**Session Two:** **ECONOMIC GROWTH AND ECONOMIC DEVELOPMENT**

## 2.1 Objectives

By the end of the lecture, you should be able to:

1. Define economic growth and economic development
2. Explain factors that may create growth
3. Explain indicators of economic development
4. Discuss characteristics of development
5. Explain characteristics of underdevelopment
6. Develop a deep understanding of Sustainable development
7. Understand Theories of development

## 2.2 Lecture Overview

Economic growth can be expressed in terms of gross domestic product (GDP) and gross national  
product (GNP) that helps in measuring the size of the economy. It is an outcome of the increase in the quality and quantity of resources and advancement of technology. Human Development Index (HDI) is the appropriate tool to gauge the development in the economy. Based on the development, the HDI statistics rank countries. It considers the overall development in an economy regarding the standard of living, GDP, living conditions, technological advancement, improvement in self-esteem needs, the creation of opportunities, per capita income, infrastructural and industrial development and much more.

## 2.3 Definition of economic growth and economic development

2.3.1. Economic growth

A country’s economic growth is usually indicated by an increase in that country’s gross domestic product (GDP). Generally speaking, gross domestic product is an economic model that reflects the value of a country’s output. In other words, a country’s gross domestic product (GDP) is the total monetary value of the goods and services produced by that country over a specific period of time. Economic growth may not necessarily improve the living standards of the citizens.

**2.3.2. Economic development**

Economic development usually refers to the adoption of new technologies, transition from agriculture-based to industry-based economy, and general improvement in living standards.

Economic development can also be defined as “a sustained community effort to improve both the local economy and the quality of life by building the area’s capacity to adapt to economic change.” This definition suggests a distinction between economic growth and economic development. Economic growth represents an increase in jobs and income in the community. ‘

## 2.4 Factors that may create growth

1. Employment of new technology
2. Employment of a division of labour allowing specialization
3. Employment of new production methods e.g. the introduction of team working to the production of motor vehicle in the 1980s reduced wastage and led to considerable efficiency improvements. The widespread use of computer-controlled production methods, such as robotics has dramatically improved the productive potential of many manufacturing firms.
4. Discovery of new raw materials such as oil, increases an economy’s capacity to produce

## 2.5 Indicators of economic development

* **Economic policy and debt**

There are three main subcategories in this class. These are ‘Balance of Payment’ ‘External Debt’ and ‘National Accounts.’ These indicators measure capital and financial accounts, as well as the current account and reserves. You will find measures of foreign direct investment here, statistics for foreign trade and remittances, and development assistance the country receives. This category also includes measures of purchasing power parity.

* **Financial sector**

There are five subcategories under the heading:

* 1. Assets and Capital markets are the two most general and they include bank capital and market capitalization.
  2. The Exchange Rate subcategory includes measures of inflation.
  3. Interest Rates cover the lending interest rate, the deposit interest rate and the interest rate spread.
  4. The fifth subcategory, Monetary Holdings, includes measures of liability and the money supply.
* **Poverty**

This subcategory covers income distribution and poverty. Poverty is measured nationally and separately as a percentage of rural population and urban population. Income distribution is measured by quintiles and deciles. A heading called ‘Conflict and Fragility’ measures battle-related deaths and homicides.

* **Private sector and Trade**

Under the heading ‘private sector and trade’ you will find many indicators of the business environment, including imports and exports measured both in dollar value and by time-study indexes. There are statistics for tariffs here as well as measures of travel and tourism. There are also measures of private infrastructure investment in this section such as investment in energy, transportation and telecommunication.

* **Public sector**

Every year the World Bank assigns low income nations a set of ratings called ‘Country Policy and Institutional Assessment.’ These ratings are important because they determine the amount of money countries receive from the World Bank. You can find them under the ‘Public Sector’ heading. They measure many variables, including transparency, budgetary management and environmental sustainability. Government finance is measured in this area, that is, revenues, expenditures and deficits

## 2.6 Characteristics of development

* + 1. Average income per capita of the population is generally high
    2. Education level of high average population
    3. High life expectancy of the population
    4. Population growth rate per year is relatively low
    5. Low death rate per year
    6. Economic activities in most industry sectors as well as export commodities
    7. The majority of the population lives in cities
    8. Relatively high levels of population health

## 2.7 Characteristics of underdevelopment

a) Low per capita income

b) Inequitable distribution of income

c) High population growth rate

d) High dependency ratio

e) Untapped resources

f) Lac of capital

g) Low levels of technological development

h) High unemployment rates

i) Dual economies. In many developing countries there exists a modern commercialized industrial sector alongside a traditional subsistence sector. In the subsistence sector, production is not intended for the market but for the direct use of the producers. This is a drawback to rapid economic development.

j) Lack of skilled manpower brought about by: -

• Inappropriate education systems that have not been producing the relevant manpower for the economy

• Brain drain whereby skilled manpower from developing countries is lured to the more developed countries by better employment terms.

k) Trade dependence

The underdeveloped countries mainly depend on the export of a few primary products. This is dangerous in case of a national calamity.

## 2.8 Sustainable development

There is no universally acceptable definition of what sustainable development entails. The concerns for sustainable development cut across the board of sectors to embrace the sustenance of natural resource systems, institutional development, appropriate management skills, economic, ethical and sociological concerns.

Admittedly, the notion of sustainability is said to have emerged from ecologists in 1972 (Basiago, 1995). According to Basiago, it is the quest to make modern civilization sustainable that inspired the UN’s Stockholm Conference in 1972. Some years later, Brundtland Commission (1987), gave the concept some shape when they defined sustainable development as ‘development which meets the needs of the present without compromising the ability of future generations to meet their own needs. In a more comprehensive version, the conference defined sustainable development as a process in which the exploitation of resources, the direction of investments, the orientation of technological development and institutional change are all in harmony and enhance both current and future potential to meet human needs and aspirations.

The foregoing understanding of sustainable development is wholesome and holistic. It embraces the environmental concerns of sustainability (protection of biodiversity, including preservation and conservation of natural resources), economic concerns of sustainability (accounting for natural resources including putting controls against pollution), technological concerns of sustainability and institutional concerns. More importantly, all the concerns raised have constellated at the human person as the ultimate purpose for sustainable development.

## 2.9 Theories of development

a) Modernization theory

It refers to a theory which states that development can be attained through following the process of development that are used by currently developed nations (Rostow, 1960). This means that for development to occur in underdeveloped countries, there is need for developed countries to provide aid to developing countries to enable them learn from their own programmes. Tools used to modernize underdeveloped countries were: -.

• The radio

• The mobile cinema

• The agricultural extension officers

Modernization theory is normally regarded as the first system theory of development. It emerged just after the second world war in an effort to answer the question,” what accounts for the differences between the rich n the poor countries”. Modernization theory is a social economic theory also known as develop- mentalism which highlight the three played by developed countries are wealth today because of their success with the concept of modernity. According to modernization theory, modernity brings blessings of progress in every genre of life. According to Gabriel Almond (1995) modernity refers to social economic stage in a society characterized by the spread of scientist knowledge, the development of technology, attainment of higher standards of material welfare and emergence of lawful and liberal and democratic systems of governance.

Modernization theory argues that the new states of the third world had to make the transition from traditional societies to modern societies for them to achieve development. According to this theory the most common feature among all modern- ized countries is that they all have undergone industrial revolution.

Merits of modernization theory

1. It is built on the basis of development based on industrial production and urbanization. Industrialization by its nature is a value adding process implying that modernization represents possibility of higher economic growth which can translate into high standard of living. Indeed the history of advanced nation shows that industrialization is a pre- requisition for economic Development.

2.Modernization theory focuses attention on the role of values and attitudes in affecting people’s behavior and therefore their response to social change. According to Rostow no meaningful economic development can occur with- out changes in non-economic factors as Innovation, Entrepreneurship, competition etc.

3.Modernization highlights the problems faced by first world countries and provides an environment in which these problems can be addressed. According to modernized theory, the problems that hold back development in 3rd world countries have to do with their internal characteristic and organizational policies. Therefore to develop, they must be assisted by the international community.

4.Modernization theory looks at the transformation of societies in totality. As such, the common feature that one associates with modern societies is liberal democracy which implies higher and better forms of government and political participation which guarantees political stability of countries.

5. It also shows some factors must be present so that mod- ernization can commence ie technology.

Demerits of Modernization theory

1. Modernization theories appear to over-emphasize economic variables at the expense of other important measures of development such as political participation, environmental protection etc
2. It has been argued that modernization theory uses the term traditional and modern societies in a mutually exclusive sense implying that the onset of economic growth and modernity inherently leads to abandonment of traditional patterns of life. However, there is evidence to indicate that economic growth and modernity does not necessarily leave out the so called traditional patterns of lives, values and beliefs
3. Modernization theory ignores the distractive role of colonialism and Imperialism especially in third world societies. As such it’s disregards exploitation of third societies which has destroyed the abilities of the countries to effectively organize themselves for development.
4. These theory has been criticized on the basis it does not recognize the unique differences exist in both developed & developing countries.

lhjgjfddhfrhsadrsatsarhgfstrdgdsgffg

**b) Dependency theory**

Is the body of theories by various intellectuals both from the third world and the first world that proposed a world view which suggests that the wealthy nations of the world need a peripheral group of poorer states in order to remain wealthy. Dependency theory states that the poverty of the countries in the periphery is not because they are not integrated into the world system, or not fully integrated as is often argued, but because of how they are integrated into the system.

The poor nations provide natural resources, cheap labour, a destination for obsolete technology and markets to the wealthy nations, without which they could not have the standard of living they enjoy. First world nations actively but not necessarily consciously, perpetuate a state of dependency through various policies and initiatives: -

• Colonization of third world countries.

• Colonial masters forced developing countries to grow cash crops and raw materials for their benefits.

• After independence, colonial masters left behind structures, authorities and institutions that have continued to dominate through imposing unfavourable policies indirectly, e.g. education, religion, loans and foreign aid from IMF and World Bank, Multinational corporations, etc.

• These colonies built a ruling class to continue their exploitation.

Hence, wealth disparity has resulted into financially and politically dependent over richer countries and thus economic development has not been realized.

**c) Linear theory (Rostov’s** Stages of **Growth)**

The theorists of 1950s and early 1960s viewed the process of development as a series of successive stages of economic growth through all the advanced nations of the world had passed, as all the modern industrial nations of the world were once underdeveloped peasant agrarian economies. Accordingly, their historical experience in transforming their economies from poor agricultural subsistence societies to modern industrial giants had important lessons for backward countries of Asia, Africa and Latin America. In this respect, we discuss the Rostow’s stages of economic growth.

W. W. Rostow was an American economist who presented stages of growth model of development. According to Rostow, the process whereby all the developed industrial nations of the world transformed themselves from backwardness to prosperity can be described in terms of a series of stages. These stages of economic growth are: -

i) The traditional society

ii) The pre-condition to take-off

iii) The take-off

iv) The drive to maturity

v) The high mass consumption

**i) Traditional society**

The traditional society is one whose production functions are based on pre-Newton science and technology. This unchanging technology places a ceiling on productivity. In this society a higher proportion of resources is devoted to agriculture. Man is valued on family basis, not on the basis of his capabilities. The ranges of possibilities for grand-children are the same what they were for grand-father. The society is ruled by those who owned or controlled land. These landlords used to have a long chain of servants and soldiers. This society was available during the Medieval Ages in Europe.

**ii) Pre-condition to take-off**

It is a period of transition where the conditions for take-off are developed. Historically, it was due to invasion of advanced societies which destroyed the culture of traditional society. This paved the way for the emergence of new ideas. In this way, when the new ideas develop, people start thinking about economic progress which could provide a better life for the present and future generation. Once the changes set in, they feed on themselves. It is the education which broadens the mental outlook of the people, and it induces the people to accept new challenges. In this way, the new entrepreneurs come forward to take risks.

According to Rostow, the transition is a multi-dimensional phenomenon. A country with 75% of its population in agriculture will have to be shifted to industry, trade and commerce. The view to have more children will have to be replaced by less children. The income will have to be shifted from feudal to those who will spend it on productive items. The man will be valued on the basis of his competence.

**iii) Take-off**

The take-off stage is a breakthrough in the history of the society. The take-off stage remains for more than two or three decades. In this stage, three conditions must be satisfied: -

• The rate of investment must rise from 5% to 10% of Gross National Product (GNP).

• The development of one or more substantial manufacturing sector with high growth rate.

• The existence of social, political and institutional framework which could give impulse to modern sector expansion.

**iv) Drive to maturity**

According to Rostow, 40 years after the take-off stage, there is a long interval. During this interval, the economy experiences a regular growth and modern technology is extended over to a bulk of resources. On the basis of entrepreneurial and technological development, everything is produced which is desired. There may be a shift in emphasis from coal, iron and heavy engineering to machine tools, chemicals and electrical equipments. Germany, France, UK and US passed through this period during the end of 19th century. 10% to 20% of Gross National Product (GNP) is ploughed in investment and output grows more than increase in population. The goods which wee earlier imported, now they are produced at home. In short, the economy becomes a part of international economy.

**v) The age of high mass consumption**

According to Rostow, as societies achieved maturity in the 20th century, real income rose and the people became aware of as well as anxious to have a command over the consumption of the fruits of mature economy. The leading sectors of the economy produce consumer durables like TV, fridges and automobile. Here the society pays more attention on social welfare and social security than on economic growth.

## Summary

In summary, the lecture aimed at defining economic growth and economic development, factors that may create growth, indicators of economic development, characteristics of development, characteristics of underdevelopment, sustainable development and theories of development

## 2.10 Self-Assessment Questions

1. Today, technology accounts for between 20-50% of annual growth experienced in developed world. Expound on three roles of technology in communication and information transfer in relation to development.

## 2.11 Further Reading

Sowell, T. (2015). Wealth, Poverty and Politics: An International Perspective. New York: Basic Books. ISBN-13: 978-0465082933.

Kersbergen, K. & Vis, B. (2013). Comparative Welfare State Politics: Development, Opportunities, and Reform. Cambridge: Cambridge University Press. ISBN-13: 978-0738018842.

Pattanaik, B. K. (2016). Introduction to Development Studies. India: Sage Publications. ISBN: 978-9351508205