



## ECONOMIC GROWTH AND ECONOMIC DEVELOPMENT

Economics is all about making smart choices to cope with scarcity. The most fundamental measurement used to evaluate the success in allocating the scarce resources is economic growth. Individuals monitor their **income** and the changing value of their **assets**. Businesses track their **profits** and their **market share**. Nations monitor a variety of statistics to measure economic growth such as **national income, productivity etc.** Moving beyond growth and productivity, some economists argue that any assessment of the nation's economy must also include measurements of distribution, equity, per-capita income etc. Further, the country should also focus on other needs of a society, like environmental justice or cultural preservation to sustain the economic growth process and allows an overall human development in the economy through creation of more opportunities in the sectors of education, healthcare, employment and the conservation of the environment.



### OBJECTIVES

After completing this lesson, you will be able to:

- define the meaning of Economic Growth and Economic Development, and their differences;
- explain the concept of Sustainable Development and Human Development;
- list out the factors affecting Economic Growth; and
- describe the broad Features of the Underdeveloped countries.



### Notes

### 3.1 ECONOMIC GROWTH

The term economic growth is defined as the process whereby the country's real national and per capita income increases over a long period of time.

This definition of economic growth consists of the following features of economic growth:

- **Economic Growth implies a process of increase in National Income and Per-Capita Income.** The increase in Per-Capita income is the better measure of Economic Growth since it reflects increase in the improvement of living standards of masses.
- **Economic Growth is measured by increase in real National Income and not just the increase in money income or the nominal national income.** In other words the increase should be in terms of increase of output of goods and services, and not due to a mere increase in the market prices of existing goods.
- **Increase in Real Income should be Over a Long Period:** The increase of real national income and per-capita income should be sustained over a long period of time. The short-run seasonal or temporary increases in income should not be confused with economic growth.
- **Increase in income should be based on Increase in Productive Capacity:** Increase in Income can be sustained only when this increase results from some durable increase in productive capacity of the economy like modernization or use of new technology in production, strengthening of infrastructure like transport network, improved electricity generation etc.

### 3.2 ECONOMIC DEVELOPMENT

Economic development is defined as a sustained improvement in material well being of society. Economic development is a wider concept than economic growth. Apart from growth of national income, it includes changes – social, cultural, political as well as economic which contribute to material progress. It contains changes in resource supplies, in the rate of capital formation, in size and composition of population, in technology, skills and efficiency, in institutional and organizational set-up. These changes fulfill the wider objectives of ensuring more equitable income distribution, greater employment and poverty alleviation. In short, economic development is a process consisting of a long chain of inter-related changes in fundamental factors of supply and in the structure of demand, leading to a rise in the net national product of a country in the long run.

The economic growth is a narrow term. It involves increase in output in quantitative terms but economic development includes changes in qualitative terms such as social attitudes and customs along with quantitative growth of output or national income.

Economic development without growth is almost inconceivable. The comparison between the two concepts is given in the following table:



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### 3.3 COMPARISON CHART: ECONOMIC GROWTH VS. ECONOMIC DEVELOPMENT

|                     | Economic Growth   | Economic Development  |
|---------------------|---|---|
| <b>Meaning</b>      | Economic growth refers to an increase in the real output of goods and services in the country.  | Economic development implies changes in income, savings and investment along with progressive changes in socio-economic structure of country (institutional and technological changes).         |
| <b>Factors:</b>     | Growth relates to a gradual increase in one of the components of Gross Domestic Product: consumption, government spending, investment, net exports. | Development relates to growth of human capital, decrease in inequality figures, and structural changes that improve the quality of life of the population.                                      |
| <b>Measurement:</b> | Economic Growth is measured by quantitative factors such as increase in real GDP or per capita income   | The qualitative measures such as HDI (Human Development Index), gender-related index, Human poverty index (HPI), infant mortality, literacy rate etc. are used to measure economic development. |
| <b>Effect:</b>      | Economic growth brings quantitative changes in the economy.   | Economic Development leads to qualitative as well as quantitative changes in the economy.   |
| <b>Relevance:</b>   | Economic growth reflects the growth of national or per capita income.   | Economic development reflects progress in the quality of life in a country.   |



Notes



#### INTEXT QUESTION 3.1

1. “Economic Development is a wider concept than Economic Growth”. Do you agree with the statement?

### 3.4 SUSTAINABLE DEVELOPMENT

Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs. Sustainable development includes the protection of future economic growth and future development. In other words, it means a better quality of life for everyone, now and for generations to come. Sustainable development includes the protection of future economic growth and future development. Growth is essential, but sustainable development requires it to be different. It must become more concerned about the physical environment not only to present generation, but to the future generation also. It means that the current consumption cannot be financed for long by increasing economic debt and ecological imbalance which future generation will pay. Sustainable development constantly seeks to achieve social and economic progress in ways that will not exhaust the earth's finite natural resources. Sustainable development is a process of development in which economic and other policies are designed to bring about development which is economically, socially and ecologically sustainable. The concept thus is pro-people, pro-job and pro-nature. It gives highest priority to poverty reduction, productive employment, social integration and environmental regeneration.

#### The sustainable development thus requires

- Preservation of Ecological Resources and greater use of renewable resources.
- Encouragement to the use of environmentally-safe technologies for development purposes i.e. focus on reduction of all kinds of pollution involved in the economic activities.
- Formulation and implementation of policy framework for people-security and human justice, including ecological and economic security.

### 3.5 HUMAN DEVELOPMENT

According to the United Nation's Development Programme (UNDP), human development may be defined as “a process of enlarging people's choices.” At all levels of development, the three essential choices for people include to live a long and healthy life, to acquire better knowledge and to have access to resources needed for a decent standard of living. If these essential choices are not available, many other opportunities to improve the quality of life will remain inaccessible. Human development has two dimensions: acquiring human capabilities and the use

of these acquired capabilities for productive, leisure and other purposes. The benefits of human development go far beyond the expansion of income and wealth accumulation because people constitute the very essence of human development. Human development is about much more than economic growth. The economic growth focuses on the improvement of one option i.e. income or product while human development focus on enlarging all human options including education, health, clean environment and material well being. Thus, the options available for improving people's lives are influenced by the quality of economic growth in its wider sense, and the impact is by no means confined to quantitative aspects of such growth. In other words, economic growth needs to be seen as a means, albeit an important one, and not the ultimate goal, of development. Income makes an important contribution to human well-being, broadly conceived, if its benefits are translated into more fulfilled human lives. But the growth of income is not an end in itself. It is the quality of growth, not its quantity alone, which is crucial for human well-being.

Thus, the concept of human development, is concerned mainly with enabling people to enjoy a better life as the ultimate goal of human endeavor. Highlights that this goal cannot be achieved solely through improvements in income or material well-being.

As the 1996 Human Development Report put it, growth can be jobless, rather than job creating; ruthless, rather than poverty-reducing; voiceless, rather than participatory; rootless, rather than culturally enshrined; and futureless, rather than environment-friendly. Economic growth which is jobless, ruthless, voiceless, rootless and futureless is not conducive to human development. The lack of income or income poverty is only one aspect of human impoverishment; deprivation can also occur in other areas—having a short and unhealthy life, being illiterate or not allowed to participate, feeling personal insecurity, etc. Human poverty is thus larger than income poverty.

### **3.6 MEASURING HUMAN DEVELOPMENT: HUMAN DEVELOPMENT INDEX (HDI)**

As stated earlier three dimensions of Human Development are capabilities of people to lead a long and healthy life, to acquire knowledge and to have access to resources needed for a decent standard of living. The combined effect of various components of human development is measured through Human Development Index (HDI). The HDI contains four variables: life expectancy at birth, to represent the dimension of a long, healthy life; adult literacy rate and combined enrolment rate at the primary, secondary and tertiary levels to represent the knowledge dimension; and real GDP per capita to serve as a proxy for the resources needed for a decent standard of living. HDI thus looks not only at GDP



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growth rate but takes into account education, health, gender inequality and income parameters to measure human development of a country.

As per the latest available Human Development Report (HDR) 2013 published by the United Nations Development Programme (UNDP) (which estimates the human development index [HDI] in terms of three basic capabilities: to live a long and healthy life, to be educated and knowledgeable, and to enjoy a decent economic standard of living), the HDI for India was 0.554 in 2012 with an overall global ranking of 136 (out of 186 countries) compared to 134 (out of 187 countries) as per HDR 2012. India's HDI has risen by 1.7% annually since 1980.



### INTEXT QUESTION 3.2

1. Human development is a better measure of economic development as it places human-beings at the centre stage of development. Discuss.

### 3.7 FACTORS AFFECTING ECONOMIC GROWTH

The process of economic growth is a highly complex phenomenon and is influenced by numerous and varied factors such as political, social and cultural factors. These factors are as follows:

#### A. Economic Factors

1. **Natural Resources:** The principal factor affecting the development of an economy is the natural resources. The natural resources include the land area and the quality of the soil, forest wealth, good river system, minerals and oil resources, good climate, etc. For economic growth, the existence of natural resources in abundance is essential. A country deficient in natural resources may not be in a position to develop rapidly. However, the availability of rich natural resources are a necessary condition for economic growth but not a sufficient one. In less developed countries, natural resources are unutilized, underutilized or misutilised. This is one of the reasons of their backwardness. On the otherhand countries such as Japan, Singapore etc. are not endowed with abundant natural resources but they are among the developed nations of the world. These countries have shown committment towards preserving the available resources, putting best efforts to manage the resources, minimizing waste of resources etc.
2. **Capital Formation:** Capital formation is another important factor for development of an economy. Capital formation is the process by which a community's savings are channelised into investments in capital goods such as plant, equipment and machinery that increases nation's productive capacity and worker's efficiency thus ensuring a larger flow of goods and services in a



country. The process of capital formation implies that a community does not spend whole of its income on goods for current consumption, but saves a part of it and uses it to produce or acquire capital goods that greatly add to productive capacity of the nation.

- 3. Technological Progress:** Technological progress is a very important factor in determining the rate of economic growth. Technological progress mainly implies the research into the use of new and better methods of production or the improvement of the old methods. Sometimes technical progress results in the availability of natural resources. But generally technological progress results in increase in productivity. In other words, technological progress increases the ability to make a more effective and fruitful use of natural and other resources for increasing production. By the use of improved technology it is possible to have greater output from the use of given resources or a given output can be obtained by the use of a smaller quantity of resources. The technological progress improves an ability to make a fuller use of the natural resources e.g. with the aid of power - driven farm equipment a marked increase has been brought about in agricultural production. The USA, UK, France, Japan and other advanced industrial nations have all acquired the industrial strength from use of advanced technology. In fact economic development is facilitated with the adoption of new techniques of production.

### Entrepreneurship

Entrepreneurship implies an ability to find out new investment opportunities, willingness to take risks and make investment in the new and growing business units. Most of the underdeveloped countries in the world are poor not because there is shortage of capital, weak infrastructure, unskilled labor and deficiency of natural resources, but because of acute deficiency of entrepreneurship. It is, therefore, essential in the under-developed nations to create climate for promoting entrepreneurship by emphasizing education, new researches, and scientific and technological developments

- 4. Human Resources Development:** A good quality of population is very important in determining the level of economic growth. So the investment in human capital in the form of educational and medical and such other social schemes is very much desirable. Human resource development increases the knowledge, the skills and the capabilities of the people that increase their productivity.
- 5. Population Growth:** Labor supply comes from population growth and it provides expanding market for goods and services. Thus, more labor produces larger output which a wider market absorbs. In this process, output, income and employment keep on rising and economic growth improves. But the population growth should be normal. A galloping rise in population retards

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economic progress. Population growth is desirable only in a under-populated country. It is, however, unwarranted in an overpopulated country like India.

- 6. Social Overheads:** Another important determinant of economic growth is the provision of social overheads like schools, colleges, technical institutions, medical colleges, hospitals and public health facilities. Such facilities make the working population healthy, efficient and responsible. Such people can well take their country economically forward.

#### Non-Economic Factors

Non-Economic factors that include socio-economic, cultural, psychological and political factors are also equally significant as are economic factors in economic development. We discuss here some of the essential non economic factors which determine the economic growth of an economy.

- 1. Political Factors:** Political stability and strong administration are essential and helpful in modern economic growth. The stable, strong and efficient government, honest administration, transparent policies and their efficient implementation develop confidence of investors and attracts domestic as well as foreign capital that leads to faster economic development.
- 2. Social and Psychological Factors:** Social factors include social attitudes, social values and social institutions which change with the expansion of education and transformation of culture from one society to the other. The modern ideology, values, and attitudes bring new discoveries and innovations and consequently to the rise of the new entrepreneurs. The outdated social customs restricts occupational and geographical mobility and thus pose an obstacle to the economic development.
- 3. Education:** It is now fairly recognized that education is the main vehicle of development. Greater progress has been achieved in those countries, where education is wide spread. Education plays an important role in human resource development, improves labor efficiency and removes mental block to new ideas and knowledge thus contributes to economic development.
- 4. Desire for Material Betterment:** The desire for material progress is a necessary precondition for economic development. The societies that focus on self-satisfaction, self-denial, faith in fate etc. limit risk and enterprise and thus keep the economy backward.



#### INTEXT QUESTION 3.3

1. Non-economic factors are as much important in economic development as economic factors. Comment.



### 3.8 COMMON FEATURES OF UNDERDEVELOPED COUNTRIES

1. **Low per Capita Income:** The level of per capita income is very low in underdeveloped countries.
2. **Poor Level of Living:** The vast majority of people in underdeveloped nations lie under the conditions of poverty, malnutrition, disease, illiteracy, etc. Even basic necessities of life such as minimum food clothing and shelter are not easily accessible to the poor masses.
3. **High Rate of Growth of Population:** Population growth in underdeveloped countries neutralizes economic growth. High population implies greater consumption expenditure and lower investments in productive activities and slows down the economic development.
4. **Highly Unequal Income Distribution:** The income inequality between the rich and the poor people within the underdeveloped countries is also very high.
5. **Prevalence of Mass Poverty:** Low level of per capita income combined with high degree of inequalities in its distribution leads to widespread poverty in underdeveloped countries.
6. **Low Levels of Productivity:** The Productivity level (i.e. output produced per person) tends to be very low in an underdeveloped country which is mainly due to : (i) inefficient workforce which itself is a consequence of poverty, ill health and lack of education (ii) Low work culture (iii) Low use of capita in the form of machinery and equipment.
7. **Low Rate of Capital Formation:** The saving rate in an underdeveloped country is quite low and rate of capital formation is also is very slow.
8. **Technological Backwardness:** In most of the sectors, an underdeveloped economy the techniques of production employed are generally obsolete mainly due to low saving rate.
9. **High Level of Unemployment:** Unemployment levels are very high in the underdeveloped countries mainly due to lack of capital and low level of development in various economic sectors, these countries are not able to absorb the rising labor supply.
10. **Low Social Indicators of Development:** The under-developed countries have very low social indicators such as low literacy rate, high infant mortality rate, low expectancy of life, etc. as compared to the developed countries.



#### INTEXT QUESTIONS 3.4

1. Which of the following characteristics are most likely found in developing countries?



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- (a) high population growth rates.
  - (b) large number of people living in poverty.
  - (c) very traditional methods of agricultural production.
  - (d) all of the above
  - (e) none of the above
2. Economic development refers to
    - (a) economic growth.
    - (b) economic growth plus changes in output distribution and economic structure.
    - (c) sustainable increases in Gross National Product.
  3. The common measure of economic development is
    - (a) The level of health and education of the population.
    - (b) The rate of population growth.
    - (c) Per Capita GDP
    - (d) All of the above
    - (e) None of the above.
  4. developing nations have
    - (a) A lower infant mortality rate.
    - (b) A greater degree of equality in the income distribution.
    - (c) lower rate of illiteracy.
    - (d) None of above.
  5. Sustainable development involves
    - (a) Reducing Consumption, increasing efficiency and using renewable energies.
    - (b) better transportation by building more roads
    - (c) Using Resources at maximum rates.
  6. Sustainability is the use of a resource that doesnot cause long term depletion of resources or affect the diversity of the ecosystem.
    - (a) True.
    - (b) False.
  7. Which three indicators are currently used in the Human Development Index (HDI):
    - (a) real GDP per capita
    - (b) Birth rates

- (c) Life expectancy at birth
- (d) Employment Rates
- (e) Educational attainment.



### WHAT YOU HAVE LEARNT

- Economic growth implies a process of increase in real national income and real per capita income.
- Economic development is defined as a sustained improvement in material well being of society.
- Sustainable development in development that meets the needs of the present without compromising the ability of future generations to meet their own needs.
- Human development may be defined as “a process of enlarging people's choices”.
- According to UNDP, human Development Index (HDI) includes three basic capabilities (indicators) to live a long and healthy life, to be educated and knowledgeable and to enjoy a decent economic standard of living.
- Economic factors affecting growth and development are: natural resources, capital formation, technological progress, entrepreneurship, human resource development, population growth and social overheads.
- Non-economic factors affecting growth and development are: political factors, social and psychological factors, education and desire for material betterment.
- Common features of developing countries are: (i) Low per capita income, (ii) Poor level of living, (iii) High rate of growth of population, (iv) Highly inequal income distribution, (v) Prevalence of mass poverty, (vi) Low levels of productivity, (vi) Low rate of capital formation, (viii) Technological backwardness, (ix) High level of unemployment, and (x) Low social indicators of development.



### TERMINAL EXERCISE

1. What is economic growth? Do you think that economic growth and economic development are two names for the same concept?  
**Hint:** Meaning of economic growth and difference between economic growth and economic development.
2. There is no automatic link between economic growth and human development. Discuss.



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**Hint:** Meaning of human development and difference between economic growth and human development.

3. What are the common features of Underdeveloped countries?

**Hint:** features of underdeveloped countries.

4. What are the important components of the Human Development Index (HDI)

**Hint:** meaning of HDI

5. Explain the meaning of Sustainable development.

**Hint:** Concept of sustainable development.



### ANSWERS TO INTEXT QUESTIONS

#### 3.1

1. Difference between economic growth and economic development.

#### 3.2

1. Meaning of human development.

#### 3.3

1. Economic and Non-economic factors of growth.

#### 3.4

1. (d)    2. (b)    3. (c)    4. (d)    5. (a)    6. (a)

7. (a), (c) and (e)