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E-Mail- mrinalinishahi@gmail.com**M.A Economics(Sem-2)****Paper - CC-06****Economics of Growth & Development.(Module-I)**

Economic Growth, Economic Development, Economic Progress and Economic Welfare:-

In a general way, the terms economic development, economic growth, economic progress, economic welfare are considered to be synonymous and all are interchangeable. It is difficult to make any distinction in these terms but many economists have attempted to draw a line of demarcation.

❖ Economic Development and Economic Growth:-

- Development is a discontinuous and spontaneous change in the stationary state which forever alters and displaces the equilibrium stage previously existing, while growth is a gradual and steady change in the long run, which comes about by a general increase in the rate of savings and population.
- Economic development deals with the problem of underdeveloped countries whereas economic growth deals with the problem of developed countries. "In underdeveloped countries, the problems are that of initiating and accelerating development."
- The raising of income levels is generally called economic growth in rich countries and in poor ones, it is called economic development.
- Economics growth means more output and economic development implies both more output and changes in the technical and institutional arrangements, by which it is produced.
- Thus growth involves focussing on height or weight, while development draws attention to the change in functional capacity.

❖ **Economic growth and economic progress:-**

Economic growth implies to an increase in total national income while the economic progress implies to an increase in per capita income. Thus economic growth leads to raise the level of national output and economic progress means an improvement in the standard of living of the people. But, higher standard of living is only possible if the increase in national income is not accompanied by the same increase in population. Economic growth is used in macro sense and economic progress is used in micro sense.

❖ **Economic progress and economic welfare:-**

“Economic progress can be defined as an improvement in economic welfare.” Thus economic progress refers to the rise in the real per capita income whereas “Economic welfare is the abundance of all those goods and services which are exchanged for money.”

Economic welfare refers to the distributive aspect of the per capita real income; it means that there should be equal distribution of income between rich and poor in the society. Sometimes economic welfare can also be explained in terms of purchasing power of the money income. Thus, economic welfare is said to be promoted when the purchasing power of money increases.

❖ **Measurement of economic development:-**

There are several criteria to measure the economic development, yet none provides a satisfactory and universally accepted index of economic development. Hence, it is a complex problem to answer about the measuring of economic development.

Most commonly used criteria of economic development are increase in national income and per capita real income. There are discussed below:-

(1). National income as an index of development :-

➤ Prof. Simon Kuznets Meier and Baldwin favoured this method as a basis for measuring economic development.

✚ Arguments in favour of national income as an index of development.

(I) A larger real national income is normally a prerequisite for an increase in real per capita income and hence a rising national income can be taken as economic development.

- (II) If per capita income is used for measuring economic development the population problem may be concealed, since population has already been divided out. According to Prof. Simon Kuznets, "The choice of per capita, per unit or any similar single measure to gauge the rate of economic growth carried with it danger of neglecting the denominator of the ratio."
- (III) If an increase in per capita income is taken as the measure of economic development, we are in an awkward situation of saying that a country has not developed if its real national income has increased but its population has also increased at the same rate.

+ Arguments against National Income:-

- (I) It cannot definitely be said that economic welfare has increased if the national and even the per capita income may be rising unless the distribution of income is equitable.
- (II) Expansion of national and per capita income cannot be identified with enrichment because the composition of the total output is also important. For example, an expansion of total output could be accompanied by a depletion of natural resources.
- (III) It must not only be considered what is produced but also how it is produced. It is possible that when real national output grows, the real costs of the society may also grow.
- (IV) It is difficult to determine proper deflators to eliminate the effects of price changes in underdeveloped countries.
- (V) It is also complicated when average income is rising but unemployment exists due to the rapid growth of population.

(2). Per capita real income:-

Some economists believe that economic growth is meaningless if it does not improve the standard of living of the common masses. Thus, the meaning of economic development is to increase aggregate output therefore, economic development can be defined as a process by which the real per capita income increases over a long period time. Harvey Leibenstein, Rostow baran, buchanan and many others favour the use of per capita income.

+ Arguments in favour of per capita income:

- (I) The basis object of development lies in the realisation of higher levels of consumption for the poor and a rising per capita income if

development does not result in raising the living standards of the people it cannot be called true indicator of the economic development.

- (II) The main point of difference between underdeveloped and developed countries is the difference in their capacity to produce per capita income. So, economic development should necessarily imply an enhancement of economy's capacity to produce goods and services per head of its population.
- (III) Rising per capita income can be a better index of an increase in the welfare of the people. The main trend in developed countries has been that their aggregate income has increased at a much faster rate than their population growth. Hence, per capita real income in such a case has been constantly increasing and has resulted in the enhancement of welfare of their people.

✚ Arguments against per capita income.

- (I) Even the carefully calculated income estimates per capita drawn from the best available data neglect certain aspects of economic development which may be important. Economic growth is a multi-dimensional phenomenon which involves not only an increase in money income but also improvement in social activities like education, public health, greater leisure etc. These improvements cannot be measured by changes in per capita income.
- (II) Per capita income estimates do not tell us anything about the distribution of wealth in society. It is possible that the per capita income may be rising and still the people may be poor due to excessive concentration of wealth in few pockets. Thus, true economic development not only involves a rising per capita income but also a proper distribution of income among people.
- (III) The data of per capita national income are often inaccurate, misleading and unreliable because of imperfection in national income statistics and its methods of computation. Despite the above stated drawbacks, per capita income is largely accepted as a suitable and reasonable index of economic development.

✚ The UNO experts in their report on "Measures of economic development of underdeveloped countries" have also accepted this measurement of development.

- ✦ P. kindleberger also suggested the same method with proper precautions in computing the national income data.

❖ **Conclusion:-**

Economic development of a country is mainly concerned with the achievement of better nourishment, better education, better living conditions and an expanded range of opportunities in work and leisure for the poor people of the ultimate objective of economic development, and then a rise in per capita real income is surely a relevant and necessary means for their attainment.

In fact, great controversy is found regarding choice of two methods- national income criteria and per capita income criteria, having their own advantages and disadvantages. Summarising the discussion we can say that 'Per capita real income' can be regarded as the best available suitable criteria for developing countries while 'National income index' is well suited to advanced countries of the world.