Q2

Is inclusive growth possible under market economy ? State the significance of financial inclusion in achieving economic growth in India.

UPSC Civil Services Mains 2022 · GS III · 10 marks · Inclusive Growth

Inclusive growth and issues arising from it.

Core demand of the question

- Examine whether inclusive growth is possible under a market economy
- Explain the significance of financial inclusion for growth in India

Revision summary

A market economy does not by itself deliver inclusive growth; it rewards those who already hold assets.

Inclusion is possible when the State provides public goods and repairs missing credit and insurance markets.

India pairs liberalisation with MGNREGA, NFSA 2013 and Direct Benefit Transfer.

Financial inclusion (Jan Dhan, JAM, UPI, Mudra, PM-Kisan) channels savings, cuts leakage and supports demand.

Significance for growth depends on actual use of accounts and fair credit, not on account-opening numbers alone.

Introduction

A **market economy** allocates goods by price and profit. **Inclusive growth** means that the poor, women, small farmers and lagging districts also gain income, assets and voice. The two are not automatic partners. India's answer has been a market with a **public floor**: identity, bank accounts, credit and transfers so participation is possible.

Body

Inclusive growth under a market economy

- Markets reward those who already have **land, skills, networks and collateral**. Left alone they concentrate gains in cities and large firms.
- Inclusive growth is still possible if the State supplies **public goods** (schools, health, roads, law) and **corrects missing markets** (credit, insurance, land records).
- India after 1991 combined liberalisation with rural employment (**MGNREGA**), food security (**National Food Security Act, 2013**), and Direct Benefit Transfer. That mix is a market economy with a welfare rail, not a pure laissez-faire order.
- Competition can help the poor when it **lowers the price of mobiles, data, medicines and travel**. It harms them when it strips natural resources or casualises labour without a safety net.

- So the honest answer is **yes, if** entry barriers fall and the State keeps capability and a floor; **no, if** growth is only capital-deepening in a few sectors.

Significance of financial inclusion

- **Financial inclusion** is access to a usable account, payments, credit, insurance and pension at a fair cost.
- The **Pradhan Mantri Jan Dhan Yojana**, Aadhaar and mobile (JAM) triangle, **Unified Payments Interface**, **Mudras**, **Stand-Up India**, and **PM-Kisan** transfers put cash and credit into accounts that earlier did not exist.
- Inclusion raises **growth** by turning savings into bank deposits, cutting leakages in subsidies, and letting a small firm invoice and borrow instead of staying in cash.
- **It also** stabilises demand**:** a farmer or gig worker who can receive a transfer or a Kisan Credit Card drawdown does not drop out of the market in a shock.
- **Gaps remain:** dormant accounts, over-indebtedness through microfinance, digital fraud, and thin credit in the poorest blocks. Inclusion is significant only when the account is **used**, not merely opened.

Flow diagram

Market economy -> Growth

Market economy -> Exclusion risk

Public floor -> Inclusive growth

Growth -> Inclusive growth

Financial inclusion -> Jan Dhan Aadhaar UPI

Financial inclusion -> Credit insurance PM-Kisan

Jan Dhan Aadhaar UPI -> Inclusive growth

Credit insurance PM-Kisan -> Inclusive growth

Conclusion

Inclusive growth can occur in a market economy when public goods, regulation and a transfer floor stop the market from excluding the asset-poor. Financial inclusion is the daily machinery of that floor in India: accounts, UPI and scheme credits that make participation real. Opening an account is not the same as raising productivity.

Facts & figures

NFSA 2013

National Food Security Act: legal entitlement to subsidised grain for a large share of the population through PDS.

PM Jan Dhan Yojana

Universal basic bank accounts with RuPay and overdraft features; the account leg of JAM.

JAM

Jan Dhan-Aadhaar-Mobile trinity used to route Direct Benefit Transfer.

PM-Kisan

Income support credited to landholder farmers' accounts; depends on a working inclusion rail.

UPI

Unified Payments Interface: low-cost real-time payments that make small transactions bankable.