Economic growth and economic development

Technology, Development

ECONOMIC GROWTH AND ECONOMIC DEVELOPMENT In contemporary times, certain economic registers are used frequently. Arguably two of these most used terms in economics, ‘ economic growth’ and ‘ economic development’ are terms that just about everyone is at least remotely familiar with, even if they have not studied economics at all. Sometimes it seems everyone knows what economic growth and economic development is. Politicians use these terms all the time, and so do teachers, managers and even preachers. Often, people’s use of these terms may not be quite accurate, but one has to admit that most of the time they are never too far from the mark. Insights into the aforementioned terms ‘ economic growth’ and ‘ economic development’ are given as follows… Economic Growth Economic Growth is an increase in a country's real level of national output which can be caused by an increase in the quality of resources by education etc, increase in the quantity of resources & improvements in technology. Economic Growth can also be described as an increase in a country's productive capacity, as measured by comparing gross national product (GNP) in a year with the GNP in the previous year. In other words, Economic Growth is an increase in the real level of output as measured by the annual percentage in real GDP (Gross Domestic Product). Increase in the capital stock, advances in technology, and improvement in the quality and level of literacy are considered to be the principal causes of economic growth. In recent years, the idea of sustainable development has brought in additional factors such as environmentally sound processes that must be taken into account in growing an economy. Measurement of Economic Growth Economists usually measure economic growth in terms of gross domestic product (GDP) or related indicators, such

as gross national product (GNP) or gross national income (GNI) which is derived from the GDP calculation. GDP is calculated from a country's national accounts which report annual data on incomes, expenditure and investment for each sector of the economy. Using these data it is possible to estimate the total income earned in the country in any given year (GDP) or the total income earned by a country's citizens (GNP or GNI). GNP is derived by adjusting GDP to include repatriated income that was earned abroad, and exclude expatriated income that was earned domestically by foreigners. In countries where inflows and outflows of this sort are significant, GNP may be a more appropriate indicator of a nation's income than GDP. There are three different ways of measuring GDP - the income approach - the output approach - the expenditure approach The income approach, as the name suggests measures people's incomes, the output approach measures the value of the goods and services used to generate these incomes, and the expenditure approach measures the expenditure on goods and services. In theory, each of these approaches should lead to the same result, so if the output of the economy increases, incomes and expenditures should increase by the same amount. How to boost Economic Growth in a country In order for a country to experience economic growth, certain things have to be done. In my own opinion, I believe that; As more people are employed, the amount of capital increases, education levels increase, the quality of capital changes, or the technology increases, the productive capacity of the economy increases. Therefore, the economy can increase its output giving consumers more disposable income, promoting an increase in consumption spending, and providing resources for business to use for further investment and

government to use to provide public goods and services. Increased labor force participation increases output. Expanded, improved education creates more productive workers. Business and government spending on research and development enhance our abilities to produce and allow each worker to become more productive, increasing incomes for all. Finally, to achieve a higher level of GDP in the future, consumers need to limit consumption spending and increase savings today, permitting businesses to invest more in capital goods. If resources are invested into building an economy now, future generations will enjoy a higher level of economic growth; our businesses will produce more goods and consumers can purchase more goods. Expansion of output at rates faster than our population growth is what gives us the opportunity to enjoy higher standards of living. Economic development Economic development is a normative concept meaning that the definition is variable however; the definition given by Michael Todaro is ‘’an increase in living standards, improvement in self-esteem needs and freedom from oppression as well as a greater choice.’’ Economic development can be defined as the advancement of a nation or society according to several economic factors. Economic development generally includes such trends as technological innovation, improvements in the standard of living and life expectancy, and increases in the amount of invested assets per capita At the core of the definition is the point that economic development is not just about dollars and cents but is about community well-being and creating communities that people want to live in. It is a constant challenge for small communities to hold onto their young people. There must be jobs and facilities that the next generation expects as

a standard. Providing infrastructure on one hand and building social capital on the other will lead to community sustainability and resilience which eventually boils down to ‘’economic development’’ In a few words one can say that the scope of economic development includes the process and policies by which a nation improves the economic, political, and social well-being of its people. Measurement of Economic Development There are several criteria or principles to measure the economic development. Let us make a detailed study of these measurements for better understanding. 1. National Income: Some economists have taken increase in the real national income as the indicator of economic development because per-capita income depends upon the national income. National Income is related with the final goods and services produced in a country. According to this method the state of continuous increase in national income can be taken as economic development. This is majorly applicable to the poor and middle class countries. Short-run increase in national income cannot be taken as economic development. Likewise increase in the national income as a result of increase in price of goods and services cannot be defined as economic development. 2. Per Capita Income: Increase in per-capita income has been pointed out by some economists as a basis for measuring economic development; According to the classification given by the United Nations Organization in 1989, countries having per capita income less than 580 US dollars fall in the class of poor countries, countries having per capita income between 580 US dollars and 6, 000 US dollars are in the middle class, and countries having per capita income more than 6, 000 US dollars are in the class of rich countries. According to World Development Report 2009, per

capita income of Nepal is 340 US dollars. Such indicator makes the comparative study of different countries easy. On the basis of per capita income the economic growth rate of any country can be found out. The increase in per capita income of any country shows the increase in economic growth rate of the country The UNO experts in their report on 'Measures of Economic Development of Underdeveloped Countries' have also accepted this measurement of development. 3. Economic Welfare Index: Economists like Colin Clark Kindleberger, D. Bright Singh, and Hersick etc. have suggested economic welfare as the measure of economic development. The term economic welfare can be understood in two ways: (a) When there is equal distribution of national income among all the sections of the society. It raises economic welfare. (b) When the purchasing power of money goes up, even then there is an increase in the level of economic welfare. The purchasing power of money can go up when with the increase in national income there is also increase in the prices of goods. That means economic welfare can increase if price stability is ensured. Thus economic welfare can boost with equal distribution of income and price stability. Higher the level of economic welfare, higher will be the extent of economic development and vice-versa. 4. Measurement through Occupational Pattern: The distribution of working population in different occupations is also regarded as criteria for the measurement of economic development. According to Colin Clark there is deep relation between the occupational structure and economic development. He has divided the occupational structure in three sectors (a) Primary Sector: It includes agriculture, fisheries, forestry, mining etc. (b) Secondary Sector: It consists of manufacturing, trade, construction etc. (c)

Tertiary Sector: It includes services, banking, transport, etc. In underdeveloped countries, majority of the working population is engaged in primary sector. On the contrary, in developed countries the majority of the working population works in tertiary sector. When a country makes economic progress, its working population begins to shift from primary sector to secondary and tertiary sectors. 5. Human Development Index (HDI): The modern economists were not satisfied with GNP, per capita or national income as the principal measures of economic progress. According to them, the issue is not only how much growth but what kind of growth and as a result, they formulated the Human Development Index (HDI). This indicator was for the first time developed by United Nations Development Program (UNDP) in the year 1990. There were a number of measures which were included in this index, However, to keep the HDI simple and manageable, the following main variables were included in it (a) Life expectancy was chosen as a measure of long life (b) Literacy as an index of knowledge and (c) Real GDP per person which represents Income for decent living. 6. Physical quality of life index (PQLI): This is non-income indicator of economic development because this uses physical quality of life as the indicator. This method of measuring economic development is based on the following three things. They are:— (a) Life expectancy (b) Infant mortality (c) Literacy. Countries having low life expectancy, low literacy rate and high infant mortality will have low index. If in any country PQLI is increasing then it indicates the increase in the physical quality of the life of people. Increase in per-capita income does not necessarily indicate the increase in the facilities like healthy food, health, situation, education, etc. Therefore PQLI method is taken to be

better indicator than per-capita income method. In addition to these various indicators the following facts are also taken as the indicators of economic development. (a) Equality improvement.(b) Poverty alleviation(c) Quality of life (d) Capital formation(e) Fulfillment of basic needs.(f) Population growth rare (g) Increase in employment opportunities (h) Decrease in dependence on agriculture (i) Increase in entrepreneurship (j) Utilization of natural resources (k) Increase in export of finished goods. (l) Trade diversification (m) Extension of infrastructures DIFFERENCES BETWEEN ECONOMIC GROWTH AND ECONOMIC DEVELOPMENT In general words, economic development refers to the problems of underdeveloped countries and economic growth to those of developed countries. The raising of income levels is generally called economic growth in rich countries and in poor ones it is called economic development. But this view does not specify the underlying forces which raise the income levels in the two types of economies. The problems of underdeveloped countries are concerned with the development of unused resources, even though their uses are well known, while those of advanced countries are related to growth, most of their resources being already known and developed to a considerable extent. In fact, the terms " development and growth" have nothing to do with the type of economy. The distinction between the two relates to the nature and causes of change. These two terms may also be explained as the development is a discontinues and spontaneous change in the stationary state which forever alters and displaces the equilibrium state previously existing; while growth is a gradual and steady change in the long run which comes about by a gradual increase in the rate of savings and population.

This view has been widely accepted and elaborated by the majority of economists. Economic Growth does not take into account the depletion of natural resources which might lead to pollution, congestion & disease. Development however is concerned with sustainability which means meeting the needs of the present without compromising future needs. These environmental effects are becoming more of a problem for Governments now that the pressure has increased on them due to Global warming. According to another school of thought, " economic growth means more output, while economic development employs both more output and changes in the technical and institutional arrangements by which it is produced and distributed. Growth may well involve not only more output derived from greater amounts of inputs but also greater efficiency, either, and increase in output per unit of input. Development goes beyond this two employ changes in the composition of output and in the allocation of inputs by sectors". According to some classical economists the growth is an expansion of the system in one or more dimensions without a change in its structure, and development is an innovative process leading the structural transformation of social system. Thus economic growth is related to a quantitative sustained increase in the country's per capita output or income accompanied by expansion in its labor force, consumption, capital, and volume of trade. On the other hand, economic development is a wider term. It is related to qualitative change in economic wants, goods, incentives, and institutions. It describes the underlying determinants of growth such as technological and structural change. Development embraces both growth and decline. An economy can grow but it may not develop because poverty,

unemployment and inequalities may continue to persist due to the absence of technological and structural changes. But it is difficult to imagine development without economic growth in the absence of an increase in output per capita, particularly when population is growing rapidly. Despite these apparent differences, some economists use these terms as synonyms.