

# The Shifting Economic Base of Inclusiveness

*Narendar Pani*

With more than half of the world's population now living in cities, urbanisation has long been recognised as a driving force for development. As engines of economic growth, cities have the potential to lift millions out of poverty and provide better opportunities to many more. However, economic growth can, and does, give rise to exploitation and inequality, and cities can be – and often are – places of exclusion and even extreme deprivation. Today, one third of urban residents in developing countries live in slums with inadequate services, and this number is predicted to increase, especially in Asia and Africa. There is thus a pressing need to create more inclusive cities – spatially, socially and economically. The following reflections focus on the economic aspect, and the measures that are available to governments in this regard, highlighting how they might work in practice, without advocating for one approach over the other.

The case for inclusiveness is typically so compelling that it cannot wait for the evolution of an explicit conceptualisation of the economic base for a particular initiative. Campaigns against some of the most extreme forms of exclusion (championed by the likes of Gandhi, Ambedkar, and others against, for example, untouchability in India) were built around the need to fight injustice, rather than upon explicit understandings of the economic base of these campaigns. Initiatives against economic exclusion, by their very nature, require greater attention to be paid to the economic base of initiatives for inclusion. But here again, the urgency of the need to fight, for example, starvation often leads to measures that economists may find financially less prudent. As the list of the specific forms of exclusion that are to be fought moves from the local to the global (particularly after the use of the term 'social exclusion' gathered momentum in the 1970s), the economic base for these exercises in inclusion has tended to evolve more in practice rather than from clearly worked out theoretical arguments.

There have been occasional efforts to conceptualise social exclusion, notably Amartya Sen's theorisation of social exclusion as a form of capability deprivation.<sup>21</sup> However, most contributions to the larger discourse on social exclusion, and the measures that states have taken to combat it, do not explicitly trace their origins to this or any other specific theoretical position. The emphasis remains on building a compelling case against social exclusion, with each instance finding its own economic resources in practice.

The particular routes to finding the economic resources for an exercise in inclusion could vary a great deal. Some states have fallen back on substantial taxation, others have relied on international aid, and still others have tapped into philanthropy. Efforts to combat major forms of social exclusion do, however, require a sustained supply of resources; a supply that can only be provided by a growing economy. Inclusiveness is thus closely linked to growth. Since the link is not always explicit, there is often less than adequate attention being paid to the relationship between inclusiveness and growth. This relationship usually emerges from local economic, social and political contexts. There are cases where the economic base for inclusiveness is created by a rapidly growing economy, and there are other situations where the battle against social exclusion can take forms that are economically unsustainable. The diversity of these approaches need not, however, be entirely without a pattern. Indeed,

---

21

A. Sen (2000), 'Social Exclusion: Concept, Application, and Scrutiny', *Social Development Papers No. 1*, Office of Environment and Social Development, Asian Development Bank.

in practice they tend to converge around two poles. One pole attracts policy regimes that are not too concerned with economic inequality and follow strategies that are primarily focused on removing extreme forms of economic exclusion, such as absolute poverty. The other pole attracts policy regimes that are more sensitive to inequality, and not just focused on the removal of poverty. The difference between the two poles is perhaps best captured by distinguishing between what can be termed ‘post-hoc inclusiveness’ and ‘inherent inclusiveness’.

### **Post-hoc Inclusiveness**

Post-hoc inclusiveness refers to an approach where the process of economic growth has high degrees of exclusion, which are later sought to be addressed by specific welfare initiatives. A typical case of post-hoc inclusiveness would involve growth strategies that do not increase employment and are followed by measures involving direct cash transfers to the poor. As post-hoc inclusiveness is only concerned with what is to be done after an economic process has played itself out, it overlooks the inequalities that are generated in that process. It may even be supported by a popular discourse that poverty cannot be removed without first achieving high levels of growth and the urgent need to remove absolute poverty would be used to turn a blind eye to inequality. In more cynical cases, inequality may even be seen as an advantage in the battle against the exclusion generated by extreme poverty. An increase in the income of the rich would potentially raise the revenue from taxation which could be used to create welfare schemes for the poor.

The case for post-hoc inclusiveness can also gain wider sanction within a society. Some of this acceptance of inequality could come from the severity of economic exclusion. In societies where starvation or severe malnutrition continue to exist, the super-rich can be seen as a resource. Societies could then be quite comfortable with situations where the rich get richer, as long as they can be taxed sufficiently. In such instances, it is quite possible that inequality will increase alongside a reduction in levels of poverty.

An effective fight against absolute poverty and other forms of social exclusion could result in the champions of post-hoc inclusiveness gaining a moral edge. The beneficiaries of extreme economic inequality could also launch philanthropies that associate them with initiatives that directly target absolute poverty. These initiatives, when they are effective, could raise their moral stature. Stories of substantial fortunes earned by individuals, who later use parts of it to target absolute poverty, can also be an inspiration and increase what Arjun Appadurai has termed ‘the capacity to aspire’.<sup>22</sup> Appadurai has argued that this capacity is adversely affected by poverty, but the extent of this limitation, if it exists, would be reduced by the process of globalisation. The communication technologies that reduce the effects of distance also reach the poor. It would not be unusual for the poor to aspire towards their interpretation of the lives of the beneficiaries of inequality. In cities like Bengaluru (the official name for Bangalore), poor garment workers have been known to set aside a substantial portion of their meagre earnings to provide an English education for their children.<sup>23</sup> They see this as an important first step for their children.

The possibility of such instrumental actions by a family or by philanthropists can, over time, influence the priorities of the state as well. A state following post-hoc inclusiveness may come to believe that with the instrumental actions against exclusion being taken by individuals, families and philanthropists, it only needs to focus on the constitutive aspects of social exclusion. As long as it at least reduces the aspects of social exclusion that are deplorable in

22 A. Appadurai (2004), ‘The Capacity to Aspire: Culture and the Terms of Recognition’ in Vijayendra Rao and Michael Walton (eds.), *Culture and Public Action* (Redwood City: Stanford University Press), 59-84.

23 N. Pani and N. Singh (2012), *Women at the Threshold of Globalization* (New Delhi: Routledge).

themselves, it need not concern itself with trying to reduce social exclusion. Take the objective of ensuring that no one is excluded from access to basic health facilities. A government following post-hoc inclusiveness would only be concerned with helping to provide this access and not with the conditions that cause large sections to be excluded from basic healthcare in the first place. It would believe that its duty is done if it provides health insurance for all. This approach can be further generalised by providing a direct cash transfer to the poor, and not worrying about how these transfers will be used. A popular narrative can also be developed to support the non-instrumental aspects of post-hoc inclusiveness. The narrative would typically point to high levels of corruption and argue that the leakage would be reduced by a direct transfer of funds to the poor. The narrative can be extended to the rights of individuals to make their own choices rather than having the state choose for them. While this narrative may not say so, there is the implicit assumption that if the cash transfers do not lead to choices that will remove social and economic exclusion, the fault will lie with the individual and the family, and not with the state.

### **Inherent Inclusiveness**

In contrast to post-hoc inclusiveness, inherent inclusiveness does not begin with the premise of high growth at any cost being a prerequisite for an effective battle against social exclusion. Instead, inherent inclusiveness would involve a growth strategy that has inclusiveness built into it. A typical case of inherent inclusiveness would be growth that generates broad-based employment for the poor, thereby improving their quality of life, ideally without the aid of welfare measures. Such an approach is not necessarily confined to the constitutive aspects of inclusiveness. The fact that it intervenes in the growth process provides it with an important instrumental role.

The instrumental aspect of inherent inclusiveness would extend to making up for any shortfall in the battle against social exclusion. It would be open to the possibility that, despite the instrumental role that the state plays in encouraging pro-poor growth, the results may not be substantial enough to completely remove economic and social exclusion on their own. There would then be a need to also take steps that would be instrumental in directly removing forms of social exclusion. Staying with our example of exclusion from basic health services, a state following inherent inclusiveness would not confine itself to providing cash transfers or insurance policies but would directly contribute to the creation of health services that the poor can access.

Such a system would be less tolerant of inequality. This would be particularly true in societies that have overcome the challenge of extreme absolute poverty. In such societies, the argument of allowing high inequalities in order to provide resources for the removal of absolute poverty would not exist. There would then be a greater tendency to focus on the unfairness of large shares of income being concentrated with what is popularly termed 'the one percent'.

### **Circumstances of Inclusiveness**

While the two poles that I have identified have an abstract logic of their own, the one a society gravitates towards would be influenced by the circumstances that society faces. These circumstances would be unique, but the pole would not be independent of larger processes and conditions as well. Arguably, the most significant of these conditions is the extent of absolute poverty. A low-income society that faces extreme starvation would need to tap whatever resources it can to remove this severe deprivation. In search of the growth that will generate these resources, the state could be quite willing to opt for strategies that lead to high levels of inequality, as long as those at the top of the unequal economic hierarchy can be tapped to provide resources to combat starvation. Such societies would tend to lean towards

the post-hoc strategy for inclusiveness. They may well believe that the urgent need to remove extreme forms of absolute poverty would justify ignoring the inequalities that may be built into the economic growth of that society.

This is not to suggest that the gravitation of a society towards one pole or the other would be determined entirely by levels of income and economic deprivation. While the urgency of the need to deal with absolute poverty is undoubtedly an important influence, there is no dearth of individualistic advanced societies that are content to function with post-hoc inclusiveness. The potential for an advanced society to gravitate towards either of the two poles is perhaps best reflected in the contrasting approaches to universal healthcare in the United Kingdom and the United States of America. The British approach emphasises investment in healthcare facilities. This instrumental approach fits into the larger framework of inherent inclusiveness. The approach to healthcare in the United States is much less instrumental and focuses on providing health insurance for all. The relatively lower emphasis on the creation of public healthcare facilities ensures that the system is focused on the constitutive aspects of providing healthcare for the poor. The movement towards post-hoc inclusiveness or inherent inclusiveness is thus also influenced by the socio-political culture of a society.

The gravitation towards one or the other pole of the economic base for inclusiveness is also not unidirectional. It is possible for the movement towards a particular strategy for inclusiveness to be slowed down, or even aborted, by the internal dynamics of the two poles. A commitment to post-hoc inclusiveness is based on the expectation that high growth rates would provide the resources to deal with absolute poverty. But if other factors cause a decline in growth, it would hurt the resources available for post-hoc inclusiveness. The decline in growth would also further reduce the ability of the poor to cope with economic adversity. At the very moment that the poor need inclusiveness the most, post-hoc inclusiveness would be at its lowest effectiveness. This could very well lead to political resentment. If the political system allows for democratic change, it could cause a change of government and the new government need not follow the same strategy for inclusiveness.

The movement towards the pole of inherent inclusiveness could also face challenges that cause a change of direction. State investment in the delivery of basic services in education and health would limit the resources available for state-led investment in industries. If this leads to lower growth rates, it would limit the ability of the economy to provide employment to the poor, thereby reducing the degree of economic inclusiveness. The scenario of low growth and low inclusiveness could generate political resentment leading to a change of government and the new government could be more inclined towards a post-hoc approach to inclusiveness.

The economic base for inclusiveness could thus involve diverse strategies. Not only would countries gravitate towards post-hoc inclusiveness or inherent inclusiveness, but they could also change course midstream. The effectiveness of the economic strategy for inclusiveness could also have peaks and troughs. The peak of post-hoc inclusiveness would be when growth rates are high, generating substantial resources to fight economic and social exclusion, while its trough would be when low growth leaves it without the resources to reduce the economic exclusion of the poor. The peak for inherent inclusiveness would be when its instrumental interventions generate growth that increases the employment of the poor, while its trough would occur when its interventions are not sufficient to provide employment for the poor and they hurt the resources available for instrumental interventions in welfare.

The common thread running through both patterns is the relationship between growth and inclusiveness. In periods of low growth, the potential for both post-hoc inclusiveness and inherent inclusiveness would be low. This would also be the time when the need for inclusiveness would be the greatest. At such times, there would be a case for switching to the method that generates growth. At a time when extremely low growth brings down levels of employment, those who would normally favour inherent inclusiveness may prefer to take any measure that revives the economy, even if that means waiting for growth that can be tapped

for post-hoc inclusiveness. Conversely, supporters of post-hoc inclusiveness can, at times of an economic slowdown, choose to implement employment generation schemes that would help revive demand and, hence, growth. A slackening of the growth rate could thus bring in a degree of ambiguity to the choice between post-hoc inclusiveness and inherent inclusiveness.

In the midst of a continuously changing economic base for inclusiveness, it is important for national and city-level governments to recognise the particular economic strategy that is being used and to monitor its progress. If nothing else, such a continuing review would help predict when a particular economic strategy for inclusiveness is likely to fail, and perhaps even provide the needed course for correction. This is essential if we are to ensure that growing urbanisation around the world does not derail the progress of development.