

# **Human Development and Economic Growth**

Gustav Ranis

## **Abstract**

Recent literature has contrasted Human Development, described as the ultimate goal of the development process, with economic growth, described as an imperfect proxy for more general welfare, or as a means toward enhanced human development. This debate has broadened the definitions and goals of development but still needs to define the important interrelations between human development (HD) and economic growth (EG). To the extent that greater freedom and capabilities improve economic performance, human development will have an important effect on growth. Similarly, to the extent that increased incomes will increase the range of choices and capabilities enjoyed by households and governments, economic growth will enhance human development. This paper analyzes these relationships and the two-way linkages involved.

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# Human Development and Economic Growth

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## II. Growth and its Impact on Human Development

Human development finds its theoretical underpinnings in Sen's capabilities approach which holds "a person's capability to have various functioning vectors and to

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enjoy the corresponding well-being achievements” to be the best indicator of welfare (Sen, 1985). This perspective shifts the analysis of development to the vector of not only attributes (as is the more traditional utilitarian or even the original basic needs view of human welfare, see Streeten, 1979), e.g. income, education, health, but also the vector of possible opportunities available to individuals in a particular state. Naturally, there is a link between the two--these opportunities are affected by certain attributes of the individual: a starving or uneducated person would have fewer choices than a healthy, educated person. Yet the capabilities approach goes far beyond individual attributes to analyze the role of the social environment on human choice and agency: an individual in an open, free society would enjoy a larger set of potential functionings than one in a closed, oppressive society. However, while capabilities make an appealing goal for development, they are notoriously difficult to measure in that the full set of possible human functionings is almost by definition unobservable.

The first major attempt to translate the capabilities approach into a tractable ranking of nations came in the 1990 UNDP Human Development Report. The HDR’s objective was to “capture better the complexity of human life” by providing a quantitative approach to combining various socio-economic indicators into a measure of human development (UNDP 1990). This was in contrast to the perceived prevailing wisdom in development economics, as embodied in the World Development Reports, whose “excessive preoccupation with GNP growth and national income accounts has...supplanted a focus on ends by an obsession with merely the means” (UNDP 1990). Yet the transformation from a normative theory of capabilities into a quantitative variable was by no means an obvious task. The use of life expectancy, literacy, and GDP as