-economic groups such as ethnic groups, weaker sections as well as lagging regions as partners and beneficiaries of growth.

• Inclusion needs to be embedded in the growth process and not as an after thought. The growth process, therefore, has to address the constraints of the excluded and the marginalised, and has to open up opportunities for them to be partners in growth. Inclusive growth has to be non-discriminatory and disadvantage reducing for the excluded. This implies that inclusive growth has to be broad-based in terms of coverage of regions, and labour-intensive in terms of creating large-scale productive employment opportunities in the economy.

• Inclusive growth is expected to reduce poverty faster in the sense that it has to have a higher elasticity of poverty reduction. It also has to ensure access of people to basic infrastructure and basic services/capabilities such as basic health and education. This access should include not only the quantity, but also quality of these basic services.

• And finally, inclusive growth should reduce vertical as well as horizontal inequalities in incomes and assets.

It is important to note, however, that inclusive growth cannot be achieved overnight, i.e., in the short run. It has to be a medium-long-term goal, as it takes time to include the excluded. However, the processes of such growth should start in the short run, as the medium-term goals have implications for short-term processes and activities.

2 The Neo-liberal Framework

It is argued by proponents of the neo-liberal policies that it is feasible to achieve a high growth of the gross domestic product (GDP) that is inclusive in nature under this policy paradigm. Their basic logic is:

The rate of growth of an economy rises rapidly under the neo-liberal policy framework, as liberalisation of domestic and global markets open up opportunities for the enterprising class in the economy. Liberalisation unleashes the initiative and enterprise of those who have it, enabling them to contribute to rapid economic growth. Also, the growth which was largely dependent on the government’s performance/investment before the market-friendly regime now gets a push, as the private sector as well as external sector (through opening up of the economy) raises the rate of investments in the economy. Foreign investments, in the forms of foreign direct investment (FDI) or equity capital, bring in capital as well as better technology, raising the growth rate in the process.

When economic growth takes place, entrepreneurs acquire more capital, more wealth and higher incomes. Rapid growth happens when this class saves and invests more by ploughing back profits. In the process, the share of profits increases, while the share of wages does not increase or increases at a much lower rate than the rate of increase in productivity. This increases inequalities between the capitalist class or the enterprising class and labour. Also, as workers move from low-income agriculture to relatively higher income non-agricultural sectors, inequalities between those who remain in agriculture and those who shift to non-agricultural sectors increases. Similarly, when people, in the process of growth, move from low-income rural areas to relatively high income urban areas during the process of urbanisation promoted in the process of growth, inequalities increase.

The regions which have relatively good infrastructure, skills, power, etc, tend to do better, as enterprises can perform better in better endowed regions. Development of infrastructure during the process also keeps raising the growth rate in the better endowed regions. It is not that people in backward or lagging regions do not have enterprise, but people in better endowed regions perform better due to the externalities. As a result, regional disparities also tend to widen with economic growth.

However, as Simon Kuznets (1966) points out in his seminal work, inequalities do not last for long. “Economic inequality increases over time while a country starts developing, however after a certain average income level is attained, inequality begins to decrease”. The curve of inequality, the famous Kuznets curve, is therefore, an “inverse U shaped curve”. Inequalities tend to decline after a certain stage because of two reasons. First, with economic growth, the tax revenue of governments will increase, enabling them to spend more on education and skill development of the masses as well as on infrastructure development, particularly in lagging areas, improving opportunities for people without capital to grow as well as enabling lagging regions to grow. Governments will also spend more on social policies, on cash transfers, poverty alleviation, social protection, etc, ultimately leading to declining inequalities in incomes and wealth. And, second, after the initial period of economic growth, the benefits of growth will trickle down to people, as economic growth will create more jobs and incomes for many. When the governments create an enabling environment for companies to produce more, they will hire more people, raise their salaries, which in turn, will leave more money in the hands of people to spend more on the economy. That is, along with increasing incomes in the hands of masses in the economy, growth will raise aggregate demand to push the economic growth further up. In other words, there will be rising inequalities in the initial stages and a reduction after the economy reaches “a certain average income level”.

This is in line with what Jagdish Bhagwati stated in his Hiren Mukherjee Memorial Lecture in December 2010. He argued that an economy grows in the first phase, as liberalisation
processes unleash the forces of growth in this phase, while in the second phase, the increased revenues of the state are spent on health, education, poverty reduction, etc, to reduce poverty and high inequalities in the economy. Thus, he argues, trickle down takes place not so much through factor and product markets as through the use of increased revenues on the under privileged.¹

There are, however, two sets of questions about the validity of the above logic. The first set of questions is related to the inconsistencies within the logic of this framework, while the second set of questions refers to the theoretical basis of this policy framework. It seems that the concept of macroeconomy underlying the theory of this framework excludes two important components of macroeconomy, namely, the environment and unpaid domestic work.

### 3 Validity of the Logic Underlying Neo-liberal Policies

**3.1 Inconsistency**

Growth models usually focus on the determinants of growth. They do not include distribution as an integral part of the model. The current theoretical frameworks are thus inadequate to support analytical framework on inclusive growth. The gap between the theory and goal of the policies is filled by the policy framework. The neo-liberal policy framework is also based on such a growth model, the neoclassical model, with add-ons in the forms of policies related to special schemes and programmes that attempt to influence the distribution in favour of the excluded and marginalised sections as well as the lagging regions into the mainstream economy.

One major problem with the macroeconomic policies under the neo-liberal framework is that the objectives of the framework have become very narrow. The prominent goals of macroeconomic policies at present are short-term ones such as management of inflation (price stability) and elimination of macroeconomic imbalances. The fiscal policy and monetary policies are expected to work for these goals. It needs to be recognised that macroeconomic policies cannot be simply used for these narrow objectives – particularly in a developing country. Fiscal policy is to be used not just for a narrow objective of macroeconomic balancing or controlling deficits. It is a powerful instrument for achieving full employment and economic growth. Monetary policy is not just for controlling inflation through interest rates. It is a versatile instrument where the price and volume of credit can be effective in the pursuit of development objectives. That is, fiscal and monetary policies need to be used as powerful and versatile instruments for moving towards development objectives. There is, therefore, a need to move from short-term to long-term objectives, from financial economy to real economy and from equilibrium to development objectives. Economic growth with full employment should be the fundamental objective of macroeconomic policies (Nayyar 2011). However, as mentioned earlier, the development objectives of full employment and economic development (not just growth) are sacrificed under the new orthodoxy promoted by the International Monetary Fund (IMF) and the World Bank.

How the narrow goals of neo-liberal policies lead to poor consequences for employment in developing economies is discussed here:

### 3.2 Poor Prospects for Full Employment

Though inclusion under this policy framework is expected to be achieved through trickle down effects of growth in terms of massive generation of productive employment, it appears that this framework has severe limitations with regards to ensuring (near) full employment of the labour force. There are several reasons for this.

When developing countries open up to the global economy, they import frontier technologies, which are highly capital-intensive technologies. These countries achieve a high rate of growth by taking a jump in technology and productivity that is accompanied by declining employment intensity, i.e., lower rate of growth of employment per unit of output. The higher the jump in technical progress, the higher would be the labour productivity and the higher would be the rate of growth of the economy. This improved labour productivity would be welcome in these economies, where large masses are employed in low productivity activities, if this big jump in productivity could be made accessible, at least in the medium term, to all the sectors and all the sections of the population. However, this is not feasible as there are neither adequate resources nor the markets to enable this jump for all the sectors of the economy. Consequently, this rapid growth tends to create a wide/wider gap between the productivities of workers, resulting in dualistic growth of these economies. On the one hand, there develops a small modern, globalised sector where productivities and incomes are high, while, on the other, there is a large sector dominated by non-tradable sectors where production and income levels are very low.

First, under the neo-liberal policy framework, which has short-term goals of price stability and macroeconomic balancing, there is no built-in mechanism that ensures generation of adequate employment at high productivity for all. Developing countries are therefore likely to fall in the trap of dualistic growth leading to large inequalities in the economy on the one hand, and an army of unemployed on the other. This lopsided growth tends to create aggregate demand deficiency in these economies, leading to increasing dependence on global markets for sustaining growth. However, this growth is not sustainable either economically or socio-politically.

Second, opening of markets for exports increases employment opportunities in exporting sectors in these economies, but with poor quality of work. This is because the producers of these goods are subjected to several pressures from the global production networks, which are usually in the hands of large multinational corporations (MNCs). The MNCs and transnational corporations (TNCs) which dominate global production networks and the global trade keep a few core activities with themselves and distribute labour-intensive production activities among developing countries, depending on the advantages in the value chains. Exporting industries, which are in cut-throat competition with each other for this labour-intensive component,
are at the receiving end under this lopsided structure in the global market. They are forced to restructure their production through technological upgradation to compete in the global market and by expanding the size of the units through vertical and horizontal integration of production to increase the control over the value chains for better bargaining in the global market; but at the same time acquiring flexibility in production (to address fluctuating demand in the volatile global market) by outsourcing parts of production, and minimising the cost of production, mainly by cutting labour costs, to compete in the global market. The restructuring of production thus leads to restructuring of labour through subcontracting and even sub-contracting of production and through segmenting the labour market to acquire flexibility and to reduce the cost of labour, these steps result in creating substandard employment for workers. In short, developing countries are pressurised to lower the quality of employment under neo-liberal policies. Women with their typical supply behaviour dominate as informal workers and home-based workers (as compared to men workers) and remain at the bottom ladder of employment.

Third, opening of the economies to the global market also exposes these economies to volatility of the global market increasing insecurities and vulnerability. It is observed by ILO, for example, that the recent economic and technological developments (including social and political developments) have accentuated the insecurities experienced by people across the world, and particularly in developing countries. It is observed that the neo-liberal policy regime is actually dependent on insecurity, as there is no state-based social and economic security, as one would find under a welfare state and as protective regulations and institutions are almost non-existent in most developing countries under in the new policy regime. The present economy is therefore “the risk society” (ILO 2004). In other words, most groups, particularly the groups at the bottom, are exposed to uncertainty and risks, which have emanated from the new policy regime. Work-related insecurity is an important component of economic insecurity. It comprises employment insecurity, income insecurity, work insecurity, job insecurity and skill-related insecurity (ibid).

In the absence of adequate social protection during the recent crisis, as has been observed by several studies, workers in export industries, particularly small producers and informal workers, suffered the most (NCUS 2009 and Hirway 2009a). Studies have shown that small producers and informal workers, who do not usually have any social protection, were left to fend for themselves in this crisis. They lost their employment and wages, and adopted coping strategies like selling assets, borrowing from friends and relatives and reducing their consumption on food as well as on health and education of their children. The more important point, however, is that no major lessons have been learnt by most developing countries, wedded to the neo-liberal framework, from this experience, with the result that the workers are likely to fall in the same pit if the crisis occurs again (Hirway 2011).

In short, neo-liberal policies have treated employment very indifferently, creating severe shortages in employment including shortages in decent work opportunities in most developing countries. This implies that the growth process under the neo-liberal framework tends to create exclusion by keeping productive and decent employment out of reach for many sections in the labour force. It is clear that the narrow objectives of the policy framework tend to neglect the long-term development goals of the economy.

3.3 Redistribution for Inclusion

The main burden of including the excluded under this model therefore falls on redistribution of the revenues earned through higher rate of growth of the GDP. However, there are some basic problems with this approach. First, this approach does not change the ongoing process of growth that is responsible for exclusion of some sections of the population and some regions of the economy. As a result, the process of exclusion will continue in the economy, making redistribution efforts increasingly weaker. When inclusion is not embedded in the growth process, redistribution of its fruits is not likely to have any lasting impact on inclusion (Panagariya 2011). Second, redistribution is a political economy question. The strong vested interests developed during the first phase of growth under the neo-liberal policies may not permit the required level of redistribution.

The outcomes of an economy under neo-liberal policies are primarily judged by the rate of growth of the GDP achieved by the economy. Apart from fiscal and monetary discipline, the important and relevant macroeconomic parameters are rates of saving and investment, and capital formation; and other drivers of growth such as performance of private corporate sector, skill development, as well as infrastructure like energy, water supply, land, etc. The rate of growth of GDP is thus at the centre of monitoring. It is given a high place because it is believed that high growth will trickle down to lower levels and because the increased revenue from high growth will enable the government to spend more on poverty reduction, human development, employment generation, etc.

It is interesting to note that the first-ever meeting between the ILO and IMF in Norway in 2010 (ILO-IMF 2010) came out with a recommendation that the performance of an economy under neo-liberal policies should be judged also on the basis of its performance in the field of employment (quality and quality of employment). However, there has been no follow up on this matter by the concerned organisations and policymakers.

The political economy of rapid economic growth achieved through the involvement of the private corporate sector tends to develop an unholy alliance between the capitalist class and the state. Since the growth of GDP is at the centre of monitoring of the economy, there is less incentive to tax the rich. The incentive to tax the corporate sector, which is as it is low under the given macroeconomic management (such as broad-based low rates (BBLR), i.e., of taxes approach) becomes much lower, to promote economic growth. The restrictions posed on the three pillars of public finance, namely, tax policy, expenditure policy and policy related to public debt under the neo-liberal framework restrict financial autonomy of national governments, resulting in limited powers to spend on well-being of the marginalised and the excluded (Chakraborty 2011). As pointed out by Sen and Dreze (2011), there is a tendency to concentrate on these draconian
restrictive policies to cut down public expenditure, no matter how essential these are... (italics added). The strategy of taxing the rich to enhance government revenue for the poor is not likely to work well in reality. Also, the state tends to become less pro-labour or even anti-labour, as it does not mind workers not receiving benefits of growth if ploughing back of profits raises capital accumulation and higher rate of growth of GDP.

Since the focus is on growth of GDP, the state is interested in wooing the capitalist class to invest more to grow faster. The capitalist class in return looks for favours and is willing to please the state by giving favours in return. This tends to promote crony capitalism, which is observed to be widespread in the developing world today. Under crony capitalism, the success of a business is determined by the favouritism that is shown to the corporate sector by the state in the form of tax breaks, government grants and other incentives, instead of free market forces. Allocation of resources therefore is determined by the distorted prices of factors of production rather than competitive market prices. Important consequences of this approach are high capital intensity of growth (thanks to cheap capital), lower employment elasticity of growth and high inequalities in incomes and assets.

Apart from the above, crony capitalism encourages exclusion in many other ways. First, huge favours to the private capitalist class do not provide a level playing field to the micro, small and medium enterprise (MSME) sector and leaves less for this sector. Second, huge subsidies/grants, concessions given to the private sector leave relatively less funds for social sectors. And third, it breeds corruption on both sides, i.e., in the government and in the private corporate sector. The series of scandals being experienced in India at present is a testimony to this.

The small minority that gains maximum from the rapid growth becomes important in decision-making with the rising inequalities. As they are visible, vocal and hold economic and political power, they dominate policymaking. The masses of the excluded are neglected and their interests are disregarded, and they are able to organise protests), these are far from adequate, as these problems are viewed in a partial manner. Overall, these problems are not even visible to policymakers due to large differences of resources to the different sectors and to different categories of natural capital and in the flows of their services, both of which affect the livelihoods of people, and particularly, the marginalised in these economies, are neither recorded nor accounted for in national income accounts. Any deterioration in the livelihoods of majority of populations (more than half or more population in these economies depends on natural resources for their livelihoods) caused by the declining status of natural resources does not appear anywhere in the database, and therefore, not addressed in any policy. Though attempts are made to address environmental problems when they become acute (particularly when affected people are able to organise protests), these are far from adequate, as these problems are viewed in a partial manner. Overall, these problems are not even visible to policymakers due to large data gaps on natural resources and on ecosystems, and due to non-recognition of natural resources as a macro variable.

Also, non-sustainability of growth due to damages to natural resources does not appear anywhere in any accounts or in the policy framework. Even irreversible damages to natural ecosystems go unnoticed and unaddressed, and also unaccounted in the national database, causing serious damage to the sustainability of economic growth. This lack of information leads to wrong policymaking that hurts the livelihoods and well-being of masses.

The best way of integrating environment into the macroeconomic policy framework is through compiling green accounts, i.e., compiling systematic accounts of gains and losses in the stock of different categories of natural capital and in the flows of their services. Such accounts give the right signals for allocations of resources to the different sectors and to different uses of natural capital. However, the neo-liberal policy framework neither includes “green accounts” in its purview nor considers these accounts as an essential component of the framework.
It needs to be noted that sustainable development, which is a major goal of all economies, does not mean addressing environmental problems only when they occur, but it also means treating natural capital as a component of national capital stock and forging positive linkages between growth and natural capital. Exclusion of natural capital is particularly important at present when global warming and climate change, pollution, deforestation, coastal erosion and degeneration of ecosystems are threatening the sustainability of growth and human development in the world today (UNDP 2011).

In short, in the absence of a proper inclusion of natural resources in the policy framework, neo-liberal policies fail to monitor or protect and promote well-being and livelihoods of people as well as ensure their inclusion on the one hand, and fail to ensure sustainability of growth on the other. The policies also fail to give a correct picture of the total capital stock as well as its flows of incomes in the economy.

Exclusion of Unpaid Work: Another major exclusion from the theory of growth underlying the neo-liberal policy framework is unpaid work or non-SNA work that falls outside the production boundary, but within the general production boundary of the UN-SNA. Unpaid or non-SNA work primarily includes (1) work-related to household upkeep (for own household), such as cooking, cleaning, washing, etc, (2) care of children, the old, the sick and disabled within the household, and (3) voluntary work. Though some non-market work such as production of goods for own consumption, collection of free goods like water, fuelwood, etc, are included in the UN-SNA through recent amendments, in practice, these are found to be excluded from the purview of the neo-liberal policy framework.

This unpaid work, however, needs to be treated as a part of the macroeconomy on several grounds: unpaid work contributes to the total production of well-being in the economy by producing unpaid services for people. It also adds to the total human capital formation (1) by taking care of wear and tear of labour in the economy, and (2) by nurturing human beings as labour. The size of the unpaid economy (the value of which is estimated to be 30-60% of GDP in different countries) is determined not only by household level factors like size and structure of the household, presence of children in the household, income of the household, etc, but it is also determined by macroeconomic factors such as the level of economic development, status of public infrastructure and state provisioning, status of the economy on the business cycle, etc. For example, in a less developed country, several activities like washing, cleaning, food-processing and cooking, etc, are performed within the household as compared to a developed economy; unpaid activities like fetching water, collecting fuelwood or childcare are important unpaid activities when public provisioning is low; and the size of unpaid work moves up and down in a counter-cyclical manner during business cycles.6

The unpaid economy subsidises the market economy by reducing the cost of labour, which raises the share of profits and increases accumulation. In the absence of this contribution from unpaid work, employers would have paid higher wages to maintain the same level of real wages and would have enjoyed less profits and less accommodation. Similarly, unpaid work subsidises the government by taking away the responsibility of a part of state provisioning. The state would have spent more on provisioning to maintain the same level of provisions if there was no unpaid work. One can say that there are three major sectors of a macromeconomy, namely, the market economy, the government sector, and the unpaid economy. The unpaid economy is thus a building block of the total economy. The macroeconomic environment and policies determine the relative shares of the three sectors to a considerable extent.

Unpaid workers, however, have several disadvantages: unpaid work is repetitive and boring; it has no opportunities for upward mobility; it has no retirement and no pensions; it is usually invisible; and unpaid workers have less exposure to the outside world and have lower opportunities in the economy. In short, unpaid work has a lower status than paid work in the hierarchy of work.

Unpaid economy pulls back the overall economy with its lower status of work. Unpaid workers have a lower chance of reaching their potential, and this does not allow the overall economy to reach its full potential either. What is important to add is that the division of labour between paid and unpaid work is not usually a matter of free choice, but is based on social norms and customs. It is important, therefore, to bring unpaid work within the purview of macroeconomic policy formulation to give equal opportunities and freedom of choice to unpaid workers. It is necessary to improve productivity levels in the unpaid economy by taking appropriate steps.

It is also important to formulate and monitor the performance of macroeconomic policies based on their impacts on the unpaid economy. This is necessary for the purpose of including unpaid workers (mainly women) within the purview of the mainstream economy. In the absence of this, unpaid workers are likely to be denied the benefits of growth. For example, a macroeconomic policy of lowering fiscal deficits may result in reducing expenditure on the social sector, i.e., on health, nutrition, etc. However, this reduction is likely to encourage some households to bring in a part of healthcare within the purview of unpaid work, raising the burden of work of unpaid workers. This may result in overburden of work and time stress of unpaid workers causing reduction in their well-being as well as in depletion of their human capital. This, in turn, will result in a loss of human capital stock in the economy. However, the neo-liberal framework neither notices this loss nor addresses it through proper policy. During the recent global crisis when workers in export sectors lost their employment and incomes, a major coping strategy of the affected households was to bring in several market activities (like eating out, healthcare of household members, hiring tutors for teaching children, hiring help for domestic work, etc) within the fold of the household and to encourage non-workers to take up part-time or full-time work (Elson and Cagatay 2000; SEWA 2009; Hirway 2009b). It was observed by our study that the total burden of unpaid work increased on an average by 17% and the
burden of paid work increased by 20% for women of the affected households. Being outside the purview of the policy frame, this was neither noticed nor addressed by any bail out policy.

It becomes clear that when the unpaid economy is seen as a building block of the total economy, it does not remain only a gender and familial issue. It becomes a part of macroeconomics. The issue is then how to improve its productivity and efficiency to maximise growth and well-being. In order to address its disadvantages, it is necessary to recognise it, to improve its productivity, to reduce it by transferring it to mainstream economy and to integrate it in formulating and monitoring macroeconomic policies.

To sum up, by excluding unpaid work, the neo-liberal policy framework looks only at a part of the total economy, as a result of which the policies tend to become narrow, distorted and wrong. The policies also are highly unjust to women, who are predominant as unpaid workers.

### 3.5 Some Empirical Evidence

Some evidence from south Asia including India clearly supports the arguments made above (Planning Commission 2011a; Sen and Dreze 2011 and Palanivel 2011).

To start with, on an average the growth rate of GDP in south Asia increased from 3.3% in the 1990s to 5% in the first decade of the 2000s. However, the growth impact on poverty has been low and declining in this region. The incidence of poverty in the region declined by 1.6% per year in the 1990s, while it declined by 1.4% per year in the first decade of the 2000s. The growth elasticity of poverty reduction declined significantly from 0.7% in the 1990s to 0.4% in the 2000s. The region is one of the poorest regions at present, with 50% of the world's chronically poor living here, and more than one half of the world's malnourished children and the highest number of undernourished women lives here.

The inequalities also increased in most of these countries. During the last two decades, out of 14 Asian countries for which sufficient data are available, inequality is found to have increased in 11 countries – Sri Lanka, China, Cambodia, India, Indonesia and Nepal. Malaysia and Thailand are the only countries where inequalities declined marginally. The rising inequalities have dampened the poverty reduction impact of economic growth (Palanivel 2011). In the case of India, the Gini coefficient of income inequalities increased from 0.44 to 0.47 during the last decade (Shukla 2010).

Public policies, which are expected to be inclusive, have also not been inclusive enough in south Asia. To start with, public spending on education was 2.9% of GDP in 2008, and public spending on health was 1.1% of GDP in 2007. In the case of India also, as per the Approach Paper to the Twelfth Plan, public expenditure on health and education has been far from adequate (Planning Commission 2011b), largely due to the low expenditures by state governments. As regards social security, less than 30% of the elderly receive pension, 20% of the population has access to healthcare assistance and 20% of unemployed have access to labour market programmes in this region. Non-inclusiveness of economic growth in south Asia is naturally reflected in human development achievements. Except for Sri Lanka, the HDI global ranks are low for all south Asian countries, with a marginal decline in the recent period. According to the multidimensional poverty index (MPI), the new human development index of UNDP (2010), 55.4% people in India live below the poverty line! Again, the global hunger index (GHI) ranking of India was 66th out of 88 developing countries in 2004-05 (IFPRI 2010). As per the report, 20% of the population in India lacks in calorie consumption, and 42.5% of the children are underweight. The hunger index for India is 23.7%. This is definitely not inclusive growth when the country has been growing at 8-9% per year for almost a decade!

Sen and Dreze (2011) have shown how India, with its “spectacular” growth for more than a decade, has performed miserably in development goals, such as poverty reduction, human development and reduction in inequalities. India has also lagged behind even the poor countries like Nepal and Bangladesh in these areas.

In the field of employment and labour, the recent trends in the global labour market observed by scholars indicate again a poor performance in generating productive employment with “decent work” conditions. According to the ILO, between 1995 and 2005 open unemployment has grown by 22%, putting the global unemployment rate at 6.3%. Output growth during this period has been higher than employment growth, which has not matched the growth of the global labour force. The annual average output growth has been 1% as against 0.3% rate of growth of employment. The employment elasticity of growth at the global level is low and is observed to be declining (Rodgers 2006; ILO 2007).

In the case of most developing countries, the situation is much worse. The rate of growth of employment in these countries has been much lower than the rate of growth of the labour force, adding to the already existing large stock of unemployment. Most new jobs are created in the informal economy, with the result that the size of the working poor has been increasing in these economies. In 2005, 48% of the workers were observed to be poor on the $2 a day criterion in these economies, and 18% workers were poor on the $1 a day criterion.

In the case of India, it is not easy to interpret the trends in employment because of the fluctuations in the rate of growth of employment during the past two decades. The average annual rate of growth of employment was 0.98% between 1993-94 and 1999-2000. It rose to 2.9% during the period from 1999-2000 to 2004-05 and again declined to 0.05% during the period from 2004-05 to 2009-10. The corresponding rates of growth of the labour force were 1.03%, 2.93% and -0.04%. The unemployment rate increased from 1.96% in 1993-94 to 2.2% in 1999-2000, to 2.37% in 2004-05 and to 2.06% in 2009-10. Though different reasons have been given by scholars to explain these fluctuations in the rates of growth of employment (Himanshu 2011; Rangarajan et al 2011; Anant and Mehta 2011) one thing is clear: the rate of growth of employment including the rate of growth of “decent work” has been far from satisfactory.

In short, the growth experienced in south Asia has not been inclusive. Low human development achievements have created
severe shortages of skilled labour in these economies, causing
to a considerable extent hurdles in raising the growth in these
economies; poor performance in employment generation has
been a major hurdle in including the excluded in the mainstream
economy and in promoting wage-led labour-intensive growth;
neglect of environmental resources have affected livelihoods
of the masses depending on natural resources adversely as
well as raised serious questions about the sustainability of
growth in these countries; and exclusion of unpaid work from
macroeconomic framework has failed to ensure optimum use
of the labour force and gender equalities in these economies.

4 Building Blocks of an Alternative

Some important building blocks of an alternative conceptual/
theoretical framework are following:

4.1 Expansion of the Boundaries of Macroeconomics

The first step is to accept that the present macroeconomic
boundaries underlying the neo-liberal framework have a
narrow, partial and distorted view of the macroeconomy. In
order to move to a relevant and real macroeconomics, it is
important to expand its boundaries to include (i) natural
resources, and (2) unpaid non-SNA work within its purview.

Inclusion of Natural Resources: Natural resources need to
be incorporated by treating these resources as natural capital
and flow of services from natural resources as a part of national
income. The best way to do this is to integrate natural resources
into national income accounts by compiling green accounts,
i.e., integrated environmental and economic accounts (IEEA) so
that the losses and gains in natural capital stock and flows are
reflected in national income accounts. The accounts will then
present realistic growth of the GDP, and will give right signals
for environmental protection and regeneration. The accounts
in the process will include the livelihoods and well-being of
those depending on natural resources within the purview of
policymaking as well as help in designing policies for sustain-
ability of growth.

Though the methodologies for compiling such elaborate
accounts are “work in progress”, enough work has been done
to compile quick economic and environmental accounts for
an economy.

Inclusion of Unpaid Work: Unpaid work also needs to be
incorporated within macroeconomics to start with by compiling
satellite accounts for valuing this work in monetary terms.
However, unlike natural resources where a good beginning
has been made in data collection, not much data are available
in the case of unpaid work – except in the few countries where
time use surveys are conducted periodically. The first task
therefore will be to give visibility to this work by conducting
periodical time use surveys, which can throw light on the size
of different types of unpaid work performed in an economy.

As in the case of natural resources, sophisticated metho-
dologies of compiling satellite accounts of unpaid work are
“work-in-progress”, though input-based accounts or quick
output-based accounts are compiled by many countries. Such
accounts do throw light on the contribution of unpaid work to
national GDP (between 30% and 60% of GDP) and this justifies
a claim of unpaid work on the national exchequer for inclusion
in policymaking.

Though valuation of unpaid work in satellite accounts is
important, integration of unpaid work into macroeconomic
policies call for (1) giving visibility to unpaid work through
regular time use surveys, (2) removing the drudgery of unpaid
work by improving productivity and improved basic infra-
structure (such as, water at the door step, cooking energy
security) in the economy, (3) reducing this work by transferring it
to the mainstream economy (such as, in childcare by setting
up subsidised childcare centres, establishing healthcare for
the disabled, etc), and (4) integrating it with the mainstream
economy by formulating and monitoring macroeconomic policies
keeping in mind their impact on unpaid work. The last is
important because it recognises that macroeconomic policies
also have an impact on unpaid work, and therefore, it is impor-
tant to address this impact through appropriate policy inter-
ventions to protect human capital depletion and time stress as
well as reduced well-being of unpaid workers (Hirway 2011;
Antonopoulos and Hirway 2010).

At the theoretical level, the expansion of macroeconomics in
these two direction means that the conventional concepts of
GDP and labour force/workforce will have to change. The new
GDP will have to include environmental services (flowing from
natural capital) and value of unpaid work within its purview.
The concepts and tools of analysis for this new macroeconomics
is again “work-in-progress”. However, it should be possible to
at least view these macro aggregates differently and formulate
and monitor macroeconomic policies accordingly.

What is important to underline is that both these sectors are
at the root of the exclusion or marginalisation of weaker sections.
One cannot adequately address their exclusion and marginali-
sation without expanding the boundaries of macroeconomics.

4.2 Addressing Contradictions

An important implication of our discussion is that there is an
urgent need to give a fresh look at the macroeconomic frame-
work underlying the present policies. To start with, it is important
to end the tug of war between the growth phase and the re-
distribution phase, first, because at the conceptual level both
the phases work against each other and this cannot go on for
long; and, second, because at the empirical level the evidence
shows that redistribution policies do not work in the desired
directions. The mainstream growth process that creates exclu-
sion as well as inequalities tends to overpower the redistribu-
tion process and intensifies exclusions in the process. This im-
plies that the growth phase and the redistribution phase
should be complementary to each other and the mainstream
growth process itself will have to be inclusive.

First, the macroeconomic policy framework will have to
change radically and macroeconomic policies will have to be
used more meaningfully. As mentioned earlier, there is a need
to move from short-term to long-term objectives, from the
financial economy to the real economy and from equilibrium to development objectives in designing macroeconomic policies. Economic growth with full employment should be the fundamental objective of macroeconomic policies (Nayyar 2011). The growth process will have to be labour-intensive and broad-based, as a generation of productive employment on a large scale is the best way of including the excluded and marginalised sections of the population.

Second, there is a need to adopt a right-based approach and accept citizenship’s rights of people. Provision of health, education, infrastructure and services are the basic rights of each citizen. Recognition of these rights has not only an intrinsic value, but it is also a macro strategy for improving productivity of workers and for enhancing aggregate effective demand in the economy in favour of labour-intensive products. Finally, inclusion of the excluded also requires good governance, i.e., delivering quality services, accountability and transparency in governance. Adequate indicators and supporting institutions need to be created to see that services reach people.

In conclusion, one can state that the theory underlying the neo-liberal policy framework is too weak to ensure inclusion of the excluded. It will be useful if developing and emerging countries take a fresh look at the theoretical basis of their policy framework and modify it suitably.

NOTES
1 Hiren Mukherjee Memorial Lecture delivered in Lok Sabha in 2010.
2 Another recommendations were that IMF would lend money to countries for introducing universal social protection and to countries for introducing universal social protection.
3 An example of this is the famous Nano plant of Tata Motors that was brought to Gujarat with subsidies and concessions: (i) loan to Tata of Rs 9.570 crore at 6.1% rate of interest with 20 years moratorium, (ii) 1,100 acres of land at less than one-fourth of the market price, (iii) no binding of employment to local people, (iv) no registration fee, no stamp duty and no transfer fees to be paid, (v) continuous power supply of 2,000 KVA with double circuit electricity flow, (vi) water supply of 14,000 cubic metre per day through a pipeline to the project area – at government cost, (vii) 100 acre area given near Ahmedabad for disposal of polluted water.
4 Favours are also extended to private corporations in assigning contracts of infrastructure projects, which earn good returns (Manmohan Singh as quoted in The Times of India, 2011).
5 According to the UN System of National Accounts, activities falling within the production boundary are included in national income accounts; the activities falling outside the production boundary but within the general production boundary are non-SNA or extended SNA activities. Non-SNA activities are not covered in national income accounts.
6 Sustainable development does not only mean correcting environmental damages but it also means strengthening linkages between natural capital and economic growth by promoting strategies that enhance both growth as well as natural capital.
7 When an economy is on the upswing of a business cycle, employment is rising and incomes are also rising, with the result that many unpaid activities (like childcare, care of the old or the sick, cooking, etc) move to the market and when an economy is on a down-swing, the reverse is likely to happen. In other words, one finds the unpaid work moving in a counter-cyclical manner.
8 Input-based satellite accounts have been compiled by Japan, Korea, India, Turkey and may other countries. Output-based satellite accounts have been prepared by Australia and some European Union countries.

REFERENCES
Anant, T.C.A and Rajiv Mehta (2011): “Has the Employment Fallen in India?”, Mint, 1 July.
Bhagwati, Jagdish (2010): Hiren Mukherjee Memorial Lecture, Lok-Sabha (Indian Parliament), New Delhi.
Hirway, Indira (2009a): “Engendering Public Works Programme by Addressing Unpaid Work of Women in Developing Countries Case Study in India”, paper prepared for the National Workshop on NREGA and Women’s Empowerment, organised by IHD and UNIFEM at New Delhi.
Sen, Amartya and Jean Dreze (2011): “Putting Growth in Its Place: It Has to be But A Means to Development, Not an End in Itself”, Outlook, 14 November.