Reading Exam Text

1.5
Development and economic growth

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The economic and social development of the world's poorest countries is perhaps the greatest challenge facing society at the present time. Over one billion of the world's seven billion population live in absolute poverty; the same number suffer various degrees of malnutrition, and millions have no access to safe water, healthcare or education. This poverty is concentrated largely in countries described as 'developing', and coexists with the affluence enjoyed by the vast majority of people in countries described as 'developed'.

The standard of living of people is commonly measured by the total amount of goods and services produced per head of the population, or what is called gross domestic product (GDP) per capita (or gross national product (GNP) per capita if net income from abroad is added). This, in turn, is determined by the number of people who work, and their productivity. The basic proximate cause of the poverty of nations is the low productivity of labour associated with low levels of physical and human capital (education) accumulation, and low levels of technology.

Income per head in a country is naturally measured in units of its own currency, but if international comparisons of living standards are to be made, each country's per capita income has to be converted into a common unit of account at some rate of exchange. The convention is to take the US dollar as the unit of account and convert each country's per capita income into dollars at the official exchange rate. A country's official exchange rate, however, is not necessarily a good measure of the relative purchasing power of currencies, because it only reflects the relative prices of goods that enter into international trade. But many goods that people buy are not traded, and the relative price of these non-traded goods tends to be lower the poorer the country is, reflecting much lower relative labour costs. An exchange rate is required which reflects the purchasing power parity (PPP) of countries' currencies, and this is now provided by various international organizations, such as the World Bank, which uses US$1.25 per day measured at PPP to define the level of absolute poverty.

The economic growth of countries refers to the increase in output of goods and services that a country produces over an accounting period, normally 1 year. If a country is said to be growing at 5 per cent per annum, it means that the total volume of its domestic output (GDP) is increasing at this rate. If population is growing at 2 per cent per annum, this means that output per head (or the average standard of living) is growing at 3 per cent per annum.

Economic growth, however, is not the same as economic development. The process of economic (and social) development must imply a growth in living standards, but it is a much wider concept than the growth of per capita income alone. Growth, it might be said, is a necessary condition for the economic and social development of nations, but it is not a sufficient condition because an aggregate measure of growth or per capita income pays no attention to how that output is distributed amongst the population; it says nothing about the composition of output (whether the goods are consumption goods, investment goods or public goods such as education and health provision), and it gives no indication of the physical, social and economic environment in which the output is produced. In short, the growth rates of nations cannot be taken as measures of the increase in the welfare of societies because the well-being of people is a much more inclusive concept than the level of income alone.

If the process of economic and social development is defined in terms of an increase in society's welfare, a concept of development is required which embraces not only economic variables and objectives, but also social objectives and values for which societies strive. Many economists and other social scientists have attempted to address this issue, and here we mention the ideas of two prominent thinkers in the field: Denis Goulet and Amartya Sen (who in 1998 won the Nobel Prize for Economics for his work on the interface between welfare and development economics).

Goulet (1971) distinguishes three basic components or core values that he argues must be included in any true meaning of development which he calls life sustenance, self-esteem and freedom. Life sustenance is concerned with the provision of basic needs. No country can be regarded as fully developed if it cannot provide all its people with such basic needs as housing, clothing, food and minimal education. A country may have a relatively high average standard of living and an impressive growth performance over several years, but still have a poor provision of basic needs, leaving large sections of the population in an underdeveloped state. This issue is closely related to the distribution of income in societies measured by the share of total income going to the richest and poorest sections of society. The distribution of income is much more unequal in poorer developing countries than in richer developed countries, and it is perfectly possible for a poor country to be growing fast, yet its distribution of income to be worsening because the fruits of growth accrue to the rich. Such a country would have grown, but it would not have developed if the provision of basic needs for the poorest groups in the community had not improved.

Self-esteem is concerned with the feeling of self-respect and independence. A country cannot be regarded as fully developed if it is exploited by others, or cannot conduct economic relations on equal terms. In this sense, the colonization of large parts of Africa, Asia and South America kept the countries in these regions of the world in an underdeveloped state. Colonialism has now virtually ended, but some would argue that there are modern equivalents of colonialism, equally insidious and anti-developmental. For example, the International Monetary Fund (IMF) and World Bank dominate economic policy-making in many developing countries, and many of the policies that the countries are forced to pursue are detrimental to development. Also, multinational corporations that operate in many developing countries often introduce consumption patterns and techniques of production which are inappropriate to the stage of development of the countries concerned, and to that extent impair welfare. In international trade, poor and rich countries do not operate on a level playing field, and the strong may gain at the expense of the weak. The distribution of the gains from trade are not equitably distributed, not least because the terms of trade of primary producing developing countries (i.e. the price of their exports relative to the price of imports) tends to deteriorate through time (at an average rate of about 0.5 per cent per annum for at least the last century).

Freedom refers to the ability of people to determine their own destiny. No person is free if they are imprisoned on the margin of subsistence with no education and no skills. The great benefit of material development is that it expands the range of choice open to individuals and to societies at large. For the economic and social development of a country, however, all must participate and benefit from the process of growth, not just the richest few. If the majority are left untouched, their choices remain limited; and no person is free if they cannot choose.

Sen (1983, 1999) argues in a similar vein to Goulet that economic growth should not be viewed as an end in itself, but as the means to the achievement of a much wider set of objectives by which economic and social development should be measured. Development should focus on, and be judged by, the expansion of people's 'entitlements', and the 'capabilities' that these entitlements generate, and income is not always a good measure of entitlements. Sen defines entitlements as ‘the set of alternative commodity bundles that a person can command in a society using the totality of rights and opportunities that he or she faces’. For most people, the crucial determinants of their entitlements depend on their ability to sell their labour and on the price of commodities. Employment opportunity, and the level of unemployment, must therefore be included in any meaningful definition of development. Entitlements also depend on such factors as what individuals can extract from the state (in the form of welfare provision); the spatial distribution of resources and opportunities, and power relations in society. Sen (1984) has analysed major world famines using the concept of entitlements and finds that several famines have not been associated with a shortage of food, but rather with a lack of entitlements because the food supply has been withdrawn from certain parts of the country or sections of society, or food prices have risen.

The thinking of Goulet, Sen and others has led to the construction of alternative measures of economic and social development to supplement statistics on growth rates and levels of per capita income of countries. The most notable of these measures are the Human Development Index (HDI) and the Human Poverty Index (HPI) compiled by the United Nations Development Programme (UNDP) and published in its annual *Human Development Report*. These alternative indices of the economic well-being of nations do not always correlate well with per capita income. The same growth rate and per capita income of countries can be associated with very different levels of achievement in other spheres such as life expectancy, death rates, literacy and education. As the UNDP says in its 1997 *Report*: ‘although GNP growth is absolutely necessary to meet all essential human objectives, countries differ in the way that they translate growth into human development’.

The UNDP’s Human Development Index is based on three variables: life expectancy at birth; educational attainment, measured as the geometric mean of the average and expected years of schooling; and the standard of living measured by real per capita income measured at PPP (see earlier). These variables are combined in a composite index that ranges from 0 to 1 (see Thirlwall, 2011, for details). Comparing the ranking of developing countries by their HDI and per capita income show some interesting divergences. Many oil-producing countries, for example, have much lower HDI rankings than their per capita income rank, while some poor countries rank relatively high by their HDI because they have deliberately devoted scarce resources to human development. Countries such as Cuba, Venezuela, Jamaica and some former states of the Soviet Union fall into this category.

The UNDP's multidimensional Human Poverty Index is based on indices of education; nutrition; child mortality; and access to safe water, sanitation and electricity. The ranking of countries by their HPI also shows some striking contrasts with their ranking by per capita income. The UNDP has calculated that the cost of eradicating poverty across the world is relatively small compared to global income – not more than 0.3 per cent of world GDP – and that political commitment, not financial resources, is the real obstacle to poverty eradication.

To conclude, economic growth is not the same as economic development. The annual growth rate of a country is a very precise measure of the growth of the total volume of goods and services produced in a country during a year but says nothing about its composition or distribution. Growth is a necessary condition for real income per head to rise, but it is not a sufficient condition for economic development to take place because development is a multi dimensional concept which embraces multifarious economic and social objectives concerned with the distribution of income, the provision of basic needs, and the real and psychological well-being of people. Many poor countries in the last 30 years have experienced quite a respectable rate of growth in living standards – averaging 2–3 per cent per annum – but the absolute number in poverty has continued to rise, and the distribution of income has become more unequal. Equally, at the global level, there is little evidence of the convergence of per capita incomes across nations. The poor countries have been growing, but the rich countries have been growing as fast, if not faster, in per capita terms. While the eradication of poverty, and the narrowing of the rich–poor country divide, remains one of the great challenges of the new millennium, economic growth in poor countries is not enough by itself for economic and social development to take place when viewed in a broader perspective.

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