

IS DEVELOPMENT THE SAME AS GROWTH?

An article on differentiating economic development and economic growth

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Is Development the Same as Growth?

As Amartya Sen has pointed out in his article, “The Concept of Development”, there is a close association between the understanding of economic development and economic growth and has also stated that, “The concept of development is by no means unproblematic” (1988). The concept of economic development started a long time ago since Adam Smith referenced this term in his book, “Wealth of Nations.” Since then, there has been a change in how we think about economic development and economic growth. Some economists believed that without economic growth there could be no economic development. Some economists believed that the two concepts are related, but do not influence each other at all. In this essay, I believe that there is a close linkage between economic growth and economic development, and there are many interpretations of economic development. This will be presented by a review of the definitions of economic growth and economic development, a presentation to both sides of the economic development or economic growth debate and a final remark on this issue.

The textbook meaning of economic growth is defined as, “The steady increase in aggregate output over time” (Blanchard, 2013). Aggregate output could be measured in GDP per capita, which could measure the output per person and signal the standard of living (Blanchard, 2013). However, as Blanchard has pointed out, if a country would like to sustain the increase in aggregate output over time, the savings rate should not decrease, since the savings rate determines the level of output. This lemma is based on the Harrod-Domar Growth model where the model stipulates that savings is equal to investment, meaning that the amount of money saved, is the amount of money invested (Sato, 1964), but this model had always been disputable due to empirical inconsistencies (Easterly, 1997). Blanchard had also later pointed out that having a sustained economic growth is ultimately decided upon technological progress.

As we can see from above, the definition of economic growth is simple, yet the underlying assumptions makes it difficult to work with. The textbook definition of economic growth is

straightforward, but later in the chapter of the textbook, there are several underlying mechanisms in which all must hold true in order for this definition to fully operate. The real dilemma comes when these assumptions or mechanisms no longer holds true.

The textbook definition of economic development is defined as, “The process of improving the quality of all human lives and capabilities by raising people’s levels of living, self-esteem, and freedom” (Todaro and Smith, 2012). In fact, this definition has come a long way from its traditional definition. Previously, economic development meant having sustained rates of economic growth in terms of income (Todaro and Smith, 2012). The measures of income could be defined as GNI per capita, in which gives an overview of the well-being of the population.

The original definition of economic development is already intertwined with the definition of economic growth from the start. This obviously sheds light to later philosophy of economic problems as is confuses later scholars as to what both of the terms, economic development and economic growth, really meant.

However, the measures of income defined as GNI per capita is contentious in itself, since there could be no positive correlation between income and the well-being of the population (Sen, 1988). Then later the definition changed into four main schools of thought of economic development, namely: economic development is fictional, economic development as economic growth, alternative economic development, and sustainable development (Soares and Quintella, 2008).

Many economists believed that economic development is fictional. As Soares and Quintella had summarized, many economists believe this because the idea of economic development does not take into account of other factors or because they believed that economic development will never occur in the lesser developed countries (2008). Rivero (2002) believed that economic development cannot be quantified due to the nonlinear progress of society, historical and cultural contexts of each country, as

well as ethical and ecological reasons (Soares and Quintella, 2008). Another economist, Furtado (1974), believed that once a country is dependent, it will always stay underdeveloped.

All these views from the non-believing school are valid in its own right. Rivero pointed out the heterogeneity of cultures, societies and countries, and Furtado referred to the dependency school of thought.

Many economists believed that economic development is the same as economic growth. They believed this because the two influences each other. This is due to the older definition of economic development where economic development is defined as a sustained rates of economic growth in terms of income and economic growth is defined as the steady increase of output over time. As one can see, the two meanings are almost alike. Sen (1994) believed that this close association of the two terms is because of the result Second World War, where the main economic thought at the time is to increase output and employment.

Schumpeter (1989) emphasized the idea of economic development as economic growth further. Schumpeter believed, “the term development as evolution, unfolding, revelation and innovation” (Soares and Quintella, 2008). The main drive behind development as economic growth is simply due to trickle-down effects and the idea that if income increases, people would be able to enjoy more goods and services, thus leading to a better society in general.

However, as we can see, the mechanisms behind economic growth as economic development is intricate also due to the fact that there is a lot of assumptions and theories, but however, trickle-down economics is a widely contested economic theory (Arndt, 1983). As Arndt pointed out (1983), “no reputable development economist ever, explicitly or implicitly, entertained any such theory in any of its various alleged versions. "Trickle-down" is a myth which should be exposed and laid to rest”. This statement by Arndt fully explains why trickle-down theory is extremely disputable.

Alternative economic development is essentially thinking about economic development as a multidisciplinary and integrated subject (Soares and Quintella, 2008). This school of thought believes that economic growth could be easily integrated into economic development. Furtado (1974) has an excellent explanation of the multidisciplinary concept of economic development, "Economic growth such as we know it has been basing itself on preserving the elites' privileges that satisfy their enthusiasm for modernization; now development is characterized by its underlying social project. Having resources to invest is far from being a sufficient condition for preparing a better future for the mass population. However, when the social project prioritizes effective improvement of this population's living conditions, growth metamorphozises into development." This quote is noted as well by Soares and Quintella for its undisputable and coherent explanation. As one can see from this quote, there is an underlying assumption that economic development seems to be goal-oriented and projected through time.

The integrated and multidisciplinary view is further explored by Amartya Sen (1988), in his article called, 'The Concept of Development'. Sen believed that, "the assessment of development achieved cannot be matter only of quantification of the means of that achievement. The concept of development has to take note of the actual achievements themselves". This means Sen does not believe income should be the explanatory variable in terms of economic development. There are several other externalities and factors to consider when assessing economic development, such as life span. Sen used lifespan in this particular paper to highlight that countries with dissimilar GNP per capita, there is a significant difference in the life expectancy. For example, Sri Lanka in 1984 has a low GNI of 360 USD per capita but its life expectancy at birth in 1984 was 70 years. On the other hand, in 1984, South Africa has a GNP of 2340 USD per capita, but its life expectancy in 1984 was 54 years (Sen, 1988). This example has already contradicts the idea that having more income will solve other economic development issues as well as the idea that economic growth is positively correlated with economic development.

Further in the article, Sen also believed that economic development and the issue of economic growth should not be in relation not only due to the misrepresentation of income per capita as a crude measure of the society, but also because of externality and non-marketability, biases in the market, and also the interdependence of time relating to income (1988). Sen pointed out the fact that the formulations of national income indices such as GNP or GDP only records the actual amount transacted in the market, thus leaving all other costs and benefits unaccounted for since it cannot be priced at the market value. Sen also pointed out that the market price of commodities could reflect the bias of the market where the price of goods of one country is significantly different to another country. For example, the price of kimonos would have a wide range of prices in perfect competition in Japan, but the price of kimonos in Kenya would have no value to it since the Japanese clothing article is almost superfluous or treated as a cultural artifact. Lastly, Sen explained that the real income consumed by anyone at any given year, is only the real income consumed for that particular given year, yet if one were to assess the quality of life that person is having, one would have to take the integral of said person's life.

These further rebuttals by Sen on using a national income index to assess the well-being of society are truly remarkable. These issues brought on by Sen highlighted the crude interpretation of economic development in terms of national income indices as well as the unstable usage of economic development in terms of national income.

Soares and Quintella pointed out that there is also another emerging subject with regards to economic development, called sustainable development (2008). The term of sustainable development is defined by former Norwegian prime minister Gro Brundtland in his article called 'Our Common Future' which otherwise is also known as the Brundtland Report. The Brundtland definition of sustainable development is defined as, "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (Brundtland, 1987). Giddings et al. further explained the relationship between these three intersections, "They are interconnected, with the

economy dependent on society and the environment while human existence and society are dependent on, and within the environment”.

This means sustainable development takes into the considerations of current and future impacts as well as how economic issues could relate to the environment and other externalities such as society. One could even suggest that sustainable development is part of the alternative school of economic development, but with the environmental focus.

To further on the modern interpretation of economic development, Todaro and Smith (2012) believed that there are three core values of economic development, namely: sustenance, self-esteem, and freedom. Todaro and Smith (2012) define sustenance as, “the basic goods and services, such as food, clothing, and shelter, that are necessary to sustain an average human being at the bare minimum level of living”. Self-esteem is defined as, “the feeling of worthiness that a society enjoys when its social, political, and economic systems and institutions promote human values such as respect, dignity, integrity, and self-determination” (Todaro and Smith, 2012). Lastly, Freedom is defined as, “a situation in which a society has at its disposal a variety of alternatives from which to satisfy its wants and individuals enjoy real choices according to their preferences” (Todaro and Smith, 2012).

Todaro and Smith (2012) believed that these three core values of economic development fully embodies what all humans and societies aims for, and further to this, Todaro and Smith (2012) believed that there should be three objectives of development. The first objective is to expand the availability of the sustenance (Todaro and Smith, 2012). This means that basic goods and services should be widely available for everyone. The second objective is to increase living standards (Todaro and Smith, 2012). This means that there should be more provisions to jobs, education, culture, society, and human values and in turn, these will not only increase material well-being but also the self-esteem at the individual level as well as the societal level. The third objective is to elevate the range of choices (Todaro and Smith, 2012). This means that people should not be bound by servitude

economically or politically, but also “other forces of ignorance and human misery” (Todaro and Smith, 2012).

In conclusion as we have seen in the progression of this paper, there is a historical link between economic growth and economic development and this was observed by the evolution of the meaning of economic development from simply having sustained rates of economic growth to a goal-oriented more sophisticated understanding of economic development. In this paper, many schools of thoughts on development has also been explained and analyzed, for example the traditional school where they believed between economic growth and economic development are the same, the fictional school where they believe that economic development is non-existent, the alternative school where they believed that economic development should be an inclusive, multidimensional process and lastly, the newest school of thought where economic development should be environmentally sustainable. This paper concluded with providing the current textbook definition of economic development and its meanings. As Soares and Quintella (2008) has summarized, “The development process covers a complexity of relationships. Its analysis, therefore, cannot be restricted only to the economic dimension because, as a rule, the question is presented both in the media and a considerable part of specialized literature”.

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