Examrace

Competitive Exams: Economic Growth and Development

Introduction

Economies grow and develop, they expand and advance, and they progress and prosper. There are phases when they decline too, and there are economies that experience continuous decay. If one considers long stretches of human history, one knows that economies (civilizations) disappeared altogether. We will not take into account such long stretches of time. We shall not consider too distant a past either. We will leave them to historians, may be, economic historians.

Let us take a normal view. We shall then accept decline as an occasional, temporary phenomenon. We shall, therefore, use positive terms only. Of the positive terms, which have been used to describe changes as well as to prescribe changes, two have survived. They are growth and development. Because we shall primarily look at nations and countries as economies, and use terms such as 'economic growth' and 'economic development' We shall often try to distinguish 'economic' from 'noneconomic' though there are cases where it becomes difficult to do so.

In order to accommodate decline in level, we use phrase 'negative growth' and to describe perverse tendencies, we may use words 'de-development' or 'maldevelopment' though, we will not have occasions to use them.

You may find that, sometimes in many scientific treatises and very often in colloquy, words 'growth' and 'development' are used in interchangeable fashion. But, normally a distinction is made between the two, particularly in economics literature. It is maintained along the following lines. You might have noticed that the word 'growth' is used to describe increase in stature or size. It is used to describe a uni-dimensional change, as in the case of stature of a child or a uniform expansion in all directions, as in the case of size of a balloon. Even when we refer to development of a child, we refer to various dimensions of its personality. When we do not refer to dimensional aspects we use the word 'growth' Even schools and institutes, colleges and universities, hotels and hospitals grow. But, we are often quick to point out certain features that are not captured by word 'growth' It is rare, if ever, that growth takes place without development or development takes place without growth. In most cases, they would accompany each other. There may be cases when one is dominant and the other is dormant. In such cases, people talk of growth without development or development without growth. It is, therefore, good to make an analytical distinction between the two.

Economic Growth

Comprehensive view of the economy, taking all activities together, and call its growth as economic growth.

Let us look at it from the view point of production. The total quantum of goods and services produced in an economy in a given year is referred to as Gross Domestic Product. Let us measure it at factor cost and write it in its abbreviated form GDPFC. The GDPFC in 2000 – 01 was around ₹ 17,00, 000 crore. This is a flow of goods and services produced during the year 2000 – 01, measured in value terms. We may be interested in knowing whether the flow this year is larger than the flow last year. If so, we should know the measure of the flow last year. In order to see that we measure the 'real' change in flow, we should compute the magnitude of flows in both the years in the same prices. The prices may belong to 2000 – 01 or 1999 – 2000 or to 1993 – 94; the point is that the prices should relate to only one common year so that we measure only the change in flow of output, not a mix of change in output and change in prices. Such GDPs are said to be measured at constant prices. Suppose you look into a recent issue of the National Accounts Statistics published by the Central Statistical Organisation and find that at 1993 – 94 prices, the GDPFC for 1999 – 2000 and 2000 – 01 are ₹ 10,00, 000 crore and ₹ 10,60, 000 crore respectively. The growth in flow called GDPFC in absolute terms is ₹ 60,000 crore. In relative terms it is 6 per cent and it is called growth rate. If we prepare a whole series for 10,20 or 50 years then we often add words 'per annum' or 'per year' to growth rate. The growth rate is often expressed in terms of per cent per annum. This is a positive change; there could be a negative change also.

Suppose, we look at a twenty-year period and use yearly figures for flow of output of goods, which is measured in terms of GDPFC at constant prices. The growth rates calculated on yearly basis would differ from year to year. Shall we use nineteen year-to-year figures of growth rate, some of which may be negative, to describe the change? Or, should we just compare the initial figure with the final figure? If we adopt the former, how to summarise the nineteen figures? If we adopt the latter, it is possible that one of these (initial or final) figures is just 'abnormal' as it does not fall in line. Would it not be a good idea to speak of general tendency and ignore abnormal fluctuations around the general tendency of increase? Economic growth should, therefore, be taken as a long-term tendency reflected by increase in flow of final goods and services produced by the economy.

If there is a general tendency of growth but there are occurrences of decline, the rates of growth will be negative in certain years. Shall we then say that, while the potential of economy to produce is continuously increasing, the potential is sometimes not realised? There could be various reasons for occasional decline. In economies that depend to a large extent on external trade conditions in other countries may affect the realisation. Monsoon may widely fail in certain years and economy may get derailed for a while. Internal demand may for a variety of reasons fail to make full use of the potential. Some economists put too much emphasis on supply potential and ignore demand conditions. They define economic growth as long-term increase in production potential of the economy. Some economists feel that it is growth of per capita GDPFC, not GDPFC, that should be used to gauge the growth of an economy. But the point to be noted is that economic growth is a long-term phenomenon about the change in total economic activity of an economy.

Economic Development

Some economists hold a view that the economic development is not much different from economic growth. For them, both are processes of long-term increase in per capita income. Some other economists believe that development is distinctly different process than growth and covers other dimensions of change besides growth. Still others hold that, development is nothing but the level of per capita income achieved in a particular year. Whole human history may be thought of as a succession of developments or changes, largely in positive direction. Looking from a distance, we find that production structure of the economy has changed: From hunting-gathering to settled agriculture, from agriculture to manufacturing, from manufacturing to automatic production, from production of goods to production of services. It does not mean services were not produced, say thousand years ago; it only means that its relative importance has changed and that this might have occurred with increase in all activities in a broad sense.

However, economics takes most of its lues from the economic history of the West during the last two centuries or so. During this period, a variety of sweeping changes took place in Europe, which may broadly be categorized as technological and institutional. Early economists working in the field of development economics took notice of change in the composition of output and deployment of labour in activities. They called it structural change. Structural change meant relative increase in terms of proportion of non-agriculture/nonprimary output and concomitant changes in proportion of employment of labour in non-agricultural activities (and also in that of allocation of capital and land) . However, this structural change has to take place along with increase in output of all (or majority of) goods, not with decrease. They defined economic development as economic growth with structural change in favour of nonagricultural activities. And structural change was understood in terms of composition of GDP and industrial distribution of labour. This was a reflection of changing demand for goods and services on the one hand and changing demand for labour by production technology in different sectors on the other. Most of the mainstream economists believed that all economies in the West traversed the same path and believed that other economies would also follow the same path. When they did not find it happening they pointed out that institutional changes are equally important. Institutional changes could mean emergence of new institutions in governance, as also in capital market and money market. Some pointed out necessity of attitudinal changes in people a leap from traditional value system to modern value system. In order to accommodate this thought, economic development could be defined as economic growth plus, that is, something more than economic growth. There were attempts to emphasize technological dimension of development. It was pointed out that economic growth should be accompanied by rise in productivity. Then, we could define economic development as economic growth accompanied by rise in productivity.

Development is, however, just not concerned with description of economic history. It is to be pursued as a deliberate mechanism of deliverance of the masses from poverty and idleness in a relatively short period of time. Developments in the fifties and sixties did not perceptibly change the scene in these crucial areas. Many economists felt disillusioned and started showing their anguish. One such Western economist who had been dealing with problems of development asserted in a World Conference in Delhi: The questions to ask about a country's development are: What has been happening to poverty? What has been happening to unemployment? What has been happening to inequality? If all three of these have declined from high levels, then beyond doubt this has been a period of development for the country concerned. If one or two of these central problems have been growing worse, especially if all the three, it would be strange to call the result 'development' even if per capita income doubled.

Indeed, here is a reference to conscious attempts made to develop an economy by adopting a strategy. If the strategy brings in growth in capacity to produce more and in actual output, transformation in structure of economy in terms of composition of output of goods and services or even in deployment of labour force, emergence of institutions in terms of variety of banks, and technology making use of machines and power instead of men and cattle, but makes no significant dent on basic problems of underdeveloped countries, what use are the efforts or the strategy? This implies that development has to be related to welfare of people. It was suggested much earlier that welfare of people depends on the size of the cake as well as its distribution. One is entitled to one's wages when one is employed. One should get adequate wages, if employed or should get remunerative prices for what one produces, if self-employed. Mass poverty was one particular problem we attributed to the colonial rule and wanted to secure self-governance in order to eradicate it. If that scourge still persists on a large scale, we have a cause to worry about. In short, the suggestion is that the income should get redistributed in favour of relatively worse-off. Keeping this in view, some economists prefer to define economic development as economic growth with redistribution of resources in favour of the relatively worse off. In this concept, it is believed that reduction in inequality will reduce poverty and will lead to reduction in unemployment too.