Economic Development and Growth



Economic growth

- Economic growth is defined as the increase in the total quantum of final goods and services for a long period of time, within the geographical boundaries of a country. (taking into consideration the national income of the country, it is calculated for constant prices ie to find real economic growth because if gdp is rising continuously with population)
- It is calculated as given below. It can be calculated at current or constant prices.

  Economic growth (Growth Rate)= (GDP in the current year – GDP in the previous year) * 100 / GDP in the previous year

Characteristics of economic growth

- Long term increase in GDP (for gdp to rise continous that growth should pre-exist but there can be fluctuations)
- Expansion of productive capacity and its utilization
- Rise in real per capita income
- Actual (realised) and potential (target/what can be actually gained/occurs when all the resources are used normal utilization and not under/over utilisation) growth:
  - May not be the same
  - Potential growth occurs when all the resources are utilized at the normal level
  - Normal level of utilization means neither under utilization nor excessive utilization of resources.

Economic Development

- Economic development is a broader concept that strives to improve the quality of life. (broader than economic growth(quantity), here quality is considered)
- Apart from changes in GDP and GDP per capita, it refers to qualitative changes such as:
  - Improvement in literacy rate, health parameters
  - Reduction in poverty and unemployment
  - Fair distribution of income
- Poverty ratio (Percentage of poor in total population) was calculated by the methodology proposed in the Tendulkar Committee Report for 2009-10.

Traditional and modern view of development

- In the traditional approach, planners or economists focus only on **attaining progressive rate of growth of GDP.** (didn't concentrate on any other quality improvemnet)
- Modern development economists like Todaro perceive development as a **multidimensional process** involving changes in social structures, popular attitudes, and national institutions, along with economic growth, and reduction in poverty and inequality.
- Others like Kindle Berger and B. Herrick focused on **increased material welfare through eradication of illiteracy, disease, infant mortality, disease, and poverty**.
- Occupational structure undergoes a shift with economic development.

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IN PURSUIT OF PERFECTION

Economic Growth	Economic Development
(1) A narrow view point/ single dimensional approach.	(1) A broad/comprehensive view point/ multi dimenensional approach.
(2) Speaks about quantitative increase in GDP.	(2) Explains the change in the quality of life.
(3) Independent of social and human indicators. Also ignores distribution of income and changes in occupational structure.	(3) Reflected in decline in poverty, illiteracy, hunger, disease and infant mortality, rise in standard of living, productivity, industrilisation, balanced and simultaneous growth of all regions, expansion and diversification of export base, equitable distribution of income; rise in contribution of industry as well as services sector and fall in contribution of primary sector to national income.
(4) According to Ursula Hicks, the concept of Economic Growth is related to economically advanced countries.	(4) Applicable to poor, backward and developing countries, possessing unutilised or underutilised productive resources.

Factors affecting economic development

Economic:

1. Natural resources (automatically endowed to a country, no control, already been provided, eg fossil fuels, wind and solar energy. Existence helps, higher the avaibility, better for GDP, simply convert and use optimally. Eg- US, Canada abundance & able to covert into eco dev. Japan- devoid of nat resources but still developed but only availability will make diff but judicial use will help in dev. Thus, African countries are not very dev. Thus, excessive use- environmental degredation- harmful for future gen)
2. human capital (without human physical labour or skill natural resources cant be converted into useful resources. Depends upon 2 things- number of workers and hours they work) also, 1- efficiency of labour, 2 dedication, 3- inclination to work for long hours eg-japan is perfect example. Abundance of labour might even help to increase in the capital formation of a country, other countries can outsource in our country, asset formed if people will come to our country, eg- programmes like

3. physical capital formation (plants, machinery, tools, vital role in process of production, lack of capital means lack of capital per worker, hamper the productivity per worker. In india- low because savings and hence, investments (private sector) are low. Total gdp is low- surplus what is left is low, thus, incomes are low, low purchasing power, size of market will be smaller then for any underdeveloped country). NURKSE- a country is poor because it is poor. (poverty because of supply and demand side- flowchart ahead). depends on 3 activities- generation of savings, mobilization of savings, transformation of savings into investment. Steps to enhance- 1 consumption reduce, saving rise. 2 Taxation policies to increase saving in economy. 3 Govt policies. 4 Reduce impact of international demonstration effect (whatever other country is consuming, we consume in a similar way, eg- gambling, luxurious products, drinking etc). It will reduce disguise unemployment. (Marginal productivity is zero) 5. foreign loans- help in increasing Cap Form- buy more machines, increasing physical capital per worker (also called capital deepening) or hire and employ more people ie horizontally expanding the physical capital formation (called capital widening)

4.capital output ratio (K(capital)/Y(Output))- less COR, more output and more growth. Vice versa. Marginal capital output ratio- change in capital to change in output, delta K/ delta Y. Growth rate is

5. technology (new ways of production should be known, new products can be introduced by improvement in tech)

- **Non economic**:

1. political environment
2. social change
3. dynamic/orthodox outlook of people
4. devotion/sincerity to work
5. honesty

- **Institutional**:

1. Market organization
2. economic planning
3. economic agencies such as banks, financial institutions, insurance companies.

Economic factors

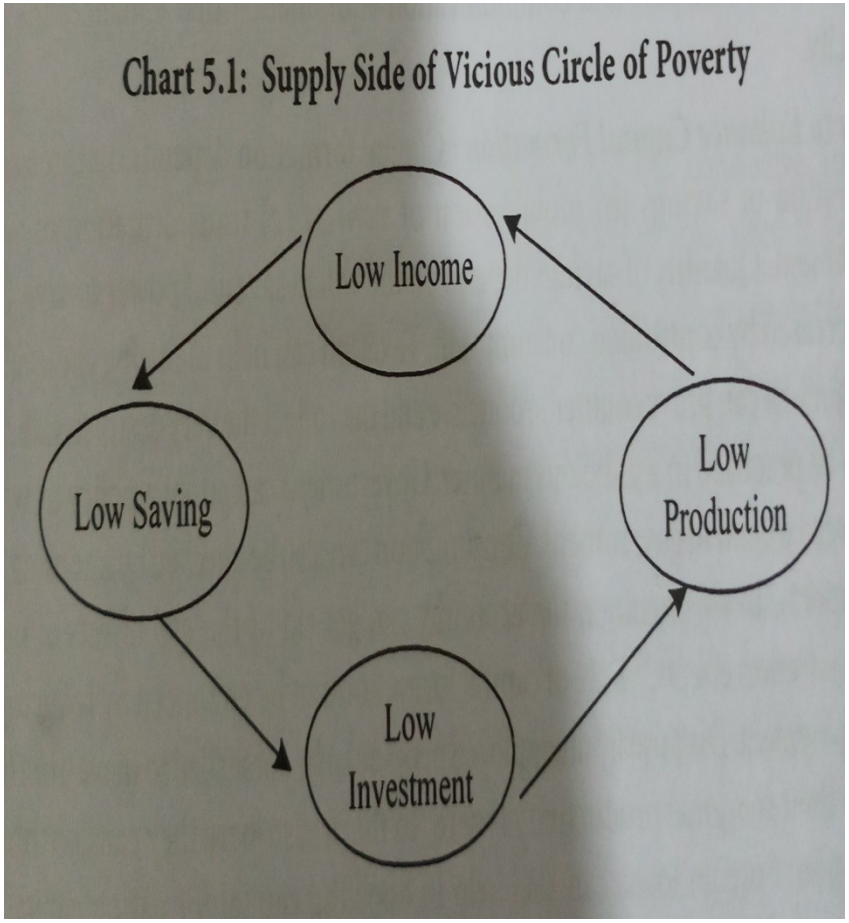
- **Natural resources available to a country**:
  - Countries differ with respect to the size and quality of natural resources available
  - Resource endowment not the sole determinant of economic development, its judicious use is important
  - Excessive use causes environmental degradation, affects the productive capacity of future generations

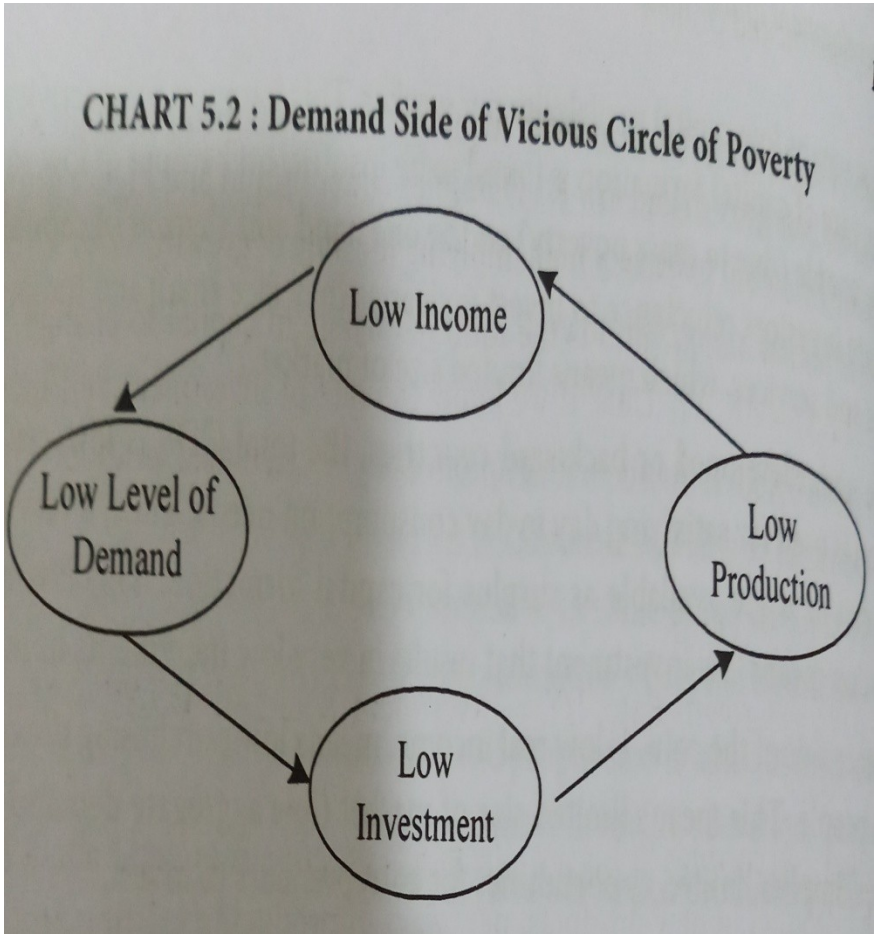
Economic factors

- **Human capital formation**:
  - Human resources (labour and skill) necessary to use physical resources for productive purposes
  - Economic development is determined by labour efficiency, dedication, and inclination to work long hours.
  - Countries like Japan have developed through human capital, despite dearth of natural resources
  - Abundance of labour in developing countries potential source of economic development through investment in education, training, health, innovation, research, and training.

Economic factors

- **Physical capital formation**:
  - Capital formations plays a vital role in production process, low capital availability per worker hampers productivity
  - Slow rate of capital formation in India due to low savings rate (due to low GDP) and limited demand (low purchasing power)
  - According to Nurkse, LDCs suffer from a vicious cycle of poverty from the demand side as well as the supply side.
  - Steps to enhance capital formation:
    - Generation of savings
    - Mobilization of savings
    - Transformation of savings into investment
    - Reducing disguised unemployment
  - Capital formation can affect economic development through:
    - Capital deepening
    - Capital widening


Chart 5.1: Supply Side of Vicious Circle of Poverty
Low Income
Low Saving
Low Production
Low Investment


CHART 5.2 : Demand Side of Vicious Circle of Poverty
Low Income
Low Level of Demand
Low Production
Low Investment

Economic factors

- **Capital output ratio**:
  - It is defined as the ratio of the capital (K) and output (Y)
  - Most LDCs have high capital output ratio (indicating less output and growth)
  - Marginal capital output ratio is the ratio of the change in capital to the change in output.
- **Technology**:
  - Technical progress occurs through innovation, introduction of new products and business organization
  - More goods produced with the same quantity of inputs
  - Green revolution increased India's agricultural productivity

Institutional Factors

- **Market organization**: Rational allocation of resources for economic development
- **Economic planning**: Targets for income, savings, and investment are fixed. Economic planning can take place through:
  - Planning by direction/socialistic planning
  - Democratic planning/ planning by inducement
- **Economic agencies**:
  - Include banks and other financial institutions
  - Help in channelizing savings to productive uses
  - Promote entrepreneurial skills and prevent unfair exploitation

Non economic factors

- Political environment (stability contributes to the process- prerequisite)
- Social change (upper caste generally exploits lower caste)
- Dynamic outlook (fresh and new ideas should be acceptable)