5.1 Economic Growth and Development

At the end of this topic a student should be able to:

- explain how countries and regions can be profiled by income, wealth and equality
- explain how the factors of production, such as labour, capital, human capital and technology, lead to economic development and growth
- compare and analyse Ireland's economic development to that of a less-developed nation using the inequality-adjusted human development index
- assess and evaluate the effectiveness of a priority area of the Irish government's programme on overseas development

What is Economic Growth?

- **Economic Growth**
  - It can be defined as an increase in GDP/GNI per head of population

- **Advantages of Economic Growth**
  - **Unemployment falls/employment grows**
    - To produce more output more workers are required.
  - **Government revenue increases**
    - The government receives increased revenue, e.g. PAYE on extra workers employed, more indirect taxes from the increase in spending on goods and services.
  - **The standard of living of improves**
    - The government has more money to spend on services such as healthcare from the extra taxes received.
  - **A wider choice of goods and services are provided**
    - As people have more money with which to purchase goods and services, suppliers attempt to meet the demands of consumers.
  - **Increase in immigration/ Irish emigrants returning home**

        - As more jobs are available, Ireland becomes more attractive to migrant workers who bring with them skills and expertise from their own countries. These workers have cost nothing to the Irish taxpayer to educate, yet it is the Irish economy that benefits from their labour. Irish people who emigrated from Ireland in the past may also find it easier to return home and find work.
    - **An improvement in the Balance of Payments**
        - As more goods are produced, some are exported. The money for these exports flows back into Ireland, which is good for our balance of payments.

- **Disadvantages of Economic Growth**

  Increased economic activity brings with it many advantages. However, some of the negative economic effects which Irish society has experienced in the past 20 years are outlined below.
    - **Increased Pollution**:
        - As more output is produced and as consumption rises, more waste is produced. Alternatives to landfill are being developed in recent times to deal with this problem. The level of emissions rises as more is produced and consumed. Irish water and air quality have deteriorated in the past 15 years.
    - **Increase in property prices:**
        - One of the contributory factors to rising house prices in Ireland in recent years has been economic growth and the rise in incomes. While increasing property prices benefit homeowners, it can make getting on the property ladder very difficult for first-time buyers.
    - **Rapid Growth of Urban Centres:**
        - Urban centres tend to be centres for economic growth. As a result, they grow in size, sometimes too fast, resulting in traffic chaos, urban sprawl and crime. As these population centres

grow, necessary infrastructure and services are often not provided at a pace that matches the expansions.

- **Welfare may not improve:**
  - Welfare refers to the overall well-being of an individual or a group of people. Some people may have material well-being but their standard of living and quality of life may not be improved. For example, commuting times and distances to work have had a major impact on the welfare of workers. Also, more and more people are suffering from stress due to working long hours, taking shorter breaks and holidays, etc.
- **Benefits of Economic Growth Not Evenly Distributed**:
  - Despite our economic growth there are over 90,000 people in Ireland who can not find work. Homelessness and poverty are still huge problems despite our economic successes.

What is Economic Development?

Economic development, the process whereby simple, low-income national economies are transformed into modern industrial economies.

Economic development is a broader concept than economic growth. Development reflects social and economic progress and requires economic growth. Growth is a vital and necessary condition for development, but it is not a sufficient condition as it cannot guarantee development. Economic and social development is the process by which the economic well-being and quality of life of a nation, region, local community, or an individual are improved according to targeted goals and objectives.

In the broadest sense, economic development encompasses three major areas:

- Policies that government undertakes to meet broad economic objectives including inflation control, high employment, and sustainable growth.

- Policies and programs to provide services including building highways, managing parks, and providing medical access to the disadvantaged.
- Policies and programs explicitly directed at improving the business climate through specific efforts, business finance, marketing, neighbourhood development, business retention and expansion, technology transfer, real estate development and others.

- Watch: Economic Development Explained – 1min14

- **How can Land, Labour (including Human Capital), Capital (including technology) contribute to economic development and growth**
  - **Land**
    - "Land" is any natural resource that's needed or used in the production of a good or service. Land can also include any resource that comes from the land such as oil, gas, and other commodities such as copper and silver.
    - While land is an essential component of most ventures, its importance can diminish or increase based on industry. For example, a technology company can easily begin operations with zero investment in land (although the laptops they use are constructed from the output of land – oil for plastic, lithium for batteries). On the other hand, the land is the most significant investment for a property developer.
    - Typically, during periods of economic development, a country becomes more efficient in the way it uses land. Land gets repurposed from agricultural use to more industrial and commercial purposes. Land that does remain in agricultural use become more efficiently used through the mechanisation of agricultural practices. As economies become more services based, demand for land for use in commercial practices can decrease.

- **Labour**
  - Labour consists of the people that are responsible for the production of a good, including factory workers, managers, salespeople, and the engineers that designed the machinery used in production.
  - Labour refers to the effort expended by an individual to bring a product or service to the market. Again, it can take on various forms. For example, the construction worker at a hotel site is part of labour as is the waiter who serves guests at the hotel.
  - In some contexts, it is useful to distinguish two forms of labour. The first is the human equivalent of a natural resource. It is the natural ability an untrained, uneducated person brings to a particular production process - in essence, the physical person. However, most workers bring far more. The skills a worker has as a result of education, training, or experience that can be used in production are called **human capital.** Students who are attending a college or university are acquiring human capital. Workers who are gaining skills through experience or through training are acquiring human capital. Children who are learning to read are acquiring human capital.
  - When a government invests in health promotion and awareness schemes it is seeking to improve the quality of labour (the physical person who presents for work). When a government invests in their education system (free access to second or third level) they are seeking to improve human capital within the country. A combination of both is needed for economic development and growth.

- **Capital**
  - In economics, capital typically refers to money. But **money is not a factor of production** because it is **not directly involved in producing a good or service.** Money is a form of financial capital. Financial capital includes money and other "paper" assets (such as stocks and bonds). These financial assets are not capital, but they can be used directly or indirectly to purchase factors of production

- Capital refers to the purchase of man-made goods made to use in the production process. Any resource is capital if it satisfies two criteria:
  - The resource must have been produced.
  - The resource can be used to produce other goods and services.
- For example, a tractor purchased for farming is capital. Along the same lines, desks and chairs used in an office are also capital.
  - It is important to distinguish personal and private capital in factors of production. A personal vehicle used to transport family is not considered a capital good. But a commercial vehicle that is expressly used for official purposes is considered a capital good.
- Capital does not consist solely of physical objects. The score for a new symphony is capital because it will be used to produce concerts. Capital may thus include physical goods and intellectual discoveries.
  - **Technology**
    - Factors of production typically include land, labour and capital. These inputs are **used directly** to produce a good or service.
    - Technology has a fairly broad definition and can be used to refer to software, hardware, or a combination of both used to streamline organisational or manufacturing processes.
    - Technology, on the other hand, is used to put these factors of production to work. A firm doesn't purchase additional units of technology to feed into the production process in the same way that a firm might hire more labour in order to increase output. Instead, the technology available in a particular industry or economy allows firms to use labour and capital more or less efficiently.
    - Increasingly, technology is responsible for the difference in efficiency between firms. To that end, technology, like money, is a facilitator of the factors of

production. The introduction of technology into a labour or capital process makes it more efficient.

- However, as technology helps to increase the efficiency of the factors of production, it can also replace labour to reduce costs. For example, artificial intelligence and robotic machines are used in manufacturing boosting productivity, reducing costly errors from human beings, and ultimately reducing labour costs.

- **Entrepreneurship**
  - Entrepreneurship is the fourth factor and includes the visionaries and innovators behind the entire production process. Entrepreneurs combine all the factors of production, including buying the land or raw materials, hiring the labour, and investing in the capital goods necessary to bring a finished product/service to market.
  - If businesses can improve the efficiency of the factors of production, it stands to reason that they can create more goods at a higher quality and perhaps a lower price.
  - Any increase in production leads to economic growth as measured by GDP or GNI. This process is clearly demonstrated when an economy undergoes industrialisation or other technological revolutions; each hour of labour can generate increasing amounts of valuable goods.
  - Improved economic growth raises the standard of living by lowering costs and raising wages.
  - An example of entrepreneurship is Starbucks Corporation The retail coffee chain needs all four factors of production: land (prime real estate in big cities for its coffee chain), capital (large machinery to produce and dispense coffee), and labour (employees at its retail outposts for service).
  - While large companies make for excellent examples, a majority of companies within Ireland are small businesses started by entrepreneurs and are often referred to as “the life-blood” of the economy.

- **What Are Some of the Features/Problems of /facing Less Developed Countries?**
  - **High rate of population growth**:
    - Rates are very high resulting in economic problems which the government finds hard to resolve.
  - **Famine**:
    - Too frequently famine occurs in LDCs resulting in disease; deaths at an early age; high medical costs.
  - **Foreign Debts:**
    - These are very high. Their repayment uses up government revenue and their repayments can cripple the economy.
  - **Uneven distribution of wealth:**
    - In some LDCs, a minority may control a large part of the country's wealth resulting in widespread poverty.
  - **Over-dependence on one crop**:
    - Some LDCs are over-dependent on one crop. The country may be subject to crop failure.
  - **High percentage of the population engaged in extractive/primary industries:**
    - This results in not enough workers in secondary & tertiary sectors, resulting in low standards of living.
  - **Poor Terms of Trade:**
    - LDCs may suffer from low export prices and high import prices and hence the gains from trade are reduced.
  - **Poor living conditions / Inadequate infrastructure:**
    - A large percentage of the population live in shanty towns with no water and poor sanitation.
  - **Lack of capital**:
    - LDCs may lack the capital which is essential for economic development & employment generation.
  - **Low per capita income for the majority of the population:**
    - This results in a poor standard of living and as a consequence low demand for goods and services.

- **Poor levels of education/literacy:**
  - This will act as an impediment to economic development, resulting in high unemployment.
- **Political corruption**:
  - Some LDCs spend a lot on bureaucratic administration / military spending which can result in civil unrest.
- **Watch**: Economics Explained: The Congo – 10min20

- **Governments of Less Developed Countries Can Encourage Development in The Following Ways:**
  - **Promote population control**
    - Governments could encourage a reduction in population by various measures including: educating the population [in methods of family planning]; improving the welfare of its citizens; providing better social services for its citizens
  - **Improve basic infrastructure**
    - Provision of clean water & proper sanitation. Development of public housing. Development of roads, power supplies etc.
  - **Promote land/ agricultural reform:**
    - Decrease emphasis on one crop – diversify production. Try to spread ownership of land. Improve production methods - modernise the agricultural industry.
  - **Improve education**
    - Start with a basic literacy programme to improve literacy skills. Provide technical skills to the population. Provide primary education. Develop the secondary sector and initiate further education programmes.
  - **Incentives for development of enterprise**
    - Try to foster a movement away from a dependency culture and encourage enterprise. Use borrowings to encourage enterprise so as to create sustainable employment.
  - **State bureaucracy / corruption/ Spending on arms**

        - Try to reduce bureaucracy within state institutions. Eliminate corruption - so that aid flows to those who it was intended for. Divert funds from arms spending to more urgent current requirements.

- **Foreign Governments / Agencies Can Encourage Development in The Following Ways:**
    - **Direct financial aid by governments**
        - This is also known as official development assistance, grants and loans. Governments may provide aid to help in emergency situations. They can also assist with the development of infrastructure and the provision of education, health programmes etc.
    - **Financial aid through voluntary agencies**
        - Various international voluntary agencies provide direct aid to LDCs on a permanent basis or in times of emergency.
    - **Assist peace measures and promote political stability.**
        - Economic development requires a peaceful environment. Foreign countries could provide peacekeeping troops and encourage the movement towards political stability.
    - **Multinationals setting up in LDCs**
        - Multinationals, by providing employment opportunities, provide workers with skills. The fair wages received could help boost domestic demand, provide tax revenue for the state and boost employment.
    - **Improve trade terms with LDCs**
        - Most LDCs suffer from unfavourable terms of trade. If access to markets in the developed world was improved and /or the terms of trade available were more favourable then LDCs could increase exports and/or obtain higher prices for their exports boosting their national incomes.
    - **Assist LDCs with skills and technologies**

        - Governments or voluntary agencies could provide skills and technologies to the LDCs so that living standards could improve and this could boost their productive capacity.
    - **Restructuring of national debts**
        - If national debts of LDCs are cancelled or re-structured more funds would become available for the LDCs to use for economic development in their countries.
            - **Abolish the outstanding debt**: The quickest and simplest way to solve the debt crisis is to 'write-off' the existing debts of these countries and start afresh.
            - **Re-schedule the capital repayments:** Allow these countries to extend the length of the repayment period, allowing payment at a time more suitable / reducing the annual repayments charges.
            - **Lower the annual interest repayments**: Reduce the interest repayments on the existing debt.
            - **Replace existing 'dear' debt**: By replacing existing debts with new loans carrying lower rates of interest the annual interest charges and capital repayments will fall.
            - **Place a limit on interest repayments**: The amount of interest to be paid could be limited to a percentage of export earnings by that country.
            - **Watch:** Irish Aid - Zambia – 8min49

- **Why Foreign Aid may not result in Development**
    - **Unfair distribution of benefits / Widening poverty gap / trickle down effects**
        - The increased wealth may not trickle down to the people who most need it and economic growth may not result. Any wealth that exists in the poorest countries is often concentrated in the hands of a small ruling elite. In many cases military dictatorships are the norm and they wish to maintain the status

quo. The money may be used for the purchase of armaments and other non-essential projects.

- **Costs to the environment**
  - Increased pollution, disfigurement of the landscape/environment, large scale urban sprawl may negate any positive effects from the foreign aid.
- **Rapid population growth / standard of living**
  - In LDCs there are rapidly rising populations and the implications of such population growth is that any economic growth is completely outweighed by an increase in population. The impact of the foreign aid may be hard to discern as it may not improve the standard of living.
- **Culture of dependency rather than improvement of local economy**
  - In some LDCs, a culture of dependency may exist and this may prove to be a major barrier to promoting economic growth and development. Entrepreneurship demands ingenuity and inventiveness. A culture of dependency reduces the desire for risk taking ventures and ultimately profit making.
- **Food aid dependency/ reduced incentive for production / growth**
  - In order for economic growth to be sustained, economic projects must be undertaken and the focus on provision of food aid exclusively must be reduced. The whole notion of subsistence must be replaced by a desire for excess production and a move away from the primary production area. Secondary and tertiary sectors should be encouraged.
- **High profile projects**
  - In some LDCs, the provision of adequate infrastructure together with land drainage and irrigation schemes, roads, housing, factories and communication facilities are bypassed in favour of 'high profile' projects. Governments need to prioritise those projects which will ultimately lead to economic self-sufficiency and increase the productive capacity of LDCs. The provision of skills and technologies will ultimately help

with improving standards of living and increasing productive capacity.

- **Advantages for the Irish economy of increased growth rates in developing countries**
  - **Increased exports / larger market**
    - With higher incomes people in LDCs may be able to buy more exports resulting in increased economic growth in Ireland.
  - **Lower Irish consumer prices**
    - LDCs may be able to sell their commodities in Ireland at cheaper prices than domestically produced goods.
  - **Employment**
    - If exports increase then the opportunities for jobs in Ireland increases.
  - **Less need for Irish state aid / opportunity cost**
    - If LDCs experience growth then this may reduce the need for the Irish government to fund development / the government can use this money for something else.
  - **Disposable incomes in Ireland**
    - There may be less need to give financial aid and so Irish citizens may have increased disposable income.
  - **Economies of Scale**
    - If Irish firms increase production to supply the LDCs they may benefit from economies of scale.

- **Disadvantages for the Irish economy of increased growth rates in developing countries**
  - **Re-location of companies**
    - Some MNCs / Irish firms may re-locate to LDCs resulting in unemployment in Ireland.
  - **Greater import bill**
    - If the goods from LDCs are cheaper it may result in increased imports, a higher import bill, job losses in Ireland

- **Increased demand for resources**
  - LDCs will be increasing their demand for scarce resources and this may increase prices e.g. oil prices.
- **Increased world pollution**
  - Economic growth may cause increased pollution with the consequent necessity of Ireland having to address this / increased carbon emissions.

Role of the International Monetary Fund and the World Bank

- **The International Monetary Fund**
  - The IMF's mission is to promote global economic growth and financial stability, encourage international trade, and reduce poverty around the world.
- **The World Bank**
  - **Encourage investment funds to LDCs**
    - Obtains funds from world's advanced countries and uses these resources to provide loans to LDCs so they can invest in roads, schools etc.
  - **Finance capital projects in member countries.**
    - The World Bank gives loans to member states and to private businesses in these countries to assist capital projects. Examples in Ireland in the past included the building of the original community schools by the DES.
  - **Debt relief for LDCs**
    - The World Bank helps LDCs reduce their debt burden by extending the term of loans and /or renegotiating interest rates.
  - **Watch:** IMF and World Bank explained in 1min

Profiling countries based on Income, Wealth, Equality

- **Income**
  - Income is a flow of money going to factors of production. Examples include:
    - Wages and Salaries
    - Profits flowing to businesses and dividends distributed to shareholders
    - Rental income flowing to people
    - Interest paid as a reward for saving
  - Can be measured by GDP or GNI per capita – see notes from 4.1 National Income
  - **World Bank data on Income**
  - **OECD Data on Income**
  - **Ireland's Inflated GNI – Patrick Honan**
    - **Summarised version**

- **Wealth**
  - Wealth is stock or store concept. It is a large amount of money or valuable possessions that can be held in different ways:
    - Savings in deposits accounts
    - Share ownership
    - Property ownership
    - Bond ownership
    - Pensions
  - **World Bank data on wealth**
  - **OECD data on wealth**
  - **Watch:** Netherlands – Wealth versus Income Inequality
- **Equality**
  - Income inequality within countries can be measured by the Gini Coefficient – see notes from 1.3 "Sustainability"

Compare Ireland's Economic Development to that of a less developed nation using the inequality adjusted Human Development Index

- Inequality in terms of economic development can also be analysed by studying the Human Development Index (HDI)
    - The HDI represents a national average of human development achievements in the three basic areas: health, education and income. Like all averages, it conceals disparities in human development across the population within the same country. Two countries with different distributions of achievements can still have the same average HDI value.
        - **HDI explained – 12min**
    - The Inequality Adjusted Human Development Index (IHDI) takes into account not only the average achievements of a country in health, education, and income, but also how those achievements are distributed among its population – which is a more accurate measure of equality across a population
    - **IHDI data**
    - **Inequality Video from UN – 2min30**
    - **World Inequality Database**

Assess and evaluate the effectiveness of a priority area of the Irish government's programme on overseas development

- **Ending Poverty**
- **Hunger**
- **Gender Equality**
- **Environment and Climate Change**
- **Health**
- **HIV/AIDS**
- **Governance and Human Rights**
- **Education**

- **Water and Sanitation**
- **Trade & Economics**