

Economic Development

Introduction

Although development has been a constant concern of government policymakers, economists and other social scientists and has touched the lives of more people than ever before, defining the concept in a precise manner has been a major theoretical and practical challenge. From this conceptual indeterminacy, competing ideas as to how best to measure and promote development have arisen. Different people may hold different views as to what constitutes development. Some may believe that development means higher incomes. Others might believe that development is a change in the structure of the society or of institutions. Still others might consider development an improvement in the health and education outcomes of a given population. Economics tells us that all of these factors are important in shaping an economy capable of supporting its population. Thus, the main objective of this article is to explain how the meaning of development evolved over the years from a 'growth-based' narrow concept to a multidimensional human development concept.

Growth and Development

The term 'development' has traditionally meant the capacity of a national economy to generate and sustain an annual increase in its **Gross National Product (GNP)**. A common alternative economic index of development has been the use of rate of growth of per capita GNP to take into account the ability of a nation to expand its output at a rate faster than the growth rate of its population. Thus the traditional approach to 'development' has been to see economic growth as a proxy for development; policies that led to growth were necessarily seen as pro-development and inherently

good; policies that had little, negligible or negative impact on growth were seen as necessarily improper.

Implicit in almost every use of the term 'development' is the notion that some countries and regions of the world are extremely poor, whereas other countries, relatively small fraction of the world population, are very prosperous. The discussion of development is always tied up with basic questions like; why are poor countries poor and rich countries rich? why do poor countries lag behind rich countries in the development of their standards of living? and how can poor countries become more prosperous? In this sense, an important dimension of the concept of 'development' refers to economic growth or more precisely growth of national income per capita.

Development conceived of as economic growth is a quantitative concept and basically means more of the same. Yet, economic development in the past has also been typically seen in terms of the planned alteration of the structure of production and employment, generally referred to as *structural change*. When development economics first emerged as an academic discipline after the Second World War, economists operated in a much more certain intellectual environment. They believed that development would effectively replicate the experience of the countries which had already industrialised during the nineteenth century, in particular, that development would follow the experience of Britain, France, Germany, the United States and Japan. The problem of development was conceived as transforming the backward *traditional* economies into *modern* economies by accelerating economic growth through rapid industrialisation. Further, the importance of increased savings and capital accumulation was stressed in the economic growth process.

Prof. Danny Atapattu

Senior Professor of Economics
University of Ruhuna

Thus, in the process of economic development, it was expected to increase the share of the dynamic industrial sector in national output and employment and decrease of the share of agriculture. Another important qualitative change that is expected to be associated with economic development is *technological change*; the on-going process of change in process and product technologies, resulting in radically new modes of production and new product ranges. It is possible to have growth without any economic development – a skewed growth where the gains in income are highly concentrated and economic mobility is very limited. An example is provided by some of those oil-exporting countries, which experienced sharp increases in national income but showed hardly any changes in their economic structure. It is unlikely, however, that significant economic development will occur without, at least, moderate economic growth. In other words, economic growth may be necessary, but not a sufficient condition for economic development.

On the whole, prior to the 1970s, development was nearly always seen as an economic phenomenon in which rapid gains in overall and per capita GNP growth would either 'trickle down' to the masses in the form of jobs and other economic opportunities or create the necessary conditions for the wider distribution of the economic and social benefits of growth.

Development as a Multidimensional Process

In the 1970s, the identification of development with economic growth came under increasing criticism. The experience of the 1950s and

the 1960s, when many developing nations did not realise their economic growth targets, but the levels of living of the masses of people remained for the most part unchanged, signalled that something was very wrong with this narrow definition of development. Authors such as Dudley Seers, Gunnar Myrdal, Paul Streeten, Hollis Chenery, Mahbub ul Haq and institutions like the International Labour Organisation (ILO) pointed out that developing countries did not experience much change in the living conditions of the masses of the poor in spite of the impressive growth figures in the post-World War II period. They came to the conclusion that development involves more than economic growth and changes in economic structures. Seers formulated three additional requirements for the use of the term development, namely, there should be a decrease in poverty and malnutrition, income inequality should decline, and the employment situation should improve. According to Seers, the purpose of development is to reduce poverty, inequality, and unemployment. 'Redistribution with growth' became a common slogan in the discussions of development policies in the mid-seventies.

Other critics went even further and challenged the too narrow focus on the economic dimensions of development alone. A country can grow rapidly, but still do badly in terms of literacy, health, life expectancy and nutrition. Economic growth does not necessarily make people more happy or satisfied. In the mid-1970s, the International Labour Organisation proposed 'basic needs' approach to development, which focused on a bundle of essential services and goods required for attaining a minimum standard of living, and tried to measure access to this bundle in different countries. According to this approach if people are in a position to avail more amount of food, have better access to educational facilities, and have greater command over the civic amenities like water supply, water sewerage, healthcare, shelter, etc., all such would represent economic development. Therefore, according

to this approach whether GNP and per capita GNP increase or not, whether a fairer distribution of income is made or not, the real matter lies with the '**provision of basic needs or facilities to the people**'. The basic needs concept depends on culture and values. Basic needs change as income levels rise and society becomes more complex. The ILO has concluded that 'the concept of basic needs is a country-specific and dynamic concept'.

Criticism of growth fetishism led to the emergence of so-called 'social indicators', life expectancy, literacy, levels of education, infant mortality, availability of telephones, hospital beds, licensed doctors, availability of calories, and so forth. To measure economic development with this approach, a study was launched by the United Nations Research Institute on Social Development (UNRISD) in 1970. This study was concerned with the selection of the most appropriate indicators of development and an analysis of the relationship between these indicators at different levels of development. Accordingly, a composite '**Social Development Index**' was constructed. Originally, 73 indicators were examined. However, only 16 core indicators (9 social and 7 economic) were selected. They are: (i) life expectancy, (ii) population living in localities of 20,000 and over as a percentage of total population (urbanisation), (iii) per capita use of animal protein per day, (iv) combined enrolment at primary and secondary level education, (v) vocational enrolment ratio, (vi) average number of persons per room, (vii) newspaper circulation per 1,000 population (viii) percentage of economically active population with electricity, gas, water, etc., (ix) agriculture production per male agricultural worker, (x) percentage of adult male labour in agriculture (xi) electricity consumption, KW per capita, (xii) steel consumption, kg per capita, (xiii) energy consumption, kg of coal equivalent per capita, (xiv) percentage of GDP (gross domestic product) derived from manufacturing, (xv) foreign trade

per capita, and (xvi) percentage of wage earners to total economically active population. The constructed development index was considered to be more suitable than per capita income approach to measure economic development. On the basis of such '**Development Index**', the ranking of certain countries differed from the ranking made on the basis of GNP per capita.

In an effort to provide an alternative measure to GNP per capita as an indicator of development, Morris David Morris created the '**Physical Quality of Life Index (PQLI)**' in the mid-1970s for the Overseas Development Council in the United States to measure the *quality of life* or well-being of a country. He included three indicators, namely, life expectancy, infant mortality rate and literacy rate. For each indicator, he devised a scale which included the numbers ranging from 1 to 100 where 1 represents the worst performance by any country while 100 for the best performance. For life expectancy, the upper limit of 100 was assigned to 77 years which was achieved, by Sweden in 1973, and the lower limit of 1 was assigned to 28 years which was the life expectancy of Guinea-Bissau in 1960.

Sen's Economic Goals

Amartya Sen, the 1998 Nobel laureate in economics, has argued for an even broader concept of development focusing on the concept of freedom. He sees development as an integrated process of expansion of substantive freedoms. According to Sen, economic growth cannot be sensibly treated as an end in itself. Development has to be more concerned with enhancing the lives people lead and the freedoms that they enjoy. Sen understands human well-being as a multidimensional phenomenon that cannot be captured by a single indicator such as income. Hence, he proposes enlarging the informational space in assessments of well-being achievements with emphasis on two concepts: functionings and

capabilities. The functionings are the valuable activities and states that make up of people's well-being. Functionings are related to goods and income but they describe what a person is able to do or be as a result. Examples of functionings include both basic and complex achievements such as living long, being adequately nourished, enjoying good health, being happy, having self-respect and participating in social and political activities in the community. The notion of capability is essentially one of freedom – the range of options a person has in deciding what kind of a life to lead. In other words, capabilities refer to genuine freedoms a person enjoys to lead the kind of life he or she has reason to value. An obvious example of capability deprivation is starvation, assuming a person considers getting enough food and nutrition to be a valuable state.

For Sen, freedom (not development) is the ultimate goal of economic life as well as the most efficient means of realising general welfare. Overcoming deprivation is central to development. Economic growth, technological advance and political change are all to be judged in the light of their contributions to the expansion of human freedoms. Among the most important of these freedoms are freedom from famine and malnutrition, freedom from poverty, access to healthcare and freedom from premature mortality. *Unfreedoms* include hunger, famine, ignorance, unsustainable economic life, unemployment, barriers to economic fulfilment by women or minority communities, premature death, violation of political freedom and basic liberty, threats to the environment, and little access to health, sanitation, or clean water. Sen argues that the 'capability to function' is what really matters for status as a poor or non- person.

The use of the concept of freedom as a normative yardstick for development is insightful. Development can be seen as a process of expanding the real freedoms that people enjoy. The goal of development is the promotion and expansion of valuable capabilities. In this perspective, economic growth remains important, but not as a

goal in itself. It is important in its potential contribution to a wide range of freedoms. Sometimes changes in other spheres such as education and health can be at least as important in the expansion of freedoms. Over the past two decades, Sen's capabilities approach has become extremely popular among development economists and social science methodologists. Development cannot focus only on income, but we also need to look at other factors impacting on a person's capability to function. Sen's analysis is part of what has given the United Nations' Human Development Index, which accounts for health and education as well as income.

The World Bank, which during the 1980s, championed economic growth as the goal of development changed its stand, and in its 1991 World Development Report, asserted that the 'challenge of development is to improve the quality of life'. The improved quality of life involves higher incomes, better education, higher standards of health and nutrition, equal opportunities, greater individual freedom and a richer cultural life. From the above discussion, we can conclude that development is not purely an economic phenomenon but rather a multidimensional process involving major changes in social structures, popular attitudes and national institutions as well as the acceleration of economic growth, reduction of inequality and the eradication of poverty. Development is both a physical reality and a state of mind in which society has, through some combinations of social, economic and institutional processes, secured the means for attaining a better life. Whatever the specific components of this better life, development in all societies must reflect three basic components or core values. They are:

i. *Sustenance*: All people have certain basic needs without which life would be impossible. These life-sustaining basic human needs include food, shelter, health and protection.

ii. *Self-Esteem*: Creating conditions conducive to the growth of people's self-esteem through the establishment of social, political and economic systems and institutions which promote human dignity and respect.

In addition to higher incomes, the provision of more jobs, better education, and greater attention to cultural and human values will serve not only to enhance material well-being but also to generate greater individual and national self-esteem.

iii. *Freedom from servitude*: Increasing people's freedom to choose by enlarging the range of their choice variables. Freedom here is to be understood in the sense of emancipation from alienating material conditions of life and from social servitude to nature, ignorance, other people and dogmatic beliefs. The concept of human freedom should also encompass various components of political freedom, personal security, rule of law, freedom of expression, political participation, and equality of opportunity.

Human Development Index

The broadening the definition of development in this manner entailed challenges related to the measurement and operationalisation of the concept. A broader concept of development should require a broader set of measurement instruments. Human development has many facets; so any index of human progress should incorporate a range of indicators to capture this complexity. But having too many indicators in the index would blur its focus and make it difficult to interpret and use. Use of a small set of indicators would therefore be desirable to allow cross-country comparisons, and to keep policy makers focused on the overall trend of development progress. Based on this choice, the United Nations Development Programme (UNDP) developed its main progress assessment tool, the Human Development Index (HDI) in 1990 shifting the focus of development economics from national income accounting to people-centered policies. The broadening of the notion of development allowed overcoming some of the limitations of the previous, 'economic growth-based concept' of development. It treated income as a *means* and not as an *end*; it challenged the erroneous assumption that there was an automatic link between growth and progress in human development; it overcame the notion that people are simply *means*

of production, and focused on individuals as *ends* of the productive process. This index is calculated every year and published in the UNDP Human Development Report. The HDI has had a significant impact on drawing the attention of governments, corporations and international organisations to aspects of development that focus on the expansion of choices and freedoms, not just income.

The HDI is a composite index which measures the average achievements in a country in three basic dimensions of human development: a long and healthy life, access to knowledge and a decent standard of living. A long and healthy life is measured by life expectancy at birth. Knowledge is measured by mean years of schooling and expected years of schooling. A decent standard of living is measured by GDP per capita in Purchasing Power Parity (PPP) terms in US dollars.

Although highly desirable, these goals have not yet been fully attained by any country; so the actual indicators are expressed as decimal shares of the ideal. Accordingly, the HDI value varies between 0 and 1. One of the main advantages of the HDI is that it allows countries to be ranked in the order of their achievements in human development. On the basis of the achievement of human development, countries are classified into four; very high, high, medium and low human development. HDI classifications are relative - based on quartiles of HDI distribution across countries. In the recent ranking based on the 1911 Human Development Report, the top five countries were Norway, Australia, Netherlands, United States and New Zealand. The bottom five countries were Chad, Mozambique, Burundi, Niger and Congo. The top five developing economies were Singapore, United Arab Emirates, Cyprus and Brunei. The Human Development Index for selected countries for the year 2011 is given in Table 1.

The disadvantage of the Human Development Index is that it does not allow us to judge the relative importance of its different

Table 1 Human Development Index for selected countries, 2011

Country	Ranking	HDI	Country	Ranking	HDI
Norway	1	0.943	Singapore	26	0.866
Australia	2	0.929	Malaysia	61	0.761
Netherlands	3	0.910	Sri Lanka	97	0.691
United States	4	0.910	China	101	0.687
New Zealand	5	0.908	Thailand	103	0.682
Canada	6	0.908	Maldives	109	0.661
Ireland	7	0.908	India	134	0.547
Liechtenstein	8	0.905	Pakistan	145	0.504
Germany	9	0.905	Bangladesh	146	0.500
Sweden	10	0.904	Nepal	157	0.458

Source: UNDP, Human Development Report 2011.

components or to understand why a country's index changes over time - whether, for example, it happens because of a change in GNP per capita or because of a change in education or health. The human development index ranking of some countries differs significantly from their ranking by real GNP per capita. The difference between a country's human development ranking and per capita income ranking shows how successful it is, compared with other countries, in translating the benefits of economic growth into quality of life for its population.

Sustainable Development

Sustainable development has been defined in many ways, but the most frequently quoted definition is from the Brundtland Report: "Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs." Environmentalists have used the term *sustainability* in an attempt to clarify the desired balance between economic growth on the one hand and environmental preservation on the other. For economists, a development path is sustainable if and only if the stock of overall capital assets remains constant or rises over time. Implicit in these statements is the fact that future growth and overall quality of life are critically dependent on the quality of environment. The natural resource base of a country and the quality of its air, water and land present a common heritage for all generations. The achievement of sustainable development requires the integration of its economic, environmental and social

components at all levels. Only development that manages to balance these three components can be sustained for long. Conversely, ignoring one of the aspects can threaten economic growth as well as the entire development process. For example, industrial growth might conflict with preserving natural resources. Yet, in the long term, responsible use of natural resources now will help ensure that there are resources available for sustained industrial growth far into the future. If we do not balance our social, economic and environmental objectives in the short term, it would not be possible to sustain our development in the long term.

A better understanding of the need for sustainable development first led to attempts to 'green' national accounts - that is, to account for changes in *natural capital* in calculations of gross domestic product and then to the development of statistical methods to account for changes in a country's human capital. Over the past two decades, the concept of sustainable development has become more comprehensive and measurable. A recent World Bank study defined sustainable development as 'a process of managing a portfolio of assets to preserve and enhance the opportunities people face'. The assets that this definition refers to include not just traditionally accounted physical capital, but also natural and human capital. To be sustainable, development must provide for all these assets to grow over time - or at least not to decrease.