

Concept of Economic Development and Economic Growth

Concept of Economic Development

In general, economic development can be defined as the continuous and multidimensional process by which a country attains progress and prosperity regularly. The credit of introducing the concept of economic development goes to classical economist Adam Smith. Smith and followers advocated that economic development is the continuous increase in the gross national income/product of a nation. Thus, economic development has been a concern of economists right from Adam Smith and it received greater attention after the Second World War.

The concept and meaning of economic development have been changing with the passes of time and accordingly, different criteria have been used to define it. Thus, we can see it as the traditional and modern concept of economic development.

Traditional View

The traditional view of economic development has defined economic development as the increase in the value of Gross National Income Per capita or Per Capita Income over a long period along with the structural change in the economy. This view of economic development emerged during the 1950s and 60s. This concept focused on structural changes to increase per capita GNI. Structural changes refer to changes in technological and institutional factors that cause a shift of the labor force from agriculture to modern industrial or manufacturing and service sectors. Thus, economic development was viewed in a monetary aspect under the traditional approach. According to this view, during economic development the share or contribution of the agriculture sector to GDP declines, and that of industrial sectors increases.

Modern View

The modern view of economic development has come into effect from the 1970s. During the 1950s and 60s, many countries increased their real GNI per capita but the living standard of most of the population was still poor. They faced real-life problems like inequality, unemployment, etc. Therefore, in the 1970s the concept and concern of economic development were changed. Economists redefined it in terms of reduction or elimination of poverty, inequality, increase in employment opportunities, enhancement of good quality of life along growing real GNI per capita. So, according to the modern view economic development is an increase in per capita income along with low poverty, reduced unemployment, reduced inequality, increased life expectancy, a better quality of life, better social facilities, meaningful representation, reduced infant mortality rate, etc.

Therefore, economic development is a multi-dimensional process of positive change. It includes a reduction in poverty, inequality and poverty and aspects of meaningful life like better education, health facilities, nutritious foods, a cleaner environment, pure drinking water, equal opportunities for all, or inclusion of people of different communities in each stream of the social-political-economic arena.

Concept of Economic Growth

Economic growth is a quantitative term and defined as the increase in aggregate output of goods and services in a country during a given time. Simon Kuznets defined economic growth as, "A country's economic growth may be defined as a long-term rise in capacity to supply increasingly diverse economic goods to its population, this growing capacity based on advancing technology and the institutional and ideological adjustment that is demand". It means economic growth is a long-term expansion of the productive capacity of an economy that leads to higher real living standards and rising employment. High economic growth depends on the quality and quantity of inputs of production,

availability of transport and communication capital, technological improvements, provision of primary health and education, the establishment of key industries, the prevalence of political stability, and so on. Economic growth is a necessary condition of economic development.

Economic growth is generally measured by the percentage rate of increase in the real gross domestic product (growth in real GDP) or real gross national product and growth is generally measured in the real term (inflation-adjusted terms). When the rate of increase in per capita income or national income is greater than the population growth rate, it is said that economic growth occurs.

Differences Between Economic Growth and Economic Development

The term economic development is different than economic growth. Economic growth is chiefly associated with the rate of change in NI or GDP. But economic development is associated with quantitative as well as qualitative changes in various aspects of human life. Economic growth is necessary for economic development includes more indicators of economic development. Economic growth is essential for economic development, but economic development includes more indicators of human life.

The major differences between economic growth and economic development are shown in the following table.

Basis	Economic Growth	Economic Development
Scope	Economic growth is based on narrow scope. It is concerned with the increase in real output in a particular sector.	It is based on the broader scope. It is concerned with the quantitative and qualitative increase in all the sectors.
Effect	Its effect can be tested quickly and easily	Its effect can be tested after long observation of a subject
Objective	It aims to accelerate the positive pace of the concerned subject	It aims to establish the equitable distribution of income, wealth, employment, and reduction in poverty.
Measurement	It is measured in the exact unit or quantity as it includes economic variables like real GDP or GNP, Capital Output Ratio, Balance of Trade, Balance of Payment, etc.	It is almost impossible to measure in quantity as it includes not only quantity but also qualitative issues like political, cultural, historical, social issues.
Indicators	The indicators of economic growth are National Income and Per Capita Income	The indicators of it are physical quality of life (PQLI), human development index (HDI), per capita income, etc.
Requirement for development	It is a necessary condition of economic development	It is a sufficient condition for development.