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Concepts of Economic Growth and Development. Challenges of Crisis and of Knowledge

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Abstract: *Mankind today is crossing a difficult, challenging period. After having crossed several phases of development, going, one by one, through the agricultural and the industrial ones, without abandoning the characteristics of the tradition, nowadays the economy and the society are facing a new stage called the stage of knowledge. The evolutionary leap is a remarkable one, but mercantilization generated the start of a deep economic crisis coupled with two other and even stronger ones, the moral and the spiritual crises. This is the context in which we will refer to two fundamental economic processes: economic growth and development.*

Keywords: *economic growth, development, crisis, liberalization*

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Introduction

The economic growth and development have been debated for centuries. Industrialization had brought forth permanent changes in the economic and human activity. After the Depression of the 1929-1933 span, the importance of these processes increases. Overcoming any economic difficulties, whether we speak about the decreasing of the unemployment rate or about the external equilibrium, a correlation was made with the economic growth and development. Any decision made at a state or supra-state level aimed at reaching these two objectives. Today, more than anytime, in a recessionary, liberalized economy, in a world marked by a strong demographic increase, by the depletion of natural resources, by changes of climate and of ecosystem destruction, we are more preoccupied than ever by the problems of economic growth and development. Hereinafter will make, an epistemological analysis of these two processes.

Economic Growth and Development – Conceptual Approach

Though no unanimously accepted definition has been forgotten by now, most of the theoreticians think of the economic development as a process that generates economic and social, quantitative and, particularly, qualitative changes, which causes the national economy to cumulatively and durably increase its real national product.

In contrast and compared to development, economic growth is, in a limited sense, an increase of the national income per capita, and it involves the analysis, especially in quantitative terms, of this process, with a focus on the functional relations between the endogenous variables; in a wider sense, it involves the increase of the GDP, GNP and NI, therefore of the national wealth, including the production capacity, expressed in both absolute and relative size, per capita, encompassing also the structural modifications of economy.

We could therefore estimate that *economic growth* is the process of increasing the sizes of national economies, the macro-economic indications, especially the GDP per capita, in an ascendant but not necessarily linear direction, with positive effects on the economic-social sector, while development shows us how growth impacts on the society by increasing the standard of life.

Typologically, in one sense and in the other, economic growth can be: positive, zero, negative. *Positive economic growth* is recorded when the annual average rhythms of the macro-indicators are

higher than the average rhythms of growth of the population. When the annual average rhythms of growth of the macro-economic indicators, particularly GDP, are equal to those of the population growth, we can speak of *zero economic growth*. *Negative economic growth* appears when the rhythms of population growth are higher than those of the macro-economic indicators.

Economic growth is a complex, long-run phenomenon, subjected to constraints like: excessive rise of population, limited resources, inadequate infrastructure, inefficient utilization of resources, excessive governmental intervention, institutional and cultural models that make the increase difficult, etc.

Economic growth is obtained by an efficient use of the available resources and by increasing the capacity of production of a country. It facilitates the redistribution of incomes between population and society. The cumulative effects, the small differences of the increase rates, become big for periods of one decade or more. It is easier to redistribute the income in a dynamic, growing society, than in a static one.

There are situations when economic growth is confounded with economic fluctuations. The application of expansionist monetary and tax policies could lead to the elimination of recessionary gaps and to increasing the GDP beyond its potential level.

Economic growth supposes the modification of the potential output, due to the modification of the offer of factors (labour and capital) or of the increase of the productivity of factors (output per input unit).

When the rate of economic growth is big, the production of goods and services rises and, consequently, unemployment rate decreases, the number of job opportunities rises, as well as the population's standard of life.

Some economists state that a rate of the GDP growth of 3% a year allows a rise of the potential GDP with 10% in three years and a doubling in 23 years. According to the "rule of 70", a rate of growth of 1% doubles the potential GDP over a period of seventy years [2].

Other economists think that if the rate of growth of the real GDP per capita were maintained at 2% a year, then the GDP per capita would double every 35 years and, therefore, each generation could hope for a better standard of life than in the present. For this reason, we should take into consideration the fact that the small differences in the rate of economic growth over long periods lead to big differences between the standard of life of the different successive generations. The economic growth is also the process that allows the receding of phenomena with a negative economic and social impact, like unemployment or inflation. But, obviously, a durable economic growth sustains human development.

According to *Leszek Balcerowicz*, *economic growth* is a process of quantitative, qualitative and structural changes, with a positive impact on economy and on the population's standard of life, whose tendency follows a continuously ascendant trajectory.

Leszek Balcerowicz thinks that the economic development has four dimensions [3]:

- The initial level of development (reflected, for instance, by the income per capita) or the level existing when the rhythm of development starts being determined;
- The human capital or the people's level of education and professional training;
- The internal economic condition or the economy's structures;
- The external economic circumstances.

The last three factors should be related to the period for which the rhythm of economic development is determined, which, in its turn, is the result of different interactions between the four groups of factors. The initial level of development is essential for the subsequent rhythm of development. Staying behind involves certain impulses of acceleration – the countries with a lower rhythm of development can reach a faster one compared to the richer countries because a state not keeping pace can use at an institutional and technological level the solutions that the developed countries have already found and could learn from their mistakes, an aspect that *Balcerowicz* deem more important than the former one.

The developing countries have an out-of-date economic structure, most of the population working in fields of low productivity, especially in agriculture, but there are possibilities to transfer resources towards more productive domains. The third factor is characteristic to formerly socialist countries and refers to the disproportion between the relatively high level of education of the population and the possibilities to exploit this training. The high level of education represents an advantage for the countries that joined the economic development trend.

It is also worth pointing out that between economic growth and economic development there are similarities and differences [6]. Similarities refer to the fact that:

- Growth and development are continuous processes, with stimulating effects in economy;
- Both processes involve the allotment and utilization of resources and the increase of efficiency;
- The finality of growth and development is the improvement of the standard and quality of life;
- Growth and development are cause and result of the general trend, influencing its rhythm and ensuring passages from one level to the other.

The differences between economic growth and development refer to the fact that, while economic growth concerns the quantitative side of economic activity (the increase of results, of quantities, of sizes), development has a larger scope, including qualitative changes that take place in economy and society. In fact, development is a qualitatively higher step of macro-economic evolution. We often refer to growth theories when we speak about the developed countries and to the theories of development when we approach the economic problems that are specific to the developing or less developed countries.

A country is able to develop fast when:

- industries and people have the possibility to plan their activity on the long run, which requires political, legislative and monetary stability;
- the results of economic activity depend on free initiative, on the efficient utilization of resources, on efficient labour, etc.
- investments are not sacrificed in favour of immediate consumption. When most of the current incomes are reinvested, the productive capital increases and, consequently, the real incomes too;
- the decisions regarding investments and production are correct, and the wealth accumulated in time is adequately used to achieve assets as efficient as possible from an economic standpoint;
- the degree of education and civilization rises and records a leap forward at the level of consciousness;
- any decision takes into consideration the protection and conservation of eco-system (durable development);
- economic, social, spiritual values are respected.

Economic growth and development determine *social progress*, that is the progressive evolution of the society, which involves an improvement of the human condition, a step higher on the scale of the human being's standard [8], based on economic progress. The accentuation of the social side of economic development should not be understood as abandonment of economic growth. The economic achievements create bases for the improvement of the standard of life, for adequate conditions of medical care, for the improvement of the educational system and a better redistribution of incomes in society.

Thus, economic growth remains a priority, while the correlation of economic problems with social ones should lead to the development of any national economic system, especially when structural crises demonstrate that the limits of the system are about to be reached.

The final purpose of economic growth and development is, undoubtedly, the fulfilment and multilateral development of human personality, the increase of the people's material and spiritual wealth, their stepping higher on the scale of civilization and culture.

In the *General Assembly of the United Nations* in September 2000, also known as the *Millennium Summit*, the status of human development was analysed, considering all its diverse aspects, and a set of eight objectives, with phases and deadlines, was adopted. The diversified approach of the wide topic of this process allows for a series of aspects, alarmingly intense and dramatic in different countries and areas, to be examined. Among other topics, the ones concerning extreme poverty, illiteracy, the lack of utilities and particularly the lack of access to running water, as well as the pollution of the environment, were considered. In the 21st century, in a phase of economic and social evolution dominated by knowledge, the gaps of development get sharper. Many voices considered that liberalization and, implicitly, globalization could be the salutary solution for the eradication of negative phenomena existing at an international level. On the one hand, the advantages associated with economic openness proved to be beneficial, on the other hand, we have seen how strong nations, playing the good Samaritan, used the natural and human resources of the poor states that they enslaved for their benefit, and emptied of their own possibilities of development, under the promise of a better future. Any hope for the better disappeared once the current economic crises began, whose sizes are much bigger than we could have anticipated. Of course, the wish for economic growth and development, fully justified, remains, but hope in the case of developing and less developed countries dies while their dependence upon the powerful states of the world rises. Economic and social vulnerability is the weak feature that the centres of power of the world would not hesitate to profit from. Yet, the differentiation of the two analyzed phenomena is obvious. If, theoretically, we continue talking about them as a pair, in practice there is a gap between them. We can notice how the focus is placed on growth, quantity, wealth at any price. We are aware of how much knowledge we can find, we have possibilities to stock and to use it, but we do not have the will to assimilate and to correlate them in order to give value judgments. It is not actually possible to accumulate it all, and there is also a huge gap between the volume of existing information and the one that most of the people hold. Knowledge will bring down those who will not be able or willing to assimilate, and will render efficient those able to capitalize it; it will strengthen personality, change ways of action and of life. The human being's intelligence, imagination and intuition will become more and more important compared to machines in the decades to follow [10]. The developing countries aim at catching up with the developed ones. In terms of wealth, obviously. Focusing on richness, people forget, more or less deliberately, how important education and solidarity are. The chase for money leaves time only for ignorance, and this is the source of wrong decisions. The mechanism works. Due to the mirage of globalization and to the desire to "sit with the rich", many countries accepted to be manipulated, accepted to grow and not to develop. This is how the current economic-social situation emerged. We do not blame liberalization or globalization, which are good if they are based on correct principles, but the lack of morality, of education and spirituality that transform masses of people into weak, ignorant characters, avid for money. Economic and social growth and development should be considered together, and the increase of quantities should have an equivalent in the increase of the humanity's standard of life and degree of consciousness. It would not be a bad thing to change the direction of the paradigm referring to economic growth and development. A step was made when the concept of sustainable development was brought forth. The next step would be the introduction of the concept of sustainable development in solidarity, based on moral and spiritual values as well.

Under these circumstances, granted by economic and social reality, any policy of economic development should consider three main objectives:

1. new possibilities to achieve and distribute the goods that satisfy the society's basic needs, starting from the inequality limited resources and unlimited needs;
2. the increase of the standard of life that involves high incomes, low unemployment rate, the increase of the level of education, etc.;
3. the increase of the level of economic and social opportunities available for persons and countries.

Although the issue of economic development pertains, first of all, to the economy of each country, the effects at a world level are particularly important. Presently, the economic, technological and cultural gaps grow larger and larger, instead of being reduced. Some states do not hold resources to compensate the imports of assets necessary to economic growth, sometimes not even for those meant for basic needs, while the economically developed countries have inefficient commercial surpluses

(Japan's case at the moment when Asian crisis started), high unemployment rate, difficulties in dissimulating the results of an increasingly productive and complex economy.

The internal problems of the developing countries are numerous and ample, and the pressure created by these problems make difficult a classification of priorities. Approaching those needs sustained internal efforts, a democratic framework and a competent governing. *John Keneth Galbraith* said, about this, that the "success of an economy depends on a stable, efficient and active governmental structure, that would support and guide it. If it is absent, none of the main conditions of economic development could be fulfilled" [5]. There should be as many equitable societies as possible, but "in an equitable society, nobody can suffer from starvation or for lacking a home. The first condition is that of a sufficient number of job and gain opportunities, that would not stimulate inactivity" [5].

Though there are countries facing problems like unemployment or poverty, we could state that all of the world states are in a process in which individuals and wealth multiply and develop. *Hegel* [7] thought that the world goes towards progress and freedom. He was right, but we realize that freedom and wealth are for the rich, not for the poor, according to the famous principle that "we are all equal, but some are more equal than others", to paraphrase *George Orwell* [9].

Starting with 1990, the level of economic and social development is estimated by the calculation of the HDI (*Human Development Index*).

The permanent presence in the world reports of the human development index (HDI) as a basic synthetic indicator, determined the Nobel prize winner for economics in 1998, *Amartya Sen*, to state that this indicator became the "emblem of the World Report on human development" [1].

Analysing the extreme values of HDI one can easily notice that in the field of human development some progress was obtained reflected in the increase of its extreme values, and in the decrease of the relation between these values. On the other hand, maintaining a high level of the amplitude of extreme values reflects the level of disparities existing at a world level.

Being a composite indicator, the HDI is a function of three elements: life expectancy at birth, education and incomes, and it does not take into consideration essential qualitative elements. HDI is calculated starting from a basket of measurable indicators that do not reflect the evolution at the level of human values.

The final purpose of practical utilization of the theories of economic growth and development and of the application of the policies of economic growth is the improvement of the quality of life, which is not the same thing as the increase of the standard of life, as this is just one component of the quality of life. "The standard of life reflects only the degree of fulfilment of the vital needs of a country's population, of a social group or of a person. The quality of life, on the other hand, reflects the totality of natural, technical, economic, social, political, cultural, ethical, etc. conditions that ensure the integrity and the biological, social and spiritual progress of the human being" [4].

For the process of economic growth to have positive effects, it must be accompanied by economic growth as well, that is by the increase of the quality of life per capita from one phase to the other, and by progress at the level of the moral and spiritual human values. It is possible for a country to record economic increase, but not to achieve economic development. Thus, it is possible for the GDP/per capita to increase and no improvement of the standard of life and of the quality of life to be recorded, no improvement, therefore, in the demographic structure, in the structure and amount of incomes and in the goods and services consumption by the population, in the work conditions, health condition, access to education and culture, while the natural and social environment could degenerate. Many countries have led and continue to lead a policy of increase of the military power, they wasted great amounts of resources by irrational macro-economic policies and by investments in inefficient huge projects, damaging the standard of life and the quality of life. For that, it is necessary for the economic growth to be recorded together with a policy of rational utilization of resources, in order to achieve individual and social progress in each country.

The ideal situation, from the standpoint of the standard of development, would be equality, if a wide range of opportunities existed that would allow a faster development and would bring forth as few inequalities as possible. Between development and progress there are a series of contradictions that we will approach in the following.

One of the contradiction of development and progress for any economy is the one between its limited resources (raw materials, power, capacity of production, labour, financial means) and the increasing productive and individual consumption needs, more and more diversified. This calls for each country to act for a better capitalization of the resources it has, for their saving, for the discovering the attraction in the economic circuit of new resources, for the promotion of the technical-scientific progress, etc. The system of social needs, specific to each country, and the necessity to fulfil the continuously regenerating, evolving and diversifying needs maintain the progress of national economies. We should take into consideration the fact that between needs, their generation and their fulfilment, come production, distribution of incomes, the market and its varied mechanisms, the social system, provoking big discrepancies and distortions in the system of needs, in their evolution, in the degree and manner of fulfilling them.

Another contradiction is that between the great potential of resources of a country in certain fields and its limited or insufficient possibilities of assimilation, processing and effective utilization of this potential. This could be solved by increasing internal and external investments, by creating new job opportunities, by raising the technical level of production, etc.

A different contradiction emerges between the needs of consumption, of growth, of diversification, and the possibilities to fulfil them. This stimulates the development of production of consumer goods and services.

In some countries, one can notice a contradiction between the level of the production forces and their structure, and the forms of organization and management of the economic activities. A country can hold rich natural resources, and yet be deprived of the technical and financial possibilities necessary in capitalizing them and fulfilling needs. The adoption of some systems and methods of organization and management adapted to the changes that occur systematically create a framework that encourages economic progress.

The existence of these contradictions is a warning signal as for the factors on the basis of which higher rates of growth are recorded and as for the way in which the results of the process of growth are transposed in the economic and social development.

Conclusions

Economic growth and development have been and will be a permanent preoccupation of mankind and an always present topic of scientific debates. In this paper I have presented the concepts of growth and of development and the main warning signals that we should consider in the current situation, far from agreeing with the objectives and possibilities that the global economy and society theoretically offer. The globalist ideology presented the world and, above all, the poor countries, a bright future. The promises for better became true in the case of the great powers and of the economic decision makers, while the second- and third-world states were left with hope. On the background of the current crisis, the concept of growth and development, priorities of economic policy, should be reanalysed and redefined, an aspect that we tried to underline in the current paper, as a solution of recovery and of economic and social progress.

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