# Chapter One: Meaning and Measurement of Economic Development

## 1. Introduction

### What Is Development Economics?

Development economics is a branch of economics that focuses on improving fiscal, economic, and social conditions in developing countries. Development economics considers factors such as health, education, working conditions, domestic and international policies, and market condition with a focus on improving conditions in the world's poorest countries. The field also examines both macroeconomic and microeconomic factors relating to the structure of developing economies, and domestic and international economic growth. Macroeconomics refers to broadly influencing factors such as interest rates, whereas microeconomics relates to individual influences.

Development economics studies the transformation of emerging nations into more prosperous nations. Strategies for transforming a developing economy tend to be unique because the social and political backgrounds of countries can vary dramatically. Some aspects of development economics include determining to what extent rapid population growth helps or hinders development, the structural transformation of economies, and the role of education and health care in development. They also include international trade and globalization, sustainable development, the effect of epidemics such as HIV and AIDS, and the impact of catastrophes on economic and human development. Prominent development economists include Jeffrey Sachs, Hernando de Soto Polar, and Nobel Laureates Simon Kuznets, Amartya Sen and Joseph Stiglitz.

No single definition incorporates all of the different strands of economic development. Typically economic development can be described in terms of objectives. These are most commonly described as the creation of jobs and wealth, and the improvement of quality of life. Economic development can also be described as a process that influences growth and restructuring of an economy to enhance the economic well being of a community. In the broadest sense, economic development encompasses three major areas:

- Policies that government undertakes to meet broad economic objectives including inflation control, high employment, and sustainable growth.
- Policies and programs to provide services including building highways, managing parks, and providing medical access to the disadvantaged.

- Policies and programs explicitly directed at improving the business climate through specific efforts, business finance, marketing, neighborhood development, business retention and expansion, technology transfer, real estate development and others.

The main goal of economic development is improving the economic well being of a community through efforts that entail job creation, job retention, tax base enhancements and quality of life. As there is no single definition for economic development, there is no single strategy, policy, or program for achieving successful economic development. Communities differ in their geographic and political strengths and weaknesses. Each community, therefore, will have a unique set of challenges for economic development

## 1.1.Growth and Development

It is necessary to understand the difference between the concept of economic growth and development. Economic growth means an increase in the value of all goods and services produced in an economy.

The sum total of all goods and services in an economy is termed as the Gross Domestic Product (GDP). Growth is, therefore a sustained expansion in the productive capacity of an economy leading to sustained rise in its GDP. Growth is unidimensional while development is multidimensional Development, on the other hand is a sustained improvement in material welfare, particularly for those who are poor and afflicted by poverty, illiteracy and poor health conditions. Development is therefore, a qualitative concept involving a qualitative improvement in the general standard of living in a country or economy.

Development reflects social and economic progress and requires economic growth. Growth is a vital and necessary condition for development, but it is not a sufficient condition as it cannot guarantee development. One of the most compelling definitions of development is that proposed by **Amartya Sen**.

According to Sen, development is about creating freedom for people and removing obstacles to greater freedom. Greater freedom enables people to choose their own destiny. Obstacles to freedom, and hence to development, include poverty, lack of economic opportunities, corruption, poor governance, lack of education and lack of health.

1.2.Measurement and international comparison of Growth and Development

1.2.1. Relationship between Economic Growth and Economic Development

Economic Growth:

The term economic growth refers to the quantitative aspect of economic progress of a country. According to Paul Baron, “Economic growth may be defined as an increase over time in per capita output of material goods.” In other words, growth of gross national output or per capita output is an indicator of economic growth.

We know human wants are unlimited and they are increasing over time. Man is never satisfied with what he has. However, our resources are very limited. Therefore, we should try to satisfy our wants. Hence, we should try to increase the production of goods and services. Thus, economic growth signifies the growth in the volume of goods and services.

**It leads to:**

**(i) Increase in National Product:**

Growth in the money value of goods and services are not sufficient for an economy. It simple increases the price of goods and services. In fact, growth is considered in physical terms. Thus, production of different goods and services must be increase in an economy.

**(ii) Increase in Per capita output:**

Under growth process, not only the total volume of production increases, but simultaneously total population will also increase. Thus, per capital output will also increase over time to maintain the same growth rate. It will help to solve the problem of physical output of goods and services per capita in any economy.

***How to attain growth**:*

**Economic growth can be attained from the following methods:-**

(a) To raise total output

(b) To check increase in population

(c) To ensure capital formulation

(d) To raise entrepreneurship.

**Economic Development:**

According to Promit Chowdhury, “Economic development is an increase in real output goods and services that is sustained over a long period of time, measured in terms of value added.” According to Meier and Bladwin, “Economic Development is a process whereby an economy’s real national income increases over a long period of time.”

According to Prof. Todaro, “Economic development is 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”. Economic development is a much broder concept than economic growth.

**In simple sense, Economic development.= Economic Growth + Standard of Living.**

Hence, standard of living includes various things like safe drinking water, improve sanitation systems, medical facilities, spread of primary education to improve literacy rate, eradication of poverty, balanced transport networks, increase in employment opportunities etc. Thus, the quality of life is the major indicator of economic development. Therefore, increase in economic development is more necessary for an economy to achieve the status of Developed Nation.

1.3.Measuring Economic and Development

### 1.3.1. Measuring Economic Growth

Economists use many different methods to measure how fast the economy is growing. The most common way to measure the economy is real gross domestic product, or real GDP. GDP is the total value of everything - goods and services - produced in our economy. The word "real" means that the total has been adjusted to remove the effects of inflation.

There are at least three different ways to measure growth of real GDP. It is important to know which is being used, and to understand the differences among them. The three most common ways to measure real GDP are:

- Quarterly growth at an annual rate
- The four-quarter or "year-over-year" growth rate
- The annual average growth rate

## 1.3.2. Indicators of development

The extent to which a country has developed may be assessed by considering a range of narrow and broad indicators, including per capita income, life expectancy, education, and the extent of poverty.

### 1. The Human Development Index (HDI)

The HDI was introduced in 1990 as part of the United Nations Development Programme (**UNDP**) to provide a means of measuring economic development in three broad areas – per capita income, heath and education. The HDI tracks changes in the level of development of countries over time.

Each year, the UNDP produces a **development report**, which provides an update of changes during the year, along with a report on a special theme, such as global warming and development, and migration and development. The introduction of the index was an explicit acceptance that development is a considerably broader concept than growth, and should include a range of social and economic factors.

***The HDI has two main features:***

A scale from 0 (no development) to 1 (complete development).

An index, which is based on three equally weighted components:

1. Longevity, measured by life expectancy at birth
2. Knowledge, measured by adult literacy and number of years children are enrolled at school
3. Standard of living, measured by real GDP per capita at **purchasing power parity**

***What the figures mean:***

- An index of 0 – 0.49 means *low development* – for example, Nigeria was 0.42 in 2010.
- An index of 0.5 – 0.69 means *medium development* – for example, Indonesia was 0.6. 3.
- An index of 0.7 to 0.79 means *high development* – for example, Romania was 0.76. 4.
- Above 0.8 means very *high development* – Finland was 0.87 in 2010.

The HDI is a very useful means of comparing the level of development of countries. GDP per capita alone is clearly too narrow an indicator of economic development and fails to indicate other aspects of development, such as enrolment in school and longevity. Hence, the HDI is a broader and more encompassing indicator of development than GDP, though GDP still provides one third of the index.

**Evaluation of the HDI**

Despite the widespread use of the HDI there are a number of criticisms that can be made, including:

1. The HDI index is for a single country, and as such does not distinguish between different rates of development within a country, such as between urban and traditional rural communities.

2. Critics argue that the equal weighting between the three main components is rather arbitrary.
3. Development is largely about freedom, but the index does not directly measures this. For example, access to the internet might be regarded by many as a freedom which improves the quality of people's lives.
4. As with the narrow measure of living standards, GDP per capita, there is no indication of the distribution of income.
5. In addition, the HDI excludes many aspects of economic and social life that could be regarded as contributing to or constraining development, such as crime, corruption, poverty, deprivation, and negative externalities.
6. GDP is calculated in terms of purchasing power parity, and the value can change.

The 2010 Human Development Report revised the HDI formula using data and methodologies that were not available in most countries when the first HDI was published in the 1990 Human Development Report. The HDI was calculated in 2010 using the following indicators:

- Health - Life expectancy at birth
- Education - expected years schooling for school-age children and average years of schooling in the adult population
- Income - measured by Gross National Income (GNI) per capita (PPP US$)

### 2. Life expectancy

A variety of factors may contribute to differences in life expectancy, including:

1. The stability of food supplies
2. War
3. The incidence of disease and natural disasters

According to World Bank figures, life expectancy at birth in developing countries over the past 40 years has increased by 20 years. However, these increases were not evenly distributed. Indeed, in many countries in sub-Saharan Africa, life expectancy is falling due to the AIDS epidemic.

### 3. Adult literacy

The percentage of those aged 15 and above who are able to read and write a simple statement on their everyday life. More extensive definitions of literacy include those based on the **International Adult Literacy Survey**. This survey tests the ability to understand text, interpret documents and perform basic arithmetic.

4. **GDP per capita**

GDP per capita is the commonest indicator of material standards of living, and hence is included in the index of development. GDP per capita It is found by measuring Gross Domestic Product in a year, and dividing it by the population.

5. **Human Poverty Index**

The Human Poverty Index (HPI) was first introduced into the Human Development Report by the United Nations Development Programme (UNDP) in 1997 in an attempt to bring together in a composite index the different features of deprivation in the quality of life to arrive at an aggregate judgement on the extent of poverty in a community.

That is, if human development is seen as enlarging choices and expanding freedoms to enjoy a decent standard of living, freedom, dignity, self-respect and the respect of others, then measures of poverty should look at the deprivation of these freedoms. Therefore the HPI looks at deprivations in the three basic dimensions captured in the Human Development Index: a long and healthy life, as measured by the probability of not surviving past the age of 40; knowledge, or exclusion from it, as measured by the adult literacy rate; and a decent standard of living, or lack of essential services, as measured by the percentage of the population not using an improved water source and the percentage of children underweight for their age.

There are three indicators of the human poverty index (HPI):

- *Surviva*l: the likeliness of death at a relatively early age and is represented by the probability of not surviving to ages 40 and 60 respectively for the HPI-1 and HPI-2.
- *Knowledge*: being excluded from the world of reading and communication and is measured by the percentage of adults who are illiterate.
- *Decent standard of living*: In particular, overall economic provisioning.