ECONOMIC GROWTH; ECONOMIC DEVELOPMENT AND ECONOMIC PLANNING

Economic Growth

It is defined as an increase in a country's productive capacity identified by a sustained rise in real income over a period of time.

Economic growth is the increase in goods & Services produced by an economy or nation, considered for a specific period of time. The rise in the country's output of goods and services is steady and constant and may be caused by an improvement in the quality of education, improvements in technology or in any way if there is a value addition in goods and services which is produced by every sector of the economy.

It can be measured as a percentage increase in real gross domestic product. Where a gross domestic product (GDP) is adjusted by inflation. GDP is the market value of final goods & services which is produced in an economy or nation.

Determinants of economic growth

1. **Labour force**

   A large labour force means more productive man power and hence more goods and services.
2. **Capital stock**

   An expansion of the capital stock can lead to economic growth.
3. **Technology**

   This is the most important component of economic growth

Benefits of economic growth

1. Elimination of poverty
2. Improvement in standards of living
3. Leads to research and development
4. Elevates the problem of unemployment

Cost of economic growth

1. It can lead to unemployment due to adaption of new technologies
2. It can bring about negative externalities e.g pollution, congestion
3. It concentrates on producing capital goods at the expense of consumption of goods.

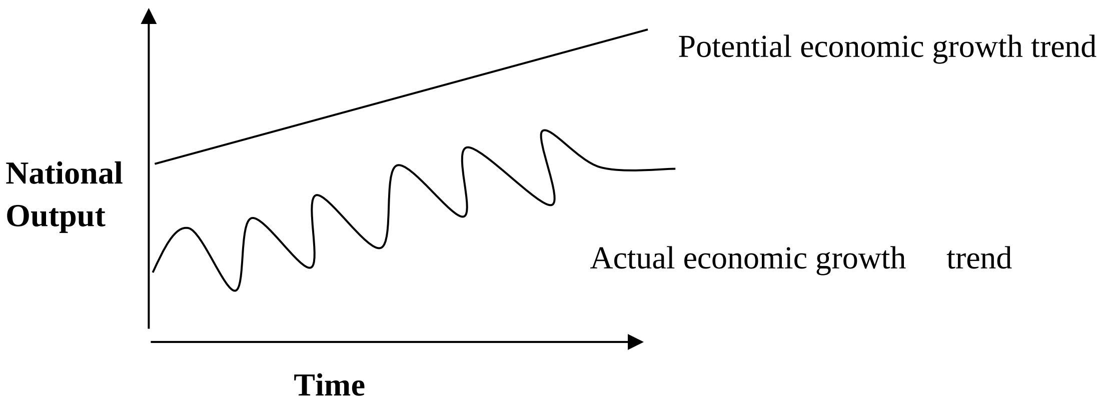
Actual and potential economic growth:

1. **Actual economic growth**

   This refers to the annual percentage in rational input which typically fluctuates in accordance with the government policies and trade cycles.
2. **Potential economic growth**

   This is the rate at which the economy will grow if all the resources such as labour force and capital were fully employed.

The distinction between actual and potential economic growth can be illustrated as follows:



Economic development: This is a process in which the economy not only changes such as infrastructure development, improvement in standards of living, reallocation of resources between agricultural sector to industrial sector and to the service sector of the economy.

Economic Development is the process focusing on both qualitative and quantitative growth of the economy. It measures all the aspects which include people in a country become wealthier, healthier, better educated, and have greater access to good quality housing. Economic Development can create more opportunities in the sectors of education, healthcare, employment and the conservation of the environment. It indicates an increase in the per capita income of every citizen. The standard of living includes various things like safe drinking water, improve sanitation systems, medical facilities, the spread of primary education to improve literacy rate, eradication of poverty, balanced transport networks, increase in employment opportunities etc. Quality of living standard is the major indicator of economic development. Therefore, an increase in economic development is more necessary for an economy to achieve the status of a Developed Nation.

It can be measured by the Human Development Index, which considers the literacy rates & life expectancy which affect productivity and could lead to Economic Growth.

Factors that hinder economic development in developing nations

1. Low standards of living
2. Shorter life expectancy
3. Poor education
4. Higher infant mortality rate
5. High rate of population growth
6. High level of unemployment
7. Poor infrastructural facilities
8. Dependency on agricultural produce

Obstacles

1. Lack of capita
2. Immobile factors of production
3. Lack of specialization

Economic Growth vs Economic Development: - Key Differences

- Economic Growth is the increase in the real output of the country in a particular span of time. Whereas, Economic Development is the increase in the level of production in an economy along enrichment of living standards and the advancement of technology.
- Economic growth does not consider the Income from the Informal Economy. The Informal economy is unrecorded economic activity. Whereas, Economic Development takes consideration of all activities, whether formal or informal and eases people with low standards of living a suitable shelter and with proper employment.
- Economic Growth does not reflect the depletion of natural resources. Depletion of resources such as pollution, congestion & disease. Governments are under pressure due to the environmental issues, majorly the problem is due to Global warming. However, Economic Development is concerned with Sustainability, which means meeting the needs of the present without compromising.
- Economic growth is the subset of economic development.
- Economic growth indicates the expansion of the Gross Domestic Product (GDP) of the country and the concept of Economic Growth is basically related to the developed countries. Economic Development is a broader concept than the Economic Growth. Economic Development refers to the increase of the Real National Income of the economic and socio-economic structure of any country over a long period of time. Economic Development is related to underdeveloped or developing countries of the world.
- Unlike economic development, Economic growth is an automatic process. Meanwhile, economic development is the outcome of planned and result-oriented activities.
- Economic Growth refers to the rise in the value of all the products produced in the economy. It indicates the yearly increase in the country's GDP or GNP, in percentage terms. It alludes to a considerable rise in the per-capita national product, over a period, i.e. the growth rate of increase in total output should be greater than the population growth rate.
- Economic growth is necessary but not enough to achieve economic development.
- They both Economic Growth vs Economic Development have different indicators for their measurement. Economic Growth can be measured through an increase in the GDP, per capita income, etc. However, Economic Development can be measured through Improvement in the life expectancy rate, infant mortality rate, literacy rate, and poverty rates.

The basis of Comparison between Economic Growth vs Economic Development	Economic Development	Economic Growth
Concept	Economic development is a much broader concept than economic growth. Economic development = Economic Growth + Standard of Living	Economic Growth is a narrower concept than economic development.
Scope	Economic Development is considered as a Multidimensional phenomenon because it focuses on the income of the people and on the improvement of the living standards of the people of the country.	Economic Growth is considered as a single dimensional in nature as it only focuses on the income of the people of the country.
Term	Long-term process	Short term process
Measurement	Both Qualitative & Quantitative Terms: HDI (Human Development Index), gender-related index, Human poverty index, infant mortality, literacy rate etc.	Quantitative Terms: Increases in real GDP.
Related To	Economic Development is related to Underdeveloped and developing countries of the world.	Economic Growth is related to developed countries of the world.
Effect	Qualitative and Quantitative Impact on the economy. Improvement in life expectancy rate, infant, literacy rate, poverty rates, and mortality rate.	Brings a quantitative impact on the economy. Increase in the indicators like per capita income and GDP, etc.
Process Tenor	Continuous process	In a certain period

Economic Planning

Economic planning is a deliberate attempt on the part of the state to make to best use of the country's resources with an objective of maximizing the economic welfare of its citizens.

Importance of economic planning

1. Planning is used as a tool of attracting donor aid.
2. It can also be used as a tool to maintain the economic decision i.e it can be used in a systematic and optional way to utilize the factors of production.
3. Planning harmonizes a nation's economic decision i.e it can be used in a systematic and optimal way to utilize the factors of production.
4. Planning can be used as a tool to solve economic problems such as unemployment, inflation, poverty e.t.c.
5. Planning is important for equitable distribution of income and wealth.

Limitation/problems of economic planning

1. Planning is often over ambitious i.e it attempts to achieve so many goods some of which will be conflicting.
2. Inadequate reliable data. The success of any plan depends to a large extent on the data and information which it is based. Such data may be inadequate in many developing countries.
3. An anticipated economic factor

   The economies of developing nations are dependent upon a number of external economic factors. Some of which may be beyond their control.
4. Political Instability
5. Lack of skilled manpower
6. Inadequate capital to execute the plans
7. Inflation

Features/characteristics of economic planning

1. Must be objective based
2. Must cover all sectors of the economy
3. A good plan must be based on available economic resources
4. Must involve a measure of microeconomic planning