Economic Growth and Development

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Economic Growth

- Increase in GDP as the role criterion
- Quantitive indicators to gauge process
- Focus on Production ignoring distribution of benefits from growth
- Forors who already possess, land, capital or skills
- Ignores Gender parity, Regional inequality and environment degradation

Substantive & inclusive Economic Development

- Improvement in the living standards – life expectancy, Education, Health & Nutrition, Decent jobs
- Quantities & Qualitative
- Concerns for equitable distribution of benefits of growth.
- Focus on poverty alleviation and minimized income inequality.
- Care for protecting environment and managing Climate Change Risks.
- Transformation of Structure of the economy.

Major theories of Economic Development

- Marx- Lenin State owned means of production and distribution. No private sector
- The Big Push theory by Rosenstein Rodan that argues developing nations cannot escape poverty by incremental investments and require a massive coordinated injection of capital across industries
- Prebisch-Singer Hypothesis : the price of primary commodities like agriculture declines relative to manufactured goods and therefore developing countries should move towards manufacturing
- Dependency theory: global wealth is structurally unequal because resources flow from a periphery of poor countries to a core of rich industrialized countries. The main proponent is Andre Gunder Frank

Major theories of Development continued

- Hirschman: As the developing countries lack the managerial and financial resources to develop all industries simultaneously he proposed Theory of Unbalanced Growth
- Rostow Take off : Every country passes through five distinct stages to transform from a traditional agrarian society into a modern wealthy industrial power (a) Traditional society (b) Pre conditions for take off © The Take off (d) The drive to Maturity (e) The Age of High Mass Consumption

Major Theories of Economic Growth

- Harrod-Domar- Economy’s growth rate depends on level of serving and of capital.
- Solow-Swan model – Economic growth a function of capital accumulation, labor and increases in productivity largely driven by technological progress
- Two gap model – Many developing countries are held back by two critical financial constraints – inadequate level of capital and a shortage of foreign exchange to import essential capital goods

Major theories continued

- Arthur Lewis argues that development occurs when surplus labour moves from low productivity to additional agriculture to high productivity modern industry
- Paul Romer demonstrate that growth takes place through innovation, knowledge, research, education and human capital
- Douglass North and more recently Acemoglu, Johonson and Robinson have come up with the prospective that good institutions – rule of law property rights, effective bureaucracy, accountability determine long term prosperity
- A.K Sen and Mehboob ul Haq created human developed index as an alternative to GDP growth. The index consists of life expectancy average year of and per capita income growth each year of the index is compiled with the most recent data in these

Determinants of Economic Development

Our current sate of knowledge as well as cross country empirical evidence of last eighty year provides some insights as how to nations have achieved shared prosperity. This implies that instead of a small elite class extracting most of the benefits of growth for themselves, the shared growth uplifts the living standards of the majority of the population. The main components of:

(a) Investment in Human Capital particularly in females

(b) Development of physical infrastructure

(c) Capital formation in Industry & agricultural

(d) Technological assimilation and innovation, R&D, Industry-Academic Linkage, Digitization of the economy.

(e) Macroeconomic stability

(f) Strong & Effective Institutions- Parliament, Judiciary, Civil Service, Local Governments.

(g) Competitive and well functioning

(h) Integration with International Trade Financial Markets

(i) Political Stability and Security

(j) Financial Inclusion

Why Pakistan lags Behind

a) Political instability and Polarization
b) Policy Discontinuity, Inconsistency and Unpredictability
c) Fragile Internal Security situation and External threats
d) Week Institutions of Governance
e) Neglect of Human Capital
f) Low productivity and Innovation
g) Energy Sector Distortion
h) Narrow and Static Export Base
i) Low female labor force participation
j) Financial Sector catering mainly to Government & Corporates
k) Growing Climate Change risks particularly water shorages