THE DIFFERENCES BETWEEN "ECONOMIC GROWTH" AND "ECONOMIC DEVELOPMENT"

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WHY ARE WE INTERESTED IN THE DIFFERENCE?

- We need to understand the processes of each better; it is useful information.
- We need to know in order to advise governments on policies and what they can do to improve their performance.
- Many questions concerning third world countries impact on growth or development; they may be either a help or a hindrance.
- Some issues are created by growth but not by development, for example pollution.
- Focussing solely on economic growth as desirable can lead to undesirable consequences.

ECONOMIC GROWTH

What is growth?

This is reasonably unambiguous; it is the change in national income over time, usually measured over one year. National income is the amount produced by a country in one year.

How can we measure growth?

We measure it by the percentage change in the level of national income, often over the period of one year.

There are three ways of adding it up:

- production, or
- incomes, or
- expenditure

GDP = gross domestic product (produced within a country).

GNP = gross national product (includes income coming into or going out of country).

NNP = net national produce (an allowance is made for depreciation of capital).

National income per capita often matters most if looking at how well off a country is; how well it is doing; or if comparing it with another country.

Some problems in measuring national income (NI) and Growth

- Statistics are unreliable; they are often late arriving; and they are sometimes not strictly comparable across national boundaries because of different definitions and standards.

- There can be much excluded data:
  - ❑ Non-income earning producers, e.g. housewives/husbands, family members, and production within the household.
  - ❑ The "Black Economy" is excluded – in Italy it may be as high as 30 per cent of national income!
  - ❑ Environmental damage is excluded.
  - ❑ Leisure is excluded.
  - ❑ Welfare or happiness is excluded.
  - ❑ Voluntary workers are excluded.
  - ❑ Those who swap services (e.g., Baby Sitting Clubs) or maybe barter goods.

- Income•distribution•is•ignored:
  - ❑ 5 people might have £10 million a year, the rest might have only £1000 a year each - but the *average* income of £100,000 looks pretty good.

- Cross•country•comparisons•involve•special•difficulties:
  - ❑ Data reliability varies.
  - ❑ It is hard to get the same years for comparisons: the latest data on Japan maybe 2007 but on Saudi maybe 2004. Should we compare the same year for all, or use the latest there is for each?
  - ❑ Not all goods and services may be available in all countries.
  - ❑ Life is simply better in France for most people than in an oil rich middle east desert of similar national income and growth rates.
  - ❑ We have to use foreign exchange rates to get to one currency (usually US$) so we can compare. This has problems: some countries overvalue their currency deliberately as they feel that "strong" is the same as "good"! This means that exports are too expensive to sell well and imports are too cheap, so they get a balance of trade deficit. For example, if the exchange rate should be (market rate) US$1=10 Zel but the country sets it at 1 Zel, then when the country

produces an item for 10 Zel, it has to try to export it for $10 rather than the $1 it should be! Exports are then very difficult to make.

Advantage of using the growth measure (NI)

- It•is•simple,•clear,•and•easy•to•get•for•most•countries.•This•is•perhaps•the•best•thing about it.
- We can adjust it for differences in purchasing power parity – for example, in Chengdu, China, £5 buys a lot more than it would in Hull, Yorkshire.

Disadvantage of using the growth measure

It•is•a•crude•measure•with•all•the•problems•above•mentioned.

ECONOMIC DEVELOPMENT

What is it?

The exact meaning of “development” is unclear – there is no general agreement about what it is or what should go in. It tries to see “how well off” people are in ways that include more than just income. There is a feeling of *wider change and improvement* about it, as well as “better off”. It is not just “more of the same” which is what “growth” measures.

How do we measure “development”?

- This•is•tricky!•As•we•cannot•agree•on•what•it•means•therefore•we•are•unable•to•agree on what should be measured and how.
- A person’s values are important here; for instance, what is felt to be important to that person might well be included; so that different religious or political views can affect what might go in.
- Also fashion can be a factor – e.g., in some periods and countries, freedom may be valued more.
- Tastes vary too, for instance hot baths matter a lot in Japan but not much in Australia.

Some things we can include when we measure "development"

- Number per thousand or ten thousand of the population, of things like doctors, nurses, hospital beds, telephones, newspapers, TV sets, or radios. The higher the figure the "more developed" the country registers. This is simple and crude, but revealing.

- The Human Development Index (HDI)of the United Nations Development Program (UNDP), invented in1990, and refined in 1994. The UNDP sees "human development" to mean that people are long lived, well educated, and enjoy a high standard of living.

So in their measure they include three items:

- Life expectancy.

- Adult•literacy•(at•2/3•weight•of•education)•and•average•years•of•schooling•(1/3 weight).

- GDP•per•capita,•adjusted•by•purchasing•power•parity•(PPP)•which•means•what•the money buys in that country.

Each country receives a score of between 0 and 1:

- ❑ 0 = worst (taken from statistical records going back 30 years; the UNDP took the worst recorded by any country.

- ❑ 1 = best (best recorded over the same 30 years).

Within this range of 0-1, the UNDP defined:

- ❑ <0.5 is a "low level" of Human Development.

- ❑ 0.5 - 0.8 is "medium level".

- ❑ >0.8 is "high level".

Yet this measure misses out things like freedom, human rights, unemployment, and access to clean water.

- The "Misery Index" is used in the USA sometimes. In that country, someone decided that being unemployed is bad and inflation is bad. So they added the percentage unemployed to the rate of inflation in per cent to get "The Misery Index".

  - ❑ It is simple, clear, and easy to work out.

  - ❑ It rather measures the political significance of the state of the economy.

  - ❑ It can be done for the UK and other countries but few seem to take it seriously outside the USA.

Although the "Misery Index" has now become the name of a rock group!

- The "Genuine Progress Indicator" (GPI) invented in 1995.

  This uses the rate of growth of the economy in the national income accounts as its base and adjusts it.

  It can be done, and has been, for cities, and some States in the USA, as well as for countries.

  <u>It adds in:</u>

  - ❑ An estimate of non-monetary reward jobs, like housewives, charity worker and volunteers.

  <u>It takes out:</u>

  - ❑ An estimate of the natural resources depleted or used up in the year
  - ❑ The costs of cleaning up the environment and combating crime (because we are trying to correct a bad thing and get back to where we should already be. Spending money in this way does not add to welfare in any real sense.)

  It found that in the USA 1975-95 economic growth was rapid but measuring progress by the GPI, the USA actually went backwards although not by much. Those people who look back in nostalgia to "the good old days" may actually have something!

  It reminds us that things like less leisure time, higher debts, more pollution and a degraded environment generally do matter and focussing simply on economic growth rates can be most misleading if we are interested in progress..

Problems of using the "economic development" measures.

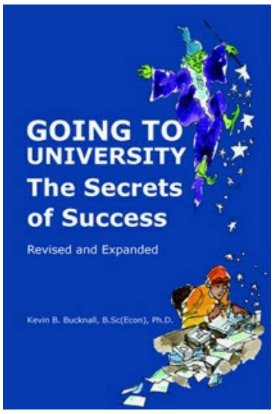
- There is no general agreement on what should be in.
- As a result there is not one measure.
- There•is•still•a•lot•missing.•Change•is•an•important•part•of•"development"•and•is•felt•to be desirable. But change itself upsets a lot of people and threatens old values and religious beliefs, and creates tensions in society. Is this a good thing?

Advantages of using the "economic development" measures.

- It is a broader measure than the simple "growth" ones.
- We get more information with the development measures than a simple reliance on economic growth.
- The HDI is slowly becoming something of a standard.

The author's *China and the Open Door Policy*, originally published in paperback in 1989 was republished as an E-book by Boson Books, North Carolina, in 2012, ISBN: 9780917990724. It is priced around $7.99.

T he author's latest book is *Going to University: the Secrets of Success*, 2nd Revised and Expanded Edition, Kewei Press, UK, 2009. The recommended retail price is £9.95. An excerpt can be downloaded from www.keweipress.com A Kindle version is now available, priced about £3.09 (inc. VAT), or in United States dollars around $4.79. Details and links on the site below.



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