| Subject | ECONOMICS |
|---|---|
| Paper No and Title | 12: Economics of Growth and Development - I |
| Module No and Title | 1: Economic Growth and Economic Development |
| Module Tag | ECO_P12_M1 |


| Principal Investigator | Co- Principal Investigator | Co- Principal Investigator | Co- Principal Investigator and Technical Coordinator |
|---|---|---|---|
| **Prof H C Pokhriyal**<br>Executive Director<br>School of Open Learning<br>University of Delhi<br>Delhi-110007 | **Dr Jaswinder Singh**<br>Principal<br>SGTB Khalsa College<br>University of Delhi<br>Delhi-110007 | **Dr Jatinder Bir Singh**<br>Principal<br>Sri Guru Gobind Singh College of Commerce<br>University of Delhi | **Dr Vimal Rarh**<br>Deputy Director, Centre for e-Learning and Assistant Professor, Department of Chemistry, SGTB Khalsa College, University of Delhi<br><br>*Specialised in : e-Learning and Educational Technologies* |
| **Paper Coordinator** | **Content Writer** | | **Reviewer** |
| **Mr. C. S. Pant**<br>Associate Professor<br>Dyal Singh College (Eve.)<br>University of Delhi | **Mr. Shadab Hashmi**<br>Assistant Professor<br>Dyal Singh College (Eve.)<br>University of Delhi<br><br>**Mr. C. S. Pant**<br>Associate Professor<br>Dyal Singh College (Eve.)<br>University of Delhi | | **Prof. Ishwar Awasthi**<br>Professor<br>Giri Institute of Development Studies<br>Lucknow |
| **Anchor Institute : SGTB Khalsa College, University of Delhi** | | | |

# TABLE OF CONTENTS

## 1. Learning Outcomes

After studying this module, you shall be able to

- Know about basics of economic growth, economic development, factor affecting economic growth
- Learn about the difference between economic growth and economic development
- Identify the role of natural resources, capital accumulation, technological progress, population, human capital in process of Economic growth
- Evaluate the impact of economic growth, measurement of economic growth, indices to measure the economic development
- Analyse the impact of economic growth on ordinary population, economic growth vs. economic development

## 2. Introduction

Economic growth is quite modern phenomenon. For instance, consider the growth rate of world leading industrial countries over the past four centuries. During the period 1580-1820, the Netherlands was the leading industrial nation it experienced an average annual growth in real GDP per worker hour of roughly 0.2 percent. The United Kingdom (UK), the other leading country experienced an annual growth of 1.2 percent during the period approximately 1820-1890. Since 1890, the United States of America (USA) is considered to have usurped the leaders' seat, and its average growth rate during the period 1890-1989 was a relatively dramatic 2.2 percent a year. Clearly, by today's standard even the fastest growing economy two centuries ago would be considered practically stagnant. According to one estimate, even the modest 2 percent growth, a nation's per capita Gross domestic product (GDP) doubles in 35 years. It shows the enormous potential that economic growth carries if sustained[1].

Economic growth is the increase in the market value of goods and services produced by an economy over time. It is conventionally calculated as the percent rate of increase in real GDP. In economics, economic growth theory typically refers to growth of potential output i.e. production at full employment. As an area of study, economic growth generally distinguished from economic development, the former generally refers to the increase in per capita income while letters tries to focus on quantitative as well as qualitative changes in nation's Alife during the economic advancement. According to Kindleberger, "economic growth means more output, while economic development implies both more output and changes in the technical and institutional arrangement by which it is produced and distributed. Growth not only involves more output derived from higher amounts of input but also refers greater efficiency i.e. an increase in output per unit of input.

[1] Debraj (1998): "Development Economics", pp. 47-50, *Oxford University Press*.

Development goes beyond this to imply changes in the composition of output and in the allocation of inputs by sectors."

## 3. Difference between Economic Growth and Economic Development

Economic development can be referred as the quantitative and qualitative changes in the economy. Arthur Lewis defined economic development as the enlargement of the range of people choices. Economic development focuses on the spectrum of spheres ranging from health, education, employment, safety, environmental sustainability, social exclusion, gender empowerment, infrastructure, and other activities whereas economic growth measured in terms of rise in GDP or market productivity. Consequently, Amartya Sen refers economic growth as a one of the part of economic development.

The study of economic development was borne out of an extension to traditional economics that focused entirely on national product, or the aggregate output of goods and services, the latter known as economic growth. Economic development mainly concerned in expansion of people's entitlements and their corresponding capabilities, morbidity, nourishment, literacy, education, and other socio-economic indicators.

Economic growth, that is, more income is only one of the things desired by poor people. Adequate nutrition, safe water, better medical services, more and better schooling for their children, cheap transport, adequate shelter, continuing employment and secure livelihood, and productive remunerative satisfying job do not show up in higher income per head. There are even other non-material benefits that are often more highly valued by poor people than material benefits but they do not reflect in higher income figure. For instances, freedom to choose, movement, speech, safe working condition, expressing cultural, regional, linguistic and religious identity, empowerment are some factors often more important than income[2].

It is quite often observed in the many parts of world that economic growth can be rapid without the improvement in the quality of life. In other words, per capita increase in GDP only benefits a small section of minority population and rest of the vast majority of population deprived from the fruits of increased GDP. It led to concentration of wealth in few hands, stark inequality, existence of dual economy where one sect enjoyed the increased production of goods and services and remaining large section of population starving and yet to receive any benefits of higher GDP.

Economic growth set the prerequisite condition for economic development. The economic growth accompanied by proper distribution of resources across the population, building

[2] Paul Streeten (2008):"The meaning and measurement of development" In ed. Volume Titled *International Handbook of Development Economics,* Edward Elgar, U K.

institutional mechanisms which ensure qualitative change in the lives of people, and environmental sustainability guaranteed the economic development. It has been observed that there is positive correlation between incomes per head and indicators of human development. It does not refer that higher income led higher development since many countries have achieved high human development at low level of income. This correlation depend on how additional income from growth being used for public education, health, and employment opportunities. Economic is indeed important, not for itself, but for what it allows a country to do with the resources that generated, expanding both individual incomes and the public revenue that can be used to meet the social commitments[3]. Initial endowments like distribution of assets are also important factor in determining economic development. If land are fairly distributed among the population and education is accessible for masses, then the benefits of economic growth can easily percolate down to the end of the population.

Economic growth is quite often considered to be an essential part of development. But growth (known as continuing increase of the quantity of goods and services produced and consumed over time) is simply the inter-temporal dimension of any policy objective, although it has been wrongly monopolized by production and consumption: it should apply to poverty to poverty reduction, employment, investment, a more equitable income distribution, environment protection, leisure and, of course, also to income. But once you specify for income, consumption and production, the 'What?' 'To whom?' 'By whom?' 'For what?' and 'When?' growth becomes the incidental result, not the objective, of a sensible economic policy. Growth is too unspecified, abstract, aggregate and unbounded to be a sensible objective of policy. It also implies an infinite horizon, without the limits to increases in income. What matters is the composition of national income, to what uses it is put, its distribution among beneficiaries, now and for future generations; and with how much efforts and in what conditions it is produced. If and only if the extra resources resulting from growth go largely to the poor, and if they are spent on public health and education, will a contribution to human development result.[4]

In measuring economic growth, the national income is a quite inadequate measure of human development for several reasons. It counts only goods and services that are exchanged for money, leaving out of account the large amount of work done inside family, mainly by women, and work done voluntarily for children or older people or in communities. Public services are counted at their cost, so that doubling the wages of all public services appears to double their contribution to welfare or development. National income accounting does not distinguish between goods and regrettable necessities, like

[3]Dreze& Sen (2012): *An Uncertain Glory; India and its Contradictions*, pp. 17-24, New Delhi:Penguin Books.

[4] Paul Streeten (2008):"The meaning and measurement of development" In ed. Volume Titled *International Handbook of Development Economics*, Edward Elgar, U K.

military expenditure or anti-crime expenditure, products needed to combat 'bads'. Addictive eating and drinking is counted twice: when the food and the alcohol are consumed, and when large sums are spent on diet industry and on cures for alcoholism. Much of what is now counted as economic growth is really either combating evils, and fixing the blunders and social decay from the past, or borrowing resources from the future, or shifting functions from community and household to the market.[5]

One more dimension that untouched in discussion of economic growth is related to gender issues. In events where women are provided opportunity to choose the size of their family it has been found that without adverse economic and social consequences, smaller families are indeed chosen. With human development through expanding education, especially for women and girls, the reduction in infant mortality, improved medical facilities led to significant fall in fertility rate among women. There are strong evidences which show that more surviving children also led to reduction in population growth by evading uncertainties in family. Human development is a powerful tool to curb the population growth, and reduced population growth open up the news ways of economic advancement.

Sudhir Anand and Amartya Sen have suggested the division of all countries into three groups:low ,medium, and high level of human development. For countries with low level of human development the basic human development Index can be used to rank their performance. For countries with medium value of human development Anand and Sen add one supplementary indicator to each of the three basic variables, life expectancy, literacy, and log of GDP per head. In the longevity category they add infant and child mortality (under five); in the education category they add the secondary school enrollment; and income category they add the incidence of income poverty in the country.

## 4. Factor Affecting Economic Growth

### 4.1 Natural Resources

The principal factor determining economic growth of a country is the natural resources. A country suffering from non-availability of natural resources would not be able develop rapidly. Having said this, it is also a recognized fact that presence of abundant resources does not guarantee the economic growth; it must be accompanied by proper exploitation of these resources. If the existing resources are not properly utilized or exploited, the country would not be able to develop. One of the main factors which ensure the utilization of resources is technological advancement. Therefore, natural resources can be put in right place to augment economic growth through introducing improved technology. As pointed out by economist that the value of resource depend upon its usefulness, and the usefulness of resource mainly depend on accommodating and updating the technology which can be used a means to define its usefulness.

[5] Cobb et al. (1995): *The Genuine Progress Indicator*, San Francisco, CA: Redefining progress.

It is often said that economic growth could be achieved even when an economy is inadequate in natural resources. On such country is Japan which even deficient in natural resource but one of the developed countries of the world because it has been succeeded in forming human capital and discover new used of its limited resources. A country which considered poor in resources in one point of time may considered rich in resources after passage of time, not because of new avenues of resources are discovered but equally because creating new resources and using limited resources most efficient way. Moreover, by importing those resources from other countries, it has been able to overcome the inadequacy of natural resources through using the superior technology, efficient management skills.

Thus for economic growth mere presence of abundant resources are not enough. What is essential is their proper exploitation through improved technology and efficient management skills so there would be little wastage of scarce resources.

### 4.2 Capital Accumulation

The second most important factor in economic growth is capital accumulation. Capital means stock of physical reproducible factor of production. When the capital stock grows over period of time, this is defined as capital accumulation. The process of capital accumulation is cumulative and self-sustaining provided three inter-related stages preceded: (a) the existence of continuous rise in saving; (b) to us these saving for investment in capital goods; (c) intermediaries to mobilize saving and divert them for investment.

One of the prominent reason of lower growth in underdeveloped countries is lower saving, equally opposite in developed countries higher saving ensure the capital formation and sustain continuous growth. Due to low propensity to save in least developed countries, voluntary saving are not sufficient to ensure desired growth. Due to low level of income poor countries are close to subsistence level of consumption which led to low level of saving. In such circumstances possibility to raise saving are dismal, and economic growth would rely on other sources of capital accumulation, like external loans, grants or aid.

Capital formation is the key component of economic growth. On the one hand it ensure effective demand, and other hand, it creates productive efficiency for future production. Higher investment in capital goods and consumer goods industries creates employment opportunities which led to higher consumption reflects in effective demand. On the other hand new avenues for capital goods open up the ways for productive efficiency in production. The processes of capital accumulation reflect in higher national output, essential to meet the demand of increasing population.

### 4.3 Technological progress

Technological changes are count as the most important factor in the process of economic growth. They are mostly referring as the change in mode of production through new technique emerges out from research or innovation. Changes in technology lead to increase in productivity of labour, capital and other factors used in production. Schumpeter regards innovation as most important technological factor in economic growth.

Modern economic growth theories even assume that without technical progress, a country cannot sustain the growth in per capita income indefinitely. Due to low technological progress in least developed countries they are not able to break the vicious circle of under-development. Developed countries are succeeded in continuous adaptation of new technology due to higher spending in research and development activities.

### 4.4 Population

Population growth is also another important factor which affects the economic growth. There are evidences which shows that population growth systematically change with the overall development of a society. The changes in population growth along with development process normally are known as demographic transition. The idea is very simple, when the population growth is high, economy has to put more effort for achieving higher growth since higher population pull down the per capita income growth and vice versa. A strong family planning targets or the provision of incentive to have less children, spread of education can pull down the population growth and permit long-run growth.

### 4.5 Other factors

One of the important factors determining modern economic growth is infrastructural development such as means of transport and communication, facilitating services. Structural changes also important factor determining shape of economic growth. It implies the transition from a traditional primary sector to modern manufacturing sector and service sector. Such structural changes should accompanied by increasing employment opportunities, higher labour productivity and ever increasing stock of capital, and institution promotes new ideas, innovation or research. Sign of structural changes begin with the transfer of population from primary sector to secondary and then tertiary sector.

Creation of human capital another important factor determines the path of economic growth. The skilled labour force of various kinds such as scientist, engineers, managers, administrator, expert on various fields of social science, etc. are crucial to form such institutions which create enough ground for economic growth. The shortage of such skilled labour force poses a serious problem in least developed countries. To overcome such deficiency in human capital, it requires setting up scientific, technological, and various institutions which fill such gaps in human assets.

Human endowments, social attitudes, political conditions, and historical factors greatly influence the process of growth. Therefore, social, cultural, political, and administrative factor have its own importance in economic development. For instance, social attitudes, culture and values determine the spirit of adventure, discoveries, invention which consequently led to new opportunity conducive for economic growth.

## 5. Summary

- Economic growth is quite modern phenomenon.
- Economic growth is the increase in the market value of goods and services produced by an economy over time.
- Economic development focuses on the spectrum of spheres ranging from health, education, employment, safety, environmental sustainability, social exclusion, gender empowerment, infrastructure, and other activities whereas economic growth measured in terms of rise in GDP or market productivity.
- A country suffering from non-availability of natural resources would not be able develop rapidly.
- The process of capital accumulation is cumulative and self-sustaining provided three inter-related stages preceded: (a) the existence of continuous rise in saving; (b) to us these saving for investment in capital goods; (c) intermediaries to mobilize saving and divert them for investment.
- Technological changes are mostly referring as the change in mode of production through new technique emerges out from research or innovation.
- There are evidences which shows that population growth systematically change with the overall development of a society.
- The skilled labour force of various kinds such as scientist, engineers, managers, administrator, expert on various fields of social science, etc. are crucial to form such institutions which create enough ground for economic growth.