

[Academic Script]

Understanding Economic Growth

Subject:

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Unit – 1 Economic Development – Definitions and Concepts

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Lecture – 1 Understanding Economic Growth

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1. Introduction

Dear Friends, we may have often heard words like 'growth' and 'development' in discussions on television, in election manifesto of various political parties or may have read about these in newspapers. Have we ever wondered what these words mean? Are the two words synonymous or do they have different meanings? Can we measure growth and development of a region or a nation? What indicates growth and development?

Since the Second World War economists have attempted to answer these questions from time to time.

Meaning of Growth and Development:

To understand the meaning of Growth and Development let us have a look at some statistics here.

According the information provided by the Ministry of Agriculture, GOI and Directorate of Economics and Statistics in 'Agricultural Statistics at a Glance', food grains production in India rose from 52 million tonnes in 1951-52 to 265 million tonnes in 2013-14. Now let us have a look at the data on undernourishment.

Number of undernourished people in India and China (million people)

	1990-92	2014-16
India	209 approx	195
China	300 approx	134

Source: FAO statistical pocket book, 2015

If agricultural production has increased significantly, why do we not see a significant reduction in undernourishment?

Area Production and Yield of Total Pulses in India

Year	Area (million	Production(million	Yield (kg./
	hectares)	tonnes)	hectares)
1980-81	22.46	10.63	473
1990-91	24.66	14.26	578
2000-	20.35	11.08	544
2001			
2010-11	26.40	18.24	691
2011-12	24.46	17.09	699
2012-13	23.47	18.34	781

Source: India's Pulses Scenario, NCAER, 2014.

Thus there is relatively lesser reduction in undernourishment in India between the periods 1990-92 to 2014-16 as compared to China.

Per capita net availability of pulses



Source: India's Pulses Scenario, NCAER, 2014.

If production of pulses has increased from 10.63 m. tons to 18.34 m. tons between 1980-81 and 2012-13, At the same time, the per hectare productivity has just a little less than doubled then why is has the per capita consumption of pulses declined as seen in the figure? Is this increase in production not enough to maintain per capita consumption?

The statistics on increase in production indicate a quantitative growth. But, improvement in the consumption and nourishment statistics may call for,

- Proper distribution
- Affordable prices
- Reduction in wastages
- Production in proportion of increase in population

And then we must ponder upon the ways in which these can be attained.

2. Growth

We now proceed to understand the meanings of 'growth' and 'development' in economics.

We must know at this stage that growth and development are not synonymous.

Economic growth is the increase in the quantity of economic parameters which ultimately lead to an increase in,

1. National output.

2. Capital accumulation, including new investments in land, physical equipment, and human resources – increase in wealth.

3. Growth in population which gradually leads to increase in labour force.

4. Technological progress.

Factors which contribute to growth:

- Increase in employment of labour.
- Improvement in technology.
- Enhancement in infrastructures.

- Increase in investment.
- Increase in pace and speed of production.
- Better utilization of factors and resources.
- Increase in demand for goods and services.

According to Prof. Simon Kuznets, "economic growth for a country is a long-term rise in capacity to supply increasingly diverse economic goods to its population, this growing capacity based on advancing technology and the institutional and ideological adjustments that it demands."

The three components of this definition can be summarised as,

1. Growth manifests in the form of increased national output. Higher national output means more goods for existing population as well as availability of goods for increase in population.

2. Advanced technology helps to produce more output. (It is a necessary condition, but not a sufficient condition).

3. In order to realise the potential of growth which comes about with changing technologies, adjustments must be made in attitudes, institutions and ideologies.

Kuznets isolated six characteristic features of the historical growth process of the developed world.

1. Two aggregate economic variables:

(i) High rates of growth of per capita output and Population(ii) High rates of growth in factor productivity, especially labour productivity

2. Two structural transformation variables:

(iii) High rates of structural transformation in the economy(iv) High rates of social and ideological transformation

3. Two factors affecting the international spread of growth:

(v) Propensity to reach out to other countries for cheaper resources and markets to sell goods.

(vi) The spread of growth to limited segments of the population.

3. The growth parameters

Let us check the growth parameters of Indian economy.

Table: Annual Growth Rates of Net National Income and PerCapita Net National Income at Constant Prices

Year	Annual	Growth	Rate	of	Annual	Grov	wth	Rate	of	Per
									_	
	Net Nat	ional Inc	ome (l	Per	Capita	Net	Nat	ional	Inco	ome
	cent)				(Per ce	nt)				
1951-52	3.5				1.8					
1961-62	3.5				1.2					
1981-82	5.9				3.9					
2011-12	6.5				5.1					
2015-16	7.6				6.2					
(estimated)										

Source: Economic Survey, 2015-16

Hence we see that growth of national income has taken place.

In the year 1951-52, it was 3.5% which increased to 5.8% in 1960-61, and further to 5.9% in 1981-82; to 6.5% in 2011-12 and was estimated around 7.6% for 2015-16.

Does this mean that per capita income also rises at the same rate?

Let us check the same table again for the per capita income growth rate at constant prices.

In 1951-52 it was 1.8%, in 1961-62 it was 1.2%, in 1981-82 it was 3.9%; in 2011-12 5.1% and in 2015-16 it was estimated at 6.2%.

Hence we can say that PCI has also grown but lesser than national income.

Table: Annual Growth Rates of Real Gross Value Added at Factor Cost by Industry Origin (Percent)

Year	Annual Gross Value Added at Factor Cost (Per cent)
1951-52	2.3
1961-62	3.1
1981-82	5.6
2011-12	6.7
2015-16	7.3
(estimated)	

Source: Economic Survey, 2015-16

If we look at the table for annual growth rates of real gross value added at factor cost by industry origin at constant prices with a base series of 2004-05, we see that there is a substantial increase showing growth of real output.

In 1951-52 it was 2.3%, in 1961-62 it increased to 3.1%, further to 5.6% in 1981-82; 6.7% in 2011-12 and was estimated at 7.3% for the year 2015-16.

Table: Per Capita Availability of Certain Important Articles of Consumption

Year	Edible	Sugar	Cloth	Теа	Coffee	Domestic
	Oil	(Kg.)	(mtrs.)	(Gm.)	(Gm.)	Electricity
	(Kg.)		Cotton			(KWH)
			and man-			
			made			
1960-61	3.2	4.8	15	296	80	3.4

1980-81	3.8	7.3	17.3	511	79	13.5
2011-12	13.8	18.7	40.5	728	95	142.4
2014-15	18.3	20.3	40.6	752	100	NA
(provisional)						

Source: Economic Survey, 2015-16

We also see a substantial rise in per capita availability of important articles of consumption over the years.

Hence, the data indicate a substantial growth of Indian economy since independence.

The above two tables indicate growth of Indian economy

Does a satisfying growth rate of national income mean satisfying state of education, public health and gender equality?

What should be done to enhance the spread of economic

growth to all segments of the population?

(Remember one of the six characteristic features of growth mentioned by Simon Kuznets is the limited spread of growth to certain population of the world).

Measurement of Growth

Growth can be measured by checking the growth rate of national income, capital formation, value of imports, exports, growth of employment, industrialization etc.

Growth models are presented by several experts which we shall see subsequently.

4. Growth process of Indian economy

Let us now go through some more indicators to analyse the growth process of Indian economy.

Gross Capital Formation as a percentage of GDP at current market prices

Year

1951-52	11.4	
1971-72	16	
1981-82	18.9	
1991-92	21.8	
2011-12	35.5	
2014-15	34.2	
(Estimated)		

Source: Economic Survey, 2015-16

Capital formation means an addition to the stock of capital in the country during an accounting year. The data here indicates a considerable rise.

Do you think there are enough infrastructural facilities, electricity, internet facilities and so on for considerable modernization of Indian economy?

Now look at the employment statistics

Employment in the Public and Private Organized Sector (in Lakh Persons)

Year	Female	Male	Total
2006	51.2	218.7	269.9
2012	60.5	235.3	295.8

Source: NSSO

Would you consider this increase in organized sector employment between the given years as a significant increase? How would you evaluate the difference in the employment statistics of females and males?

Number of Employed Persons in the Unorganized Sector (in Lakh Persons)

Year	Employment
2004-05	4226.1

2009-10 4604.2

Source: NSSO

What do you conclude from the statistics of employment in the organized and unorganized sectors?

What is the difference between employment in the organized and unorganized sectors?

Can we ask ourselves here if reduction in absolute poverty is an indicator of growth?

Can we look for the distribution of national income between different percentile groups of India's population and the distribution of productive assets of the country between businesses?

Now let us look at the external sector.

India's Trade Balance (Merchandise Export Value – Merchandise Import Value) In Rs. Crores

Year	Trade Balance
1951-52	-174
1971-72	-217
1991-92	-3,810
2011-12	-8,79,504
2015-16 (Provisional from April to December)	-6,42,526

Source: Economic Survey, 2015-16

This data shows that we have imported more merchandise than what we have exported. Imports of technology, capital, fuel, spare parts, know-how help our businesses to grow and imports of consumer goods increase consumer welfare. But, the deficits we see in the table are met by borrowings.

Can you check the negative impacts of external borrowings?

5. Summary

Dear Students, we may summarize that Economic growth pertains to improvement in economic parameters. Simon Kuznets gave characteristics of the historical growth process of countries and indicated that quantitative changes do not essentially lead to qualitative changes. Ideological, social, attitudinal transformation along with economic and technological changes is necessary to ensure welfare. We may now proceed to understand the meaning of 'development'.