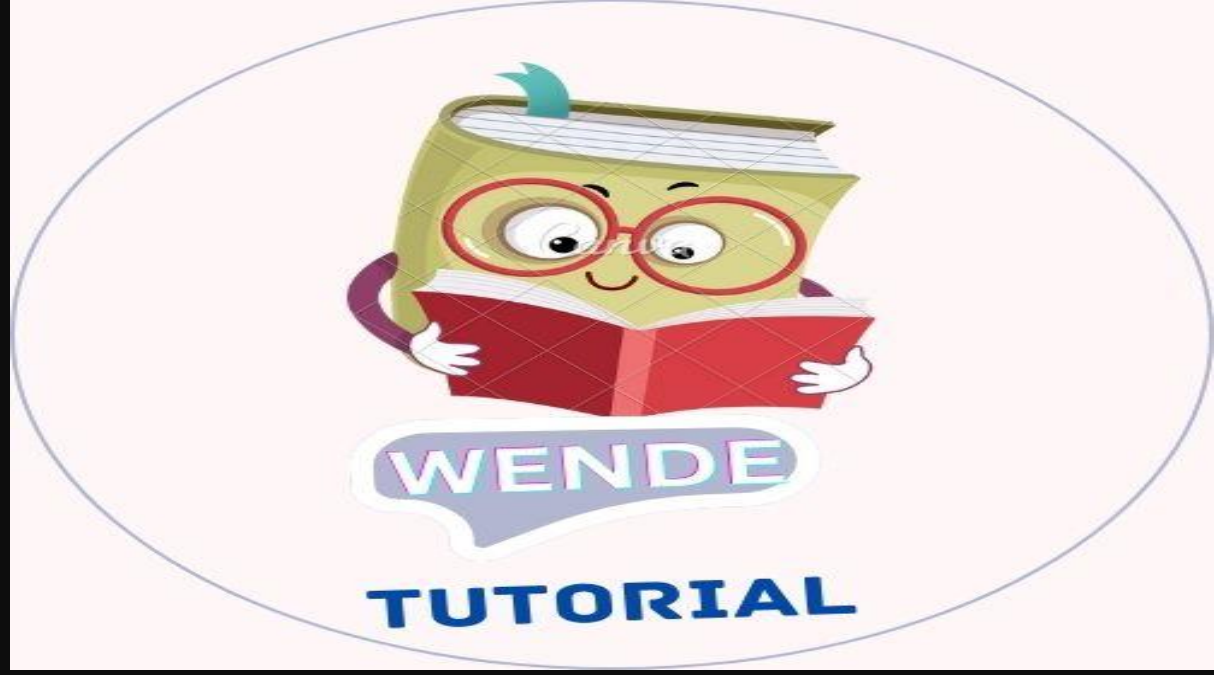
Grade 11 Economics

Chapter - 6

ECONOMIC DEVELOPMENT



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UNIT6
ECONOMIC DEVELOPMENT

6.1 Economic Growth and Economic Development

- Measuring economic growth and economic development involves distinct criteria.
- Economic growth is gauged by the gross domestic product (GDP), representing the market value of a country's goods and services over a specific timeframe.
- Growth is determined by the percentage increase in GDP from one period to another, with the calculation involving the estimation of gross output minus intermediate consumption.

$$\text{GDP growth} = \frac{\left(\text{GDP in current period}\left(\text{Gt}\right) - \text{GDP in the previous period}(\text{Gt}-1)\right)}{\text{GDP in the previous period}(\text{Gt}-1)} * 100$$

- The economic growth rate signifies the percentage increase in the inflation-adjusted market value of goods and services produced within a specific period.
- This metric is commonly expressed in percentage terms to facilitate comparisons across time and regions.
- Economists frequently employ real inflation-adjusted GDP for calculations, as it eliminates the impact of changing price levels, and they often focus on the percentage change in real GDP per capita to enhance cross-country comparisons while isolating the effects of population changes.

- Example: Here is an example for GDP growth rate calculation in a given economy. The real GDP in 2017 is 17,304,984 dollars and in 2016 it was 16,920,328 dollars.
- Applying the GDP growth rate formula:

$$\text{GDP growth} = (17{,}304{,}984 - 16{,}920{,}328) / 16{,}920{,}328 * 100 = 2.27\%.$$

$$\text{GDP growth} = \frac{(17{,}304{,}984 - 16{,}920{,}328)}{(16{,}920{,}328)} * 100$$

- Therefore, the real GDP growth in 2017 compared to the previous year was 2.27%.
- To gauge the impact of growth on the population's standard of living, economists often assess GNP or GDP per capita, commonly referred to as "per capita income."
- This metric can be measured in the home currency or, for international comparisons, in foreign currency, typically US dollars.
- Economic development goes beyond material wealth, encompassing improvements in various aspects of people's lives, including increased access to goods and services, enhanced self-esteem, dignity, and respect, and the expansion of individuals' freedom to make choices and control their own lives.
- While a country may experience economic growth and become richer in terms of real output, this does not guarantee simultaneous development.

6.2 Measures of Productivity

- Productivity, defined as the ratio of output volume to input volume, gauges the efficiency with which production inputs like labor and capital are utilized to generate a specific output level.
- It serves as a fundamental indicator for economic growth and competitiveness, playing a crucial role in international comparisons and country performance evaluations.
- Various measures of productivity exist, with GDP per hour worked being widely used, as it offers a more nuanced perspective by considering labor inputs rather than just output per employee.
- It is often calculated for the economy as a ratio of gross domestic product (GDP) to hours worked. Productivity can thus be measured as:

$$\text{Productivity(P)} = \frac{\text{Output(O)}}{\text{Input(I)}}$$

- Productivity can be increased by the following ways:
  1. Increasing the output using the same input.
  2. Reducing the input by maintaining the output as constant.
  3. Increasing the output to a maximum extent with a smaller increase in input

6.3 Human Development Index (HDI)

- The primary goal of development is to establish conditions that enable people to lead long, healthy, and creative lives.
- Traditional measurements like GDP, while often considered indicators of economic success, fall short in capturing the multi-dimensional nature of development, leading to the introduction of comprehensive indicators such as the Human Development Index (HDI) by the United Nations Development Programme, which assesses not only affluent but also impoverished nations.
- The weaknesses inherent in the use of GDP as a measure of development have led to the creation of other measures.
- UNDP publishes a number of different human development indicators, many of which are composites of other weighted indexes. The main indexes are:
  - Human Development Index (HDI)
  - Inequality adjusted Human Development Index (IHDI)
  - Gender Inequality Index (GII)
  - Multidimensional Poverty Index (MPI)
  - Gender Empowerment Measure (GEM)

- Mahbub ul Haq and Amartya Sen collaborated to create the Human Development Index (HDI) with the goal of establishing a more robust measure of well-being and capabilities than GNP per capita.
- The HDI, introduced in 1989, has since been widely utilized, offering a more comprehensive assessment of human development by incorporating factors beyond income alone.
- The Human Development Index (HDI) is a composite criterion consisting of three indicators of development to measure the level of welfare of the people of a country:
  - **Life expectancy indicators (LEI)** – this refers to life expectancy at birth the number of years a newly born baby is expected to live. High life expectancy at birth indicates that a high level of development and vice versa.
  - **Educational attainments indicators (EAI)** – this refers to the level of education which is attained by the people of the country on an average basis. The constituents of educational attainments are:

    a. adult literacy rate:-measures the percentage of people aged 15 and over who can understand, read and writes a short and simple statement in their everyday life.

    b. gross enrollment ratio:-shows the percentage of population enrolled at primary, secondary and university level.
  - **Standard of living indicators (SLI)** - real GDP per capita is considered as the indicator of the standard of living of the people. When we divide the GDP at constant price by the total population of the country, we get real GDP per capita. Real GDP per capita is also known as “real per capita income”. Higher per capita real income usually represents a higher standard living

- In 2010, a revised HDI was developed to account for inequality in a country.
- This is sometimes referred to as an IHDI, or the Inequality-adjusted Human Development Index, and is considered far more accurate than the initial HDI, though some still find the old formula useful in some applications.

$$\text{HDI Index} = \frac{\text{Actual value} - \text{Minimum value}}{\text{Maximum value} - \text{Minimum value}}$$

$$\text{Life Expectancy (LE)} = \frac{LE - 25}{85 - 25}$$

$$\textit{Education Index} = \frac{2}{3} ALI + \frac{1}{3} GE$$

$$\text{Where, Adult Literacy Index (ALI)} \ \frac{ALR - O}{100 - 0}$$

$$\text{Gross Enrolment Index (GEI)}, \ GEI = \frac{(CGER - 0)}{(100 - 0)}$$

$$\textit{Income Index} = [\frac{\log(GDPpc - \log(100)]}{[\log(4000) - \log(100)]}]$$

where: LE: life expectancy

ALR: adult literacy rate

CGER: combined gross enrolment ratio

GDPpc: GDP per capita at PPP in USD

$$HDI = \frac{1}{3}(\text{Income Index}) + \frac{1}{3}(\text{Life Expectancy Index}) + \frac{1}{3}(\text{Education Index})$$

- The HDI can be arrived at by first constructing the individual indices of the above three components and then taking the simple average of the indices.
- To construct the relevant indices, the UNDP first fixes the maximum and minimum values of each indicator for a particular year and then, with the help of the formula below, one can arrive at the achievement level of the country concerned in respect of a particular indicator.

$$Achievement\ level = \frac{Actual\ value - Minimum\ value}{Maximum\ value - minimum\ value}$$

- Example: the life expectancy at birth of a particular country is 65 years. Assuming maximum value and minimum value of life expectancy to be 80 and 20 respectively for a particular year, the life expectancy index can be calculated as follows:

$$LEI = \frac{65-20}{80-20} = \frac{45}{60} = \frac{3}{4} = 0.75$$

- As calculated above, the individual indices of educational attainments and adjusted real GDP per capita can be found for a particular year. Then, by taking simple arithmetic average of all the three indices, we can get human development index for the country concerned.

$$HDI = \frac{LEI + EAI + SLI}{3}$$

Where LEI = Life Expectancy Index

EAI = Educational Attainment Index

SLI = Standard of Living Index or real GDP per capita index

Ethiopia’s HDI Value and Rank

- In 2019, Ethiopia's Human Development Index (HDI) was 0.485, placing it in the low human development category and ranking 173 out of 189 countries.
- Over the period from 2000 to 2019, Ethiopia experienced a significant increase in HDI value, rising by 66.1% from 0.292 to 0.485.
- The progress is evident in key indicators, including a 19.5-year increase in life expectancy at birth, a 1.4-year rise in mean years of schooling, and a 5.7-year increase in expected years of schooling.

Evaluation of HDI and its Relevance to Developing Countries

- Critics argue that the Human Development Index (HDI) may oversimplify by assigning equal weights to factors with potentially unequal value.
- For instance, achieving the same HDI through different combinations of life expectancy and GNI per capita implies assigning an economic value to life expectancy, which may not be universally accepted.
- The HDI also tends to correlate factors more common in developed economies, such as higher education leading to higher GNI per capita, neglecting considerations of inequality, poverty, and gender disparity.
- Additionally, a country with a high GNI per capita in the HDI may not truly represent development if it is achieved by marginalizing certain genders or ethnic classes.
- The HDI's scale limitation, with values between 0 and 1, means that countries with already high GNIs may have limited room for improvement, impacting the assessment of their development even as their GNI continues to grow. This limitation similarly affects the interpretation of life expectancy scores within the HDI framework.

6.4 Capability Approach

- The capability approach, introduced by Amartya Sen, emphasizes that the essential aspect of poverty or prosperity lies in an individual's "capability to function."
- Sen argues that economic growth should not be an end in itself; rather, development should focus on enhancing people's lives and freedoms, emphasizing their capabilities to make choices in education, economic activities, and participation in decision-making.
- Economic development, according to Sen, occurs when individuals have the opportunity to develop capacities enabling active engagement and contribution to the economy, thereby lowering transaction costs and increasing social mobility.
- The capability approach assesses quality of life in terms of functioning and capability, where capabilities represent what individuals can achieve, and functioning refers to the use of available commodities. "Conversion factors" such as personal, sociopolitical, and environmental conditions influence whether individuals can convert means into capabilities.
- Capabilities are considered "real" or "substantive freedoms," emphasizing freedom cleared of obstacles, in contrast to formal rights.
- Sen distinguishes between capabilities (potential) and actual functioning, highlighting the importance of freedom in people's choices.
- The approach is illustrated by examples, contrasting a rich person voluntarily fasting with a poor female farmer facing limited options due to labor market disadvantages.
- The capability approach has been extensively used in human development, providing a broader and deeper alternative to narrow economic metrics like GDP per capita growth, as adopted by organizations like the United Nations Development Programme.

6.5 Sustainable Development

- Sustainable development is characterized by meeting the present generation's needs without compromising the ability of future generations to meet their own needs.
- Global sustainability goals, exemplified by the UN Sustainable Development Goals, address a range of challenges such as poverty, inequality, climate change, environmental degradation, peace, and justice.
- The concept recognizes the necessity for inclusive and environmentally responsible growth to reduce poverty and ensure shared prosperity for both current and future populations.
- Sustainable development involves the efficient and well-planned utilization of resources to provide immediate and long-term benefits for people, the planet, and prosperity.
- Its three pillars encompass economic growth, environmental stewardship, and social inclusion across various sectors, including urbanization, agriculture, infrastructure, energy, water availability, and transportation.

6.6 Millennium Development Goals (2000-2015)

- The international development agenda, led by the United Nations (UN) and its agencies, transitioned from a fragmented approach to a more unified focus with the Millennium Declaration and Millennium Development Goals (MDGs) in the 1990s.
- The MDGs, encompassing eradication of extreme poverty, universal primary education, gender equality, and other ambitious goals, provided a common language for global development efforts.

- The MDGs spurred innovative partnerships, garnered public support, and demonstrated the value of setting ambitious objectives.
- Despite achieving significant milestones, challenges such as persistent inequalities, concentrated poverty in certain regions, and ongoing issues for marginalized groups like women and those at the economic bottom remain.

6.7 The Sustainable Development Goals (2015-2030)

- Significant strides have been made in achieving the Millennium Development Goals (MDGs), particularly in halving the extreme poverty rate by 2015.
- However, progress has been uneven, prompting a shift towards building a sustainable world where environmental sustainability, social inclusion, and economic development are equally emphasized.
- The 2030 Agenda for Sustainable Development, adopted in 2015, encompasses 17 Sustainable Development Goals (SDGs) that call for global action, emphasizing the interconnectedness of poverty eradication, health improvement, education, reduced inequality, economic growth, climate change mitigation, and environmental conservation.

Agenda 2063

- **T**he 2030 Agenda for Sustainable Development aims to secure a sustainable future by integrating social, economic, and environmental dimensions of development, presenting 17 ambitious and universal Sustainable Development Goals (SDGs) with targets applicable to both developing and developed countries.
- In Africa, Agenda 2063 serves as a strategic framework to transform the continent into a global powerhouse, focusing on inclusive and sustainable development, regional integration, democratic

- Originating from the realization that Africa needed to refocus its agenda beyond the struggle against apartheid and political independence, Agenda 2063 represents a commitment by African leaders to prioritize social and economic development, positioning Africa as a dominant player on the global stage within a 50-year period from 2013 to 2063

Performance of Ethiopian Economy against MDGs and SDGs

- Ethiopia's development policies, guided by the Federal Democratic Republic of Ethiopia (FDRE), center on poverty eradication, inter-generational equity, and comprehensive economic growth.
- The country's principal endowments are its vast land and human resources, and its policies emphasize economic growth, infrastructure development, social progress, and democratic governance.
- Ethiopia has focused on pro-poor policies, aligning with global frameworks like the MDGs and achieving notable success in economic growth, social development, and environmental management over the last decade and a half.
- Recognizing the lessons learned from the MDGs, Ethiopia prepared the Second Growth and Transformation Plan (GTP II) covering 2015 to 2020 and the ten-year Prosperity Plan (2020-2030) as part of its post-2015 development agenda.
- Ethiopia has successfully integrated the MDG agenda into national development plans and achieved six out of eight MDGs while making significant progress on the remaining two.
- The country has adopted a Climate Resilient Green Economy (CRGE) strategy with the vision of becoming a middle-income, carbon-neutral economy by 2025.
- Despite its strong performance, challenges such as low implementation capacity and financial constraints have impacted project delivery and macroeconomic stability.

- Ethiopia has actively mainstreamed and aligned the SDGs with its development plans, particularly GTP II, incorporating lessons from MDGs implementation and considering international and regional economic conditions.
- The national-level implications of SDGs implementation in Ethiopia are embedded in GTP II, connecting with the 2030 Agenda for Sustainable Development and Africa's Agenda 2063, with a focus on becoming a lower middle-income country by 2025
- In order to achieve the 2030 SDGs, national development priorities have been identified in the GTP II, which is the first 5 year-phase (2015/16 to 2019/20) of the long-term national development plan (2019/20 to 2029/30) ten years prosperity plan which is now under implementation. These include:
  1. ensuring that the agriculture development sector remains the mainstay of the nation’s accelerated economic development
  2. expediting change in the economic structure of the nation by transforming the manufacturing industry development
  3. enhancing the economy to its full economic capacity through increased focus on competitiveness, efficiency, productivity and quality
  4. Correcting the imbalance between overall demand and supply
  5. fostering the development of the construction industry and projects’ management

6. institutionalizing urban administration and management compatible with the accelerated urbanization, industrialization and structural changes in the economy
7. creating enabling environment for the transformation of domestic investors
8. providing support to human resources development through building technologic capacity
9. building climate resilient green economy and
10. eliminating rent-seeking behaviors and ensuring the predominance of developmental frame of mind.

- Ethiopia has embraced the 2030 Agenda for Sustainable Development and the associated Sustainable Development Goals (SDGs) with strong government commitments, endorsing them as integral to its national development framework, specifically within the Second Five Year Growth and Transformation Plan (GTP II).
- The government has also formulated a 10-year Prosperity Plan aligning with the SDGs for the period from 2019/20 to 2029/30, demonstrating a comprehensive commitment to sustainability.
- However, challenges include developmental capacity gaps, misperceptions among executive and implementing bodies, and deficiencies in motivation and ownership, which are actively being addressed to ensure successful implementation of the national policies and achievement of SDGs.

The End of CHAPTER Six

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