

THE
PROPOSITION

THE
PROCESSES

ECONOMIC
GROWTH

DEVELOPMENT

HUMAN
DEVELOPMENT

A SYMBIOTIC
RELATIONSHIP

VIRTUOUS
CYCLE

VICIOUS
CYCLE

HD/LOPSIDED

EG/LOPSIDED

BRIEFING NOTE

ECONOMIC GROWTH & HUMAN DEVELOPMENT

THE PROPOSITION¹

According to Ranis, Stewart and Ramirez (2000, p.197 – henceforth RSR) there clearly exists a “strong connection between economic growth (EG) and Human Development (HD). On the one hand, EG provides the resources to permit sustained improvements in HD. On the other, improvements in the quality of the labor force are an important contributor to EG.”

RSR explore the links between economic growth and human development identifying two causal chains, one from economic growth to human development and the other from EG to HD, and conclude that while ideally both HD and EG should be jointly promoted, HD should be given priority where a choice is necessary. This prioritization is important as it shows that the *quality* of development matters and calls for the prioritization of human development, over economic growth or per capita income.

¹ This Briefing Note relies on the seminal work by Ranis, Stewart and Ramirez (2000).

THE PROCESSES

More than terms or concepts, the main processes to consider are: (i) economic growth, (ii) development, and (iii) human development.

ECONOMIC GROWTH is the process by which the productive capacity of an economy increases over time to bring about rising levels of national output and income. It refers basically to the rise in the value of the goods and services produced by an economy. It is conventionally measured as the percentage increase in real Gross Domestic Product (*GDP*) or Gross National Income (*GNI*).

Theories of economic growth date as far back as Adam Smith, David Ricardo and Thomas Malthus, whose ideas included the basic approaches of competitive behavior and equilibrium dynamics, the role of diminishing returns and their relations to the accumulation of physical and human capital, the interplay between per capita income and the growth rate of the population, the effects of technology changes in the forms of production and the role of monopoly powers as incentives for technological advances.

Perhaps the starting point of modern growth theory can be traced back to Ramsey’s 1928 treatment of household optimization (Barro and Sala-i-Martin, 2004). This was followed by the well-known Harrod-Domar model, which attempted to integrate Keynesian

Key Terms:

Economic Growth: the process by which the productive capacity of an economy increases over time to bring about rising levels of national output and income.²

Development: a multi-dimensional process involving major changes in individual behaviours, social structures, popular attitudes and national institutions.³

Human Development: the process of expanding the real freedoms that people enjoy.⁴

analysis. Another foundational growth model is the Solow- Swan model, which is based on the assumptions of constant returns to scale and diminishing returns to each input; it has been used to predict conditional convergence. Other economists, following modernization theory, proposed a model of growth in stages (Rostow).

Solow's model of economic growth, also known as the neo-classical (traditional) growth model, allowed the determinants of economic growth to be separated into increases in inputs (labor and capital) and technical progress. Growth models associated with Solow assumed zero long-run equilibrium growth and convergence among different countries in income per capita. In contrast, in the new growth theory, also known as endogenous growth theory, developed in the 1980s, long-run equilibrium growth can be positive and different among countries if technological progress is endogenous leading to increasing returns and can explain why capital often flows from poor to rich countries despite the former's low capital-labor ratios.

In the 1990s attention was paid to empirical applications, in particular to the relation between theory and data, including assessments of robustness, the roles of increasing returns, R&D activity, the diffusion of technology and human capital. More recently, Rodrik (2003) has focused on bottlenecks to growth and on growth dynamics, including the threefold taxonomy of

geography, integration (trade) and institutions as proximate determinants of growth.

DEVELOPMENT on the other hand is a multi-dimensional process involving changes in individual behaviours, social structures, popular attitudes and national institutions. It is a process that includes the organization of economic, political and social systems. The accepted objectives of development policy are growth, equity and poverty reduction (economics), and democracy and stability (politics) (Basu, 1997).

Simply stated, development refers to the process of improving the quality of life of all human lives. It is a process that deals with the economic, social, political and institutional mechanisms, both public and private, as well as with improvements in levels of living for the poverty-stricken, malnourished, and illiterate. Overall, successful development requires both a skilful and judicious balancing of market forces, and intelligent and equity-oriented government intervention in areas where market forces would lead to undesirable economic and political outcomes. Therefore, because of its multidisciplinary characteristics, development may mean different things to different people.

HUMAN DEVELOPMENT. The Human Development approach to development, initially advanced by Amartya Sen and Mahbub ul Haq,

² Barro and Sala-i-Martin, 2004.

³ Basu, 1997.

⁴ Sen, 1999.



argues that human development is a process of expanding the real freedoms⁵ that people enjoy. This approach is comprehensive and holistic, and calls for the removal of the major forces of unfreedom, including poverty as well as tyranny, poor economic opportunities as well as a systematic social deprivation, and neglect of public facilities as well as intolerance or over activity of repressive states. For Sen, development is essentially concerned with enhancing the lives people lead, as he stresses: “An adequate conception of development must go much beyond the accumulation of wealth and the growth of gross national product and other income-related variables. Without ignoring the importance of economic growth, we must look well beyond it” (1999, p. 14).

In a similar line of thinking the United Nations Development Programme (UNDP) has developed the Human Development Index (HDI), which goes beyond narrow monetary income definitions of development and consists of a combination of three indicators (i) a long and healthy life, (ii) knowledge, and (iii) a decent standard of living. The Human Development Reports states that human development is a process of enlarging people’s choices: “The most critical ones are to lead a long and healthy life, to be educated and to enjoy a decent standard of living. Additional

choices include political freedom, guaranteed human right and self respect” (UNDP, 1990, p.10). As can be seen, human development has two sides: one has to do with the formation of human capabilities, such as improved health, knowledge and skills. The second is related to the use people make of their acquired capabilities for leisure and for productive purposes of being active in cultural, social and political affairs (UNDP, 1990). The capability approach helps in understanding development outcomes because it is concerned with what people are *capable* of doing or being. Thus, the ultimate focus of economic growth and development is human development.

A SYMBIOTIC RELATIONSHIP

The influential work by RSR provides evidence for the connections between economic growth and human development. Viewing HD as the central objective of human activity and economic growth as potentially a very important instrument for advancing it, there are two “chains”; one runs from EG to HD, as the resources from national income are allocated to activities contributing to HD, the other runs from HD to EG, indicating how, in addition to being an end in itself, HD can help increase national income (RSR, 2000, p.198). EG leads to a greater extent to HD if it is accompanied by higher public expenditures on health and education,

⁵ Sen distinguishes five types of freedoms: (1) political freedoms, (2) economic facilities, (3) social opportunities, (4) transparency guarantees and (5) protective security (Sen, 1999).

especially women’s health and education, as well as more equal income distribution. HD leads more strongly to EG if it is accompanied by adequate investment and effective policies. Countries which focus only on EG while neglecting HD will see their long-term growth prospects reduced.

In this sense, RSR (p.208) classify country performance into four categories: virtuous, vicious and two types of lop-sidedness -- lopsided either with strong HD but weak EG (HD-lopsided), or lopsided with strong EG but weak HD (EG-lopsided).

In the **VIRTUOUS CYCLE**, good HD enhances growth, which in turn promotes HD, and so on.

In the **VICIOUS CYCLE** case, poor performance on HD tends to lead to poor growth performance with in turn depresses HD achievements, and so on.

As RSR explain: “The stronger the linkages in the two chains ... the more pronounced the cycle of economic growth and HD, either in a positive or dampening direction. Where linkages are weak, cases of lopsided development occur” (p.208).

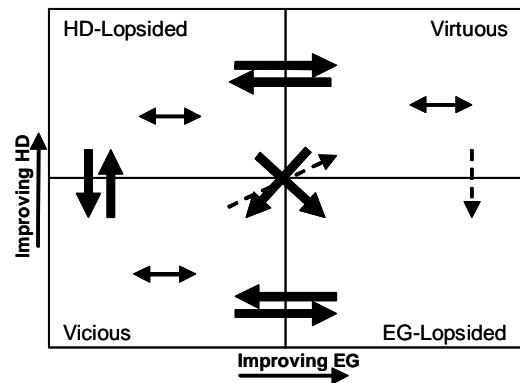
For example, **EG/LOPSIDED** will occur if good economic growth does not bring about good HD because of weak linkages such as a low social expenditure ratio.

On the other hand, **HD/LOPSIDED** may happen when good HD performance does not generate good EG, due to a dearth of complementary resources arising from low investment rates.

For RSR (p. 209) “such cases of lop-sided development are unlikely to persist. Either the weak partner in the cycle eventually acts as a brake on the other partner, leading to a vicious cycle case, or, if the linkages are strengthened, possibly by a policy change, a virtuous cycle case results.”

In sum, on the basis of their long-run empirical analysis RSR suggest a strong regional pattern, with East Asian countries heavily represented in the virtuous quadrant, Latin America strongly represented in the HD-lopsided quadrant, and sub-Saharan African countries in the vicious cycle quadrant.

HD-EG quadrant changes over three decades.



Note: The country movements indicate the quadrants in which the countries are placed over three decades.
Source: Adapted from RSR, 2000, p.211.



The figure above illustrates possible movements of countries from these quadrants. Evidence for 76 countries over thirty years shows that countries move in all directions except from EG-lopsided to the virtuous quadrant. As RSR state, “it is not possible to move to virtuous via EG-lopsidedness, as this proved a dead end” (p.212).

Consequently, RSR emphasize that a focus on HD must be included from the beginning of any reform program, since

Economic growth itself will not be sustained unless preceded by improvements in HD.⁶

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⁶ RSR, 2000, p.213.