

Quadrant –II

Notes

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Related material:

THE CONCEPT OF ECONOMIC GROWTH

Today, economic growth is everybody's concern. Growth theory has received particular attention of economists. However different economist used the term 'economic growth' to convey different meanings. In some cases the concepts differ in essence, whereas in others only in emphasis. Thus quite often no distinction is made between 'economic growth' and 'economic development' and two terms are used interchangeably. Others feel that clear and unambiguous definitions are a prerequisite to any precise analysis.

Economic growth may be defined as a rate of expansion that can move an underdeveloped country from a near subsistence mode of living to substantially higher levels in a comparatively short period of time. For nations already advanced economically, it will mean a continuation of existing rates of growth. Historically, rapid economic growth has been accompanied by greater industrialization. But more accurately the process of economic growth can be described in terms of greater commercialization of economic activities.

Rise in domestic product

According to some economists, economic growth is a process whereby an economy's gross domestic product (GDP) increases over a long period of time. However, it is not correct to define economic growth in the above manner. The reason is that if the population in a country grows faster than GDP, product per capita will decline. Obviously, this cannot be termed economic growth. Simon Kuznet has argued that economic growth is a situation where a sustained increase in population is accompanied by sustained increase in per capita product (income).

Rise in per capita product

Many economists have defined economic growth as sustained increase in per capita product (for income). However, economic growth is a complex process and it is not proper to limit it to mere increases in per capita product. A large number of changes continue to take place during the process of economic growth. The directions of these changes could be different. For example, GDP or GNP may rise, while per capita product may decline, or productivity per labour unit may rise, while per capita consumption may go down. Therefore it is necessary to exercise extreme caution while selecting a variable that may be used as an index of economic growth.

If the objective is to study changes in the standard of living of the people, improvement in per capita consumption would be the most appropriate indicator of the growth performance of an economy. However this cannot be regarded as the best indicator of economic growth because during the process of economic development, many underdeveloped countries intentionally keep the level of consumption low in a bid to increase savings and investments.

Equitable distribution of wealth.

Jacob Viner has associated the concept of economic growth with equitable distribution of wealth. He insists that the reduction of mass poverty be made the crucial test of economic growth. An increase in per capita product is an important index of economic progress. As such economic growth may be interpreted to mean a sustained increase in per capita output accompanied by a reduction in the existing economic inequalities and an economic betterment of masses. Though this is not wholly correct. It is quite possible that with every increase in GDP accompanied by a rise in per capita product, greater inequality in the distribution of wealth and income may crop up.

Thus after considering alternative definitions of the term “economic growth” the most appropriate approach to measure economic growth is in terms of a rise in per capita product.

THE CONCEPT OF ECONOMIC DEVELOPMENT

Till the 1960's economic development was used as a synonym to economic growth. Now they are no longer identical, economic development is taken to mean growth plus progressive changes in certain crucial variables which determine the well-being of the people. Development economist no longer impressed by growth per capita. They now concentrate more directly on the development process.

Traditional view of Economic Development

For the exponents of the traditional view economic development implies a sustained annual increase in GNP at rates varying from 5 to 7% or more together with such alterations in the

structure of production and employment that the share of agriculture declines in both, whereas that of the manufacturing and tertiary sectors increases.

New view of Economic Development

Having realized that about 40% of the developed world's population had not benefitted at all from economic growth during the 1950s and 1960s, an increasing number of economists called for the rejection of the narrow definition of economic development. During the 1970's they redefined the concept of economic development in terms of the reduction or elimination of poverty, inequality and unemployment in the context of a growing economy. The new economic view of development has been defined to include improvements in material welfare, especially for persons with the lowest incomes, the eradication of mass poverty with its correlates of illiteracy, disease and early death and finally alleviation of unemployment and income inequality.

In the light of environmental destruction that is taking place all over the world presently, in the pursuit of the objective of growth, protection of the environment is regarded as an integral part of development.

CONCLUSION

The concept of growth is relevant for developed countries, where economic life in various dimensions has already attained a highly developed stage. It is the concept of development, which includes growth that is useful. Growth is of utmost importance for these countries also but it is not enough to put these countries on the path of progress.

The concept of growth requires that efforts be concentrated on such factors as trade cycles, demand, science and technology and markets. In the case of the underdeveloped economies, the problems are not only economic in nature, but also sociological and political. Here in developing countries growth has to be viewed on a wider scope than developed countries. Thus while the concept of growth suffices for the developed economies, it is not so for the developing economies. It requires a concept like development which involves growth with other progressive changes.

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