

Development News – 23rd May, 2017

When I started these regular News Letters I hoped that they would act as a way of building connections with the student body at UNIMAK. Sadly, this has not been the case.

I stress again that (a) I am prepared to engage in a dialogue – ask the MA Sustainable Development students and (b) if one does not use all that is offered, it might be withdrawn

John

Some basics

Economic development is a broader concept than economic growth. Development reflects social and economic progress and requires economic growth. Growth is a vital and necessary condition for development, but it is not a sufficient condition as it cannot guarantee development.

One of the most compelling definitions of development is that proposed by Amartya Sen. According to Sen, development is about creating freedom for people and removing obstacles to greater freedom. Greater freedom enables people to choose their own destiny. Obstacles to freedom, and hence to development, include poverty, lack of economic opportunities, corruption, poor governance, lack of education and lack of health.

(Source: Development as Freedom, Amartya Sen: 2001, Oxford University Press)

The world population

By 2017, the world population had grown to 7,500 million (7.5bn). According to the [Population Reference Bureau](#) it took just 12 years for the global population to increase from 6 to 7bn. Of this number, only 15% will achieve a standard of living of at least 50% of that achieved in the USA. According to the [World Bank](#) over 20% of the world's population live on less than \$1 a day. In fact, the majority subsist at a standard of living similar to, or lower than, that typically achieved 10,000 years ago.

During the next 50 years the world population is predicted to grow to 9,000 million, and at this rate, the proportion of those impoverished is likely to increase.

Indicators of development

The extent to which a country has developed may be assessed by considering a range of narrow and broad indicators, including per capita income, life expectancy, education, and the extent of poverty.

The Human Development Index (HDI)

The HDI was introduced in 1990 as part of the United Nations Development Programme ([UNDP](#)) to provide a means of measuring economic development in three broad areas - per capita income, health and education. The HDI tracks changes in the level of development of countries over time.

Each year, the UNDP produces a [development report](#), which provides an update of changes during the year, along with a report on a special theme, such as global warming and development, and migration and development.

The introduction of the index was an explicit acceptance that development is a considerably broader concept than growth, and should include a range of social and economic factors.

The HDI has two main features:

A scale from 0 (no development) to 1 (complete development).

An index, which is based on three equally weighted components:

1. Longevity, measured by life expectancy at birth
2. Knowledge, measured by adult literacy and number of years children are enrolled at school
3. Standard of living, measured by real GDP per capita at [purchasing power parity](#)

What the figures mean:

- An index of 0 – 0.49 means *low development* - for example, Nigeria was 0.42 in 2010.
- An index of 0.5 – 0.69 means *medium development* – for example, Indonesia was 0.6. 3.
- An index of 0.7 to 0.79 means *high development* – for example, Romania was 0.76. 4.
- Above 0.8 means very *high development* – Finland was 0.87 in 2010.

The HDI is a very useful means of comparing the level of development of countries. GDP per capita alone is clearly too narrow an indicator of economic development and fails to indicate other aspects of development, such as enrolment in school and longevity. Hence, the HDI is a broader and more encompassing indicator of development than GDP, though GDP still provides one third of the index.

Life expectancy

A variety of factors may contribute to differences in life expectancy, including:

1. The stability of food supplies
2. War
3. The incidence of disease and natural disasters

According to World Bank figures, life expectancy at birth in developing countries over the past 40 years has increased by 20 years. However, these increases were not evenly distributed. Indeed, in many countries in sub-Saharan Africa, life expectancy is falling due to the AIDS epidemic.

Adult literacy

The percentage of those aged 15 and above who are able to read and write a simple statement on their everyday life.

More extensive definitions of literacy include those based on the [International Adult Literacy Survey](#). This survey tests the ability to understand text, interpret documents and perform basic arithmetic.

GDP per capita

GDP per capita is the commonest indicator of material standards of living, and hence is included in the index of development. GDP per capita is found by measuring Gross Domestic Product in a year, and dividing it by the population.

Evaluation of the HDI

Despite the widespread use of the HDI there are a number of criticisms that can be made, including:

1. The HDI index is for a single country, and as such does not distinguish between different rates of development within a country, such as between urban and traditional rural communities.
2. Critics argue that the equal weighting between the three main components is rather arbitrary.
3. Development is largely about freedom, but the index does not directly measure this. For example, access to the internet might be regarded by many as a freedom which improves the quality of people's lives.
4. As with the narrow measure of living standards, GDP per capita, there is no indication of the distribution of income.
5. In addition, the HDI excludes many aspects of economic and social life that could be regarded as contributing to or constraining development, such as crime, corruption, poverty, deprivation, and negative externalities.
6. GDP is calculated in terms of purchasing power parity, and the value can change.

Some basic terms

- **Gross Domestic Product (GDP)** is the total value of goods and services produced by a country in a year.
- **Gross National Product (GNP)** measures the total economic output of a country, including earnings from foreign investments.
- **GNP per capita** is a country's GNP divided by its population. (*Per capita* means *per person*.)
- **Economic growth** measures the annual increase in GDP, GNP, GDP per capita, or GNP per capita.
- **Inequality of wealth** is the gap in income between a country's richest and poorest people. It can be measured in many ways, (eg the proportion of a country's wealth owned by the richest 10 per cent of the population, compared with the proportion owned by the remaining 90 per cent).
- **Inflation** measures how much the prices of goods, services and wages increase each year. High inflation (above a few percent) can be a bad thing, and suggests a government lacks control over the economy.
- **Unemployment** is the number of people who cannot find work.
- **Economic structure** shows the division of a country's economy between **primary**, **secondary** and **tertiary** industries.
- **Demographics** study population growth and structure. It compares birth rates to death rates, life expectancy and urban and rural ratios. Many **LEDCs** have a younger, faster-growing population than **MEDCs**, with more people living in the countryside than in towns. The birth rate in the UK is 11 per 1,000, whereas in Kenya it is 40

Economic Growth v Economic Development

Economic Growth is a narrower concept than economic development. It is an increase in a country's real level of national output which can be caused by an increase in the quality of resources (by [education](#) etc.), increase in the quantity of resources & improvements in [technology](#) or in another way an increase in the value of goods and services produced by every sector of the economy. Economic Growth can be measured by an increase in a country's [GDP \(gross domestic product\)](#).

Economic development is a normative concept i.e. it applies in the context of [people's](#) sense of [morality](#) (right and wrong, good and bad). The definition of economic development given by Michael Todaro is an increase in living standards, improvement in self-esteem needs and freedom from oppression as well as a greater choice. The most accurate method of measuring development is the [Human Development Index](#) which takes into account the literacy rates & life expectancy which [affect](#) productivity and could lead to Economic Growth. It also leads to the creation of more opportunities in the sectors of education, healthcare, employment and the conservation of the environment. It implies an increase in the per capita [income](#) of every citizen.

Economic Growth does not take into account the size of the informal economy. The informal economy is also known as the black economy which is unrecorded economic [activity](#). Development alleviates people from low standards of living into proper employment with suitable shelter. Economic Growth does not take into account the depletion of natural resources which might lead to pollution, congestion & disease. Development however is concerned with sustainability which means meeting the needs of the present without compromising future needs. These environmental effects are becoming more of a problem for Governments now that the pressure has increased on them due to Global warming.

Economic growth is a necessary but not sufficient condition of economic development.

Economic Development versus Economic Growth comparison chart

	Economic Development	Economic Growth
Implications	Economic development implies an upward movement of the entire social system in terms of income, savings and investment along with progressive changes in socioeconomic structure of country (institutional and technological changes).	Economic growth refers to an increase over time in a country's real output of goods and services (GNP) or real output per capita income.
Factors	Development relates to growth of human capital indexes, a decrease in inequality figures, and structural changes that improve the general population's quality of life.	Growth relates to a gradual increase in one of the components of Gross Domestic Product: consumption, government spending, investment, net exports.
Measurement	Qualitative.HDI (Human Development Index), gender-related index (GDI), Human poverty index (HPI), infant mortality, literacy rate etc.	Quantitative. Increases in real GDP .
Effect	Brings qualitative and quantitative changes in the economy	Brings quantitative changes in the economy
Relevance	Economic development is more relevant to measure progress and quality of life in developing nations.	Economic growth is a more relevant metric for progress in developed countries. But it's widely used in all countries because growth is a necessary condition for development.
Scope	Concerned with structural changes in the economy	Growth is concerned with increase in the

Economic Development versus Economic Growth comparison chart

Economic Development

Economic Growth

economy's output

John

23rd May, 2017.