

Social Sector Development and Inclusive Growth in India

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Social Sector Development and Inclusive Growth in India

BY

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INVESTOR IN PEOPLE

*Dedicated to
my dear husband
Mr Gaurav Khanna
and my beloved son
Hiren Khanna*

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Introduction

Brief summary: The basic research question lurking in the study is whether the growth strategies based on the human development approach, that is, social sector development would render growth inclusive. The present work is very comprehensive considering all components of the social sector in aggregate and also covering both financial and physical aspects of the social sector.

Full book description: Two broad approaches to economic development had been experimented within India, viz. trickle-down approach and human development approach. After independence, India, till the Fourth Five Year Plan, experimented with the first approach which was advocated by Pt Jawahar Lal Nehru, P. C. Mahalanobis, and Jagdish Bhagwati. Even when India based its development policy on the Nehruvian approach involving high investment, heavy industrialisation, import substitution, and indigenisation of goods and services, even then employment generation and income growth and redistribution were not kept at the bay. India intended to involve people in its strategic approach to development. Elimination of monopolies, prevention of concentration of economic power, socio-economic justice, and participative growth has all veered around the poorest of the poor. The failures of the trickle-down approach further strengthened India's resolution to reinforce the inclusiveness of growth.

Dr Amartya Sen, Jean Dreze, and Brahmachanda, on the other hand, continued to profess the human development approach to economic development by reinforcing the social sector development; which India started emphasising since Fifth Five Year Plan. The stress had been laid on strengthening and expanding the social sectors with the premise that it would boost the inclusive growth agenda by directly increasing the income and productivity of the people even at the lowest rung, manifesting in equal access to employment and economic opportunities, and equal participation in decision-making and reduction in poverty and inequality. The earlier studies focussed on the development of the social sector and its components in India. Only partial-level studies on the social sector have been done and these have been limited to one or two components majorly.

Both social sector development and inclusive growth are synergetic. Social sector development stimulates the achievement of inclusive growth, while the realisation of inclusive growth manifests in social sector development. Government programmes and policies are framed for bringing the weaker sections into the mainstream. Social sector development in concomitance with inclusive growth came into the limelight

because of the concern of policymakers towards abject poverty and deprivation of masses and to promote democratic-based economic growth.

India emphasised high economic growth, spontaneously eventuating in inclusiveness. Earlier it was realised that literacy, education, health, and maternal and infant mortality rates had shown improvement, but at a marginal pace. The sustained development of India was considered imperative so that growth could be equitable and inclusive.

Subject/topic description: This study considers the various World Bank reports and various views of scholars on this subject to quantify the inclusiveness in India. The study further intends to highlight the major dimensions of inclusive development like poverty alleviation, employment generation, and access to equal participation.

The majority of earlier studies consider the relationship between economic growth and government spending in India. But none of the studies look at the relationship between social sector development and inclusive growth in India at a macro-level. This type of study has been conducted to scrutinise the long- and short-run association between the social sector and inclusive growth in India using the autoregressive distributed lag approach.

Chapter 1

Introduction: The Theoretical Framework

Human Development Dimensions of Growth

Economic development can be perceived as a multidimensional process that involves the reorganisation and reorientation of the whole economy as well as the social system, and it is much more than just the increase in income and output. Throughout this process of accelerating economic growth, it is vital to include the ones who have benefitted the least from economic development (Todaro & Smith, 2003). Economic growth is the progression of a community, along with the evolution of new and better methods of production and the rising of the level of output through the development of human skills and energy, better organisation, and acquisition of capital resources (Singh, 1966). There are three main categories of capital resources comprising physical capital, human capital, and technology, which determine long-run differences in income per capita.

Economic growth which encompasses the welfare of the citizens of a country has been the major thrust for a modern capitalist economic system. The introduction of the concept of escalating returns from the division of labour in the field of economics was Adam Smith's most important contribution to the discipline. He stressed the role of parsimony, expansion of markets, and promotion of interests of farmers, traders, and manufacturers by the liberal government (Taneja & Myers, 2000). Investment and capital accumulation are essential for the development of economy and wealth distribution. Savings from industrial and agricultural profits, as well as the extent of labour specialisation, impact further investment (Thirlwall, 2006).

The neoclassical theory concentrated on short-run economic processes. According to neoclassical economics, profit is determined by the marginal productivity of capital, and the wage of workers is determined similarly by the marginal productivity of labour (Rynn, 2001). The major source of growth in developing countries is increased factor inputs, supported by enhancements in the quality of labour through health improvement and education. In the long-run steady state, the growth of output is determined by the rate of growth of the labour force in terms of efficiency. A higher investment ratio is counterbalanced by a higher capital–output ratio or lower productivity of capital due to the

neoclassical supposition of diminishing returns to capital. The level of per capita income varies optimistically with the savings–investment ratio and pessimistically with the rate of growth of the population (Thirlwall, 2006).

The vital proposition of growth theory is to facilitate the positive growth rate of output per capita in the long run and it should be achieved only with the adoption of continual modifications in technological knowledge in the form of new goods, new markets, and new processes. The neoclassical growth model developed by Solow (1956) and Swan (1956) exhibited that the effects of diminishing returns would eventually cause economic growth to hamper and stymie technological progress (Aghion & Howitt, 1998). The theory states that by changing the magnitude of labour and capital in the production function, a state of equilibrium can be achieved. With the availability of new technology, the labour and capital have to be modified to maintain the growth equilibrium. Meade (1961) explained the effect of population growth, capital accumulation, and technological progress on economic development. He also examined the conditions for steady growth and assumed that the population grows at a constant proportional rate rather than remaining at a constant level (Taneja & Myers, 2000).

Both the classical and the neoclassical growth models put physical capital accumulation as an epitome of growth and long-run income. Extensions of the neoclassical growth model revealed the role of human capital ahead of physical capital (Thirlwall, 2006). Intangible assets like human capital or human health did not play important role in the growth of the economy as premised in the classical and neoclassical growth models.

Schumpeterian growth theory goes beyond this viewpoint. As per Schumpeterian theory, the concept of innovations, human capital accumulation, and physical capital accumulation acts as the sources of economic growth (Howitt, 2005). The theory believes that the fundamental impulse which sets and maintains a capitalist economy in motion; comes from the introduction of new combinations through innovation fostered by the entrepreneur (Dinopoulos, 2006). In the *Theory of Economic Development*, Schumpeter (1934) stressed the importance of the role of the entrepreneur, who plays a vital role in his analysis of capitalist evolution (Acs & Audretsch, 1988). The rate of accumulation of physical capital and human capital can be considered as the outcomes determined by more fundamental factors. Human capital accumulates similarly to physical capital. The savings and the rate of investment in education and health, simultaneously, determine the steady-state income differences both in physical as well as in human capital (Schumpeter, 1942). As per Schumpeter's perception of research, the process of economic development would take place by an amalgamation of entrepreneurship and innovation, which further acts as an internal mechanism of change along with the cyclical fluctuations characterising the development process (Ebner, 2000).

Endogenous growth theory is distinguished from neoclassical economics as it emphasised a combination of technological progression and other physical and qualitative factors as the main sources of economic growth. Robert Lucas (1988) and Paul Romer (1986) pioneered endogenous growth models and they stated that the association of human capital formation and research and development would prevent

the marginal product of capital from falling and the capital–output ratio from rising (Todaro & Smith, 2003). Romer (1986) developed the model of expanding returns with the endogenous accumulation of knowledge when there was a steady positive equilibrium growth rate. It was imperative to break off from the existing literature, in which technological progress had been largely treated as totally exogenous.

Lucas (1988) mentioned a two-sector model of growth in which the physical capital is produced as the consumption good with the same technology, but human capital is created with different technology. Human capital is an essential factor of production as the core constituent of growth is human capital. The combination of labour, capital, and technology will be more efficiently manifest if the firm invests in educated, skilled, and healthy workers (Hasan, 2001). The process of development takes place if physical capital accumulation is substituted by human capital accumulation (Galor, 2011). This theory stated that efficient and effective means of production and the use of new forms of technology will result in the growth of a nation's human capital (Todaro & Smith, 2003).

Accumulation involves behavioural outcomes to amend composite conditions. As soon as accumulation is achieved, it alters the endowments from which existing and potential outputs and revenues are generated. This elevates the prospects for further growth and the progression of the country goes on. The idea of accumulation is general and does not confine to technology and physical capital but is also applicable to the cluster of factors including education, on-the-job training, health, nutrition, water, and sanitation (Yotopoulos & Nugent, 1976).

Social Welfare: Human Development Versus Human Capital

Human welfare is the central theme of economic development. That is why, since independence, the social welfare of the masses has been the objective of economic policy in India. However, there are two-way linkages between human development and overall economic progress. Strengthening the social sector would be served as a foundation for economic growth and contributes to human development by focussing on human welfare and equity which leads to economic development (Government of India, 2002). Pigou (1920) introduced the concept of economic welfare as that part of social welfare that can be brought directly or indirectly into a relation with the measuring rod of money. Lange (1942) explained

the concept of welfare economics as the norm of behaviour for optimum allocation of resources with equal distribution of inputs among society. Welfare Economics refers to all economic and non-economic goods and services that provide utilities or satisfaction to individuals living in a community and therefore guarantee social welfare. (Ahuja, 2007)

Economic growth is a significant mechanism to expand social welfare and enhance social welfare through improved health outcomes, food intake, and access to other basic needs which is a rational objective of society and government (Clarke, 2003).

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A welfare state is one where the state participates in the protection and promotion of the economic and social well-being of its citizens. The basic notion is to provide equality of opportunity and equitable distribution of wealth along with the responsibility for those who were not able to avail the basic facilities for a good life (Rastogi, 2011). All the welfare states grant assistance to the poor in form of social protection programmes and provide the vulnerable sections with social insurance against certain risks (Gale, 2008). Social welfare provides social protection by improving the employability of poor people which would contribute to social cohesion and permanence. It improves participation in the labour market, manages risks, encourages investment and entrepreneurship, and empowers human resources through community development, education, health, and sanitation (Organization for Economic Cooperation and Development (OECD), 2009).

The term human development indicates both the process of expanding people's choices and the level of people's achieved well-being. It also facilitates two concepts of human development. One is the creation of human capabilities and the other is to utilise the acquired capabilities by the people (United Nations Development Programme (UNDP), 1990). The human development paradigm of economic development emerged in the late 1980s and was conceived, articulated, and advocated around the world by Dr Mahbub ul Haq and Dr Amartya Sen.

The goals of development must be defined in terms of progressive attenuation and eventually lead to the eradication of malnutrition, disease, illiteracy, unemployment, and inequalities. The concept of equitable distribution along with more products should be promoted together to define the development. (Haq, 2011)

Human development concentrated on a more equitable distribution of income and assets which create a closer linkage between economic growth and human development. As a result, human development goes ahead of programmes of social development or social welfare (Haq, 2011). A human-centric approach to development has been built which identifies the three most critical choices, that is, a long life and healthy life, education, and decent standard of living, and also additional choices which include political freedom, guaranteed human rights, and self-respect (UNDP, 1990). During the 1980s, numerous policies had been implemented for employment-intensive growth, which further generated opportunities for poor households by raising the demand for labour, thus, increasing employment, wage rate, and the political power of the community. Social welfare policies should endow the community with adequate human capital, to exploit these new opportunities and create a safety net for vulnerable and needy sections (Lipton & Gaag, 1993).

The concept of human capital for economic growth was promoted by Theodore Schultz and Gary Becker during the 1960s. Human capital refers to the productive capacities of human beings as income-generating agents in the economy and may be defined as the collection of skills and product knowledge personified in people (Rosen, 1989). Schultz (1961) invented the term human capital explaining that humans could be endowed with education, training, and augmented benefits that would lead to an

enhancement in the quality and level of production. The investment in human capital builds capabilities such as investment in preschool activities, schooling and higher education, post-school training and learning, migration, health, information, and investment in children. These sub-classifications of investment have different relative effects on earnings and consumption. But by and large, all these different classifications improve the physical and mental abilities of people and thereby raise real income prospects (Becker, 1962).

Human capital includes the enhancement of acquired cognitive skills and discrete knowledge. The investment in human capital builds capabilities that include various non-cognitive skills and other attributes that equally contribute to well-being. The formation of personal, social, and economic well-being will accompany the formation of human capital by personifying the knowledge, skills, competencies, and attributes. Human capital is strengthened with experience, employment, and informal and formal learning (OECD, 2001).

Government of India (2011b) mentioned in the Indian Human Development Report (IHDR) about the enhancement of basic capabilities and involvement of human development as the core ingredients for economic growth which will successfully eliminate poverty and facilitate the adaptation of social and economic policies. Though human development connotes human welfare, while human capital extends human capital through education, skill formation, and R&D, still human development eventually manifests in human capital. Human development is a much wider notion than human capital. The rationale of the growth strategy is to eliminate poverty via deploying the model for human development. This being the main endeavour, it would result in equal access to development-centric amenities such as good health and nutrition, potable drinking water, accessibility of sanitation, and educated and employed personnel (Mehrotra, 2005).

Measures that Enhanced Human Development

Economic development is linked with human welfare and human development which makes growth inclusive. Although human development is enhanced by the strengthening of the social sectors, providing a basis for developing human capital, which further builds human capabilities. The UNDP, in both developing and developed nations, analysed the comparative status of socio-economic development in its annual series of Human Development Reports (HDRs). The First HDR, brought out by Mahbub ul Haq in 1990, was an elementary, yet refreshing mode of measuring development to form a composite human development index (HDI) by combining three indicators, that is, life expectancy, educational attainment, and income. To measure the standard of living of a country, HDI is utilised. HDI is calculated based on four criteria; 'Life expectancy at birth, mean years of schooling, expected years of schooling, and gross national income per capita' (Haq, 1990). It ranges from zero to one. The HDRs rank all countries according to HDI and group them as low human development countries (HDI < 0.54), medium human development countries (HDI 0.55–0.69), high human development countries (0.7–0.79), and very high human development countries (0.8–1) (UNDP, 1990).

Human development, thus, is viewed as the process of broadening a person's capacities to function with the comprehensive things that a person could incorporate in his life and articulated as expanding choices in the HDRs (Sen, 1989). Table 1 elucidates the human development status of some selected countries for the year 2018. Among the 170 countries listed in the HDR, Norway occupies the topmost position and Cote d'Ivoire is the last. It has been observed that in the year 2018, 59 countries have an HDI value between 0.8 and 1 and were categorised as countries with high human development. High development countries, with HDI values between 0.7 and 0.79, rank from 60 to 112. Medium development countries rank between 113 and 151 and India ranks 130 among the 170 countries in terms of HDI. On the positive side, India's HDI value has gone

Table 1. HDI and its Components.

HDI Rank	Country	HDI 2018	Life Expectancy 2018	Mean Years of Schooling	Expected Years of Schooling	Gross National Income Per capita
<i>Very High HDI</i>						
1	Norway	0.953	82.3	12.6	17.9	68,012
5	Germany	0.936	81.2	14.1	17.0	46,136
9	Singapore	0.932	83.2	11.5	16.2	82,503
47	Argentina	0.825	76.7	9.9	17.4	18,641
57	Malaysia	0.802	75.5	10.2	13.7	26,107
<i>High HDI</i>						
76	Sri Lanka	0.770	75.5	10.9	13.9	11,326
79	Brazil	0.759	75.7	7.8	15.4	13,755
86	China	0.752	76.4	7.8	13.8	15,270
94	Dominican Republic	0.736	74.0	7.8	13.7	13,921
<i>Medium HDI</i>						
113	South Africa	0.699	63.4	10.1	13.3	11,923
130	India	0.640	68.8	6.4	12.3	6,353
136	Bangladesh	0.608	72.8	5.8	11.4	3,677
149	Nepal	0.574	70.6	4.9	12.2	2,471
150	Pakistan	0.562	66.6	5.2	8.6	5,311
<i>Low HDI</i>						
156	Zimbabwe	0.535	61.7	7.2	8.1	1,683
168	Afghanistan	0.498	64.0	3.8	10.4	1,824
170	Cote d'Ivoire	0.492	54.1	5.2	9.0	3,481

Source: Chadha and Chadda (2020a).

up from 0.345 to 0.640 between 1980 and 2018, an increase of 85 per cent. Life expectancy at birth has increased to 68.8 years, mean years of schooling to 6.4 years, and expected years of schooling to 12.3 years. The countries from 152 to 170 belong to the low development group (UNDP, 2018).

Welfare and well-being can be measured in three different methods and these include 'economic welfare, social well-being, and subjective well-being' (OECD, 2011). Earlier economic welfare measured and referred to monetary concepts only by using gross domestic product (GDP). The second measurement is based on socio-economic well-being and development. HDI is one of the most important concepts to measure socio-economic well-being, which is used and followed globally (UNDP, 1990). Later on, GDP and HDI failed to accurately reflect the level of well-being and welfare in society. Both are not comprehensive enough to explain the concept of human well-being, welfare, and quality of life (Sagar & Najam, 1998). So, to overcome these, a new index was developed by deploying a unique methodology called the Quality of Life Index (QLI) to give a broader picture of human welfare. To determine QLI, nine indicators were represented, viz.

material wellbeing; health; political stability and security; family life; community life, climate and geography, job security, political freedom, and gender equality. India is yet to make any marked leaps on the quality of living index scale. (Morris, 1996)

India introduced economic reforms aimed at liberalising the economy through several proposals with a direct focus on human development. Therefore, beginning with the Eighth Five-year Plan (FYP), the subsequent FYPs have also continued to be firmly set within the human development paradigm. This focus on human development led to a greater emphasis on addressing inequalities amidst accelerated growth in the 2000s (Government of India, 1991). The links between development and social opportunity had been feeble in Indian states. India has diversity among its states, there were some states which achieved high levels of human development like Kerala and Tamil Nadu; some states like Punjab and Haryana had a high level of per capita income, whereas Bihar, Madhya Pradesh, Orissa, and Rajasthan were neither economically nor socially sound (Prabhu, 2005).

Human development can be attained in several ways. Initially, the process of this development commenced with education and health particularly, for the weaker and marginalised sections of society. Later, the role of improved schooling has been an essential part of the development strategies in most countries and shows significant improvements in school attainment across the developing world in recent decades (Hanushek, 2013). Schooling also has a role in human capital formation. The impact of human capital becomes strong and vital when the role of quality schooling was emphasised. The cognitive skills of the population are connected to individual earnings followed by equal distribution of income and subsequently to economic growth (Hanushek, 2013).

After theoretical education, the most effective mode of human development is on-the-job training which transforms educational skills and training. It can be systematic or informal (Harbison & Myers, 1964). The inclusive approach

to development highlights the importance of education as a basic human need (knowledge, attitudes, values, and skills), as a means of meeting other basic needs (adequate nutrition, safe drinking water, health services, and shelter), and as an activity that enhances the overall development (Kumari & Yadav, 2008). The imbalanced access to education would result in information asymmetries, and disparate conditions of job opportunities which further trigger poverty and health hazards, inability, and human deprivation (Biradar, 2008).

Health is another aspect of human development that is equally important. Improved health generates economic growth in the long run. Kaushik et al. (2008) stated that health generate both higher income and individual well-being as only a physically and medically fit individual or group or society at large, could make better use of their resources (Harbison & Myers, 1964). The World Health Organization emphasised the three specific dimensions of health, the physical, the mental, and the social. The factors which influenced health are inherited problems, environmental issues, lifestyle, adequate housing facilities, good hygiene, and potable water, basic sanitation and sewerage facilities, income earned, education, availability, and equality of health infrastructure (Park, 1994).

Nutrition is a component of health, and malnutrition is part of the disease that results in poverty. Human nutrition is not concerned with merely the availability and intake of food. Good nutrition is the result of many interconnecting factors which function jointly and concurrently on the person in the physical, ecological, and cultural environment of the society (Rani, 2008). Nutrition is related to general health which ensures better physical and mental health required for human development. Nutritious and good food is the core ingredient of good health (Antony & Laxmaiah, 2007).

There seems to be a close connection between education and health. Education, health, and poverty are closely related. If education and health are elevated, it means poverty is eliminated. Education nurtures character; health guarantees efficient work, and jointly these contribute to effective human development. Enhancement of human development requires more investments in the social sector that ultimately lead to higher growth of a nation. It means strengthening the spread effects by including vulnerable sections for accelerated economic development (Naidu et al., 2008).

The definitive objective of a planned economy is to facilitate the well-being of the masses, particularly the poor and the needy sections of society. Social infrastructure and the social sector are two sides of the same coin and both are associated and correlated (Harnawala & Iyer, 2012).

Social Sector includes departmental and actuation concerning human development (elementary education, secondary and higher education, adult education, development of women and children), health (public health facilities, disease prevention, and control, drug administration, medical education, training, and research), family welfare (population policy, family welfare programme), social justice (development of weaker sections), labour and employment, social security schemes, housing, road connectivity, water supply, sanitation, rural-urban development, and food storage and warehousing. (Sarma, 2005)