

Economic Growth, Development & Inequality

ECONOMIC GROWTH VERSUS DEVELOPMENT

Economic Growth and Economic Development are central to developed as well as developing economies. Classical thinkers such as Adam Smith, Karl Marx examined the problem of economic development as early as 18th century. However, the study of economic growth and development as a specialized study started during the period of Great depression of 1929-33 and World War-II. Classical economists used the terms economic growth and economic development as synonyms of each other. However, modern economists such as J.A. Schumpeter, Ursula Hicks and Kindleberger have focused on growth and development as two different concepts. They argued that growth need not necessarily imply the occurrence of development.

ECONOMIC GROWTH

Economic growth refers the long term increase in real national output or real national income. Any increase in national income can offset with rapid growth of population if we don't take per capita income as a measure of economic growth. Further, despite of increase in per capita income, the number of poor people may rise if the distribution of income remains unequal. Thus, Economic growth is a single dimensional quantitative concept which is concerned only with the rate of increase in national income. It ignores distribution of income and it ignores qualitative aspects of human life.

ECONOMIC DEVELOPMENT

Economic development is broader in nature. It not only includes the quantitative change but also includes certain qualitative changes in the economy. Economic development means not just increase in the real per capita income but also reduction in economic- divide, poverty, illiteracy and unemployment. Thus, economic development includes both economic growth as well as social welfare. Economic development should focus on inclusive growth – growth that includes all sectors of the economy and all sections of the society.

The following table outlines the basic differences between Economic Growth and Development:

ECONOMIC GROWTH ECONOMIC DEVELOPMENT

Single dimension Concept: Economic growth is merely a quantitative concept. It is concerned with rate of increase in national income.

Double / Multi dimension Concept: Concept of economic development is both quantitative and qualitative in nature. It is concerned with welfare of people (a qualitative aspect) along with increase in per capita income (a quantitative concept).

Economic Growth Economic Development

Ignores Distribution of Income: Distribution Considers Distribution of Income: In case of economic of income is ignored in case of economic development, distribution of income is given due growth. In spite of increase in income, consideration. Reduction in inequality (of income number of poor people may rise if the distribution) is one of the principal targets of economic distribution of income becomes further development. In equality of income and wealth must be unequal reduced.

Independent of Structural, Institutional and Associated with socio-technological Change: Economic Technical Changes: Economic growth may development is invariably associated with significant occur independent of any structural, structural, institutional and technical changes in the institutional and technical changes in the economy.

MEASUREMENT OF ECONOMIC GROWTH

Economic growth is the rate of change at which an economy is growing year after year or the percentage change in the Gross Domestic Product (GDP) of a country year after year. The economic growth can be actual growth or potential growth. Actual growth is the growth actually achieved, while potential growth is the expected achievable growth when all resources in the economy are fully utilized at their normal level of utilization. Potential growth is also sometimes called as targeted growth.

MEASUREMENT OF ECONOMIC DEVELOPMENT

Economic development is a normative concept which takes into account both qualitative and quantitative aspects. Economic development is an increase in overall living standards and quality of life of the people, On this basis, there are several parameters for measurement of the economic development as discussed below:

RISE IN REAL NATIONAL INCOME

Real national income at constant prices is conventionally a comprehensive measure of economic growth as well as development of an economy. It is estimated by dividing national income at current prices (also called monetary income) by the index of price level (showing the percentage change in price level over time). Generally, the increased real national income means higher economic development. However growing population, environmental degradation may affect the economic development.

INCREASE IN REAL PER CAPITA INCOME

Real per capita income is often considered as a better indicator of economic development than the real national income. This is because per capita income accounts for a change in population size. Per capita income is estimated as the ratio between national income and population of a country.

ECONOMIC WELFARE

Economic development of a country can be viewed better in terms of economic welfare of the people. Economic welfare means lower levels of poverty and inequalities, better health conditions, high literacy levels and better standard of life.

STRUCTURAL, INSTITUTIONAL AND TECHNICAL CHANGES

Development process must bring about structural, institutional and technical changes which stimulate the process of growth and social justice. Structural change means change in the structure of production and employment in the economy. For example, a shift from primary sector to the secondary and tertiary sector is an important structural change. Further, a change from labour intensive technology to capital intensive technology is a technological

change. A shift in the ownership of natural resources is an important institutional change associated with the process of development.

SUSTAINED CHANGE

Development is a long term phenomenon of economic prosperity and social equality.

Differences between Economic Growth and Economic Development

Differences between Economic Growth and Development can be summarized in the below points: Economic growth is a narrow concept (It studies only increase in real per capita income) while economic development is a broad concept (it studies increase in real per capita income as well as economic welfare).

Economic growth is only a quantitative concept whereas economic development is both a quantitative as well as a qualitative concept.