

4. MAIN MEASURES OF ECONOMIC DEVELOPMENT

There are a number of measures which have been used to estimate the economic development of a country. These measures, in brief, are:

- (i) Increase in real GNP.
- (ii) Increase in real per capita income.
- (iii) Rise in overall wellbeing of the people.
- (iv) Basic needs approach.
- (v) Human Development Index.

The above measures of economic development are discussed now in brief.

- (i) **Increase in real GNP.** Before 1970's, economic development was regarded as an increase in real national product of a country over a long period of time. A long run expansion in production was to be achieved by rapid industrialization of the country at the expense of agriculture and rural development. The growth and development at that time mainly meant the **growth of industrial production.**
- (ii) **Increase in real per capita income.** Another traditional measure of economic development was an increase in real per capita income of a country. It was considered that if the rate of growth of income per capita increases over a long period of time, it would indicate that the country was moving towards higher standard of living and achieving economic goals. The increase in real per capita income can be achieved if the nation has the ability to expand its output at a rate faster than the changes in price level. $r = \frac{y}{p}$; where r = real income, y = nominal income and p = price level. **The problems of poverty, unemployment and mal-distribution of wealth were of secondary importance.**
- (iii) **Rise in overall wellbeing of the people.** The third traditional measure of economic development was an increase in the economic well-being of the people. According to this measure, if the citizens of a country are able to get and consume more goods and services than before, people will be considered better off. The welfare of the people will rise. In the words of Okun and Richardson, **"Economic development is a sustained and secular improvement in the material well-being which is reflected in increase in goods and services."**

The basic draw backs of these definitions are that if an increase in the goods and services produced have been created at the expense of too much hard work, or unequal

distribution of wealth or at the expense of health, safety and comfort or at the expense of dignity etc. etc.. it would be unjustified to link rise in income or material welfare to an increase in economic welfare or economic development of the country. Moreover these definitions do not include non-market goods and services such as goods produced for self-consumption, women work at home etc. The objective of economic development is a rise in national income by making an improvement in the **quality of life of the people**. The economists, therefore, are in search of other measures which serve as complements, or alternatives to the traditional measures.

- (iv) **Basic Needs Approach.** Basic needs approach also called Physical Quality of Life Approach uses only three indicators for measuring economic development in a country. These indicators are (i) Life expectancy and age. (ii) Infant mortality and (iii) Literacy.

The basic need approach is considered superior as it spells out in detail the human needs in terms of health, nutrition, shelter and education etc. It is also devoid of the flaws which exist in per capita, GNP measure. However, the approach is criticised on the ground that it does not include security, justice and human rights which are an important measures of quality of life.

- (v) **Human Development Index.** The modern economists are not satisfied with GNP, per capita or national income as the principal measures of economic progress. According to them, the issue is not only how much growth but what kind of growth. They formulated Human Development Index (HDI). There were number of measures which were included in this index. However, to keep the HDI simple and manageable, the following main variables were included in it (a) **Life expectancy** was chosen as a measure of long life (b) **Literacy** as an index of knowledge and (c) Real GDP per person.

- (vi) **Other diverse indicators.** In addition to real GDP per person, the modern economists measure the level of country's development from the following indicators.

- (1) The percentage of **income originating from agriculture** in GDP. The higher the income originating from agriculture, the less developed is the economy of a country.
- (2) **Per Capita consumption of energy.** The higher the per capita consumption of energy, the more developed is the industry and economy of the country.
- (3) **Percentage of starches in total calories consumed.** If there is high percentage of starches consumed in total calories consumed by the people, the economy will be considered as underdeveloped.
- (4) **Degree of urbanization, high school enrollment ratio.** If the ratio of school enrollment, the degree of urbanization and life expectancy is rising in a country, they are considered as positive indicators of economic development.
- (5) **Infant mortality and density of population.** If in a country the infant mortality and density of population are high, it is considered to be negatively related to economic development.

Summing up, "Economic development includes not only economic growth but also a political, social and cultural changes in society which contributes to better living standard.

Problems related to the measures of Economic Development of Pakistan

The measurement of economic development in a country is a complex issue. There are number of problems related to each measure of economic development which in brief are discussed below:

- (1) **Increase in real GDP.** If there is increase in real GDP over a long period of time, the country is described as having a strong economic growth. In case of Pakistan, the revival of growth rate that started in 2013-14 further accelerated in 2017-18. The growth of Pakistan Economy remained 5.5% during FY 2017-18 with an average growth rate of 4.7% for the period FY 2014-2018. The contained inflation and maintained exchange rate accelerated the growth in domestic demand. However growth rate for FY2018-19 is only 3.29% as per Government estimates. The outgoing fiscal year 2018-19 witnessed a muted growth of 3.29 percent against the ambitious target of 6.2 percent. The target was based upon sectoral growth projections for agriculture, industry, and services at 3.8 percent, 7.6 percent and 6.5 percent respectively. The actual sectoral growth turned out to be 0.85 percent for agriculture, 1.4 percent for industry and 4.7 percent for services.

Moreover IMF has lowered its projection for the economic growth in Pakistan during FY2018-2019 to below 3%.

Table: Growth Rates (%)

Sector	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
						F	R	P
A. Agriculture	3.82	2.68	2.56	2.13	8.15	2.18	3.94	5.32
1. Crops	3.22	1.13	2.54	8.14	-5.27	1.22	4.64	-4.43
Important Crops	-3.17	0.17	7.22	-1.62	-5.84	2.65	3.59	-4.55
Other Crops	-7.52	5.53	-5.73	2.51	6.46	-2.51	6.15	1.95
Cotton Ginning	13.33	-2.99	-1.33	7.24	-22.12	5.58	8.30	-12.74
2. Livestock	3.99	3.45	2.48	3.99	3.34	2.99	3.42	4.88
3. Forestry	1.79	6.58	1.88	-12.45	14.31	-2.33	2.58	8.47
4. Fishing	3.77	0.65	6.95	5.75	3.25	1.23	1.43	2.79
B. INDUSTRIAL SECTOR	2.55	0.75	4.53	5.18	5.48	4.55	4.92	1.88
1. Mining & Quarrying	5.16	2.31	1.49	4.27	6.19	-6.65	7.72	-1.54
2. Manufacturing	2.03	4.15	5.65	3.31	3.69	5.83	5.43	-9.27
Large Scale	1.13	4.16	5.46	3.28	2.95	5.84	5.12	-2.04
Small Scale	1.35	4.25	8.29	8.21	4.19	5.15	8.17	5.26
Slaughtering	3.53	3.63	3.32	3.34	3.61	3.55	3.50	3.47
3. Electricity Generation & Distribution & Gas Distribution	1.41	-26.38	-6.74	13.48	9.39	-2.69	-9.08	43.54
4. Construction	3.03	1.03	5.94	7.26	13.63	3.95	5.24	-7.57
COMMODITY PRODUCING SECTOR (A-B)	1.99	1.71	2.12	1.62	2.92	2.10	4.15	1.13
C. SERVICES SECTOR	1.18	5.11	5.15	1.35	5.72	5.47	5.72	1.71
1. Wholesale & Retail Trade	1.64	3.53	4.77	2.60	4.73	7.43	6.57	3.11
2. Transport, Storage & Communication	1.61	4.93	3.90	5.87	4.39	4.27	2.12	3.14
3. Finance & Insurance	1.64	1.32	4.31	6.35	6.42	11.12	7.03	5.14
4. Housing Services: (Ownership of Dwelling)	3.99	4.59	4.00	3.95	3.99	3.99	3.99	4.06
5. General Government Services:	11.06	11.32	2.84	4.82	9.72	5.95	11.82	7.95
6. Other Private Services:	9.40	5.26	6.22	6.64	6.77	8.13	8.13	7.05
GDP (Total of GVA at bp (A + B + C))	3.32	3.63	4.05	4.64	4.54	5.22	5.53	3.29

P: Provisional R: Revised F: Final

Source: Pakistan Bureau of Statistics

So far as the sectoral shares of Agriculture, Industry and services are concerned, their percentage shares in the overall GDP during the last three years remained as under:

	2016-17	2017-18	2018-19
Agri.	19.30	19.00	18.50
Industry	20.80	20.60	20.30
Services	60.00	60.40	61.20

In case of Pakistan, the share of agriculture in GDP was 21.4% in 2012-13 but has gone down to 18.50% in 2018-19. The corresponding share of industrial sector in the GDP decreased from 20.4% in 2012-13 to 20.30% in 2018-19. The share of services sector increased from 58.2% in 2012-13 to 61.20% in 2018-19. During the year FY2018-19, agriculture recorded a growth of mere 0.85% percent against the growth of 3.94% during FY 2017-18. Industrial sector recorded growth of 1.40% during FY 2018-19 as compared to 4.92% during FY 2017-18. Services sector growth rate slowed to 4.71% during FY2018-19 as compared to 6.25% during FY2017-18.

- (2) **Increase in per capita income.** Increase in real per capita income over a long period of time is also considered a strong indicator of economic development. The real per capita income is gradually increasing in Pakistan except FY2018-19. It was \$1,053 in 2007-08, \$1,026 in 2008-09, \$1,072 in 2009-10, \$1,274 in 2010-2011, \$1,321 in 2011-12, \$1,334 in 2012-13, \$1,389 in 2013-14, \$1,514 in 2014-15, \$1,529.40 in 2015-16, \$1,630.10 in 2016-17, \$1,652 in 2017-18 and \$1,497.30 in FY2018-19. Per capita income alone does not represent the standard of living of the people. We shall have to consider the level of distribution of income and the rate of inflation in the country.
- (3) **Basic needs approach.** As regards the Basic needs approach, the indicators to be included regarding basic needs change with the stage of development in a country. Therefore, they are not helpful in measuring economic development of a country.

5. HUMAN DEVELOPMENT

What is human development?

Since 1990, the development economists are laying great emphasis on the human development both at the national and international level. Human development is now considered a global issue. Human development as defined by Dr. Mahbub-ul-Haq is the process of enlarging people's choices as well as raising the level of well-being already achieved. According to the modern economists, human life cannot be enriched by the increase of only one choice i.e. income. There are other human choices such as leading a long and healthy life, to be educated and enjoying a decent standard of living, clean environment, political freedom, human rights etc., which are essential for improving the human condition.

The difference between economic growth and human development is that the first exclusively stresses on the expansion of only one choice i.e., income as a measure of economic development. Human development, on the other hand, covers the enlargement of all human choices whether they are political, social, or cultural. Dr. Mahbub-ul-Haq rightly warns, "unless society recognizes that their real wealth is their people, an excessive obsession with creating material wealth can obscure the goal of enriching human life".

Why human development is considered necessary?

Human development is considered necessary for the following reasons.

1. After the Second World War, development was seen merely in terms of economic growth. However, in the nineties, took place a major shift in the development thinking. The modern economists led by late Dr. Mahbub-ul-Haq emphasized that economic growth is necessary for human well-being. It is an important indicator of improving the economic conditions of the people but it is not the end in itself. The fact is that human development is the end while economic growth is the mean to achieve this end. The ultimate objective is to improve the human conditions and this objective can only be achieved by enlarging the people's choices such as knowledge, health, political freedom, access to pleasures of life and other necessary resources, which are needed for a decent standard of living.
2. Human development is an important source of higher productivity in all sectors of the economy. If people of a country are healthy, educated and well skilled, they increase productivity and become an important productive asset.
3. It has been experienced all over the world that with the improvement in education levels, health facilities and economic conditions, there is reduction in infant mortality, fall in the family size and a decrease in mortality rate.
4. Human development is essential for physical environment. A country with low population growth and low population density generally creates healthy physical environment in the country.
5. Human development helps in reducing civil disturbances and in increasing political stability in the society.

Main Components of Human Development

According to Dr. Mahbub-ul-Haq there are four essential components in the human development (i) Equity (ii) Sustainability (iii) Productivity and (iv) Empowerment. These components are explained in brief.

- (1) **Equity:** Equity means that all the people should have equal access to opportunities available in the country. For enlarging people's choices to achieve opportunities, there should be a (i) change in the distribution of productive assets through land reforms (ii) introduction of progressive fiscal policy for transferring income from rich to poor (iii) provision of credit to the needy people for productive purposes (iv) giving opportunities to the low income groups to actively participate in politics.
- (2) **Sustainability:** Sustainability is an essential component of human development. The present and future generation must have mutual access to share development opportunities. If this opportunity is not available, human development will not progress.
- (3) **Productivity:** Productivity in all sectors of the economy can be increased at a rapid speed by increasing investment in human capital.
- (4) **Empowerment:** Empowerment means that people should be in a position to exercise choices of their own free will. This can only be possible if there is political democracy in

the country, less economic controls and regulations, decentralization of power, provision of equal opportunities to women to compete with men on an equal footing.

Human development strategy in Pakistan

The increase in expenditure on human development has shown improvements on social and living standard indicators of the people. For example, the literacy rate has increased from 56% in 2007-08 to 62.3% in 2017-18. Housing conditions as measured by the number of rooms availability have been improving consistently. The % of households using tap water as major source of drinking water has improved over the last several years. Health conditions of the population and life expectancy have improved significantly.

Human development index is a composite measure of well being of the people. According to the Human Development Report 2016, Norway tops in the 20 developed countries of the world. Central African Republic is the least developed in the ranking. Pakistan stands at 147th, India ranks 131th and Bangladesh 139th among the 188 countries.