Approaches to economic development

THE ECONOMICS OF DEVELOPMENT – CONCEPTS AND APPROACHES

Meaning of the term ‘ Economic Development’

Actually, there are broadly two main approaches to the concept of economic development :

1. The Traditional Approach or ‘ The Stages of Economic Growth’ Theories of the 1950s and the early 1960s.
2. The New Welfare Oriented Approach or ‘ The Structural-Internationalist’ Models of the late 1960s and the 1970s.

1. The Traditional Approach :

The thinking of the 1950s and early 1960s focused mainly on the concept of the stages of economic growth. Here the process of development was viewed as a series of successive stages through which all countries had to pass. The propounders of this approach advocated the necessity of the right quantity and mixture of saving, investment and foreign aid to enable the LDCs to proceed along an economic growth path. They based their conclusions on the fact that this economic path historically had been followed by most of the more developed countries. Thus, in this period development had become synonymous with rapid, aggregate economic growth.

This approach defined development strictly in economic terms and it implied :

- A sustained annual increase in the GNP at rates varying from 5 to 7 pcpa or more;

- Such changes in the structure of production and employment that the share of agriculture declines in both, while the share of manufacturing and the tertiary sectors increase.

The policy measures that were suggested in this period were the ones which induced industrialization at the expense of agricultural development. The objectives of poverty elimination, economic inequalities reduction and employment generation were mentioned but only as a passing reference. In most cases it was assumed that the rapid gains in overall growth in the GNP would ‘ trickle-down to the masses’ in one form or the other.

2. The New Welfare Oriented Approach:

Jacob Viner was probably the first economist (1950’s) to argue that an economy could not boast of having achieved economic progress if the incidence of poverty in that economy had not diminished. But it was in the early 1970’s that economists began to realize that Jacob Viner’s stance was relevant, as nearly 40 % of the developing world’s population had not benefited at all from the rise in the GNP and from the structural changes that had taken place in their respective economies during the 1950’s and 1960’s.

Hence, in the 1970s it became necessary to redefine the concept of economic development. This modern approach views underdevelopment in terms of :

- international and domestic power relationships;
- institutional and structural economic rigidities; and,
- the proliferation of dual economies and dual societies both within and among the nations of the world.

This approach places emphasis on policies that would lead to the eradication of poverty, provide more diversified employment opportunities, and reduce income inequalities. This approach insists that these and the other egalitarian objectives have to be achieved only within the socio-economic context of the respective growing economy. Thus today, economic development is a process whereby the general economic well-being (especially of the masses) of an economy is affected for the better.

Meier defines economic development very concisely as:

‘ Development is the *process* whereby the *real per capita income* of a country increases over *a long period of time* – subject to the stipulation that *the number below an absolute poverty line does not increase* and that *the distribution of income does not become more unequal’* .

This definition thus highlights the following aspects of the term economic development :

1. Development is a PROCESS :

Today, development implies the operation of certain socio-economic forces in an interconnected and causal fashion. This interpretation is more meaningful than merely to identify development with a set of conditions or a catalogue of characteristics.

2. Development is a RISE IN THE REAL PER CAPITA INCOME :

Since today the development of a poor country arises from a desire to remove its mass poverty, the primary goal should be a rise in the real PCI rather than simply an increase in the economy’s real national income, uncorrected for changes in the population. Simply increasing the real national income does not guarantee that there would be an improvement in the general living standards of the masses. If the population growth rate surpasses the growth of national output or even runs parallel with it, the result would be a falling or at best a constant PCI and as this would not be beneficial to the masses, it cannot be considered as development.

3. Development can take place only over a LONG PERIOD OF TIME :

This time period is significant from the stand-point of development being a sustained increase in the real income and not simply as a short-period temporary rise, such as occurs during the upswing of the business cycle. The underlying continuous upward trend in the growth of the real PCI over at least two or three decades is a strong indication that the process of development is on the right track.

4. Development must lead to a DECREASE IN SIZE OF THE ABSOLUTELY POOR :

Given the new orientation of the development thought, it is necessary that the quality of life of the masses must improve – in fact improve to the extent of actually showing a fall in the amount of people living below the poverty line. This would automatically require, as suggested in the definition, areduction in the economic inequalitiesin the economy. To achieve this goal, it is necessary that the policies implemented should actually divert economic power towards the economically vulnerable groups in the economy. The policies should aim at raising the real PCI, causing a diminution in economic inequality (ie., an alleviation if not an eradication of poverty), ensuring a minimum level of consumption, guaranteeing a certain socially relevant composition of the national income, reducing unemployment to a tolerable low level and removing regional development disparities.

The framework of development as given by Charles P. Kindleberger and Bruce Herrick reiterates the improvement-of-the-masses emphasis of Meier's definition. Kindleberger and Herrick maintain that economic development is generally taken to include :

- Improvement in material welfare, especially for persons with the lowest incomes, the eradication of mass poverty along with its correlates of illiteracy, disease, and early death;
- Changes in the composition of inputs and outputs that generally include shifts in the underlying structure of production away from agricultural and towards industrial activities;
- Organizing the economy in such a way that productive employment is general among the working age population and that employment is not a privilege of only a minority; and,
- Increasing the degree of participation of the masses in making decisions about the directions, economic and otherwise, in which the economy should move to improve their own welfare.

The Economic GrowthV/sEconomic Development dEBATE

The stress on the improvement in the quality of life of the masses has made it imperative to distinguish between the growth-oriented approach of the 1950s & 1960s and the modern development-oriented approach of the late

1960s & 1970s – ie., the distinctions between Economic Growth and Economic Development must be highlighted.

1. Definitional differences :

Economic growth is a pure economic process whereby there is an increase in the economy’s GNP due to the increase in the productive capacity of the economy. Economic development, on the other hand, is a multi-dimensional process involving major changes in the social structures, popular attitudes and national institutions, as well as the acceleration of economic growth, the reduction of inequality and the eradication of absolute poverty.

2. Differences in the objectives :

Economic growth aims at:

1. Increasing the size of the GNP, without actually considering the social relevance of the composition of the national income.
2. Removing all the obstacles that could come in the way of increasing the economy’s productive capacity, eg., removing the market imperfections that exist in the economy.
3. Supplying the ‘ missing components’ like capital, foreign exchange, technology, skills and management, which are needed for improving the economy’s productive capacity.
4. Hoping that the benefits of the increased capacity of the economy would some how reach the masses.

Economic development, on the other hand, aims at :

1. Increasing the availability and widening the distribution of basic life-sustaining goods such as food, shelter, health and protection.
2. Raising the level of living including, in addition to higher incomes, the provision of more jobs, better education and greater attention to cultural and humanistic values, all of which serve not only to enhance material well-being but also to generate greater individual and national self-esteem.
3. Expanding the range of economic and social choice to individuals and nations by freeing them from servitude and dependence, not only in relation to other people and nations, but also from the forces of ignorance and human misery.

Thus, we see that the goals of economic growth are rather narrow in scope, while those of economic development are more broad-based in nature and in scope.

3. Differences in the overall approach :

a. Quantitative versus Qualitative Approaches :

According to Kindleberger, economic growth means more output, while economic development implies not only more output but also changes in the technical and institutional arrangements by which it is produced and distributed. Growth involves more output derived from greater amounts of inputs and with greater efficiency; but, development implies changes in the composition of the output and in the allocation of the inputs to the different sectors. Thus, growth is related to a quantitative sustained increase in the PCI accompanied by the expansion in its labour force, consumption, capital and volume of trade, while economic development is related to qualitative changes in economic wants, goods, incentives and institutions.

b. Revolutionary Speed versus Evolutionary Speed Approaches :

Economic growth implies a certain degree of rapidity in the change process. Changes are introduced at a brisk rate and without a sufficient preparation of the socio-eco-politico foundations of the economy. Projects are literally imposed on the economy to create a global impression of progress. The masses are either not taken into confidence or are not considered vis-à-vis the new projects. The rapid changes caused by the‘ *Revolutionary Approach* ’of economic growth ensure the failure of the system within a short time.

Economic Development, on the other hand, adopts a more‘ *Evolutionary Approach* ’– ie., it first ensures that the socio-eco-politico foundations are readied for the change. Hence, when the change actually takes place, it is readily and popularly accepted and supported. Thus, development involves creating a sense of awareness and a feeling of participation among the masses in the economy. This makes the development process painstakingly slow, long and drawn-out – but it is this gradualness in approach that actually strengthens the economy in the long run.

c. Only Immediate Gains versus Also Futuristic Gains Approaches :

The gains that accrue from economic development are far more sustaining than those made from growth, simply because of the differences in the way the future of the to-be-introduced projects are anticipated, analyzed and appreciated. Economic growth means increasing the economic activities, irrespective of whether the economy can continue supporting the newly introduced economic activity in the long run or not. For instance, along the lines of economic growth, an LDC would increase its current steel producing capacity, but it would not be able to keep up this new capacity for more than a few years. Hence, within a few years, the increased capacity would lay wasting leading to a wastage of scarce resources. Economic development, on the other hand, would consider the future sustaining capacity of the economy before actually increasing the steel capacity. If and only if the economy can continue supporting this higher rate in the future, the capacity would actually increase. Thus, economic development guarantees that the scarce resources are currently used fruitfully and appropriately.

d. Only Economic versus Also Environmental concern Approaches :

Economic growth, due to its rapid approach, more often than not, causes harm to the environment – natural and/or social. Projects are undertaken without considering the cascading effects that could follow in the form of natural environment degradation, pollution, overcrowding, increase in crime rate, bottlenecks in infrastructural facilities, etc. For instance, an economy, for growth’s sake, could undertake an irrigational project without either making a thorough study of or without caring about its ramifications on the natural and social environment.

Economic development, on the other hand, insists on the conservation and the protection of the natural and social environment. If a certain project could cause any sort of significant damage to the environment, that project would be either abandoned or altered. If the above mentioned irrigational project was approached from the development point of view, its site would be either changed, or its dimensions altered to prevent natural environmental harm; and if there is any sort of social environmental damage, like displacement of the inhabitants, then, rehabilitation projects would be undertaken, in consultation with the affected people.

e. The Trickle-Down versus The Direct-Attack Approaches :

Economic growth’s, primary goal is to increase the productive capacity of the economy massively, irrespective of whether or not the poorer sections would benefit from this higher capacity. In fact, growth works on the assumption that the benefits that accrue from the increase in capacity would some how or the other trickle-down to the masses. Thus, growth makes no deliberate attempt ensure that the benefits do reach the poorer sections of the economy. The objectives of poverty eradication, economic inequalities reduction and employment generation are mentioned but only as a passing reference, as secondary gains that may or may not occur. Growth has a sort of an in-built tendency to bypass those very people in the economy who deserve to be supported the most by it.

Economic development, on the other hand, by directly attacking economic misery, ensures that the benefits of the increase in the productive capacity actually reach the masses. The policies aim at diverting economic power towards the economically weaker sections of the economy. The policies directly aim at raising the real PCI, causing a diminution in economic inequality, ensuring a minimum level of consumption, guaranteeing a certain socially relevant composition of the national income, reducing unemployment to a tolerable low level and removing regional development disparities.

4. Interrelationship between Economic Growth & Economic Development :

Although economic growth and economic development are indeed very different in their approaches, there exists an inter-relationship between them. It is difficult to conceive of development without growth. In low income countries, for instance, a substantial increase in the GNP is needed before they can hope to overcome their problems of poverty, unemployment and occupational distribution. However, it is possible to have growth without development, as growth is not concerned with the social aspects of an economy. In short, since development is a broader concept it encompasses growth and therefore can be said to be directly related to growth. Thus, development is growth with a human face.

References:

1. Todaro, M. Economic Development in the Third World. Chs 1 and 3
2. Meier, G. Leading issues in Economic Development. Ch 1 (1-A)
3. Misra & PuriEconomics of Growth and Development (4th Ed) Ch 1
4. Jhingan, M. L. The Economics of Development and Planning. (28th Ed) Ch 1
5. Mukherji, SampatModern Economic Theory Ch 50