

MCOM SEM 2 ECONOMICS OF GROWTH, DEVELOPMENT AND PLANNING-2

UNIT 3- GROWTH MODELS FOR UNDER-DEVELOPED COUNTRIES- II

❖ THEORY OF INCLUSIVE GROWTH

Inclusive Growth – Meaning, Features, Importance and Measures

Inclusive Growth is one of the most important concepts in modern development economics.

In simple words, it means a pattern of economic growth that **includes everyone**, gives **equal opportunities**, reduces **poverty**, and ensures that **benefits of development reach all sections of society**—especially the poor, the backward and the vulnerable (unprotected) groups. It is not just “growth of GDP”, but **growth with equity, justice, and social participation**.

Traditional economic growth focuses only on increasing national income. But such growth often benefits only a few groups—big companies, rich people, or urban areas. Many remain poor, jobless or socially excluded. To correct this imbalance, economists, international institutions (like the World Bank, UNDP), and countries like India have emphasised the idea of **inclusive and sustainable growth**.

Meaning of Inclusive Growth

Inclusive growth means:

- ✓ Growth that **creates jobs**
- ✓ Growth that **reduces inequalities**
- ✓ Growth that **raises the living standards of the poor**
- ✓ Growth that **improves access to health, education, housing, and sanitation**
- ✓ Growth that **empowers marginalized groups**

- ✓ Growth that is **regionally balanced** (urban + rural)
- ✓ Growth that is **sustainable** for future generations

Thus, **inclusive growth = fast growth + fair growth + shared growth.**

Characteristics / Features of Inclusive Growth (Detailed Explanation)

1. Broad-based Economic Growth

Inclusive growth is not limited to one sector like industry or services. It focuses on **all sectors**—agriculture, manufacturing, services, small businesses, rural sectors. When growth happens in all sectors, opportunities increase for everyone, not just for skilled or urban workers.

2. Reduction of Poverty

Inclusive growth aims to **lift people out of poverty** by:

- creating employment
- providing social security
- encouraging entrepreneurship
- giving access to education and healthcare

The main idea is **no one should be left behind.**

3. Equal Opportunities for All

It ensures that every person—irrespective of caste, gender, region, religion or economic background—gets **equal access** to resources such as education, credit, health facilities, markets, and employment.

4. Focus on Productive Employment

Instead of giving only subsidies or welfare schemes, inclusive growth emphasizes **earning opportunities**.

This includes:

- skill development
- vocational training
- job creation in MSMEs
- promotion of self-employment

“Work is more important than welfare” is a major principle here.

5. Social Inclusion

This means integrating disadvantaged groups such as:

- Scheduled Castes (SCs)
- Scheduled Tribes (STs)
- OBCs
- Women
- Disabled persons
- Minorities
- Rural poor

Social inclusion ensures these groups are not excluded from mainstream growth.

6. Regional Balance

Inclusive growth reduces the gap between:

- rich and poor states
- urban and rural areas
- developed and underdeveloped regions

This avoids “concentration of wealth” in only metro cities.

7. Good Governance

Without transparent and accountable governance, growth benefits do not reach people.

Inclusive growth requires:

- efficient public services
- reduction in corruption
- digital governance
- transparent policy implementation

8. Access to Basic Services

Essential services like:

- health
- education
- drinking water
- electricity
- sanitation
- affordable housing

These are basic rights that help people live with dignity and participate in the economy.

9. Financial Inclusion

Ensuring every person can participate in the financial system through:

- bank accounts
- credit facilities
- insurance
- digital payments

This empowers the poor to save and invest.

10. Sustainable Development

Growth must not harm the environment.

Inclusive growth ensures:

- renewable energy
- pollution control
- conservation of natural resources
- long-term environmental protection

Importance of Inclusive Growth (Detailed Explanation)

1. Reduces Income Inequality

By improving access to education, jobs, credit and markets, inclusive growth reduces the gap between rich and poor.

2. Creates Social Harmony

When everyone grows together, social conflicts reduce.
Reduced inequality leads to stability and peace.

3. Increases National Productivity

Healthy, educated, skilled workers increase a country's production and efficiency.

4. Boosts Consumer Demand

More people earning → more spending → greater demand → higher production → further growth.

5. Strengthens Democracy

Inclusive growth ensures fair opportunities, justice and empowerment, which strengthens democratic participation.

6. Eliminates Poverty in the Long Run

Not only current poverty but also intergenerational poverty can be reduced through:

- education
- healthcare
- employment

7. Contributes to Sustainable Growth

Growth without inclusion is unstable; inclusive growth ensures long-term development.

Barriers / Challenges to Inclusive Growth

1. High Income Inequality

The rich get richer, but the poor do not benefit equally.

2. Low Human Development

Poor quality health, education, malnutrition and lack of skills limit people's ability to participate in growth.

3. Urban-Rural Divide

Urban areas grow fast, while rural areas remain poor.

4. Unemployment and Underemployment

Especially among youth, women and rural population.

5. Slow Agriculture Growth

Agriculture employs 45–50% of India's population but gives low income to farmers.

6. Poor Infrastructure

Lack of roads, electricity, water and digital connectivity restricts opportunities in backward regions.

7. Social Exclusion

Groups like SC/ST/OBC, minorities and women face historical disadvantages.

8. Regional Imbalances

States like Maharashtra, Gujarat and Karnataka grow faster than states like Bihar, Odisha and Jharkhand.

Measures to Achieve Inclusive Growth

1. Investment in Education and Skill Development

- universal primary education
- vocational training

- digital literacy
- higher education scholarships

This builds a skilled workforce.

2. Strengthening Healthcare

- affordable medical treatment
- nutrition programs
- maternal and child health
- Ayushman Bharat, etc.

Healthy people can participate better in economic activities.

3. Promoting Employment and Entrepreneurship

- support to MSMEs
- Start-up India
- Make in India
- MUDRA loans
- job-oriented industrial policies

4. Rural Development

- PM Gram Sadak Yojana
- Rural electrification
- irrigation projects

- village industries
- rural employment (MGNREGA)

5. Agriculture Reforms

- better seeds and technology
- minimum support price (MSP)
- crop insurance
- storage and marketing infrastructure

6. Social Protection Schemes

- pensions
- insurance
- food security
- subsidies for the poor
- housing for all

7. Financial Inclusion

- Jan Dhan Yojana
- UPI
- digital banking
- microfinance institutions
- SHGs (Self-Help Groups)

8. Women Empowerment

- education for girls
- equal wages
- safety and legal rights
- reservation in political bodies

9. Strengthening Governance

- transparency
- e-governance
- reducing corruption
- efficient public delivery systems

Conclusion

Inclusive growth is not just a policy but a **philosophy of development** that ensures economic prosperity is shared fairly among all citizens. It targets faster growth while removing structural inequalities, protecting the environment, improving social justice, and promoting opportunities for everyone.

In a country like India—with vast diversity, poverty and regional differences—**inclusive growth is essential** for long-term stability, peace and sustainable development. It transforms growth into a tool of empowerment, equality and human dignity. Thus, inclusive growth ensures that “**no one is left behind**” and development becomes truly meaningful.

ROSTOW'S STAGES OF ECONOMIC GROWTH

Introduction

W.W. Rostow, an American economic historian, developed a comprehensive theory of economic development titled “**The Stages of Economic Growth: A Non-Communist Manifesto**” (1960).

His theory was intended as an alternative to Karl Marx's historical materialism and proposed that **all nations evolve through a linear sequence of five stages** from primitive to highly modernised economies.

Rostow believed that economic growth is a **systematic, evolutionary, and irreversible process** driven by technological progress, rising investment, structural transformation, and expansion of markets. He analysed development primarily from the viewpoint of **capital formation, industrialisation, and productivity growth**.

His model is considered a **linear-stages growth theory**, emphasizing that **every country must pass through all five stages in a specific order** to reach modern economic maturity.

THE FIVE STAGES OF ECONOMIC GROWTH

Rostow's framework divides national development into the following stages:

1. Traditional Society (Pre-Newtonian Stage)

This is the **first and primitive stage** of the economy with extremely limited productive capacity.

Key Features

1. **Dominance of Agriculture:**

- 75–90% of the population engaged in subsistence farming.

- Output depends heavily on natural conditions, rainfall, and seasons.

2. Primitive Technology:

- Absence of scientific knowledge or modern machinery.
- Production techniques remain unchanged for centuries.

3. Low Productivity:

- Per capita income is very low.
- No surplus for capital formation.

4. Rigid Social Structure:

- Strong influence of customs, traditions, caste, and feudal hierarchy.
- Limited occupational mobility.

5. Lack of Infrastructure:

- Poor roads, weak communication, no modern banking, low literacy.

6. Pre-scientific Attitude:

- Religious explanation dominates; rational or scientific thinking is weak.

Outcome

The economy remains **static**, unable to grow due to:

- low savings

- low investment
 - low productivity
- This is a “**vicious circle of poverty.**”
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2. Preconditions for Take-Off (Transitional Stage)

This stage marks the **transformation from a traditional economy to a modern industrial system.**

Key Characteristics

1. **Building of Economic and Social Infrastructure:**

- Roads, railways, electricity, irrigation, telecommunication.
- Investment in schools, vocational training, and healthcare.

2. **Emergence of Entrepreneurial Class:**

- Growth of commerce and trading communities.
- Development of banking and financial institutions.

3. **Agricultural Commercialisation:**

- Use of improved seeds, fertilizers, tools.
- Shift from subsistence farming to market-oriented production.

4. **Rise in National Savings:**

- Savings increase to around **5–10% of national income**, enabling future investment.

5. **Political and Administrative Reforms:**

- Strong central government.
- Development policies encouraging industrialisation.

6. Scientific Outlook Develops:

- Acceptance of rational thinking and innovation.

Outcome

The economy **prepares itself** for rapid industrial expansion.
This stage sets the **foundation** for the take-off phase.

3. Take-Off Stage (The Great Turning Point)

This is the **most crucial stage** where the economy begins **self-sustained and rapid growth**.

Key Features

1. Sharp Increase in Investment:

- Investment rises to **15–20% of national income**.
- Enabling accelerated industrial and infrastructural development.

2. Leading Sectors Emerge (“Growth Poles”):

- Steel, cement, chemicals, automobiles, textiles, etc.
- These sectors generate multiple backward and forward linkages.

3. Rapid Technological Progress:

- Adoption of modern machines, scientific methods, R&D.

- Productivity increases significantly.

4. **Expansion of Manufacturing Industries:**

- Shift from agriculture to industry-led growth.
- Mass production and factory systems develop.

5. **Institutional Transformation:**

- Banking reforms, capital markets, transport, public administration strengthen.

6. **Urbanisation and Migration:**

- Large-scale shift of labour from rural to urban areas.

Outcome

The economy becomes capable of **self-sustained growth**, without requiring external push.

Growth becomes **continuous, irreversible, and cumulative**.

4. Drive to Maturity (Diversified Growth Stage)

This stage represents the period when the economy achieves **long-term stability and diversification**.

Key Characteristics

1. **Expansion and Diversification of Industries:**

- Production shifts to complex goods such as engineering products, machinery, electronics.

2. **Technological Modernisation in All Sectors:**

- Technology becomes advanced, capital-intensive, and innovative.

3. High Level of Investment:

- Investment reaches **20–25% of GDP**.
- Sustains continuous economic expansion.

4. Increasing Urbanisation:

- Growth of cities, services, infrastructure, housing.

5. Improvement in Living Standards:

- Higher income, better public services, improved literacy and health.

6. Decline in Agriculture's Share:

- Agriculture becomes highly efficient but contributes less to GDP.

Outcome

The country achieves the ability to produce **any product or service** using modern technology and becomes increasingly **globally competitive**.

5. Age of High Mass Consumption (Final Stage)

This is the **advanced stage** where the economy experiences **high standards of living, mass consumption, and welfare expansion**.

Key Features

1. Shift to Service-Oriented Economy:

- Dominance of services like finance, education, IT, healthcare, tourism.

2. **High Per Capita Income:**

- Large disposable incomes.
- People demand luxury goods, cars, and electronic appliances.

3. **Welfare State Development:**

- The government spends heavily on social security, pensions, health, and education.

4. **Strong Consumer Culture:**

- Mass production and mass consumption of durable and non-durable goods.

5. **Decline in Poverty and Inequality:**

- Strong middle class formation.
- The majority of the population lives in urban areas.

6. **Global Leadership:**

- Advanced economies participate deeply in global trade, investment, and innovation.

Outcome

The economy becomes a **highly developed, affluent, and consumption-driven society.**

MERITS OF ROSTOW'S THEORY

1. **Simple and Systematic Framework**
Helpful in understanding long-term economic transitions.
 2. **Highlights Role of Savings and Investment**
Clear emphasis on capital formation as a driver of growth.
 3. **Stresses Importance of Technology**
Recognizes technological innovations as essential for development.
 4. **Useful for Policy Making**
Helps governments identify which stage they are currently in.
 5. **Universal Application**
Can be applied to both developed and developing nations.
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CRITICISMS OF ROSTOW'S MODEL

1. **Linear and Rigid**
Assumes all nations follow the same sequence, which is unrealistic.
2. **Eurocentric and Western-Biased**
Based on the historical experience of Western economies.
3. **Ignores External Factors**
Colonialism, foreign trade dependency, global politics not considered.
4. **Neglects Social and Cultural Factors**
Assumes economic forces alone drive development.
5. **Not All Countries Reach the Final Stage**
Many developing countries remain stuck in early stages.

6. Overemphasis on Investment

Human development and institutional quality are underplayed.

Conclusion

Rostow's Stages of Economic Growth is a landmark theory in development economics.

It presents economic development as a **dynamic, progressive, and structured process** that transforms a traditional society into a modern industrial nation.

Although the model has limitations due to its linear and Western-centric assumptions, it remains one of the most influential frameworks for understanding economic transformation.

Rostow's theory continues to be studied in universities because it offers valuable insights on:

- the role of investment
- technological progress
- structural change
- the transition from agriculture to industry to services

Thus, it serves as both a **conceptual guide** and a **policy reference** for countries aspiring to achieve sustained economic growth.

Critical Evaluation — Major Weaknesses (detailed)

1. Eurocentrism and Historical Bias

Rostow's stages are derived from the historical experience of Western industrial nations. He implicitly treats the European/American path as a universal template, ignoring different historical and cultural trajectories of non-Western societies.

2. Over-Simplification & Linearity

The assumption that *all countries* must pass through the stages in the same order is unrealistic. Many countries:

- skip stages,
- experience reversals,
- follow hybrid or divergent paths.

Economic development is neither strictly linear nor uniform.

3. Neglect of External and Colonial Factors

Rostow underplays the effects of **colonialism, unequal terms of trade, imperial extraction and global power structures** that have constrained development in many countries. External dependency can block or distort the “take-off” mechanism he proposes.

4. Over-emphasis on Capital and Investment

While investment matters, Rostow assumes capital is readily mobilisable. In practice, poor countries face savings shortages, foreign-exchange constraints and debt problems that limit investment-led growth.

5. Insufficient Attention to Institutions and Distribution

The theory largely ignores:

- the role of **institutions** (property rights, governance, legal systems),
- **income distribution** and class structures,
- political economy and conflicts that block structural change.

6. Underestimates the Role of Agriculture / Rural Sector

Rostow privileges industrialisation as the engine of development. In many successful cases, **agricultural productivity growth** and rural development are necessary preconditions and not merely antecedents.

7. Ignored Social and Demographic Constraints

High population growth, low human capital (health, education), and social inequalities can hinder the transitions Rostow outlines; his model treats these as secondary.

8. Neglect of Environmental Limits

The model assumes perpetual material expansion and consumption, paying little attention to environmental sustainability and resource constraints—an increasingly important limitation today.

9. Ideological Bias

Rostow's book was explicitly a “**non-communist manifesto**” — it favors capitalist market mechanisms and treats this path as normative, dismissing alternative development strategies (e.g., state-led, socialist or mixed models) that have also produced growth in some contexts.

Relevance and Modifications — Is the Theory Useful Today?

- **Partial relevance:** The emphasis on infrastructure, investment and technology remains valid. The idea of stages is heuristically useful to explain broad structural change.
 - **Needs supplementation:** Modern development analysis requires adding **institutions, governance, global linkages, human development, distributional policies and environmental constraints.**
 - **More pluralistic frameworks** (e.g., dependency theory, structural transformation models, institutional economics) correct Rostow's blind spots and provide richer policy guidance.
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Conclusion

Rostow's model is a historically important, easy-to-use framework that rightly highlights investment and structural change. However, its **linear, Eurocentric and historical assumptions**, neglect of external constraints, institutions, distributional issues and environmental limits make it **inadequate as a universal theory** of development. It is best used as a starting point — useful for intuition and policy focus — but must be combined with more nuanced, context-sensitive analysis for practical policy design.