

CHAPTER-04

ECONOMIC GROWTH AND DEVELOPMENT

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4.1 INTRODUCTION

Economics involves making wise decisions when resources are limited. The primary measure for evaluating successful resource allocation is economic growth. Individuals track their earnings and asset values, while companies oversee profitability and market share. Countries analyze various data, such as national income and productivity, to assess economic growth. Some economists argue that a comprehensive evaluation of a nation's economy should consider distribution, equity, and per-capita income, alongside growth and productivity. Additionally, they emphasize addressing societal needs like environmental justice and cultural preservation to sustain economic growth and promote overall human development. This includes creating more opportunities in education, healthcare, employment, and environmental conservation. Economic growth is not just about increasing output quantitatively; it also involves qualitative changes in social attitudes and practices, in addition to the quantitative growth of output or national wealth.

4.1.1 ECONOMIC GROWTH

The term economic growth is defined as the process whereby the country's real national and per capita income increases over a long period of time. This definition of economic growth consists of the following features of economic growth:

- Economic Growth implies a process of increase in National Income and Per-Capita Income. The increase in Per-Capita income is the better measure of Economic Growth since it reflects increase in the improvement of living standards of masses.
- Economic Growth is measured by increase in real National Income and not just the increase in money income or the nominal national income. In other words the increase should be in terms

of increase of output of goods and services, and not due to a mere increase in the market prices of existing goods.

- Increase in Real Income should be Over a Long Period: The increase of real national income and per-capita income should be sustained over a long period of time. The short-run seasonal or temporary increases in income should not be confused with economic growth.
- Increase in income should be based on Increase in Productive Capacity: Increase in Income can be sustained only when this increase results from some durable increase in productive capacity of the economy like modernization or use of new technology in production, strengthening of infrastructure like transport network, improved electricity generation etc.

4.1.2 ECONOMIC DEVELOPMENT

Economic development is described as a consistent increase in society's material well-being. Economic growth is just one aspect of economic development. In addition to national income growth, it also entails social, cultural, political, and economic developments that advance the material world. It includes adjustments to the availability of resources, the pace of capital formation, population size and composition, technology, skill, and efficiency levels, as well as institutional and organisational structures. The broader goals of guaranteeing more fair income distribution, increased employment, and poverty alleviation are all achieved by these improvements. In summary, economic development is a long chain of interconnected changes in fundamental supply variables and demand structure that leads to an increase in a country's net national product in the long term.

4.1.3 COMPARISON OF ECONOMIC GROWTH VS. ECONOMIC DEVELOPMENT

Parameter	Economic Growth	Economic Development
Concept	It is the positive change in the indicators of economy.	It is the quantitative and qualitative change in an economy.
Factors	Growth relates to a gradual increase in one of the components of Gross Domestic Product: consumption, government spending, investment, net Exports.	Development relates to growth of human capital, decrease in inequality figures, and structural changes that improve the quality of life of the population.
Impact	It refers to the increment in amount of goods and services produced by an economy.	It refers to the reduction and elimination of poverty, unemployment and inequality with the context of growing economy.
Focus	This focuses on production of goods and services.	This focuses on distribution of resources.
Measurement	Economic Growth is measured by quantitative factors such as increase in	The qualitative measures such as HDI (Human Development Index), gender-

	real GDP or per capita income.	related index, Human poverty index (HPI), infant mortality, literacy rate etc. are used to measure economic development.
Relevance	It reflects the growth of national or per capita income	It reflects progress in the quality of life in a country.
Time Frame	It is for short term/short period. It is measured in certain time frame/period.	It is a continuous and long-term process. Economic development does not have specific time period to measure.
Interaction	Economic growth is an automatic process that may or may not require intervention from the government	Economic development requires intervention from the government as all the developmental policies are formed by the government
Expectations	It is not concerned with happiness of public life	It is concerned with happiness of public life.
Application	Economic growth is more relevant metric for assessing progress in developed countries.	More relevant to measure progress and quality of life in developing countries.

4.2 FACTORS AFFECTING ECONOMIC GROWTH

Economic growth is a highly complicated phenomenon that is influenced by numerous and diverse aspects such as political, social, and cultural factors. As a result, economic analysis can only provide a partial explanation of this process. "Economic development has much to do with human endowments, social attitudes, political situations, and historical accidents," Prof. Ragnar Nurkse has said in this regard. Capital is a necessary but not sufficient condition for progress". The availability of natural resources, as well as the advancement of scientific and technological knowledge, all have a significant impact on the process of economic growth. We'll go over some of these characteristics briefly one by one.

4.2.1 ECONOMIC FACTORS

The following are the important factors which determine the economic growth of an economy.

NATURAL RESOURCES

Natural resources are the main factor influencing how an economy develops. Natural resources include things like land area and soil quality, abundant forests, a healthy river system, mineral and oil resources, a pleasant and arid environment, etc. The quantity of natural resources is crucial for economic progress. A nation with insufficient natural resources might not be able to grow quickly. In actuality, natural resources are a necessary but insufficient requirement for economic progress. India

and Japan are the two diametrically opposed instances. Lewis noted that, "other things being equal," man may utilise rich resources more effectively than poor ones. Natural resources are misused, underutilised, or wasted in less developed nations. This is one of the causes of their lag in development. Natural resource development is unlikely if people have little interest in the goods or services that these resources can produce. This is brought on by a lack of technological advancement and economic sluggishness. According to Professor Lewis, "A country which is regarded to be low in resources may be considered very rich in resources some later period, not just because unknown resources are discovered, but equally because new methods are created using the known resources". Japan is one of those nations with a lack of natural resources, but it is nonetheless one of the world's most developed nations because it has found innovative ways to utilise its scarce resources.

CAPITAL FORMATION

Among several economic factors, capital formation is another important factor for development of an economy. Capital may be defined as the stock of physical reproducible factors of production. Capital accumulation and capital formation, both of these terms carry the same meaning which may be understood simply by the stock of capital. As we know, capital formation is cumulative and self-feeding and includes three interrelated stages a) the existence of real savings and rise in them; b) the existence of credit and financial institutions to mobilise savings and to divert them in desired channels; and c) to use these savings for investment in capital goods. Low propensity to save in underdeveloped countries is due to low per capita income of the people, which may not be raised merely by voluntary savings. Hence, the rate of per capita savings can be increased by emphasizing forced savings which will reduce consumption and thereby release savings for capital formation. Forced savings can be possible through the implementation of a proper fiscal policy. In this regard, taxation, deficit financing and public borrowing is better instruments in the hands of the State to collect savings and accumulate capital. Nurkse's suggestion to use unemployed or underemployed rural youths in construction works has importance for capital formation in backward economies.

In addition to it, the external resources like foreign loans and grants, and larger exports can also help these economies in capital formation. The capital formation possesses special significance, as it is key to economic growth, particularly in backward economies. It increases sectoral productivity in the economy on the one hand and enhances ultimately national output by raising effective demand, on the other. According to Kuznets' estimates, during modern economic growth the gross capital formation and net capital formation was gradually between 11.13 to 20% and 6 to 12.14% in developed countries. According to Lewis, the rate in underdeveloped countries was 5% or less which should be raised to the level of 12 to 15%.

TECHNOLOGICAL PROGRESS

The process of economic growth is most significantly impacted by technological advancements. The founder of political economy, Adam Smith, emphasised the critical role that technical advancement plays in economic growth. Ricardo envisioned the growth of capitalist economies as a competition

between technological advancement and population expansion. Karl Marx also recognised the critical role that technological advancement has played in the growth of capitalism. There is no denying that the development of technology has a significant role in determining the rate of economic growth. In reality, without technological advancement, even capital accumulation is impossible. A nation might be expanding its industry, electricity sources and methods of communication and transportation. Modern engineering terms refer to it as capital widening. The utilisation of more effective production methods and advancements in technology result in a large rise in per capita income.

The development of new, more effective production techniques or the refinement of existing ones is a component of technological progress. Natural resources may occasionally become available as a result of technological advancement. Yet, technical advancement typically leads to an increase in production, as with the green revolution. In other words, as technology advances, we are better able to exploit natural resources and other resources to boost production in a more efficient and fruitful way. By the use of improved technology it is possible to have greater output from the use of given resources or a given output can be obtained by the use of a smaller quantity of resources. It is a matter of common knowledge that technological progress adds greatly to our ability to make a fuller use of the natural resources, e.g., generation of hydro-electricity.

With the aid of power - driven farm equipment a marked increase has been brought about in agricultural yields per acre and per worker. Technical progress also increases the ability to make a more effective use of capital equipment. Technological progress has very close connection with capital formation. In fact, both go hand in hand. Technical advancement is impossible without capital creation since better and more efficient production methods demand significant investment, even though their capital costs per unit of output may decrease after they are well-established. As a result, the advancement of technology is crucial to a nation's economic growth. Without adopting ever-newer production processes and without having technical advancement aid its march, no economically backward nation can hope to advance on the road to economic development. The significance of capital formation for economic expansion has already been discussed. But capital accumulation promotes economic growth because it facilitates technological improvements, which raise labour productivity and thus add to the national and percapita income.

1) Human Resources

The rate of economic growth is greatly influenced by the population's quality. A small, high-quality human population is preferable than a big one for a nation's development. Investment in human capital in the form of healthcare, education, and other social programmes is therefore highly desired for economic progress. **Peter Drucker** asserts that "people are the most crucial prerequisite for rapid industrial progress, those who are prepared to seize the chances and challenges presented by economic transformation. People, above all, who are dedicated to the economic development of their country, and to high standards of honesty, competency, knowledge and performance. What are needed beyond all else are leadership and example, and that, only the right kind of people can

provide". **Prof. Drucker** stressing the significance of human capital says further: "Capital without people is sterile, but people can move mountains without capital. Development, therefore, requires rapid growth of human talents and opportunities to employ them".

1. Population Growth

Population growth contributes to the labour supply. Yet, the population rise ought to be typical. Population growth that is out of control impedes economic development. Only in a country that is sparsely populated is population expansion beneficial. But, in an overpopulated nation like India, it is unnecessary. In fact, our country's economic growth is severely hampered by a high population growth rate of 2.5% annually.

2. Social Overheads

The provision of social overheads such as schools, colleges, technical institutions, medical colleges, hospitals, and public health facilities is another key predictor of economic success. Such facilities promote the health, efficiency, and responsibility of the working population. Such people have the potential to propel their country's economy ahead.

3. Organisation

The organisation process is crucial to growth. The emphasis on maximising the use of the means of production in production is placed on organisation. To maximize production, organisation is a necessary complement to labour and capital. The entrepreneur fulfils the role of an organiser in the contemporary economic system and assumes all risks and uncertainties. As a result, entrepreneurship plays a crucial role in the process of economic progress. For instance, entrepreneurship was a key factor in the success of the Industrial Revolution in England. The majority of impoverished nations around the world are poor not because of a severe lack of entrepreneurship but rather because of a lack of money, bad infrastructure, inexperienced labour, and a lack of natural resources.

Myrdal rightly comments, "the Asian countries lack entrepreneurship not because they are deficient in capital or raw materials but because they are deficient in persons with right attitude for entrepreneurship". Behind Japan's rapid economic growth there is only one reason that it has entrepreneurship in abundance. As a result, it is crucial to foster an environment in LDCs that encourages entrepreneurship by placing a focus on education, fresh research, and scientific and technological advancements. In addition, the government should prioritise importing the tools, supplies, and equipment needed to open up new markets, as well as allowing tax breaks, grants, and loans for new businesses and sectors, especially in less developed regions of the economy.

▪ Transformation of Traditional Agricultural Society

The transformation of traditional agricultural society into a modern industrial society, i.e., structural changes lead to enhancement of employment opportunities, higher labour productivity and the stock

of capital, exploitation of the newly developed resources and improved technology. Mostly, LDCs have a very large primary sector and very small secondary and tertiary sectors. In such economies the structural changes involve the transfer of population from the primary sector to the secondary and then to tertiary sectors. Agriculture being the main occupation of the 70-80 percent population in the LDCs passes through several structural changes. The number of dependents on agriculture sector progressively reduces with the expansion of industrial or non-agricultural sector. Similarly, the proportion of contribution of agriculture in the real national income also reduces gradually. But net output in agriculture sector progressively increases in absolute terms, as it is accompanied by a strong productivity movement, relating to the implementation of several programmes like land reforms, expansion of banks, improved agricultural techniques and other farm implements, availability of better marketing facilities, means of power and irrigation, and so on.

In LDCs the agriculture and industry become complementary to each other. The progressively increasing productivity in agriculture enhances the per capita real income of the people, engaged in agriculture sector. This, in turn, increases the demand for consumer goods and agricultural inputs in rural areas, which in turn encourages the growth of the industrial sector. Also, it advances the agriculture sector by supplying better farming methods along with equipment, fertiliser, and other inputs. In other words, the potential for increasing agricultural productivity and incomes is greatly influenced by the economic system's structural changes, which have an impact on the growth of the commercial demand for the goods produced, the expansion of alternative employment opportunities, and the quantity of purchased inputs that are made available to the agricultural sector.

4.2.2 NON-ECONOMIC FACTORS

In the process of economic growth, both economic and noneconomic factors are significant. In this regard, socioeconomic, economic, cultural, psychological, and political factors are equally important to the LDCs' economic development as are economic ones. Development is neither just dependent on financial resources, nor is it solely an economic phenomenon, as Cairn cross correctly notes. It includes all facets of social behaviour, as well as the establishment of law and order, scrupulousness in commercial operations, including dealings with tax officials, family relationships, literacy, acquaintance with mechanical devices, and other things. Here, we go through a few of the key noneconomic variables that affect how fast an economy is growing.

Political Factors

Political stability and strong administration are essential and helpful in modern economic growth. It is because of political stability and strong administration that the countries like the UK the USA, Germany, France and Japan have reached the level of highest economic growth in the world. But in most of the poor countries there is political instability and weak administration which have largely influenced their economic development programmes. It is, therefore, essential for their faster

economic development to have a strong, efficient and incorrupt administration. In conclusion, we can say that a clean, just and strong administration can put an economy on the way to rapid economic development. Lewis rightly comments that “no country has made progress without positive stimulus from intelligent governments”.

Social and Psychological Factors

Modern economic growth process has been largely influenced by social and psychological factors. Social factors include social attitudes, social values and social institutions which change with the expansion of education and transformation of culture from one society to the other. The Industrial Revolution of England and other Western European countries in the 18th century was largely influenced by the spirit of adventure and the expansion of education which led to new discoveries and inventions and consequently to the rise of the new entrepreneurs. Social attitudes, values and institutions changed. Joint family system was replaced by the new single family system which further led to the rapid economic development in these countries. But the society in LDCs has been badly enveloped and guided by traditional customs, outdated ideology, values, and obsolete attitudes which have not been conducive to their economic development.

Thus, there is need to change or modify these social and psychological factors for the rapid economic development in these countries. But it is not an easy task, and moreover, any rapid change may bring discontentment and resistance in the society, with the result that it may adversely affect the economic growth in the economies. Only the selective social and psychological changes can lead to economic growth in LDCs. According to the UN Report on Economic Development of Underdeveloped Countries, it is hence impossible to speed up economic growth in these economies without painful adjustments. It, thus, advises to adopt an evolutionary change in social and cultural factors rather than revolutionary ones. Myrdal in his book *Asian Drama* also advocates the adoption of “modernisation values” or “modernisation ideals” for the rapid economic development of underdeveloped countries.

Education

It is now fairly recognised that education is the main vehicle of development. Greater progress has been achieved in those countries, where education is wide spread. J.K. Garlbraithe in his book “Economic Development” has rightly stressed the role of education as an engine of economic growth.

Urbanisation

Another noneconomic factor promoting development is the process of urbanisation. In poor agrarian economies, the structural change must begin with the change in the size of population in rural and urban sectors.

Religious Factors

Religion has a significant impact on economic development. That might lead to an odd form of self-satisfaction. For instance, the Hindu religion promotes a belief in fate and discourages hard effort. They are taught to be content with their position and to despise risk and business. Hence, spirit is given a higher status than matter in our religion. In short, both economic and non-economic elements work together to create economic growth. Yet, the mere existence of one, many, or even all of these characteristics may not guarantee that the economy would be able to produce the forces necessary for rapid economic expansion.

4.3 CONCLUSION

The growth and development in literacy rate, life expectancy and infant mortality rate, purchasing power, and per capita incomes can determine the levels of development and also provide future recommendations where the country is lacking and what improvement is needed. In addition, we learn from the preceding statement that only economic factors are not responsible for poverty or economic backwardness of a country, non-economic factors are equally responsible for the underdevelopment of an economy.

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