

Concept and  
measurement of  
economic  
development  
economics essay



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The concern about the economic, social and political performance of the world’s poorest countries, as well as its potential consequences, has held important part of the economic thought in the last decades. This interest has been reflected through what now is known as the study of economic development. This essay critically discusses the concept and measurement of economic development by investigating two particular approaches: ‘ Growth/Income’ or the traditional economic view and ‘ Human Development’ or the well-being view (Cypher and Dietz 2008).

First, the essay gives a brief and very general perspective about the study of Economic Development. Subsequently it presents and discusses the above mentioned approaches and its measurements. Finally, it offers the final conclusions.

## **Development economics**

“[T]he widening gap between the developed and the developing countries has become the central problem of our times”

Pearson Report (1969 cited in Thirlwall 2002: 4)

This quote written more than forty years ago condenses the heart of development economics: the differences between developed and underdeveloped countries. In effect, many definitions about the ample scope of development economics not only take into account that gap, but also refer to development economics as the economics of the underdeveloped countries and the multifaceted process through which is possible to bring large-scale improvements in levels of living (Todaro and Smith, 2006: 8), as well as the study of the “ nature and causes of poverty” (Thirlwall 2002: 21).

By other side, the fact that whether it is an independent branch of economics or not is still in the middle of a dispute. Todaro and Smith (2006), in opposition to an author they cite, Krugman (1993), argue that development economics is “ a field of study that is rapidly evolving its own distinctive analytical and methodological identity”. Supporting this point of view, Thirlwall (2002) emphasizes that what makes a subdiscipline is the area of application. Under the lights of the last idea it is possible, thus, to argue that development economics is an independent branch of economics.

However, the central polemic lies upon the meaning of development. The concept and measurement of economic development depends on what it is understood as ‘ development’. Even though the abundant literature, Nayyar (2003) suggests that “ there is not enough clarity about what development actually means”. This constitutes the beginning of a very wide field of discussion.

## **‘ Economic Development’: concepts and measurements**

One of the main confusions of development economics literature arises when trying to define the meaning of development and, thus, defining and measuring economic development. Two different approaches along the temporal spectrum are considered in this discussion: ‘ Growth/Income’ and ‘ Human Development’. This section presents and discusses the main ideas and its measures.

Before proceeding further it is cautious to narrow the field of analysis by clarifying the implications of the blending between economics and development. Economic development focuses its attention on the economic side of the international development (Tribe 2010). And as a social science, economics is concerned with human beings and the way in which they organize and plan the satisfaction of basic material and nonmaterial needs (Todaro and Smith 2006). This implies a widespread range of study that encompasses not only economic but also non-economic aspects.

Notwithstanding the previous clarification, traditional economics has defined development as the capacity of a national economy to increase the production of goods and services at a certain level of annual growth rates. This suggests, as stated by earlier literature, a strong relationship between development and capital accumulation (Nayyar 2003), or the limited idea that economic development is principally a function of economic growth or income generation. This explains the ‘ Growth/Income’ label.

Following this logic, some of the perspectives about the economic growth along the past decades have emphasised the role of structural changes, the

relevance of investment, productivity and technological change, the role of the state, and at the other hand, the role of the market (Thirlwall 2002; Toye 2003; Todaro and Smith 2006).

Mainly based on the above mentioned factors, a significant number of theoretical approaches and quantitative models have tried to explain the economic growth process by identifying its determinants and the relationships among them. Some of them attained to demonstrate an acceptable degree of accuracy and applicability for policy design, but they, as a group, “ have in many ways missed some of the crucial issues for developing countries” (Stern 1991: 129). Going further, disappointments came not only from the side of theoretical propositions but also from empirical evidence. For example, a case study presented in Todaro and Smith (2006) concludes that Brazilian economic growth was not enough to ensure social development. Lastly, several studies claim that growth in aggregate income is not a guarantee for achieving development and eliminating deprivation (Stern 1991; Thirlwall 2002; Toye 2003). For this, it is reasonable to consider the limitations of economic growth as the only measure of well-being and prosperity.

Under this view, economic growth is commonly measured in terms of the Gross National Income (GNI), the Gross Domestic Product (GDP) or their ‘ per capita’ variations. They have been used as approximations of well-being and the level of economic development (Cypher and Dietz 2008). However, it is very presumptuous to pretend to measure welfare and other human conditions with such a biased indicator just because of the assumption that

economic growth will ensure the satisfaction of human material and non-material needs.

Contrasting to the 'Growth/Income' approach, the 'Human Development' proposition considers development as a process in which cultural, human, institutional and social components play an important role in conjunction to the economic dimension. Development is not anymore considered as a mere income-generating process. This suggests the inclusion of the social component and its vastness when defining economic development.

Sen's conception that economic growth is a means for attaining development and that the latter is the process of enhancing the freedoms we enjoy (Sen 1999), has completely changed and clarified the perspective of our understanding of 'development', precisely emphasizing the limitations of economic growth to foster and accelerate the development process by itself. As the Human development Report (2001) states, cited in Thirlwall (2002), "although GDP [or GNI are] absolutely necessary to meet all essential human objectives, countries differ in the way that they translate growth into human development", clarifying even more the fact that economic growth it is not sufficient and amplifying the importance of social and human factors.

Furthermore, other approaches also consider development as a multifaceted process and as the mixture of economic, human and social factors. Cited in Todaro and Smith (2006), Goulet (1971) recognizes three core values of development: sustenance, self-esteem and freedom from servitude, all of them with clear and high social and human content.

As an alternative to the GNI and GNI per capita, the ' Human Development' notion has led to the born of the Human Development Index (HDI), a mixture of three components: longevity, knowledge and standard of living (Cypher and Dietz 2008). This index has opened new perspectives for measuring and analyzing the potential of an economy and its development. However, conversely, there are critical voices claiming for the HDI index not only to clarify some technical aspects but also to “ reinvigorate its relevance” and to incorporate sustainability concerns (Sajar and Najam 1998: 262).

Even though the marked differences between the two approaches and the high correlation found amidst both set of measures (Cypher and Dietz 2008: 56), remains clear that actually there is no consensus about the concept of economic development.

## **Conclusions**

To sum up, two different points of view about what really economic development means have been in the scene in different forms and shapes. From the limited concept of economic growth as economic development to the wider idea that the economic development process has a vast range of determinants that go far more than the mere income generation process.

In conclusion, there is no consensus about the concept of economic development and its measurement, and there is neither concrete evidence nor established formulas about how exactly to boost economic development. In my view, both approaches snap important determinants and consider the two opposite borderlines of what economic development could mean. In fact, I believe that the second approach constitutes the natural evolution of the

first one. Additionally, the study of economic development should take advantage of different approaches and consider every one of them as an enriching and valuable element to enhance the way in which economic development is measured and driven, and to cultivate a very elastic framework capable to adapt itself to any country or situation.

I understand economic development as the process that, in essence, not only ensures the economic success in terms of growth, productivity and resources allocation but also the one that guarantees the correct distribution of the attained benefits among the population. All this to allow and ensure the satisfaction of basic human needs, the enforcement of capabilities for empowering people's choices and opportunities, and the construction of solid and ' healthy' societies. Clearly influenced by Sen's approach, I strongly believe that economic development is also a process that seeks to empower human freedoms through a wide range of means, including not only the income generation process but also the reinforcement of human capabilities through the combination of multidisciplinary theoretical approaches and policies.

By other side, the measurement of such a multidisciplinary process perhaps requires a combination of different measures and perspectives, all of them in mutual agreement about their limitations and scope, benefits and omissions.

The amount of related literature is vast and the different approaches and concepts have always proven to be valuable in different situations. However, we must never lose the idea that the main purpose of economic



development is to preserve, improve and sustain living conditions for human beings, for our generation and beyond.