
DEVELOPING ECONOMY AND ITS CHARACTERISTICS

What is Economic Development?

It is not easy to give any precise and clear definition of economic development. The term 'development' means different things to different people. **Before 1970's**, the traditional measure of economic development was the rise in the real national income and per capita income of a country. The rise in real national income must occur over a long period of time. In the words of **Mair** and **Baldwin**,

"Economic Development is the process whereby an economy's real national income increases over a long period of time and if the rate of development is greater than the rate of growth of population, then per capita real income will increase."

In 1980's, the real national income or real per capita income as a measure of development was discarded. The problems of widespread poverty, unemployment and unequal distribution of income came to the forefront. The term economic development was redefined in terms of the reduction of poverty (2) inequality in income and (3) unemployment. The common slogan of economic development was **"Redistribution of Income from Growth"**. In the words of **Daudley Seers**,

"The questions to ask about a country's development are therefore; What has been happening to poverty? What has been happening to unemployment? What has been happening to inequality? If all these three have declined from high levels, then beyond doubt, there has been a period of development for the country concerned. If one, two or all three have been growing worse, it would be strange to call the result 'development' even if per capita income doubled."

In 1990's, there was again a change in the meaning given to the term development. The modern economists are of the view that economic development is the development of people rather than the development of things. The challenge of development is to improve the quality of life. The quality of life generally calls for higher incomes and involves better education, higher standards of health, less poverty, a clean environment, more equality of opportunity, greater individual freedom and a richer cultural life. **Michael Todaro** has defined in the following words,

"Development must be conceived of as a multi-dimensional process of involving major changes in social structures, popular attitudes and national institutions as well as the acceleration of economic growth, the reduction of inequality and the eradication of poverty. In brief, economic development

means economic growth coupled with the structural changes in the economy for obtaining a better life.”

Objectives of Development

The main objectives contained in the above definitions of development, in brief, are as under: -

- 1) **Provision of Basic Needs:** The primary objective of development is the provision and expansion of basic human needs such as food, clothing, shelter, health and protection.
- 2) **Raising Level of Living:** Another important objective of development is to raise the level of living of the people by providing them higher incomes, more jobs, better education, greater freedom and self-respect.
- 3) **Expanding the Range of Economic and Social Choices:** In addition to the above advantages of economic growth, development must include the increases in the range of human choices. *People should have the freedom to choose greater leisure, political freedom and equality of opportunity.*

Economic Growth

Economic growth, economic welfare, total welfare and economic development were used to convey the same meaning in 1960's and 1970's. However, the terms 'economic growth' and economic development have different meanings and importance in economic literature.

Meaning of Economic Growth

The meaning of and importance of economic growth is a vital issue in economics. Economic growth is often defined as a continuous increase in the real value of the production of goods and services. According to Kuznets, economic growth may be defined as a long-term process wherein the substantial and sustained rise in the real national income, total population and real per capita income takes place. In the words of **Michael Todaro**,

“Economic growth is a steady process by which the productive capacity of the economy is increased overtime to bring about rising levels of national output and income.”

Elements of Economic Growth

The definitions of “economic growth” clearly bring out the following elements of economic growth.

- 1) **Long Term Process:** Economic growth is a long run process involving a period of decades. A short-term increase in national income for a few years is not considered an economic growth.
- 2) **Rise in Real per Capita Income:** Economic growth is accompanied by a substantial rise in real per capita income. This can be possible only if the real growth in income is higher than the rate of growth of population over a long period of time.

- 3) **Rise in Productivity:** Economic growth is always associated with substantial rise in productive capacity of the economy. The rise in the real output can be achieved by proper utilization of natural and human resources and better techniques of production in all sectors of the economy.
- 4) **Greater Equality:** There should be greater equality in the distribution of income and reduction of unemployment in the country.

Sources of Economic growth

Economic growth as we have stated earlier, is the production of more goods and services over the years. Economic growth can be achieved through two main sources, (1) Supply factors and (2) Demand factors. Supply factors relate to the physical ability of an economy to grow. Production can be increased by using **more factors of production** (land, labor, capital and enterprise) and by using existing resources more **efficiently with an improvement in technology**. The second source of economic growth is to create increased demand for goods and services. The aggregate demand can be increased if there is additional spending by households, by private firms for investments, by government purchases of goods and services and exports minus imports.

Benefits of Economic Growth

The main benefits of economic growth are:

- i. It helps in raising the material standard of living of the people.
- ii. It allows the economy to have more consumer and capital goods.
- iii. It increases employment opportunities.
- iv. It reduces government cost associated with unemployment benefits, medical aid etc.

Costs of Economic Growth

The costs of economic growth are:

- i. As more goods are manufactured, it produces, (a) air and water pollution (b) noise (c) traffic jams (d) rural and urban congestion (e) smoke (f) ugly landscapes (g) garbage etc.
- ii. The pollution of water and air etc. reduces the quality of life.
- iii. The consumption of many goods and services reduces our scarce non-renewable resources such as gas, oil, minerals etc.

What is Economic Development?

Economic development is a fundamental goal of any nation, "Economic development" is **the process of lifting a nation's per capita consumption, production and income so that its people can enjoy the benefits of improved material wellbeing**. The term 'economic development' is comprehensive in its scope as compared to economic growth. The term 'economic development' signifies both economic growth as well as structural changes in the economy. It is growth plus structural changes. Thus, the term economic growth signifies only rise in real national income and per capita incomes. Whereas, the term economic development is the indicator of rise in real national income and per capita incomes along with the following structural changes in the economy.

- 1) **Changing Occupational Structure:** In the course of economic development. Its occupational structure undergoes a change. As the level of economic development rises the percentage share of labor working in primary sector (farming, fishing, mining, food stuffs etc.) begins to decline, whereas the percentage share of working population in secondary sector (manufacturing portion of the economy) increases.
- 2) **Changing sectoral structure of national output:** In the process of economic development, there takes place a visible change in the relative contributions of primary, secondary and tertiary sector (services and commerce portion of an economy such as trade transportation finance etc.) in the generation of national output. The % share of primary sector in the national output falls and the share of secondary and tertiary sectors gradually goes up.
- 3) **Changing structure of industrial production:** In the course of economic development industrialization takes place in the country. The proportion of capital goods in the total industrial output rises and that of consumer goods declines.
- 4) **Changing structure of foreign trade:** As the country develops economically, the share of primary goods in the total exports decline and that of the manufactured capital goods goes up. Likewise, the share of consumer goods in total imports falls and those of raw material and capital goods rises.
- 5) **Technological Progress:** In the development process, there is a technical breakthrough in agriculture, transport, industries, communication and other sectors of the economy. The traditional techniques of production gradually give way to science based automated techniques.
- 6) **Social, Institutional Changes:** With the development of an economy, there is urbanization and the adoption of modern methods of thinking, acting, producing and consuming. There are changes in behavioral, institutional and organizational factors. The properties to undertake risk, innovations, and investment become sharper.

Summing up, we can say that economic growth and economic development go side by side. Economic development to an advanced country means a contribution or acceleration of existing rates of economic growth. For a developing country, it means the rate of expansion which can move a developing country from the state of under development to the state of development through the changes in the technical and institutional arrangements. Whatever may be the objectives or goals of development, the essence of economic development, however, remains, rising per capita real income, elimination of poverty, greater employment opportunities, lessening income inequalities and more important development of physical quality of life such as education, health, life expectancy etc.