Inclusive and sustainable development in Emerging Countries Integrating the Modern and Lagging Sector

The Case of India

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This Presentation

- Major hurdle to SD is high and rising inequalities of incomes and wealth under dualistic growth where the modern sector moves up fast but the lagging sector at the bottom is left behind – for inclusive and sustainable development both the sectors should be integrated to form an inclusive and sustainable economy

- This paper argues that this integration calls for a two pronged approach: (1) modifications in macroeconomic policies to generate an inclusive aggregate demand structure and (2) promotion of the lagging sector to help it to move up

Inequalities in wealth and incomes

- The present growth is accompanied with high and rising inequalities in the world
- Indian economy is also characterized by high and rising inequalities of incomes and wealth
- High inequalities is a major obstacle to inclusive and sustainable development

Dualistic growth behind rising inequalities

- Indian economy has been experiencing dualistic growth, more so after the economic reforms – i.e. there is coexistence of two separate systems of economic processes within the national economy without any mutual significant interactions between them

- This has happened because (1) the modern sector which initiates growth fails to provide growth stimulus to the lagging sector, (2) the lagging sector is unable to develop on its own due to some constraints – it is not equipped or there are structural constraints and (3) the macroeconomic processes which are largely designed to serve the vested interests of the modern sector are not committed to inclusion of the excluded

- AS a result, the growth has increased inequalities in technology, skills, wages, and earnings; education and health, and in overall opportunities in a manner that the lagging sector is marginalized and excluded and gets meager share of it all.

Technological progress and capital accumulation

- Technological progress and capital accumulation have been drivers of growth in the modern sector

- They raise share of profits in the economy, and when profits were ploughed back, it leads to further growth

- This enhances economic power of those who own the technology and the capital accumulated

- And since the gains in the modern sector were not transferred to the lagging sector the political and economic power structure moved in favour of the top

- The modern sector could exploit the bottom in multiple ways but did not make them equal partners

Concerns about technological progress

- One cannot be against technological progress – not in India where low technology and low productivity is a major concern
- Technological progress becomes a problem only when it reaches a level that is accessible to limited people even in the long run, as the country does not possess the required natural/physical/financial resources
- Technological progress does not have any built-in mechanism to ensure full employment of the national labour force
- Technological progress reaches a stage when even skilled cannot be absorbed in the growth process – full employment then becomes not a distant dream
- In short, there is a need for meaningful state interventions through macroeconomic policies

Is technological progress exogenous or endogenous Variable?

- It is usually assumed that technological progress is an integral part of the economic reforms, i.e. free market based neo-liberal policies
- Technological progress therefore is believed to be determined by decisions at the firm level, the R& D efforts of the scientists or by general scientific progress – That is, continuous progress in technologies and expansion of capital accumulation are part and parcel of the neo-liberal policies
- This is not true, technologies essentially depend on macroeconomic policies that determine aggregate demand structure in the economy: fiscal policy, labour and employment policy, wages and income policy, social security policy, environment policy, trade and commerce policy and so on
- Technological progress is thus an endogenous variable – determined largely by the package of macroeconomic policies and this is apolitical economy question

The lagging Sector

- The deprived and marginalized sector at the bottom is below and around poverty, about 250-300 million people in India
- They have low educational achievements, poor nutrition and health, low/no assets, poor risk bearing capacity and low credit worthiness, insecure and vulnerable to natural and man made disasters
- In rural areas they are landless labour, marginal and small farmers, artisans, unskilled wage labour, petty manufacturers, petty traders, migrant workers – mostly belonging to low castes and tribes, minorities
- In urban areas they are informal workers, migrant workers and engaged in petty trade and services, performing precarious jobs and earning low incomes – frequently of low castes and minorities
- Women in these households are usually crushed under poverty and patriarchy

No meaningful interactions /linkages with the modern sector

- They are at the bottom of value chains of the producers of the modern sector working in sweat shops or at home
- They perform some unstable uncertain low paid casual work in the premises of the large modern sector projects
- Losers of land, water and healthy environment caused by the modern sector
- They are mute observers of the large industry/infrastructure projects happening around them
- They are unaware of what is happening in the modern sector as they are too busy with making two ends meet

The present policy/programme package for the poor

- Long history of programmes/schemes for the poor in different fields
- Agriculture and allied sectors
- Programmes to support individuals- loans, subsidy, etch support
- Group approach based programmes
- MGNREGA
- Infrastructure support
- Social security schemes

Lessons from the long and rich experience for generating sustainable employment

- Technological upgradation and improved productivity
- Access to finance
- Group approach and large size of emterprise – federation of groups
- Professional management
- Institutional strength

Institutional approaches

- Efforts from concerned capitalists
- Cooperatives
- Producers’ companies
- Section 25 (8) companies
- Private company under the Companies Act

Concluding Observations

- People at the bottom need collective strength – social capital and CSOs need seed funds for this
- Basically they need external support (social entrepreneurs) for technology, professional management, finance and institutional support
- It is difficult to select ideal institutional model – more research needed
- They need suitable legal support – also more research needed in this area
- This sector has been neglected by policy makers and left to NGOs – now they need prime policy attention and support
- They need (1) Rs 10000 crores fund like start ups, (2) funds for incubation centres for promoting and nurturing innovations, (3) seed money for social mobilization and (4) level playing field