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BUILDING UP A CONCEPT

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INCLUSIVE GROWTH: BUILDING UP A CONCEPT

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1 INTRODUCTION

Inclusive growth has become a central concern in the development literature and in policymaking in many countries. However, the literature presents several different definitions of inclusive growth, which do not converge to a consensus on the concept, let alone one on how to operationalise it sensibly.

The concept of inclusive growth came to light in the context of an unfolding shift in development thinking away from seeing equity either as a toll on growth or as a byproduct of growth only setting in after a certain period during which it is eschewed in favour of growth, towards an understanding, albeit not unanimous, that not only is growth with equity possible, but also growth and poverty and inequality reduction can be instrumental to each other. This shift was the result of the progression of development thinking largely grounded on the developmental experiences of those countries that entered the second half of the 20th century outside the select group of developed countries. The process involved a collection of distinct yet somewhat concatenated developments in the understanding of the interaction of growth, poverty and inequality.[1]

The next section briefly addresses the changes in development thinking within which the emergence of the concept of inclusive growth is situated. The following section brings an overview of the debate on the concept of pro-poor growth. The section after that presents the debate on the concept of inclusive growth. Following that there is a section addressing attempts to measuring inclusive growth. Finally, the last section highlights the state of the debate on the concept of inclusive growth and indicates key issues that need to be addressed to take it further.

2 RETHINKING DEVELOPMENT

In the early years of the post-World War II era, the prevailing understanding was that rapid growth with industrialisation was the most effective way to bring about transformations conducive to improving poor people's living conditions. This understanding involved the combination of an initial worsening of income distribution with a subsequent improvement in the lot of the poorer people as the effects of the spurt of growth eventually trickled down.

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As in Kuznets's (1955) hypothesis that in the early stages of development growth produces (and exploits) inequality and as per capita income rises there comes a turning point after which inequality declines, the prevailing view was that at first growth not only produces but in fact necessitates income inequality. Seen as an expected consequence of the process of growth, albeit without a precise determination of the specific conditions for its onset, inequality reduction was overshadowed by the primacy attributed to growth.

Largely informed by the trajectory of early developers, the development literature tended to assume the process of development to be virtually automatic once it is set in motion, incrementally following the same steps towards high levels of average income and industrialisation. For List (1841), temperate countries naturally passed through four stages of development: pastoral life; agriculture; agriculture with manufacturing; and agriculture, manufacturing and commerce combined. Rostow's stages of growth model (1956; 1959) analogously followed a series of subsequent steps: traditional society; preconditions for take-off; take-off; drive to maturity; and age of high mass consumption. Implicit in such framings of development was the expectation that average incomes would increase and general living conditions would improve as a country advanced along the naturally occurring sequence of stages.

This notion of inevitable progression is fairly intuitive inasmuch as it is congenial to human experience;[2] it is, therefore, unsurprising that it remains present in development thinking in the implicit assumption that development is an incremental process that causes real incomes to increase over the long run. As pointed out by Berg and Ostry (2011), this expectation can in fact be verified in the trajectories of advanced economies such as the USA and the UK, where real per capita income grew fairly steadily from 1950 to the late 2000s.

However, whereas average income also grew steadily in some developing countries, in a number of them that was not the case (Berg and Ostry, 2011); the developing world's experience after WWII includes a wide array of trajectories, many of which involving unsteady and, in some cases, erratic performance in terms of average real income. What is more, in several countries where fast growth was accompanied by worsening inequality, the growth process failed to produce a turning point after which the initial trend was reversed. Instead, not only did inequality not retreat, but also poverty rates persisted at high levels or, in some cases, even increased. This defied the notion that the fruits of growth eventually trickle down to the poorer segments of developing societies, causing the emergence of concerns about the distributional consequences of growth.[3] As noted by Kanbur (2000), the incorporation of such concerns brought up the need for active intervention to manage distributional issues throughout growth processes, and was apparent in both official government policies, such as India's 3rd Five-Year Plan, and in the broader theoretical and policy debate, as in the World Bank's *Redistribution with Growth* report (Chenery et al., 1974). In fact, attesting to the shift in development thinking, Ahluwalia and Chenery (1974a, b) argued that poverty constrains growth, and that investments in the poor can increase both wages and productivity, causing the incomes of all to rise. The core reason for this is that in this way poverty reduction does not occur at the expense of growth, thus constituting a sustainable improvement in both the conditions of the poor and the basis for poverty-reducing growth (Dagdeviren et al., 2000).

The emergence of the understanding that growth and equity can *and should* go hand in hand opened up an era of development thinking in which a host of factors increasingly oriented the debate towards how to promote growth with equity. One of the main reasons

for this was that the vast literature on empirical tests of the relationship between income distribution and income per capita never found consummate validation of Kuznets's hypothesis (Kanbur, 2000). The challenge that this posed to the 'trade-off and trickle-down' view of the relationship between growth and equity was reinforced by the experience with Structural Adjustment Programmes (SAPs) of especially the 1980s and early 1990s. According to Kanbur (2000), the focus on policy reform rather than on growth at any cost contributed to downplaying the 'trade-off and trickle-down' view.

Moreover, contributing to discredit that view was the fact that whereas the SAPs can be seen as following it insofar as they seemed to assume that macroeconomic stabilisation sufficed for mending poverty and inequality (Dagdeviren et al., 2000), their perceivably lacklustre results created a general notion that they were ineffective. Their failing was not just in confusing desired end-goals with how to achieve them, neglecting the necessary instrumental steps for developing countries to achieve a healthier economic condition, but also in not directly addressing the root causes of poverty and inequality. But in any event what matters is that the prevailing perception was harmful to the good standing of the 'trade-off and trickle-down' view of the relationship between growth and equity, particularly so with respect to income inequality and growth, but also regarding poverty in certain cases.

Another core reason for the shift of development thinking towards a constructive, or at least not pernicious, relationship between growth and equity was the phenomenal developmental performance of the so-called Asian tigers: Hong Kong, Singapore, South Korea and Taiwan. The East Asian developmental experience, which unfolded over the course of a larger time span but received most attention from the 1970s into the 1980s and early 1990s, decisively challenged the existence of an inescapable trade-off between growth and equity. Combining rapid growth in per capita income with relatively stable and low inequality, it suggested that "there might be policy measures to foster the benign combination of high growth and rapid poverty reduction" (Dagdeviren et al., 2000: 5). The clear message was that growth and equity are not incompatible, which debunked not only the trade-off view but also—and perhaps most importantly—the notion that successful development was beyond their reach, and developing countries were denied access to the developed countries club.

In addition to establishing that growth does not necessitate inequality, the East Asian experience also challenged the trickle-down view, given that—contrasting with the SAPs literature—the developmental state literature stemming from it pointed out the importance of state strategic activism in coordination with key private-sector elements (e.g. Pempel, 1999), thus challenging the notion that development simply happens automatically and highlighting how the right policies matter. In fact, not limited to Asia but looking comprehensively into the lessons from diverse trajectories up to the mid-1990s, Stiglitz and Squire (1998) pointed out that development does not happen naturally and, instead, requires engagement in enacting the appropriate policies.

To be sure, there were dissenting views. For instance, although recognising that "[o]n the basis of simple empirical observations, neither positive nor negative association between inequality and growth shall be interpreted as causality from inequality to growth," Li and Zou (1998) argued that they "have shown theoretically that income inequality may lead to higher economic growth if public consumption enters the utility function" and empirically "that income inequality is positively, and very often even significantly, associated with economic growth" (Li and Zou, 1998: 332). By the turn of the century, Kanbur (2000) advanced

the argument that the growing consensus at that time about the lack of a necessary growth–equity trade-off would be challenged by the unfolding, over a longer period, of the consequences of the growth strategies followed up to that moment—something that evidence by the mid-1990s of inequality starting to widen among East Asian economies was beginning to denote. According to the *2012 Asian Development Outlook*, Kanbur was right in pointing to the trend of rising inequality; the report indicates that, unlike Latin America, where inequality has declined in many countries in recent decades, in Asia it has increased, even though poverty rates have declined (ADB, 2012). Whether this is momentary or pertains to a broader trend remains to be seen, but at least up until now, most people's attention was elsewhere.

In the last couple of decades the bulk of the literature, as well as policymaking in a number of developing countries, has been concerned with the developmental potential hosted in the constructive interaction of declining poverty and inequality and economic growth. Growth remained the central piece, typically found to be the most important component of any poverty reduction attempt (e.g. Deininger and Squire, 1998; Ravallion, 2001; Dollar and Kraay, 2002; Kraay, 2004). But the understanding that growth alone is no panacea for social ills prevailed, and redistributive growth was found to be likely to be more effective for poverty reduction than distribution-neutral growth (Dagdeviren et al., 2000; Ianchovichina and Lundstrom 2009). The notion that progressive redistribution benefits—and even conditions—growth processesexpanded. Indeed, two of the consensuses in the literature identified by Lopez (2004) were that growth accompanied by progressive distributional change is better than growth alone, and that high initial inequality makes poverty reduction more difficult. As put by Berg and Ostry (2011), "Inequality matters for growth and other macroeconomic outcomes, in all corners of the globe" (Berg and Ostry, 2011: 13). Inequality was found to matter particularly for the long-term sustainability of growth (Ianchovichina and Lundstrom, 2009; Berg and Ostry, 2011).

3 PRO-POOR GROWTH

In the context of the rethinking of development informed by the concern with the distributional implications of growth processes, there emerged a strand in the literature concerned with ensuring that poor people actually benefit from growth. Its main tenets are that growth is not inherently pro-poor; therefore, growth processes need to be calibrated for pro-poor growth to be obtained.

In the first *One Pager* published by the International Policy Centre for Inclusive Growth (IPC-IG, then called the International Poverty Centre), Zepeda noted the emergence of a growing consensus around the notion that growth is not enough for poverty reduction, which took the discussion about growth and poverty reduction beyond the trickle-down expectation from the theories of the third quarter of the 20th century. Highlighting the emergence of the concern with ensuring that growth in fact ameliorates the lot of the poor, making it pro-poor, Zepeda pointed out that "as important as this shift in development thinking is, there is still much to be done in defining what pro-poor growth is, how we assess and measure it and, more importantly, how we translate this knowledge into effective policymaking" (Zepeda, 2004: 1). Almost 10 years later, substantial progress has been made towards elucidating those questions, and yet the discussion remains unsettled and is replete of both competing and complementary concepts and ideas.

By the turn of the century the concern with pro-poor growth was seen as a decided departure from the notion of 'trickle-down' development (Dagdeviren et al., 2000; Kakwani and Pernia, 2000), and soon the term 'pro-poor growth' was recognised as being pervasive in development policy discussions (Kraay, 2004; Lopez, 2004; Ravallion, 2004). Yet, as the term's rapid diffusion in development policy circles happened before a clear consensus formed on what constitutes pro-poor growth, the usage of the term involved diverse definitions, and in some cases, especially in political rhetoric, its meaning was—and remains—unclear.

Intuitively, pro-poor growth is growth that benefits the poor. But definitional rigour requires specifying what benefitting the poor means, and that is where the conceptual debate over pro-poor growth lies. Based on what is deemed most important or necessarily relevant in that regard, two competing definitions of pro-poor growth emerged in the literature. One of them focuses on poverty reduction, thus considering pro-poor growth any growth episode during which there is a drop in the poverty rate (Ravallion and Chen, 2003; Grosse et al., 2008). Grosse et al. (2008) call this "weak absolute pro-poor growth"—a growth episode of this nature simply improves the absolute condition of the poor. This signifies that insofar as enough people are lifted out of poverty to cause a reduction in the poverty rate, growth is pro-poor, regardless of what happens in terms of the distribution of income.[4] On the one hand, by zeroing in on the income of the poor, this definition captures the most fundamental aspect of their living conditions, thereby providing a straightforward conceptualisation of a benefit to poor people. On the other hand, this definition allows for the income of the wealthier to grow much more than that of poor, a differential in income growth that causes a distributional shift carrying potential implications for the political economy disfavouring the poor as well as possibly harnessing social problems affecting society at large (Lopez, 2004; Grosse et al., 2008).

The other definition of pro-poor growth focuses on the improvement of the income of the poor relative to that of the wealthier, rather than simply on an absolute improvement of their income. It requires that poor people's income grow more than wealthier people's income. Different understandings of such relative improvement produced different versions of this definition. One of the versions requires simply that poor people's income grows at a higher rate than that of the wealthier, which implies that poor people's income grows at a higher rate than average income (Weeks, 2000; White and Anderson, 2001; Grosse et al., 2008). This means that pro-poor growth requires that poor people's share of incremental income exceeds their current share of income (White and Anderson, 2001). Grosse et al. (2008) call this "relative pro-poor growth"; it increases poor people's income while reducing relative inequality.

Analogously, Kakwani and Pernia (2000) proposed a definition of pro-poor growth concerned with poor people benefitting more than the wealthier that combined a central concern with poverty reduction with how income inequality affects it; it considers the impact of growth on poverty, both when growth is dissociated from changes in the distribution of income—the pure growth effect—and when it is accompanied by changes in the distribution of income—the inequality effect. According to their conceptualisation, the more redistribution growth promotes, that is, the greater the inequality effect—the more pro-poor growth is.

A stricter version of the pro-poor growth definition concerned with a relative improvement in poor people's income involves the relationship between incremental growth in the income of the poor and the share of the population, requiring that the poor's share of incremental income exceeds not simply their current share of income but also their share of the population (White and Anderson, 2001). This ensures that the distribution of incremental

income contributes to a faster reduction of the gap between the income shares of the poor and non-poor insofar as such distribution supersedes—in favour of the poor—total equality in the distribution of incremental income.[5]

In turn, a concern with the reduction of absolute inequality produced a definition of pro-poor growth that requires that absolute increases in the income of the poor are larger than absolute increases in the income of the wealthier (Grosse et al., 2008). Grosse et al. (2008) call this "strong absolute pro-poor growth"; according to their definition, to be pro-poor, growth episodes must increase poor people's income while reducing absolute inequality.

Yet another version of the pro-poor growth definition concerned with a relative improvement of poor people's income involves an international benchmark, tying the assessment of how pro-poor incremental growth is to a chosen benchmark (White and Anderson, 2001).

These versions of the definition of pro-poor growth concerned with eschewing the distribution of the benefits of growth towards the poor address the shortcoming of the definition focused on poverty reduction irrespective of distributional issues. However, they embed the issue that growth episodes involving reductions in poverty, however large or small, may not be deemed pro-poor if inequality rises, even if just slightly (Ravallion, 2004; Kraay, 2004). For instance, according to any of these versions, China's growth in recent decades would not be considered pro-poor, even though from 1981 to 2005 it reduced its poverty rate from 97.8 per cent to 36.3 per cent, lifting over half a billion people out of poverty, because there was a simultaneous increase in inequality.[6]

In the same way that both definitions showed strengths and weaknesses and none became unanimous, no unanimity formed around the adoption of policies aimed at promoting pro-poor growth. The concern with specifically pursuing pro-poor growth, involving the notion that "promoting pro-poor growth requires a strategy that is deliberately biased in favour of the poor so that the poor benefit proportionally more than the rich" (Kakwani and Pernia, 2000: 3), increasingly gained space in policy discussions. According to Kakwani and Pernia (2000), this "entails the removal of all institutional and policy-induced biases against the poor, as well as the adoption of direct pro-poor policies" (Kakwani and Pernia, 2000: 4). Although this understanding increasingly gained prominence, the policy debate still contained conflicting views. For instance, Dollar and Kraay (2002) argued that evidence suggested that, to benefit the poor, governments need not enact pro-poor growth policies and, instead, should focus on a growth-maximising basic policy package including property rights, macroeconomic stability, fiscal discipline and international trade (Dollar and Kraay, 2002).

Adding complexity to the debate, more recent work has incorporated non-income dimensions to the exercise of conceptualising and measuring pro-poor growth. Underlying this expansion is the understanding that rather than involving simply income deprivation, poverty is multidimensional (Kakwani and Silber, 2008). In this vein, Grosse et al. (2008) incorporate measures of education, health, nutrition and general welfare in the assessment of pro-poor growth. Seen as central capabilities that constitute core outcomes of well-being, these measures are deemed important in assessing the character of growth—i.e. whether or not it is pro-poor. The fact that their analysis indicates "that the income-poor are not automatically the ones that benefit most from growth in social indicators" provides further reason for arguing that non-income dimensions must be integral to policymaking (Grosse et al., 2008).

The debate over pro-poor growth remains unsettled. While advancing, it gained the company of a new—and arguably complementary—debate that took form in the literature.

4 INCLUSIVE GROWTH

Amidst the unfolding of the debate over pro-poor growth, the concept of inclusive growth came to light and took hold, from then on coexisting with the concept of pro-poor growth in the absence of a clear specification of their relationship.

The usage of the term 'inclusive' in the characterisation of growth episodes can be traced back at least to the turn of the century, when Kakwani and Pernia (2000) employed it to highlight the nature of what they considered to constitute pro-poor growth. Defining pro-poor growth as "one that enables the poor to actively participate in and significantly benefit from economic activity" (Kakwani and Pernia, 2000: 3), the reference to it as "*inclusive* economic growth" (Kakwani and Pernia, 2000: 3) intended to stress the particular attributes that make pro-poor growth distinct. Yet, as denoted above, the concept of pro-poorness in the literature remained focused on (the level and distribution of) income outcomes, with non-income outcomes incorporated more recently. In turn, the notion of participation in and benefitting from growth processes identified with inclusiveness came to be seen as related to, yet distinct from, pro-poor growth, pertaining to a broader concept of inclusive growth.

Beyond an attempt to clarify or emphasise the meaning of pro-poor growth, the emergence of the concept of inclusive growth may be seen as relating to the realisation that growth processes may have different impacts not just across the distribution of income, but also among ethnic and gender groups and geographical regions, as well as that rather than outcomes being the only important aspect, whether and how people engage in the growth process matters. Yet the many definitions of inclusive growth defy the specification of the actual foundations behind the inception of the concept.

Much has been written about inclusive growth, and it is ever more present in policymaking and policy debates, but much like what has happened with the concept of pro-poor growth, no unanimous concept of inclusive growth has emerged. To make things worse, both concepts share the attention of scholars and policymakers, and the variety of definitions of both complicates the task of disentangling them.

In a clear illustration of how the concept of inclusive growth has both conquered centre stage and remains indefinite, Klasen (2010) recently pointed out "Inclusive growth has become a strategic pillar for guiding the activities of the Asian Development Bank (ADB) in its operational strategy. However, there exists no clear definition or indicator to monitor the progress of inclusive growth at the country, project, or program level" (Klasen, 2010: iii). Only recently have concerted efforts towards establishing means to measure progress in inclusive growth started to generate analytical frameworks (Ianchovichina and Lundstrom, 2009; Klasen, 2010; McKinley, 2010). Yet the debate is far from settled.

Indeed, some definitions of inclusive growth are interchangeable with definitions of pro-poor growth. For instance, Habito (2009) defines inclusive growth as GDP growth that leads to significant poverty reduction, which is no different from how Grosse et al. (2008) define 'weak absolute pro-poor growth'. Whereas Habito (2009) considered the multidimensional nature of poverty, examining non-income factors affecting the poverty elasticity of growth, the

conceptualisation of inclusiveness adopted was nonetheless restricted to poverty. In this perspective, Rauniyar and Kanbur (2010) noted that, if inclusiveness is understood as being captured by poverty, then inclusive growth is indistinguishable from pro-poor growth—defined as growth associated with poverty reduction.

A definition of inclusive growth based on a conceptualisation of inclusiveness as increasing equity in the distribution of income, as adopted by Rauniyar and Kanbur (2010), is tantamount to 'relative pro-poor growth', as defined by Grosse et al. (2008). Elaborating on their definition, Rauniyar and Kanbur (2010) pointed out that inclusiveness—that is, income inequality reduction, according to their view—can be more or less pro-poor depending on which income levels are more positively affected, and accordingly argue that the focus of policy for poverty reduction must be growth that increases the lowest incomes.

Extending the discussion to incorporate non-income dimensions, Rauniyar and Kanbur (2010) distinguished between inclusive growth—referring to the distribution of increases in income—and inclusive development—referring to the distribution of improvements along dimensions other than income. McKinley (2010) and Klasen (2010) concur with this distinction between inclusive growth and inclusive development, defining the former as being limited to income and the latter as including non-income dimensions. In turn, while specifically subscribing to this distinction, McKinley (2010) admittedly uses the term 'inclusive growth' in reference to what pertains to inclusive development according to this distinction.

Along the lines of the definitions of pro-poor growth to which they relate, these conceptualisations of inclusive growth focus on outcomes. Klasen (2010) makes a distinction between pro-poor and inclusive growth based on which groups are recipients of the outcomes from growth; according to him, "pro-poor growth focuses on people below the poverty line, while inclusive growth is arguably more general: it wants growth to benefit all stripes of society, including the poor, the near-poor, middle income groups, and even the rich" (Klasen 2010: 2). This relates to the meaning of inclusiveness with respect to the distribution of the outcomes of growth. Dagdeviren et al. (2000: 7) highlight the importance of this issue with respect to the role of the distribution of income in poverty reduction; according to them, "if redistribution is used to reduce poverty, be it transitory or structural, then key policy issues are redistribution from whom, to whom, and by what mechanism."

If inclusiveness is conceived of in terms of equity, and thus considered as entailing equitable sharing of growth, it signifies that the benefits of growth must be evenly distributed, in which case one could argue that while benefitting everyone, growth should not affect inequality, because if it did, one or more segments of society would be disfavoured. Rather than implying this, which is at odds with most notions of pro-poorness, Klasen's (2010) point brings up a conceptualisation of inclusiveness as non-zero sum; that is, rather than beneficial outcomes to one group coming at the expense of other groups, everyone should benefit while the poor accrue greater benefits. This interpretation does not violate the notion that inclusiveness entails not excluding any particular group (from the benefits of growth, in this case) and accommodates the notion of benefitting the most those groups that are most disadvantaged. Seen in terms of the reduction of disadvantages, "inclusive growth could be termed 'disadvantage-reducing' growth" (Klasen, 2010).

An alternative way to conceptualise inclusive growth involving a distributional concern was proposed by Ali and Son (2007), switching the focus from outcomes to opportunities.

They proposed that "growth is defined as inclusive if it increases [a] social opportunity function [that] depends on … (i) average opportunities available to the population, and (ii) how opportunities are shared among the population."

In turn, Ianchovichina and Lundstrom (2009) view inclusive growth as positive sum in terms of income outcomes, but their emphasis is on the pace and pattern of growth, which they consider interlinked. For them, inclusive growth involves long-term sustainability and structural transformation "for economic diversification and competition, including creative destruction of jobs and firms" and requires growth to be "*broad-based* across sectors, and *inclusive* of the large part of the country's labour force" (Ianchovichina and Lundstrom, 2009: 2). Based on a central concern for poverty reduction, they aligned their conceptualisation of inclusive growth with the absolute definition of pro-poor growth. But they highlighted that "while absolute pro-poor growth can be the result of direct income redistribution schemes […] inclusive growth is about enlarging the size of the economy, rather than redistributing resources" (Ianchovichina and Lundstrom, 2009: 3). According to them, whereas direct income redistribution can be serviceable in attenuating possible burdens in initial stages of growth processes, the long-term approach inherent to inclusive growth requires a focus on productive employment particularly concerned with raising "the pace of growth by utilizing more fully parts of the labour force trapped in low-productivity activities or completely excluded from the growth process" (Ianchovichina and Lundstrom, 2009: 3). Inclusive growth accordingly involves both growth in (self- or contractual) employment and the distribution of such growth.

The African Development Bank (AfDB) also pays central attention to the rate and pattern of growth, considering long-term, sustainable high economic growth necessary to reduce poverty and growing productive employment necessary to concomitantly reduce inequality (AfDB, 2012). In this perspective, the AfDB defines inclusive growth as "economic growth that results in a wider access to sustainable socio-economic opportunities for a broader number of people, regions or countries, while protecting the vulnerable, all being done in an environment of fairness, equal justice, and political plurality" (AfDB, 2012: 2). The AfDB marks as a distinction from pro-poor growth this concern with the amplification of opportunities across society, as contrasted with the concern with only the welfare of poor people.

The concept of productive employment as a fundamental element of inclusive growth was stressed by Bhalla (2007). The concern with the growth and distribution of employment growth expressed by Ianchovichina and Lundstrom (2009) was present in Bhalla (2007), but in addition to that Bhalla also considered a growth in productivity in existing jobs integral to inclusive growth. To assess the inclusiveness of growth, Bhalla thus proposed combining measures of productive employment—types and sectorial distribution of jobs created; productivity growth especially in lower-income employment—with measures of poverty and malnutrition.

In line with Bhalla (2007) and Ianchovichina and Lundstrom (2009), Klasen (2010) also highlights the concern with the ways the process of growth happens, identifying two possible focal aspects for determining growth episodes that are inclusive—outcomes and process. Inclusive growth definitions closely related to pro-poor conceptualisations of growth follow the former, whereas inclusive growth definitions incorporating the understanding that how growth outcomes are generated matters align with the latter. Typically, though, when the nature of growth is accounted for, it combines with, rather than substitutes for, outcomes.

As indicated by Klasen (2010), a focus on process involves a sense that for a growth episode to be inclusive it needs an extensive contribution of inputs from the labour force. It also involves the notion of non-discrimination, meaning that no person or group is denied participation in the growth process. Based on the consideration of both outcomes and process, Klasen suggests that "a conceptual approach to inclusive growth could be nondiscriminatory growth that grants equal *nondiscriminatory access to growth, plus disadvantage-reducing growth* (i.e., reducing disparities of disadvantaged groups)" (Klasen, 2010: 3).

In line with Kakwani and Pernia (2000), according to the International Policy Centre for Inclusive Growth (IPC-IG), inclusive growth "implies participation and benefit-sharing".[7] Based on how those two core aspects are discussed, it can be interpreted that participation relates to both process—active involvement in ensuring that the process of growth is inclusive—and outcome—expansion of the number of people productively contributing to the economy, which may be conceived of as manifested by employment ratios. Benefit-sharing relates specifically to the distribution of outcomes—which will in turn also affect participation. Each of these aspects involves the concepts employed, though not fully developed, in other tentative definitions.

Finally, Ramos, Ranieri and Lammens (2013) also follow the concept of benefit-sharing and participation. In an attempt to measure inclusiveness, the authors develop this definition further by specifying indicators as proxy for these two dimensions. Benefit-sharing is represented by poverty and inequality, which are consensually used as core indicators of pro-poor and inclusive growth; and the employment-to-population ratio is used as proxy for participation to indicate the primary goal of being involved, even if limited to the economic sphere. Whereas the many definitions of inclusive growth that populate research and practice constitute enriching contributions, the debate remains essentially exploratory and seems far from a synthesis. Indeed, the lack of a core guiding concept of inclusive growth in a volume on the proceedings of a 2011 OECD/World Bank conference in which academics and practitioners from diverse countries discussed the policy challenges to achieve and sustain inclusive growth (Mello and Dutz, 2012) clearly denotes how we continue in search of a clear and concise consensual definition of inclusive growth. Assessing the presentations and debates at that conference, White (2012) indicated that inclusiveness was used with at least six different meanings: lower income inequality; a reduction in absolute poverty; internalising the externalities of growth; reducing the North–South income gap; reducing the inequality in opportunities, such as in access to education, finance and the judicial system; and greater space for emerging market economies in the governance of international financial institutions. As they approach inclusive growth from different angles, the contributions to the volume are instrumental in exploring the multiple dimensions of the concept of inclusiveness. At the same time they denote how convergence towards a consolidated definition is not yet on the horizon.

In view of how the definition of inclusive growth remains indefinite—despite the progress of the conceptual debate—it remains an intuitively straightforward and yet elusive concept.

5 MEASURING INCLUSIVE GROWTH

In the absence of a definite concept of inclusive growth, attempts to measure it have involved the tentative operationalisation of aspiring definitions. Even so, there have been few actual attempts to operationalise definitions of inclusive growth and, accordingly, measure inclusive growth; the vast majority of texts addressing the conceptualisation of inclusive growth do not go beyond a conceptual exercise (e.g. Rauniyar and Kanbur, 2010).

Whereas there are studies analysing country performance in and contributors to pro-poor growth (e.g. Son and Kakwani, 2008)—and in fact every assessment of poverty trends can be considered to constitute an analysis of the pro-poorness of growth from a 'weak absolute' perspective insofar as over long enough periods growth is virtually a given—analyses of the inclusiveness of growth are still rare. The few existing analyses mirror the conceptual debate and also highlight practical issues related to the operationalisation of definitions of inclusive growth, especially regarding data availability.

In a study of the inclusiveness of growth in Asian developing countries, Habito (2009) analysed patterns of growth from a 'weak absolute' pro-poor growth perspective—i.e. concerned with whether growth reduced poverty and, more specifically, with the poverty elasticity of growth. Habito compares the poverty elasticity of growth with both a one-dimensional—income-based—and a multidimensional—the United Nations' Human Poverty Index—measure of poverty, finding significant differences between them. This, Habito concludes, points to the importance of approaching poverty from a holistic perspective to better inform development interventions.

Adopting a comprehensive perspective, Ianchovichina and Lundstrom (2009) presented an analytical framework for assessing inclusive growth, paying attention to both the pace and the pattern of growth. Covering several dimensions, such as the employability of the poor, the cost of capital, geography and infrastructure, the framework centres attention on the constraints to inclusive growth, thus focusing on what is lacking to enable full inclusiveness rather than on measuring what degree of inclusiveness a country has attained. Therefore, they offer no index of inclusiveness, but as their application of the analytical framework to the case of Zambia demonstrates, their approach is particularly apt for diagnosing barriers to inclusiveness and thus can be instrumental to guiding policymaking.

McKinley (2010) proposed an inclusive growth index based on the Asian Development Bank's *Long-Term Strategic Framework 2008–2020*, which identifies that inclusive growth 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" (McKinley, 2010: 1). The index includes indicators of growth, productive employment, economic infrastructure, income poverty and equity, gender equity, human capabilities and social protection. The proposed data measurements for each of these indicators are fairly coherent with the conceptualisation of inclusive growth informing the index and are consistent with data availability, which McKinley highlights as a challenge for the productive operationalisation of definitions of inclusive growth.

In constructing a composite index incorporating diverse inclusive growth indicators, McKinley recognises the inevitability of value judgments and argues that such an endeavour nonetheless leads to the clarification of differences and facilitates work towards a common ground as well as assessments of progress. Whereas McKinley's proposed composite

index of inclusive growth does constitute a cogent contribution in these regards, it is nonetheless wanting, especially because the weighting scheme adopted is markedly arbitrary and the scoring system lacks a clear specification. Yet, despite these shortcomings, the application of the inclusive growth composite index in case studies on Bangladesh, Cambodia, India, Indonesia, the Philippines and Uzbekistan is a welcome exception to the general lack of actual applications of operationalised definitions to assess inclusive growth.

Further illustrating the ongoing effort to devise means to assess inclusive growth with a view to guiding development policies, in line with the incorporation of inclusive growth as a guiding principle in its long-term strategy, the African Development Bank has indicated that it is preparing an inclusive growth index. The index reportedly includes job creation, access to basic infrastructure and social services, access to business opportunities, voice and accountability, regional integration, social protection, access to productive knowledge, and agricultural productivity (AfDB, 2012). The development of such an index must overcome the same challenges confronting the composite index proposed by McKinley (2010).

More recently, Ramos, Ranieri and Lammens (2013) suggested measuring the inclusiveness of growth. This concept is slightly different from the one used in earlier indices, as it aims to measure the *impact* of the growth process in terms of inclusiveness and omits from the index the amount of growth achieved. Following the definition of inclusive growth as a process that enhances benefit-sharing and participation, it includes three indicators in the analysis: income poverty, inequality (as proxy for the benefit-sharing dimension) and the employment-to-population ratio (as proxy for participation). The index gives prominence to poverty and inequality, which have consistently been the core indicators of pro-poor and inclusive growth, combining them with the indicator of employment to account for the participation dimension. These three indicators were deliberately given the same weight in the index in an attempt to attenuate the shortcomings of arbitrarily determining the weight of each indicator. The paper provides an analysis of the level of inclusiveness of 43 developing countries in two points in time, as well as of the inclusiveness of the growth process—i.e. the changes in the level of inclusiveness as compared to GDP growth in the period.

Attempts to measure inclusive growth are not only windows into important changes within and across countries but also contribute insights into the conceptual debate on inclusive growth, as they test the suitability of definitions. They have mostly remained limited to assessing changes in inclusiveness accompanying growth. Given that this simply identifies whether they occur concomitantly rather than whether they are interrelated, they neither establish causality nor account for the manner through which growth took place.
This must be taken into account when considering the meaning of the reported findings.

6 CONCLUDING REMARKS

Owing to the recognition of and the concern with overcoming social ills, and the development of the understanding that growth and social progress can and must go hand in hand, the concept of inclusive growth has gained prominence in development circles. That has occurred while the actual meaning of the concept is still being sought, which is why—as much as the concept is ever more present and its essence is fairly intuitive—its usage remains a testimony to the diversity of conceptualisations within the ongoing process of maturation of the debate on inclusive growth.

In tandem with the conceptual debate, governments and multilateral development institutions speak of inclusive growth and devise and label objectives, strategies and policies accordingly. But there is no clarity about what is actually meant by inclusive growth; definitions vary and tend to be vague. In general, what seems to be implied is that inclusive growth involves improving the lot of underprivileged people in particular and overall making opportunities more plentiful while lessening barriers to the attainment of better living conditions. But exactly what these entail and whether and how they are interconnected is not made clear.

As the meaning of inclusiveness determines policy objectives, while it remains unclear, so do the objectives to be sought in designing policies aimed at promoting inclusive growth. And as noted by White (2012), the "absence of clarity about objectives is not helpful for policymakers." Its consequence is that policies so intended actually may not promote inclusiveness, or if they do, they may not constitute the most effective ways to promote it. Hence the importance of the debate on the definition of inclusive growth.

Definitions of inclusive growth are closely related to definitions of pro-poor growth, with no clear division between them, given the several differing approaches to defining each of them. Some definitions of inclusive growth are interchangeable with pro-poor growth, either with the 'weak absolute' or the 'relative' definition of pro-poor growth; others incorporate non-income dimensions while keeping the focus on outcomes, yet others switch the focus to process and emphasise the opportunities to participate or who actually participates in the process of growth. There are also attempts to combine outcomes and process, following the understanding that everyone should share the benefits of growth while everyone should have a say in the orientation and productively contribute to the process of growth. Based on this understanding, the notion of productive employment, which embraces both aspects, has been gaining space in the debate on inclusive growth.

The concern with productive employment distances the concept of inclusive growth from pro-poor growth, helping to make a distinction between them. But it adds to rather than substitutes for the concern with poverty and inequality pertaining to pro-poor growth—i.e. whereas attention to productive employment helps to devise a distinction between pro-poor and inclusive growth, it does not dismiss the centrality of poverty and inequality to determining inclusiveness. Poverty and inequality are also at the heart of conceptualisations of inclusive growth that do not include productive employment but go beyond income, thus being the core factors in virtually every conceptualisation of inclusive growth.

What makes growth inclusive? What does inclusiveness mean? The answer to these fundamental questions seems to start with poverty and inequality reduction; for some that is sufficient, but for most inclusiveness requires addressing dimensions beyond what pertains to simply improving the income condition of the poor. What remains an open debate is specifically what these dimensions are, and how different dimensions relate to each other and to poverty, inequality and growth to constitute a coherent definition of inclusive growth.

In this light, there are a number of central conceptual issues to address to elucidate what constitutes inclusive growth. Specifying what inclusiveness means is at the forefront of this endeavour. Is it equity? Empowerment? Opportunities? Participation? Satisfaction? A combination of these? Or something else? With this clearly defined it becomes possible to make sense of inclusive growth in a way that enables arriving at a dependable operationalised definition.

A key issue in devising and operationalising a definition of inclusive growth is how to account for the interrelationships among the elements defining inclusive growth. Most fundamentally, how to assess the relationship between growth and any element of inclusiveness? Can it be established that changes in inclusiveness result from growth? Must it be done to identify inclusive growth episodes? Or does it suffice to identify positive changes in inclusiveness that accompany growth? Whereas in principle determining that a growth episode was inclusive requires establishing causality, conceptually and analytically the correlation approach has been prevalent. This is an aspect of the debate that must advance. Attention to the causal relationship between growth and changes in inclusiveness in fact relates to the concern with the process of growth, wherein assessing the manner through which growth takes place helps to assess the relationship (or its lack thereof) between growth episodes and changes in inclusiveness.

Along these lines, it is important to bear in mind that a country's growth trajectory and its consequences are distinct from its aspirations and corresponding concerted efforts towards them. The former refers to economic activity and its implications, whereas the latter refer to the prevailing national concerns and social forces as manifested in actual policies. In light of this distinction between circumstantial events and fundamental characteristics, economic activity accompanied by positive changes in measures of inclusiveness is necessary and may be sufficient for deeming a *growth episode* inclusive, but it is questionable whether it is sufficient to establish that the *process of growth* and the *country* are inclusive. That growth in a given period increases inclusiveness does not automatically make the process of growth inclusive, and if the process is considered to be a consequence of the country's socio-political dynamics, it consequently does not automatically allow a country to be called inclusive. For instance, in the absence of a socio-political concern for inclusiveness, a growth episode is merely circumstantial and gains in inclusiveness may be reversed in subsequent periods. With policies in place to promote inclusiveness, the risk of such a reversal is reduced even in the face of crises, thus making the country resilient. Conversely, the lack of a prevailing national concern with inclusiveness and of its actual manifestation in public policy makes it less certain that improvements in inclusiveness will endure over extended periods of time. This distinction advises caution in making reference to countries with respect to levels of inclusiveness inasmuch as it invokes attention to the difference between being inclusive and having a good index of inclusiveness, whichever it might be, if it only accounts for outcomes. Indeed, should the index fail to account for process, a country with a high index of inclusiveness at a given moment in time is not necessarily the country that is most inclusive.

A related issue that is typically overlooked is how to treat instances in which even though the country follows policies geared towards the promotion of greater inclusiveness, there is a worsening of one or more indicators of inclusion due to an external shock. Externally generated crises may be burdensome to the point of causing the deterioration of one or more indicators of inclusiveness. In this context, what should happen in an inclusive country? Could economic activity be deemed inclusive if the poorer suffer less from the crisis than the others? In this case, the assessment of inclusiveness is situated within the external context and is sensitive to the distribution of the impacts of the crisis. Or should any period during which deterioration in inclusiveness occurs be deemed non-inclusive? This case implies disregarding both the source of the deterioration in inclusiveness and the distribution of the corresponding burden. Although this is less of an issue in longitudinal analyses, it is relevant to determining inclusiveness at particular moments in time.

Another issue to consider is that measuring in isolation and simply adding up or averaging the contributions of a number of constituent elements of inclusiveness does not necessarily generate a coherent composite measure of inclusive growth. It is necessary to account for the relative relevance, the complementariness and the feedback effects among them. If gains in inclusiveness are considered to result from the net result of the sum or average of the individual contribution of each of the elements, it is possible to attain gains in inclusiveness with a number of combinations that may include null or negative contributions as far as they are eclipsed by the contribution of other elements. For instance, in this case it is possible that a country is identified as having had a gain in inclusiveness while its poverty rate reduced and its income inequality increased, a situation that is at odds with 'relative' definitions of pro-poor growth and potentially with conceptualisations of inclusive growth concerned with dimensions other than income, since, for example, widening inequality may negatively affect poorer people's ability to enjoy opportunities from, and to participate in the definition of the nature of, the growth process.

There are also a number of issues pertaining to data choices and availability that play a role in the operationalisation of a definition of inclusive growth. One issue that is particularly relevant as it relates to the meaning of inclusiveness is that no single measure and hardly any collection of measures capture the complex dynamics of life confronting people across countries. For instance, PPP poverty measures account for price differentials but are not representative of differentials in quality of life, since they do not account for differentials in access to general public services and specific social protection services or for cross-country differences in the broader context underlying living conditions. The same applies for income inequality measures.

All these issues highlight how challenging it is to define and devise ways to measure inclusive growth, and yet they are not exhaustive. But at the same time they constitute an invitation for thinking about constructive ways to move the debate on inclusive growth forward.

APPENDIX 1

DEFINITIONS OF INCLUSIVE GROWTH

Grinspun (2004)

In discussing (in *IPC One Pager*, No. 6) the debate following the releases of IPC *One Pagers* that contrasted Ravallion's and Kakwani's definitions of inclusive growth, Grinspun argues that it involves both poverty and inequality reduction.

Ali and Son (2007)

Ali and Son (2007) consider growth inclusive "if it increases the social opportunity function, which depends on two factors: (i) average opportunities available to the population, and (ii) how opportunities are shared among the population."

Habito (2009)

Habito defines "inclusiveness of economic growth […] as gross domestic product (GDP) growth that leads to significant poverty reduction."

Ianchovichina and Lundstrom (2009)

"In short, inclusive growth is about raising the pace of growth and enlarging the size of the economy, while leveling the playing field for investment and increasing productive employment opportunities."

Rauniyar and Kanbur (2010)

In reviewing the ADB literature, Rauniyar and Kanbur point out that while there is no agreed and common definition of inclusive growth or inclusive development, the term is understood to refer to "growth coupled with equal opportunities" and consisting of economic, social and institutional dimensions.

They provide further specification while distinguishing between inclusive growth and inclusive development:

"Inclusive growth is that which is accompanied by lower income inequality, so that the increment of income accrues disproportionately to those with lower incomes."

"Inclusive development […] refers to the improvement of the distribution of well being along […] dimensions [other than income] at the same time as the average achievement improves."

McKinley (2010)

McKinley details two dimensions of inclusive growth: "(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."

Klasen (2010)

While "inclusive growth is arguably more general [than pro-poor growth, as] it wants growth to benefit all stripes of society, including the poor, the near-poor, middle income groups, and even the rich.[…] in terms of outcome, inclusive growth could be termed 'disadvantage-reducing' growth."

APPENDIX 2

Definitions of Inclusive Growth: Summary of Key Elements

	Poverty	Inequality	Growth	Productive Employment	Capabilities / Empowerment	Gender Inequality	Access to Infrastructure	Social Protection	Participation	Targeted Policies	Basic social Services	Good governance	Opportunity	Barriers for Investment	Benefits of Growth
Ravallion and Chen (2003)	X														
Bhalla (2007)	X			X	X										
Ianchovichina and Lundstrom (2009)	X		X	X										X	
Habito (2009)	X														
Kakwani and Pernia (2000)		X			X					X					
White and Anderson (2001)		X													
Kakwani, Khandker and Son (2004)	X	X	X												
Son and Kakwani (2008)	X	X	X												
Kraay (2004)	X	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		
Rauniyar and Kanbur (2010)		X	X		X			X	X				X		X
McKinley (2011)	X	X	X	X	X	X	X	X			X	X			

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NOTES

1. As the objective here is to discuss the emergence and current state of the concept of inclusive growth, the paper does not engage in surveying the vast literature on the relationship between growth and poverty and income distribution, limiting its scope to situating the debate over the concept of inclusive growth within that body of literature. For surveys of the literature on poverty, income distribution, and growth and development, see Adelman and Robinson, 1988; Lipton and Ravallion, 1995; Kanbur, 2000.

2. Experience involves both practice and aspirations, whatever their basis, and is mediated by perceptions; the human experience involves not simply what happens, but how what happens is interpreted, as well as how that stands vis-à-vis what one desires to happen, and that includes both objective and abstract lenses.

3. A counter argument to the concerns with the distributional consequences of growth that emerged at the time could have been that there had not been enough time for countries to reach the necessary income threshold after which inequality would retreat. However, rather than following this rationale and insisting on the trickle-down promise, the literature changed gears and incorporated distributional concerns.

4. In practice, this definition depends on the chosen measure of poverty. The same applies to the other definition of pro-poor growth, as regards both poverty and inequality.

5. This requirement is particularly relevant when poor people's share of the population is considerably larger than their share of national income. It does not, however, guarantee that absolute increases in poor people's income are larger than the average increase in incomes, thus not guaranteeing that absolute inequality falls, although it is possible that in certain cases a reduction in absolute inequality is obtained.

6. World Bank data (US$2/day).

7. IPC-IG website: <www.ipc-undp.org>.

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