[Academic Script]

Understanding Economic Development

Subject:	Business Economics
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Paper No. & Title:	Paper – 641 Elective Paper E2 Economic Growth and Policy
Unit No. & Title:	Unit – 1 Economic Development – Definitions and Concepts
Lecture No. & Title:	Lecture – 2 Understanding Economic Development

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1. Introduction

Economic development connotes welfare and inclusion of all segments of the population and all sectors of the economy by equitable/just/appropriate distribution of growth.

Development is said to have occurred when growth leads to increased welfare.

Can welfare in all sectors and of all people be enhanced at the same time? Can some people be made better off and some may get worse off in a growth process?

Yes, some people can get better off and some may get worse off in the process of distribution. However, priorities must be identified and the priority areas/segments of population must be made better off. Sometimes if some areas are made better off, they will trigger development of other sectors.

For example, when richer sections are taxed higher in different ways then their welfare reduces but with the increased tax revenues the state can create more infrastructures which can subsequently enhance the welfare of all people and sectors.

Definitions Development

1. According to Michael P. Todaro, "Development must be conceived as a multidimensional process involving major changes in social structures, popular attitudes, and national institutions as well as the acceleration of economic growth, the reduction of inequality, and the eradication of absolute poverty. Development, in its essence, must represent the whole gamut of change by which an entire social system, tuned to the diverse basic needs and desires of individuals and social groups within the system, moves away from a condition of life widely perceived as unsatisfactory and toward a situation or condition of life regarded as materially and spiritually better.”

2. Prof. Meier and Baldwin

According to Prof. Meier and Baldwin; "Economic development is a process whereby an economy's real national income increases over a long period of time".

This definition explains three ingredients of economic development. a)process, b) real national income, c) long period. The discussion of these three factors would help in understanding the concept of economic development.

a) Process: Development is a process. It occurs over a period of time through several gradual and successive changes. It cannot be attained by one programme, one event or one decision.

b) Real National Income: Development necessarily means a steady rise in the real national income.

$$Y_r = \frac{Ym}{P}$$

Where,

Y_r = real national income

Ym = monetary (national) income

P = price index in the economy (price index is the index of prices of all important commodities consumed by majority people of the country. It indicates the level of inflation in an economy.)

Other things being equal, there is a positive correlation between the real national income and economic development. Higher real national income of a country is considered an index of higher economic development and vice versa.

In a way, the real national income is the measuring rod of economic development. Though, it is not a perfect method for measuring development.

If the growth of monetary national income of a country is very high but the price level is also very high then the purchasing power of the monetary income becomes low. Thus, real income is the purchasing power of money income.

Example,

If money income is Rs. 1,000 and price of a commodity is Rs. 10 then, one can purchase 100 units of the commodity.

$100 = \frac{1000}{10}$

Now, if the money income rises to Rs. 2,000, but price rises to Rs. 50 then one can purchase only 40 units of the commodity.

$40 = \frac{2000}{50}$

Thus, though the monetary income has increased, the purchasing power remains low owing to rise in the price.

Note:

If a nation produces 40 units of a good which are priced at Rs. 50 per unit, the national income will be Rs. 2,000. But if a nation produces 100 units at a price of Rs. 10 then the national income is Rs. 1,000 only, but there are more goods for people to consume and hence **greater consumer welfare.**

Hence, a higher monetary income does not necessarily mean more consumer welfare (development).

A nation must strive to,

- Produce more quantities of goods and services.
- Reduce prices of goods produced.

c) Long Period:

Economic development refers to an increase in real national output over a long period. Long period of time is generally a period over an entire trade cycle. (Trade cycle is a cycle of economic activity characterised by rise, boom, recession, depression and subsequently recovery.

The recovery period may mark the beginning of a new cycle. Economists have identified that one cycle spreads over a period of 13 to 18 years.

2. Benard Okun and Richard W. Richardson

According to Benard Okun and Richard W, Richardson, "Economic development may be defined as a sustained secular improvement in well being, which may be considered to be reflected in an increasing flow of goods and services".

According to this definition, economic development implies continuous secular increase in national output for promoting material welfare of the society. It stresses on three important aspects of development; a) Economic development is a dynamic and long term phenomenon; b) It implies improvement in material welfare and c) National output is the measuring rod of material welfare.

4. Profs. Baran, Buchanan and Ellis:

They interpret economic development as something more than merely an increase in total output; they believe that it should also denote a rising standard of living.

They define economic development as a process whereby the total per capita income or output of a country increases over the long period.

a) Prof. Paul A. Baran says, "Let economic growth or development be defined as an increase over time in per capita output of material goods."

b) In the words of Profs. Norman S. Buchanan and Howard S. Ellis; "Development means developing the real income potentialities of the under-developed areas by using investment to effect those changes and to argument those productive resources which promise to raise real income per person".

They emphasised that rate of increase in real national income should be more than the rate of increase in population.

If the real national income is rising over a time period, but if rate of population increase is also high then the per capita real income will be lower, signifying lower welfare.

Hence, $\Delta Y_r > \Delta Pn$

Where,

ΔY_r = rate of change in real national income.

$>\Delta Pn$ = rate of change in population.

(Per capita income = total national income ÷ total population)

4. Prof. Colin Clark:

Prof. Colin Clark defines economic development from the angle of economic welfare. In his own words, "Economic progress can be defined simply as an improvement in economic welfare."

A. C. Pigou defines economic welfare in terms of abundance of all those goods and services which are customarily exchanged for money. Leisure is an element

in economic welfare and more precisely: "We can define economic progress as the attaining of an increasing output of those goods and services for a minimum expenditure of effort, and of other scarce resources, both natural and artificial".

5. United Nations Expert Committee:

According to this Committee, "Development concerns not only man's material needs but also the improvement of the social condition of her/his life. Development is, therefore, not only economic growth, but growth plus change–social, cultural and institutional as well as economic".

This definition encompasses economic and non-economic aspects of development. This definition stresses on the expansion of development variables, and also improving the quality of those variables.

For example, capital is a development variable.

Hence, its productivity must increase along with its quantity to effect development. Similar instances can be given in respect of other development variables. The central point of this definition is that quantitative and qualitative changes in development variables are considered essential ingredients of economic development.

Prof. Kindleberger has given the differences between growth and development as; "**Growth** may well imply not only more output but also more inputs and more efficiency, i.e., an increase in output per unit of input. **Development** goes beyond these to imply changes in the structure of outputs and in the allocation of inputs by sectors. By analogy with human beings, growth involves focusing on height and weight, while development must mean the change in functional capacity, in a way the development of the brain.

Cairncross observes ,

"Development is not just a matter of having plenty of money, nor is it purely an economic phenomenon. It embraces all aspects of social behaviour; the establishment of law and order; scrupulousness in business dealings, including
dealings with the revenue authorities; relationships between the family, literacy, familiarity with mechanical gadgets and so on". Thus he emphasised upon some of the essential non-economic factors which determine the economic growth of an economy.

In this context can we relate the process of demonetization, remonetisation and less cash economy with the help of modern gadgets?

3. Indicators of development

- Growth of real national income
- Growth of real per capita income
- Increase in productivity of all factors of production
- Growth in output with conservation of resources
- Sustainability of growth parameters and of welfare policies
- Equitable distribution of national income, productive assets and opportunities between all segments of population
- Gender equality
- Easy and cheap access to necessities of life: food, clothing, shelter, health facilities etc.
- Access to technology, information, education and capacity building
- Freedom of expression
- Security of life and belongingness.

Hence development means a process of continuous improvement in economic growth process and in human welfare.

Michael P. Todaro, in his book titled, 'Economic Development in the Third World' mentions three basic components or core values given by Prof. Goulet and others as a conceptual basis and guideline for understanding the meaning of development. These are:

1. Life-Sustenance: The ability to provide basic needs – food, clothing, shelter, security, protection.

2. Self-Esteem: To be a person able to identify - economic equity, social justice, dignity, respect, honour, capabilities, modernizing values, sense of self worth which can come with education, awareness, equality in opportunities.

3. Freedom from Servitude: Be able to Choose – expanded range of choices, information, freedom from a dogmatic and dictatorial world, freedom from shackles of poverty etc.

W. Arthur Lewis, stressed the relationship between economic growth and servitude asserting that, "the advantage of economic growth is not that wealth increases happiness, but that it increases the range of human choice."

Wealth can enable a person to gain greater control over nature and her physical environment.

The three objectives of development mentioned by Todaro are:

1. To increase the availability and widen the distribution of basic life – sustaining goods such as food, shelter, health and protection

2. To raise levels of living which include besides higher incomes, the provision of more jobs, better education, and greater attention to cultural and humanistic values, all of which will serve not only to enhance material well-being but also to greater individual and national self-esteem

3. To expand the range of economic and social choices available to individuals and nations by freeing them from servitude and dependence not only in relation to other people and nation-states but also to the forces of ignorance and human misery

Effort

Growth

Development

Sustaining growth through development: opportunities, ideas, technology...

We can compare the sowing of seeds as policy efforts of the society and state towards initiating a process of growth and development.

The physical growth of a sapling into a tree is called development.

When the tree sustains weather odds and starts bearing fruits after a lag, it can be termed as development.

When the society uses fruits in various ways to enhance nutrition, employment and generate further growth, it becomes a sustaining process of development.

4. Summary

We have understood now that there is a difference between the concepts of growth and development. Growth is a progress in terms of increased quantities of economic parameters while development occurs when overall welfare is enhanced by properly channelizing the growth parameters. Several experts have provided explanation of economic development from various perspectives.