

Concepts of Economic Growth & Development



Economic Progress & Economic Welfare

Economic Growth & Economic Development

- ❖ The Terms Economic development, Economic Growth, Economic Progress and Economic Welfare are considered to be *synonymous* to each other and all are interchangeable in a general way, but Economist like Schumpeter, Mrs Hicks etc came forward and have attempted to draw a line of demarcation
- ❖ *C P Kindleberger* says “Economic growth means more output and Economic development implies both more output and changes in the technical and institutional arrangements, by which it is produced.”

Economic Growth

- ❖ Economic growth is the *increase in the money value* of all the *final goods and services* produced by all the sectors of the economy per head within a time period
- ❖ It is a *quantitative measure*
- ❖ It can be measured in terms of increase in the *aggregate market value* of additional goods and services produced in a country
- ❖ *GDP and GNP* are the measures for economic growth

Economic Development

- ❖ Till 1960s the term '*Economic Development*' was often used as a synonym of '*Economic Growth*'
- ❖ But now economic development is no longer considered same as economic growth
- ❖ Economic development is considered to mean growth with the *progressive changes* in certain crucial variables which determine well being of the people
- ❖ It includes *qualitative dimensions* which may be missing in the growth of an economy expressed in terms of an increase in GDP and GNP
- ❖ It is the *qualitative improvement in the life* of citizen of a country and in most appropriately determined by HDI

Economic Growth and Economic Progress

- ❖ Some economists have pointed out the *difference* between economic growth and economic progress, the former implies to *an increase in total national income* while the later implies to *an increase in per capita income*
- ❖ Economic progress means *an improvement in the standard of living* of the people and economic growth leads to *raise the level of national income*
- ❖ But higher living of standard is *only possible* if the increase in national income is not accompanied by the same increase in population
- ❖ Economic growth *leads to* economic progress of the country

Economic Progress and Economic Welfare

- ❖ *According to Prof Colin Clark - “Economic Progress can be defined simply as an improvement in Economic Welfare*
- ❖ *According to Prof Pigou - “Economic Welfare is nothing but the abundance of all those goods and services which are exchange for money”*
- ❖ *Some Economists think that economic progress itself implies increase in economic welfare*
- ❖ *But economic welfare is a more rounded measure of progress in improving people's lives taking into account for examples changes in health and education outcomes, the level of income and wealth inequality and feelings of security for individuals and their families*

Three main values of Development

According to *Prof. Goulet* and others there are three main basic components for the understanding the meaning of development, they are

1. ***Life-Sustenance***: The ability to provide basic needs. People should have certain basic needs (Food, Shelter, health and protection) without which life would be impossible
2. ***Self Esteem***: Essence of worth and self respect, of not being used as a tool by others for their own ends
3. ***Freedom from Servitude*** - Freedom from misery institutions and dogmatic beliefs

In short development is both a physical reality and a state of mind

Difference Between Economic Growth & Economic Development

- ❖ Economic Development is a *broader concept* and concerned with *structural changes* in the economy whereas, Economic Growth is a *narrower concept* and is concerned with *increase in the Economy's output*
- ❖ Economic Development is a process of *change over a long period of time*, whereas Economic Growth refers to *an increase over time in a country's real output* of goods and services (GNP) or real output per capita income

- ❖ Economic Development implies an *upward movement* of the entire social system in terms of income, savings and investment along with progressive changes in socio economic structure of country whereas, Economic Growth relates to a *gradual increase* in one of the components of Gross Domestic Product: consumption, government spending, investment, net exports
- ❖ Economic development is *more relevant to measure progress and quality of life in developing nations* whereas, Economic growth is a more relevant metric *for progress in developed countries*. But it's widely used in all countries because growth is a necessary condition for development

Economic growth is a necessary but not sufficient condition of economic development

Measurement of economic Growth and Economic Development

Economic Development

Qualitative

Qualitative HDI (Human Development Index)

Gender- related index (GDI)

Human poverty index (HPI)

Infant mortality, literacy rate etc.

Economic Growth

Quantitative

Increase in the Real GDP