Economic Growth Vs. Economic Development: Approaches To Defining The Notions

Economic Growth is traditionally concerned with the efficient allocation and optimal growth of resources and a cost-benefit analysis to produce a range of goods and services. In strictly economic terms, it has conventionally meant achieving sustained growth rates of per capita income to enable a nation to expand its output at a rate faster than the growth rate of its population. (Todaro & Smith, 2015)

Development, however, covers a diverse range of issues. It deals with social, economic, political, cultural and institutional changes and the challenges these present on a local and global level. The focus is on how cycles of poverty and inequality get perpetuated and strategies to break these. Development and economic growth are interrelated and were at one point in time synonymous but today development is much more than just growth. It is multidimensional, contested and contextual and can be seen as existing independent of economic growth. For example the Human Happiness Index.

After WWII, development, a relatively new field, witnessed a series of transformations. The discourse since this time has been dominated by four major strands of thought: the linear-stages-of-growth model, theories and patterns of structural change, the dependency school, and the neoliberal or new political economy school of thought.

Development was seen as a process of capitalist expansion after the war. While the developed world experienced unprecedented growth, several developing nations reached their economic growth targets nonetheless the standard of living remained more or less unchanged. Economists at that time believed that the benefits of rapid growth would eventually trickle down to the developing countries from the developed regions. The underdeveloped countries could learn from and imbibe the models of the developed world and achieve rapid growth as well. This was the basis of modernization theory in the 1950-60s. Development was seen as a series of stages through which every country would pass. However, this uni-linear model didn’t take into account the different paths countries took towards development.

During this time rapid economic growth was synonymous with development. Rostow’s Stages of Economic Growth proposed that the path to development and modernity involved the movement of a nation through a series of stages from a traditional society, to take off and finally a mass-consumption society. A counter to this book, A Non-Communist Manifesto emphasized the role of investments and domestic savings in achieving the take-off stage.

Since the cycles of poverty were self-reinforcing so was underdevelopment. The solution was to increase investment and savings to increase economic growth. Lack of investment in bettering infrastructure such as roads, hospitals, schools etc. leads to economies functioning below efficiency levels.

The Harrod–Domar growth model, stated that growth too could be self-sustaining. Higher incomes would lead to more savings which in turn would lead to higher investment and economic growth. For this model, the initial amount of funds required could come from

developed nations. However foreign aid was often used as a means to gain support for certain ideologies, especially during the Cold War.

The 1960s and 70s put the onus of development on the state, while the focus was still on economic growth as development. A major role of the political system, in the early stages, was to create the organizational mechanisms and the political will to achieve these sustained increases in savings and productive investment. (Kingsbury & McKay, 2008)

By the 1970s the modernization theory began to lose its hold, as the theory didn't match the actual realities of the underdeveloped world. Economic disparities were not narrowing down, rather the world was splitting into the powerful core and the impoverished periphery. During this time two competing schools of thought emerged. The first dealt with the structural changes in the economy that a 'typical' developing nation must pass through in its attempt to achieve rapid economic growth. This involved an emphasis on the shift from agriculture to manufacturing and industrialization and later to the service sector.

The second came to be known as the dependency school. The central idea was that rather than a trickle-down effect, global trade and trading rules favored the west which manipulated the periphery leading to an imbalance. Since most poor countries were underdeveloped when they entered the global system they were used as a source of cheap labour and raw materials making sustained economic growth difficult to achieve. Developed countries had the power to control the markets and set prices favorable to their products. Emphasis was placed on the need for poverty alleviation and reducing inequalities while economic growth was no longer the sole measure of development.

The 1980s and 1990s saw the emergence of a new approach. This Neoliberal or New Political Economy brought the emphasis back to economic growth, free markets, and the privatization of inefficient public enterprises. Market failure was seen as a result of excessive government intervention and corruption.

This eventually gave way to globalization becoming the dominant phenomenon. It not only featured economic activity and trade across national borders but also greater integration and policy reforms for interdependence amongst nations. This ideology has been heavily criticized for serving the needs of the rich and developed and was seen as an attempt to perpetuate the hegemony of the west and destroy the individuality and uniqueness of nations.

Today's eclectic approach draws on all of these perspectives as development is a continuous process and the debates surrounding it are constantly evolving. As other dimensions are added economic growth has lost its status as the only measure of development. Today development is measured by a gamut of indicators such as the HDI, literacy, gender equality, happiness etc. Development aims to escape this trap of purely material wellbeing and reflect the real needs and goals of the people. The benefits of economic growth in financing development goals cannot be denied but the focus should be on doing away with inequalities be it based on class, caste, gender, race, religion etc. and achieving sustainable development and poverty alleviation. Therefore economic growth is generally a necessary but not sufficient indicator of development.