

Human development index and the gross domestic product



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Compare and Contrast Two Indices Used To Measure Development. Which Of The Two Do You Find Most Convincing And Why? You Must Support Your Answer With References To Examples.

This essay shall compare the Human Development Index and the Gross Domestic Product. The fundamental reason for this choice is that they are the most commonly used measurements in the literature of development today (Kubiszewski et al, 2013). These two indices also highlight the fact that measuring development is a complex subject as development itself is a multidimensional concept (Kothari & Minogue, 2001). The two indices bring to fore the question of who exactly is doing the measurement and for what purposes. As tools they make the complexity that is part of measuring development easier to understand (Greig, Hulme & Turner, 2007) and they also highlight the power dynamics inherent in the sphere of development (Kothari & Minogue, 2001).

Introduction:

Development is intrinsically linked to poverty and as such the policies and programmes created to tackle poverty are a huge part of the development project (Greig, Hulme & Turner, 2007; Allen & Thomas, 2000). Measuring the levels of poverty and human development is therefore a prerequisite of creating effective policies and programs to tackle developmental challenges (Stiglitz, et al, 2009). There are various indices used to measure development for example the ISEW-Index of Sustainable Economic Welfare, GPI-Genuine Progress Indicator, Gross National Happiness just to mention a few. The variety of measurement indices draw attention to the divergent

views surrounding what is considered important the when it comes to measuring development.

The complexity of measuring and defining development for example is seen in the challenging of assumptions that view development as a strictly linear economic progression of a country (Haynes, 2008). However the question then arises whether there is a clearly defined spectrum of ‘ developed’ countries at one end and ‘ underdeveloped’ countries at another (Haynes, 2008). What about the economic and development heterogeneity within the developing countries? (Ibid). One can hardly conclude that all developing countries are following a trajectory from ‘ underdeveloped’ to ‘ developed’ as one has to take into consideration the countries who are part of what Collier (2008) calls the “ Bottom Billion”. These countries according to Collier (2008) are caught up in the poverty traps that prevent or frustrate development. According to Collier the four main poverty traps affecting the ‘ bottom billion’ are conflict, the natural resource curse, landlocked countries surrounded by ‘ bad’ neighbours who have poor infrastructure and finally bad governance (Collier, 2008, p 5).

For example one cannot presume that Uganda which is a landlocked country that has substantial natural resources that include sizeable mineral deposits of copper and cobalt, fertile land and regular rainfall would follow Switzerland’s trajectory. Landlocked Switzerland trades through highly developed and stable Germany and Italy whereas Uganda shares borders with South Sudan, Rwanda and Kenya. Two of Uganda’s neighbours that is South Sudan and Rwanda that have witnessed drawn out and intense conflict that spilled over into Uganda at one point or another and Kenya whose poor

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infrastructure, high cost of transporting goods through regional borders as well as corruption at the coastal ports frustrates Uganda's progress at accessing the global markets (Yusuf, 2013; Ruhanga & Mayindo, 2010).

The term development is therefore multifaceted and many depending on their theoretical perspective, view the term differently (Allen & Thomas, 2000). Its theoretical as well as practical historical progression has been riddled with inconsistencies (Haynes, 2008). For example even though data shows that development has occurred in terms of absolute growth there is the unparalleled widening gap between the rich and the poor countries as pointed out by Sachs (2005) (cited in Greig, Hulme & Turner, 2007 p. 5). The disparities between the people within countries has also widened increasing the levels of inequality globally (Kothar & Minogue, 2001). Amartya Sen defines development as ' the expansion of the capabilities of people to lead the kind of lives they value ...and have reason to value' (Sen, 1999, p. 18). This expands the concept of development to include the wellbeing of the society.

In this essay the term development will be taken to mean the continuous improvement in the sphere of one's personal life, socio-economic relationships, culture and general wellbeing. (Allen & Thomas, 2000).

Development according to this definition is therefore a process. A process that ideally adopts to the context whilst maintaining its focus on improving the overall wellbeing of a society.

Comparison of the HDI and the GDP:

The HDI:

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The Human Development Index (HDI) that was introduced by the United Nations Development Program (UNDP) in 1990 has become the main alternative to the economically focused Gross Domestic Product (GDP) which has been used as the main measure of development worldwide (Sagar & Najam, 1998). As an alternative form of measurement, it reflected the new approaches to development incorporating Economist Amartya Sen's capabilities approach (Bilabao-Ubillos, 2011). The HDI has three main dimensions. These are health, education and Income. The variables included in these dimensions are life expectancy, child mortality, school enrolment, literacy and Income per capita. By including these dimensions the HDI highlighted the multidimensionality of human development as well as puts more focus on the individual as opposed to economic growth in assets and income (Greig, Hulme & Turner, 2007).

The ease of access to these dimensions within a country increases individuals' functions and abilities that in turn positively contribute to the general wellbeing of society. For example access to health care improves life expectancy as well as individual agency by increasing their economic output if opportunities to do so are available (Bilabao-Ubillos, 2011).

The HDI apart from pointing out that the real wealth of a society are its people also renewed the debate on the measurement of development (Sagar & Najam, 1998). It brought together various theoretical concepts of development into a unified theme making it easier for countries and governments to focus their policies on improvement (Greig, Hulme & Turner, 2007). This measurement also brought to fore the importance of people participation as well as gender issues in development (Sagar & Najam, <https://assignbuster.com/human-development-index-and-the-gross-domestic-product/>

1998). With the introduction of the HDI, it has then been easier to incorporate broad and important notions of sustainability into development measures (Ibid).

However despite these positives the HDI has come under three main criticisms as pointed out by (Bilbao-Ubillos, 2011, p. 403). These are criticisms of the conceptual definitions of development, of the specific equations that generate the HDI and of the data quality used in its calculations. As the various criticisms are wide ranging, this essay will only focus on a few.

To begin with the HDI fails to take into account the level of inequality and income inequity within a country. Distributional inequalities which may be caused by discrimination are significant for wellbeing and human development but are not captured within this measurement and therefore do not reflect the degree of economic and social cohesion within a country (Bilbao-Ubillos, 2011,). Another criticism is that the HDI fails to reflect the issues in countries where economic growth does not translate into human development. In other words there is no mechanism to measure governments' public sector policies that focus on the idea of human development. For example in 2004 Angola allocated 1. 5% of its GDP to health and 2. 6% to education whereas Malawi allocated 9. 6% and 5. 5% respectively (Ibid).

Sagar & Najam, (1998) point out that there is a design flaw in the HDI as trade-offs between various dimensions are masked. The method of folding the three indices into a single one counters the notion that they have equal

weight and therefore a deficiency in one dimension can be made up in the addition of another. Logically 'good performance' based on the HDI should require 'good performance' in all dimensions simultaneously. Another flaw in the HDI is that it does not reflect the reality on the ground. For example according to the Human Development Report in 1997, Switzerland HDI was 0.99 while Mexico was 0.96 on the standard of living index yet the GNP of Switzerland was at \$37930 and Mexico \$4180. Even if one features in the terms of purchasing power parity these two countries do not have a similar standard of living which was the claim of UNDP report (Ibid). Finally but not least the HDI does not capture the environmental dimensions of development which are very important in the concept of wellbeing (Bilbao-Ubillos, 2011)

The GDP.

"The GDP is the market value of all final goods and services produced within a given geographical entity within a given period of time" (Schepelmann et al, 2010, p 14). The GDP is the convergence of the demand, production and income of a country's economy (Ibid). Gross domestic product (GDP) is the most widely used measure of economic activity.

Much thought has gone into its statistical and conceptual bases thus making it a user friendly tool that utilises available data to measure market production (Schepelmann et al, 2010, p 14). Over time however, it has been seen as a measure of economic well-being but this is misleading as important variables that constitute overall wellbeing of a society are absent (Stiglitz et al, 2009). The GDP focuses solely on money to measure the

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economic and living standards of a country as it is a crucial tool within any society. Money is easy to add up, helps in the understanding of markets, but it is not the sole driver of development (Stiglitz et al, 2009).

On the negative side, the GDP makes no distinction between the positive and the negative factors that contribute to social progress. For example an oil spill increases the GDP of a country due to clean-up costs totally ignoring the detrimental effect on the environment as well as wellbeing of the society. It therefore does not distinguish between sustainable and unsustainable practices (Kubiszewski et al, 2013). Crime and break down of society are also viewed as positives since more monetary transactions in the form of input to counter these vices increase (Schepelmann et al, 2010).

The GDP also ignores the informal economy, household and volunteer work, leisure as well as the outputs of government services that are important to the accessing of opportunities that improve individual freedoms (Stiglitz, et al, 2009). Human capital investments like education and health care are treated as consumption and the GDP views technology as an end product discounting the benefits of innovation and efficiency that technology contribute to the wellbeing of a society.

Conclusion:

Even though the definition of ' development' varies and the tools used to measure development have faced criticism for various reasons, this does not negate the fact that measuring development is extremely important for the formulation of policies and strategies to deal with the challenges faced by

individual countries that want to improve their citizens overall standard of
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living. By proposing that human development is more than just a sum total of monetary funds, the UNDP moved the focus away from a unilinear view of progress to encompass the multidimensional truth of what development actually is.

The HDI has made it easier for governments especially in the developing world to focus their policies on tackling the root causes of poverty as opposed to dealing with the symptoms. As the rankings come out every year the underperforming countries that want to improve their rankings are then forced to focus on what matters as well as invest in data collection. It should be pointed out that money will always be an important factor in development as the availability of monetary fund's opens doors to more opportunities to improve one's life choices and capabilities. The GDP will always be an important measurement tool in development and it should therefore not be summarily condemned just because it only measures one aspect of development.

The alternative to improve on both indices is a continuous exercise in the development literature. The inclusion of income remittances from abroad in the GDP and renaming it the GNI is but one example of the flexibility of this tool. Rapley (2002: 10) quoted in Greig, Hulme & Turner(2007) says “ as a rule there is a correlation between national income and a country's ability to improve the social indicators of its citizenry”. The GDP and the HDI should therefore be viewed as complimentary tools in the area of measuring development.

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