

# Economic growth and development

## Introduction

Economic growth, seen for many years as the main condition for the elimination of poverty, loses its power. Economists, sociologists, ecologists and anthropologists are looking for new means of measuring development that would ensure that the development is seen as a whole set of socio-economic transformations.

We are at a crucial point: in its recent documents, such as Agenda for Change or the standpoints issued prior to the 4th High Level Forum on Aid Effectiveness in Busan, the European Union has been clearly indicating the prominent role of private sector in ensuring development and the importance of including this sector in development activities and economic and infrastructural investments. The EU emphasizes that the development policy, being one of the key Community policies, must have a greater influence on the countries of the global South, and that every spent Euro should have an effect. Despite declarations that the development should be socially and environmentally sustainable and as

much inclusive as possible, it seems that we are getting back to discussing economic growth as the main development factor; for instance, the EU wants, in its understanding of sustainable development, to invest in the energy sector:

*“Unfortunately the most important change in the new agenda for development is that aid to the world’s poorest is being cut, diverting funds towards energy and private sector investments which are in the interest of the EU only, not the developing world”* Olivier Consolo, CONCORD.

One of the many political reasons is the fear of losing economic position in the countries of the global South, where the infrastructure or industrial investments are generated largely through the initiatives of the so-called emerging donors, mainly China or India. Furthermore, the Community wants from now on to invest mainly in the poorest countries, disregarding 75% of poor people in middle-income countries, who were left behind despite fast economic growth in their countries (such as Brazil).

Unfortunately, we do not know what is the position of Poland with regard to the new development paradigm. We can only hope that as a smaller donor, involved to a greater extent in democratizing activities or creating civic society, and as a country that not so long ago underwent a highly dynamic transformation itself, will pay attention to compensating social inequalities, investing in human capital, or the role of citizens and their businesses at every stage of development assistance.

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## Does economic growth ensure development?

The world debate on the relation between economic growth and development has been conducted for many years, but in recent time a growing consensus can be observed that economic growth alone cannot support the achievement of such development targets as poverty elimination or equal access to basic goods. The debate circles around the issue of what type of growth will ensure the inclusion of critical environmental and social aspects and how to measure this growth.

The concept of economic growth dominated the debate on development in the 1970s, 80s and early 90s. The Washington Consensus and related political recommendations pictured development as focused mainly on economic growth. This approach was reviewed and ultimately rejected in late 90s. It was deemed faulty for many reasons, the main one being that it did not ensure expected progress in the countries of the global South.

In the 90s, the development paradigm began to shift. Along with the introduction of new measuring tools, such as Human Development Index, it became obvious that economic growth, until now measured in GDP, must be considered together with other factors, such as education level or average life time. Despite many flaws, the shift towards the “development with human face” was very important. At the same time, the Millennium Development Goals were negotiated and agreed, and such issues as deterioration of environment, overexploitation of natural resources and effects of climate change on the countries of the South were included in the debate on development.

In 2000, the Millennium Development Goals drew considerable political attention to the subject of development and led to an intensification of international efforts. The Official Development Assistance was increased, whereas the debt removal and trade with the countries of the global South, equally with other important subjects, were recognized as the main components of the fight with poverty on an international scale. Up until the 2008 crisis, these subjects pervaded every part of the debate on international development.

But the approach to development is changing again during the financial and economic crisis. The Millennium Development Goals most probably will not be achieved by 2015, and the expenditures for Official

## Alternative development indicators

### Indicators that complement GDP

1. Genuine Progress Indicator (GPI) — GPI attempts to measure if a country’s economic growth, production of goods and increase in services translate into better quality of life and well-being of the inhabitants of the country. The GPI incorporates sustainability of current income, by subtracting such social costs as crime, environmental degradation, and income inequality, and adding to it benefits of volunteering/housework.
2. Green GDP — Green GDP attempts to capture the environmental cost incurred in the course of GDP growth, including degradation and depletion of natural resources. It aggregates all sources of well-being, including all market goods and services, into a single number. Countries such as China, Canada, Australia, Mexico, Indonesia and the US have imputed Green GDP but have not made it a regular feature.
3. Genuine Savings — Factors in damage from carbon emissions, defined as “the true level of saving in a country after depreciation of produced capital; investments in human capital (as measured by education expenditures); depletion of minerals, energy, and forests; and damages from local and global air pollutants are taken into account.”

**Source: World Bank (1997)**

### Direct “well-being” indicators

1. Ecological Footprint — It is an analysis of human demand for the biosphere natural resources, and a way of comparing the regeneration capacity of ecosystems of the Earth with the human consumption of these resources. Ecological Footprint is the estimated number of hectares of the land and sea required to compensate for the resources used for consumption and waste absorption. The Footprint is measured in global hectares (gha) per person.

2. Subjective Well Being — SWB is a class of measures that focus on the current evaluation of individuals' or groups' happiness. As opposed to the "objective" GDP measure, such subjective measures rely on the judgment of survey respondents.

**Source: Van Hoorn i Andre (2007)**

3. Gross National Happiness — Gross National Happiness was developed as a guiding principle for Bhutanese development to measure social progress and quality of life. It includes nine core dimensions: psychological well-being, health, use of time, culture, education, environmental diversity, community vitality, living standard and governance. International comparisons based on such a measure are arguably difficult given subjective judgments and cultural differences.

**Source: Centre for Bhutan Studies (1999)**

More information: <http://www.bhutanstudies.org.bt>

## Composite Indicators

1. Human Development Index segregates 177 countries into three categories: developed, developing and under-developed. This reflects life expectancy at birth, which is also an indicator for good health and adequate nutrition, literacy rate and school enrolment, and access to a decent standard of living.

**Source: UNDP, published in 1990.**

More information: <http://hdr.undp.org>

2. Happy Planet Index — This index seeks to incorporate sustainability over time, something it contests the HDI misses. It is a composite index including life expectancy at birth, life satisfaction, and ecological footprint. The index does not indicate the 'happiest' country in the world but the relative efficiency with which nations convert natural resources into happy lives for their inhabitants.

**Source: New Economics Foundation (2006)**

More information: <http://www.happyplanetindex.org>

3. Living Planet Index — This index measures the state and trends in global biological diversity by tracking the populations over 2,500 species of fish, amphibians, reptiles, birds, and mammals. The Living Planet Index uses a generalised additive modelling framework to determine the underlying trend in each population time-series — terrestrial, marine, and freshwater. The three are weighted equally in order to generate the global LPI.

**Source: WWF (1998)**

More information: [http://wwf.panda.org/about\\_our\\_earth/all\\_publications/living\\_planet\\_report](http://wwf.panda.org/about_our_earth/all_publications/living_planet_report)

Development Assistance may be lowered in countries bearing heavy financial burdens. At the same time, the discussion on the role of economic growth in development returns. Over the last months such countries as Great Britain, G20 or EU countries have adjusted their development policies to the economic growth agenda and focus on the GDP-based development.

## Trends in the countries of the global South and their influence on development

Decision makers and institutions such as World Bank for many years have been studying and analysing the experiences of the countries of the global South with regard to the economic growth and poverty. It turns out that for every example of a country that achieved some level of poverty reduction through economic growth (e.g. China), there are many examples of countries experiencing quick economic growth with no changes to their poverty level or social inequalities (e.g. Brazil, Argentina). Evidently, the specific context of the country is the most important. We should not make general conclusions and use them to support political decisions.

## Besides GDP: towards sustainable growth

Turning to the indicators with a broad scope or to their combination with the GDP indicator could prove useful in order to guarantee sensible political decisions that ensure sustainable and inclusive growth, to which the EU countries committed themselves.

There is a whole list of alternative indicators, possibly more appropriate and effective than the traditional ones, which attempt to represent social, political and environmental aspects of development efforts and which are already available to decision makers. This publication gives a short overview of the best known alternative indicators, grouped in 3 main sections: indicators complementing the GDP, indicators measuring the "well-being," and indicators combining the function of items falling into the two former sections.

4. Multi-dimensional Poverty Index aims to capture three dimensions namely health, education and standard of living, using 10 indicators, by weighting each dimension equally.

**Source: Alkire i Santos, 2010**

5. OECD Better Life Index — This newly launched interactive index allows citizens to measure and compare well-being and progress in 34 countries across 11 dimensions that the OECD has identified as essential in the areas of material living conditions and quality of life: housing, income, jobs, community, education, environment, governance, health, life satisfaction, safety, work-life balance. The citizens can give their own weight to each of the dimensions.

**Source: OECD (2011)**

More information: <http://www.oecdbetterlifeindex.org>

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