

**Chapter 1 : United Nations - About economic and social development**

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Process of Economic Development: This article throws light upon the five factors that contribute to the process of economic development. Resources created not through human effort but available from nature and transformed into productive resources have been playing an important role in the development process of a country. In other words, natural resources, such as land, soil, mineral deposits like iron ore, fossil fuel are three main factors of production, the other two being labour and capital. The critical element here is the availability of such resources. Other things remaining the same, the growth and prosperity of a nation may be associated with the kind and size of the resources possessed by it. In fact, no one should ignore the possibility of adding more resources through discovery. Through discovery, opening up and by utilising new resources, many countries in the past had made a higher contribution in output. Economic processes impact on the environment. For instance, perils of resource depletion—both renewable and non-renewable—through uses generate insurmountable problems on growth and development of a nation. This then suggests conservation of resources so as to have a sustainable development. Anyway, an abundant supply of natural resources conduces to both agricultural and industrial development. Just as availability of fertile land and abundant supply of water for irrigation purposes are the two essential prerequisites for achieving faster agricultural growth, minerals like coal, bauxite, iron ore, crude oil, copper, tin, etc. Shortage of natural resources often acts as a constraint on output expansion and is often considered as an obstacle to economic development. For example, some poor countries of Asia and Africa have limited natural resources such as land and minerals. And whatever little is available is to be shared by the large population. However, one also sees an inverse association between natural resource abundance and economic growth. There is enough evidence to support that many resource-poor economies have outperformed many resource-rich economies in terms of economic growth! Above all, resources that we have may be fixed and exhaustible. The poor people of poor countries are dependent on their natural environment. Thus the greatest victims to the damage of natural environment are, obviously, the poor people. Labour is a basic input for virtually all production. It is not possible to make the best possible utilisation of existing natural resources unless there is sufficient manpower. The supply of manpower—called human resources—depends, among other things, on population growth. Thus the size of the population is an important factor of economic development. More labour should, therefore, mean greater potential output. In an under-populated relative to resources country, population increases do indeed mean economic growth—as more land can be cultivated or more workers may be employed in industry and services. There is a feeling among some economists that the quality of labour input—human capital—is the single-most important factor of economic development. Modern economists consider resources devoted to education and training as investment in human capital. The effective use of capital and the application of modern technology depend on the availability of skilled manpower. Educated, skilled workers are generally more productive than uneducated, unskilled workers. At the same time workers are also consumers. So, with population growth, there is an expansion in the size of the market and there is greater scope for division of labour and specialisation. Healthy people can work harder and longer than sick people. Further, there is ample evidence that health and nutrition of a nation affects employment, productivity, and wages favourably. A healthy population is a pre-requisite for economic development. However, the relationship between population growth and economic development is a complex one. It reduces per capita income of a nation. It creates environmental problems and overcrowded cities and towns. It reduces savings and capital formation. Thus economic growth is hampered. Even then, the quality of human capital is an important element in the progress of a nation. Increases in labour and land productivity, in their turn, depend greatly upon new technology and increased capital resources. The amount of output that workers can produce depends largely on the availability of complementary resources like capital. No country can achieve higher growth if certain minimum rate of

capital formation is not realised. Capital accumulation or investment refers to the creation of additional capital like plant, equipment, machinery, structures, etc. In other words, by increasing the amount of capital per worker, it is possible to increase labour productivity. Capital formation enables a country to enjoy the advantages of large scale production and specialisation. Further, capital accumulation provides a growing labour force with an increased supply of tools and machinery per worker. This then raises efficiency of the workers. Often, poor countries are handicapped by low volume of capital accumulation because of low income and low savings. If domestic capital is not sufficient to meet the investment needs, a poor country may be required to import capital from abroad. However, there is a question mark on the use of foreign capital in the poor developing countries. Modern economists like T. Schultz, Jan Tinbergen, Gary S. They have emphasised the contribution of investment in human beings for economic development. Technological progress is considered as the most important source of development by many economists. It is said that technology has been revolutionising our lives since the dawn of human history. Modern day technological progress that is going on is something unique as far as its depth and rapidity are concerned. Technology refers to our knowledge of how to convert resources into goods and services. Technical progress refers to an improvement in the art of production. Technological progress leads to an improvement in productivity of existing resources. It is the result of research, invention, development, and innovation. It is thus dear that technological progress in a country depends on both pure and applied science. And science depends on the resources allocated towards research and development. Thus education is of crucial importance in any economy in furthering technological improvement. Schumpeter assigned a very important role to the entrepreneur in the economic development of a country. In his view, one of the most important functions of the entrepreneur is innovation getting new methods adopted in effective ways. Thus, through new techniques and methods of production, a country can increase its productive capacity. To an economist, this implies that new technology is a sufficient condition for economic growth. However, technological progress is also a necessary condition for sustained growth. Without it, there would not be enough new capital formation to allow continued increases in labour productivity. It may be noted that a continued increase in labour productivity requires both increased capital and new or modern technology. Continual capital formation will occur only if there is a continual flow of new technology. These two not only complement but also depend upon each other. New method may require new machinery. Or, when a firm decides to build a new factory, this may lead to discovery of new and better methods of production. Further progress of present day market economies is now largely influenced by the institutional environment. In other words, market economies can flourish provided an appropriate institutional environment prevails. Development requires effective state participation. However, benefits of development must be widespread and inclusive so that poor people can harvest benefit from the market-oriented growth. It is observed that the state, because of poor governance and ineffective institutional framework, fail to protect property rights, law and order, freedom of individuals, human rights, and so on. Even it fails to protect the poor, vulnerable people. An effective economic institution can ensure public services to the poor and give economic incentives through opening better opportunities and empowering the excluded and vulnerable. Often it is found that institutional environment gets vitiated by the rich powerful of the society and ultimately institutions serve their purposes. Under the circumstance, market, as an institution, marginalises poor people. Protecting poor people from insecurity requires participation and empowerment of these people so that public action is designed by them according to their priorities. Institutional failure results in bad and poor governance and corruption. And corruption definitely hampers progress of majority of the countries. If the institutional environment is made effective the prospect for good investment is likely to brighten. It is the experience of the people that poor governance and corruption has been choking off and disturbing investment at the cost of the poor people. All these are elements of economic progress of a nation. The role of the government as the builder and provider of effective institutions is undeniable.

**Chapter 2 : India - Economic forecast summary (May ) - OECD**

*An important work synthesizing present technical and statistical data concerning the question of national income and allied problems in the world's principal countries.*

Sorokin said, "The ancient Chinese, Babylonian, Hindu, Greek, Roman, and most of the medieval thinkers supporting theories of rhythmical, cyclical or trendless movements of social processes were much nearer to reality than the present proponents of the linear view". Therefore, Chinese proponents of modernization have looked to western models. According to Thompson, the late Qing dynasty reformer, Kang Youwei, believed he had found a model for reform and "modernisation" in the Ancient Chinese Classics. The last two centuries were familiar with the myth of progress. Our own century has adopted the myth of modernity. The one myth has replaced the other. Men ceased to believe in progress; but only to pin their faith to more tangible realities, whose sole original significance had been that they were the instruments of progress. This exaltation of the present The present is superior to the past, by definition, only in a mythology of progress. Thus one retains the corollary while rejecting the principle. There is only one way of retaining a position of whose instability one is conscious. One must simply refrain from thinking. World War I , World War II , and the rise of totalitarianism demonstrated that progress was not automatic and that technological improvement did not necessarily guarantee democracy and moral advancement. British historian Arnold J. Toynbee " felt that Christianity would help modern civilization overcome its challenges. Besides rejecting the lessons of the past, they Americanized the idea of progress by democratizing and vulgarizing it to include the welfare of the common man as a form of republicanism. As Romantics deeply concerned with the past, collecting source materials and founding historical societies, the Founding Fathers were animated by clear principles. They saw man in control of his destiny, saw virtue as a distinguishing characteristic of a republic, and were concerned with happiness, progress, and prosperity. Bury wrote in It cannot be proved that the unknown destination towards which man is advancing is desirable. The movement may be Progress, or it may be in an undesirable direction and therefore not Progress The Progress of humanity belongs to the same order of ideas as Providence or personal immortality. It is true or it is false, and like them it cannot be proved either true or false. Belief in it is an act of faith. In the postmodernist thought steadily gaining ground from the s, the grandiose claims of the modernizers are steadily eroded, and the very concept of social progress is again questioned and scrutinized. In the new vision, radical modernizers like Joseph Stalin and Mao Zedong appear as totalitarian despots, whose vision of social progress is held to be totally deformed. Postmodernists question the validity of 19th century and 20th century notions of progress"both on the capitalist and the Marxist side of the spectrum. They argue that both capitalism and Marxism over-emphasize technological achievements and material prosperity while ignoring the value of inner happiness and peace of mind. Postmodernism posits that both dystopia and utopia are one and the same, overarching grand narratives with impossible conclusions. Progress trap Some 20th-century authors refer to the "Myth of Progress" to refer to the idea that the human condition will inevitably improve. In , English physician Montague David Eder wrote: Philosophers, men of science and politicians have accepted the idea of the inevitability of progress. The strongest critics of the idea of progress complain that it remains a dominant idea in the 21st century, and shows no sign of diminished influence. As one fierce critic, British historian John Gray b. The interaction of quickening scientific advance with unchanging human needs is a fate that we may perhaps temper, but cannot overcome Those who hold to the possibility of progress need not fear. The illusion that through science humans can remake the world is an integral part of the modern condition. Renewing the eschatological hopes of the past, progress is an illusion with a future. Recently the idea of progress has been generalized to psychology, being related with the concept of a goal, that is, progress is understood as "what counts as a means of advancing towards the end result of a given defined goal. Bury said that thought in ancient Greece was dominated by the theory of world-cycles or the doctrine of eternal return, and was steeped in a belief parallel to the Judaic " fall of man , " but rather from a preceding " Golden Age " of innocence and simplicity. Time was generally regarded as the enemy of humanity which depreciates the value of the world. He credits the Epicureans with having had a potential for

leading to the foundation of a theory of progress through their materialistic acceptance of the atomism of Democritus as the explanation for a world without an intervening deity. Xenophanes said "The gods did not reveal to men all things in the beginning, but men through their own search find in the course of time that which is better. The Renaissance of the 15th, 16th and 17th Centuries changed the mindset in Europe towards an empirical view, based on a pantheistic interpretation of Plato. This induced a revolution in curiosity about nature in general and scientific advance, which opened the gates for technical and economic advance. Furthermore, the individual potential was seen as a never-ending quest for being God-like, paving the way for a view of Man based on unlimited perfection and progress. Age of Enlightenment In the Enlightenment , French historian and philosopher Voltaire " was a major proponent. His subsequent notion of the historical idea of progress saw science and reason as the driving forces behind societal advancement. Immanuel Kant " argued that progress is neither automatic nor continuous and does not measure knowledge or wealth, but is a painful and largely inadvertent passage from barbarism through civilization toward enlightened culture and the abolition of war. Kant called for education, with the education of humankind seen as a slow process whereby world history propels mankind toward peace through war, international commerce, and enlightened self-interest. The difficulties and dangers of life provided the necessary stimuli for human development, while the uniquely human ability to evaluate led to ambition and the conscious striving for excellence. Man found his happiness only in effort. He said, "Had population and food increased in the same ratio, it is probable that man might never have emerged from the savage state". Most scholars concluded this growth of scientific knowledge and methods led to the growth of industry and the transformation of warlike societies into an industrial and pacific one. They agreed as well that there had been a systematic decline of coercion in government, and an increasing role of liberty and of rule by consent. There was more emphasis on impersonal social and historical forces; progress was increasingly seen as the result of an inner logic of society. He describes the mid 19th century condition in *The Communist Manifesto* as follows: The bourgeoisie cannot exist without constantly revolutionizing the instruments of production, and thereby the relations of production, and with them the whole relations of society. Conservation of the old modes of production in unaltered form, was, on the contrary, the first condition of existence for all earlier industrial classes. Constant revolutionizing of production, uninterrupted disturbance of all social conditions, everlasting uncertainty, and agitation distinguish the bourgeois epoch from all earlier ones. All fixed, fast frozen relations, with their train of ancient and venerable prejudices and opinions, are swept away, all new-formed ones become antiquated before they can ossify. All that is solid melts into air, all which is holy is profaned, and man is at last compelled to face with sober senses his real condition of life and his relations with his kind. No social order is ever destroyed before all the productive forces for which it is sufficient have been developed, and new superior relations of production never replace older ones before the material conditions for their existence have matured within the framework of the old society. Marxism further states that capitalism, in its quest for higher profits and new markets, will inevitably sow the seeds of its own destruction. Marxists believe that, in the future, capitalism will be replaced by socialism and eventually communism. The unreasonable man persists in trying to adapt the world to himself. Therefore, all progress depends on the unreasonable man. Thus, by the beginning of the 20th century, two opposing schools of thought "Marxism and liberalism" believed in the possibility and the desirability of continual change and improvement. Marxists strongly opposed capitalism and the liberals strongly supported it, but the one concept they could both agree on was modernism , a trend of thought which affirms the power of human beings to make, improve and reshape their society, with the aid of scientific knowledge, technology and practical experimentation.

**Chapter 3 : The conditions of economic progress / by Colin Clark - Details - Trove**

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The process of economic growth is a highly complex phenomenon and is influenced by numerous and varied factors such as economic, political, social and cultural factors. It is believed by some economists that the capital is the only requirement for growth and therefore the greatest emphasis is laid on capital formation to bring about economic development. But this is wrong. Capital is a necessary but not a sufficient condition of progress. The quantity and quality of natural resources play a vital role in the economic development of a country. Important natural resources are land, minerals and oil resources, water, forests, climate, etc. The quality of natural resources available in a country puts a limit on the level of output of goods which can be attained. Without a minimum of natural resources there is not much hope for economic development. It should, however, be noted that resource availability is not a necessary condition for economic growth. This is because resources have not been fully utilised for productive purposes. Thus it is not only the availability of natural resources but also the ability to bring them into use which determines the growth of an economy. On the other hand, Japan has a relatively few natural resources but has shown a very high rate of economic growth and as a result has become one of the richest countries in the world. How has Japan done this miracle? It is international trade that has made possible for Japan to achieve higher growth rate. It then exports manufactured goods to the countries that are rich in natural resources. Thus experience of Japan shows that abundant natural resources are not a necessary condition for economic growth. It should also be noted that the scarcity of certain natural resources can be overcome by synthetic substitutes. For example, the synthetic rubber is being increasingly used in the place of natural rubber in advanced countries. Further, nylon which is a synthetic substance is being largely used in place of silk which is a natural substance. The use of natural resources and the role they play in the economic growth depend, among other things, on the type of technology. The relationship of resources to the kind and level of technology is very intimate. One does not have to go back very far in history to find when an item currently as valuable as petroleum was of little or no significance. It is only recently that the various radioactive elements have come to be regarded as valuable. In many developing economies there are, no doubt, deposits of many minerals that are not being used because of technological deficiencies. Labour is combined with capital to produce goods and services. Workers need machines, tools and factories to work. In fact the use of capital makes workers more productive. Setting up of more factories equipped with machines and tools which raise the productive capacity of the economy. Therefore, in the opinion of many economists, capital formation is the very core of economic development. Whatever the type of economic system, without capital accumulation the process of economic growth cannot be accelerated. Levels of productivity in the United States of America are very high mainly because American people work with more and better type of capital goods built up over the last several years. Low productivity and poverty of developing countries is largely due to the scarcity or shortage of real physical capital in these countries. Economic growth cannot be speeded up without accumulating various types of capital goods, that is, without building factories, machines, tools, dams, bridges, roads, railways, ports, ships, irrigation works, fertilizers, etc. But capital formation requires saving, that is, the sacrifice of some current consumption. An increase in supplies of capital goods can only result from investment, and investment in turn is only possible if a portion of current income is saved. Thus saving is essential to economic growth. For instance, saving in India on the eve of independence was about 6 per cent of the national income. On the other hand, rich countries save from 15 to 30 per cent of their national income. In order to bring about economic growth, rate of savings must be stepped up to over 15 per cent of national income. But in developing countries, the rate of saving is low because income of the people is low and that they are living at the level of subsistence. Thus, the lower the per capita income, the more difficult it is to forgo current consumption. It is difficult for people living at or near subsistence level to curtail current consumption. This in large part explains the low level of saving in the poor, underdeveloped countries. It may be noted that gross saving rate in India has now risen to

24 per cent of national income in . However, for achieving 8 per cent rate of growth in GNP in the 10th plan period, it is estimated that 32 per cent rate of saving is needed if capital-output ratio remains constant at 4 which was actually obtained in the 9th plan period. It must be emphasized, however, that savings in itself do not contribute to economic growth. It is only when savings are invested and used productively that they contribute to economic growth. If savings are hoarded in the form of gold or precious jewels, or if they are used for buying land, they do not result in an increase in supplies of capital goods and thus make no contribution to economic growth. Countries that allocate a larger fraction of their GDP to investment such as Japan and Singapore achieved high growth rates, and countries that allocate a small share of GDP to investment such as Bangladesh and Nepal have low growth rates. Foreign Aid and Foreign Investment: The people who can best afford to do this are generally those who live in countries of high average income. There is a strong general case for the rich countries lending to the poor ones. The United States of America, now the richest country in the world, borrowed heavily in the nineteenth century, and has now emerged as the major lender country of the twentieth century which is assisting the poor countries in their attempts to bring about economic growth. Foreign direct investment FDI is an important way for a country to accelerate its economic growth. Though the foreign companies send back profits earned, their investments in factories increase the rate of capital accumulation in the developing countries leading to a higher rate of economic growth and higher productivity of labour. The importance of foreign capital is reinforced by the need of a developing country for foreign exchange to buy imports. A developing country has to import huge quantities of capital goods, technical know-how and essential raw-materials which are required for industrial growth and building up of infrastructure such as power projects, roads, irrigation facilities, ports and telecommunication. For all these, foreign exchange is needed which can be obtained if foreign rich countries lend it to developing economies or if foreign companies make direct investment in the developing countries. If foreign assistance is not forthcoming in adequate quantity, then the developing countries will experience serious difficulties of balance of payments. Furthermore, developing countries suffer not only from a shortage of savings but also from a lack of technical know-how, managerial ability, etc. Due to bad experience of the colonial rule in the past, the developing countries were generally against the foreign capital, especially against private foreign investment. However the fears of foreign investment and aid are now no longer there. Further, now multilateral foreign aid is available through World Bank and International Monetary Fund IMF which provide loans at concessional rates to the developing countries for accelerating growth. It has now been realised that foreign investment will not only supplement domestic saving and thereby raise the rate of investment, bring better technology and managerial know-how but will also ease the problem of foreign exchange. Besides, like the domestic investment, foreign investment also produces a multiplier effect on output, income and employment in the developing countries. For higher foreign direct investment flows to China World Investment Report mentions among other things that China has more business-oriented and FDI-friendly attitudes, its FDI procedures are easier and decisions are taken rapidly. Besides, China has more flexible labour laws, a better labour climate and better entry and exit procedures for business. It is therefore not unexpected that China has emerged at the top in attracting FDI flows. Against this, at present i. But in the last three decades of economic research has revealed the importance of education as a crucial factor in economic development, Education refers to the development of human skills and knowledge of the labour force. It is not only the quantitative expansion of educational opportunities but also the qualitative improvement of the education which is imparted to the labour force that holds the key to economic development. Because of its significant contribution to economic development, education has been called as human capital and expenditure on education of the people as investment in man or human capital. Speaking of the importance of education or human capital. Clearly, a country which is unable to develop the skills and knowledge of its people and to utilise them effectively in the national economy will be unable to develop anything else. Professor Solow who was one of the first economists to measure the contribution of human capital to economic growth estimated that for United States between and , The factors determining growth in this period have been divided into two groups. It will be seen from the table, the growth in the quantity of labour accounted for 32 per cent of growth in GDP of the USA over this period. The other group consists of various variables determining growth in labour productivity

has been divided into five factors. It is noteworthy that education per worker contributed 14 per cent to growth in output during this period technological change contributed 28 per cent to the growth in output. Thus, growth in education per worker and technological change together accounted for 42 per cent of growth in the output in the USA over this period whereas capital formation contributed 19 per cent to the growth rate. This shows the great importance of education and technological change as determinants of economic growth. Another approach to measure the contribution of education is based upon the analysis of the relationship between expenditure on education and income. Using this approach Schultz studied the relationship between expenditure on education and individual income and also the relationship between expenditure on education and physical capital formation for the United States during the period to It may, however, be noted that these estimates of Schultz only indirectly reflect the contribution of education to economic growth. In our above analysis we have explained that education is regarded as investment and like investment in physical capital, it raises productivity of labour and thus contributes to growth of national income. Some economists have argued that education is of crucial importance not only because education raises the productivity and therefore earnings of individual workers, but it creates positive externalities, that is, beneficial external effects. A positive externality occurs when the activity of a person provides benefits to others. For example, an educated person might generate new ideas which may lead to the improvement in methods of producing goods. These ideas are therefore external benefits of education. One problem facing the developing countries, especially India is of brain drain, that is, migration of a large number of highly educated persons such as those trained by IIT, IIM and medical colleges to the developed countries such as USA to make higher earnings there. If education has positive external effects, then this brain drain will deprive the Indian economy of the beneficial effects which these educated people would have created here. Another important factor in economic growth is progress in technology, Use of advanced techniques in production or progress in technology brings about a significant increase in per capita output. Technological advance refers to the discovery of new and better ways of doing things or an improvement in the old ways. As a result of technological advance it becomes possible to produce more output with same resources or the same amount of product with less resource. But the question arises as to how the technological progress takes place. The word invention is used for the new scientific discoveries, whereas the innovations are said to take place only when the new scientific discoveries are used for actual production processes or commercial purposes. Some inventions may not be economically profitable to be used for actual production. It is quite well known that improvements in technology greatly increase the effectiveness with which natural resources are used. It may also be noted that some technological improvements have resulted in the increased effectiveness with which capital goods are used.

**Chapter 4 : The conditions of economic progress - Colin Clark - Google Books**

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The rate of growth of GDP per capita is calculated from data on GDP and people for the initial and final periods included in the analysis of the analyst. Determinants of per capita GDP growth[ edit ] In national income accounting, per capita output can be calculated using the following factors: Productivity improving technologies economic history Economic growth has traditionally been attributed to the accumulation of human and physical capital and the increase in productivity and creation of new goods arising from technological innovation. Increases in productivity are the major factor responsible for per capita economic growth – this has been especially evident since the mid-19th century. Most of the economic growth in the 20th century was due to increased output per unit of labor, materials, energy, and land less input per widget. The balance of the growth in output has come from using more inputs. Both of these changes increase output. The increased output included more of the same goods produced previously and new goods and services. During the Second Industrial Revolution, a major factor of productivity growth was the substitution of inanimate power for human and animal labor. Also there was a great increase in power as steam powered electricity generation and internal combustion supplanted limited wind and water power. Other productivity improvements included mechanized agriculture and scientific agriculture including chemical fertilizers and livestock and poultry management, and the Green Revolution. Interchangeable parts made with machine tools powered by electric motors evolved into mass production, which is universally used today. Real food prices fell due to improvements in transportation and trade, mechanized agriculture, fertilizers, scientific farming and the Green Revolution. Great sources of productivity improvement in the late 19th century were railroads, steam ships, horse-pulled reapers and combine harvesters, and steam-powered factories. By the late 19th century both prices and weekly work hours fell because less labor, materials, and energy were required to produce and transport goods. However, real wages rose, allowing workers to improve their diet, buy consumer goods and afford better housing. New goods and services included television, air conditioning and commercial aviation after, creating enough new demand to stabilize the work week. Productivity in the United States grew at an increasing rate throughout the 19th century and was most rapid in the early to middle decades of the 20th century. Demographic changes[ edit ] Demographic factors may influence growth by changing the employment to population ratio and the labor force participation rate. Women with fewer children and better access to market employment tend to join the labor force in higher percentages. There is a reduced demand for child labor and children spend more years in school. The increase in the percentage of women in the labor force in the U. Spending wave Other factors affecting growth[ edit ] Political institutions, property rights, and rule of law[ edit ] See also: These included new laws favorable to the establishment of business, including contract law and laws providing for the protection of private property, and the abolishment of anti-usury laws. Enforcement of contractual rights is necessary for economic development because it determines the rate and direction of investments. When the rule of law is absent or weak, the enforcement of property rights depends on threats of violence, which causes bias against new firms because they can not demonstrate reliability to their customers. Thanks to the underlying homogeneity of its land and people, England was able to achieve a unified legal and fiscal system since the Middle Ages that enabled it to substantially increase the taxes it raised after. Many of these intermediate level institutions relied on informal private-order arrangements that combined with public-order institutions associated with states, to lay the foundations of modern rule of law states. In many urban areas the poor "invade" private or government land to build their houses, so they do not hold title to these properties. Much unregistered property is held in informal form through various property associations and other arrangements. Reasons for extra-legal ownership include excessive bureaucratic red tape in buying property and building. In some countries it can take over steps and up to 14 years to build on government land. Other causes of extra-legal property are failures to notarize transaction documents or having documents notarized but failing to have them recorded with the official agency. Unregistered businesses and

lack of accepted accounting methods are other factors that limit potential capital. Specifically, "democracy increases future GDP by encouraging investment, increasing schooling, inducing economic reforms, improving public goods provision, and reducing social unrest. This is due to endogeneity - forces that drive economic growth also drive entrepreneurship. In other words, the empirical analysis of the impact of entrepreneurship on growth is difficult because of the joint determination of entrepreneurship and economic growth. A few papers use quasi-experimental designs, and have found that entrepreneurship and the density of small businesses indeed have a causal impact on regional growth. Capital is subject to diminishing returns because of the amount that can be effectively invested and because of the growing burden of depreciation. In the development of economic theory the distribution of income was considered to be between labor and the owners of land and capital. New products create demand, which is necessary to offset the decline in employment that occurs through labor saving technology and to a lesser extent employment declines due to savings in energy and materials. Also, the creation of new services has been more important than invention of new goods. The transition from an agricultural economy to manufacturing increased the size of the sector with high output per hour the high-productivity manufacturing sector , while reducing the size of the sector with lower output per hour the lower productivity agricultural sector. Eventually high productivity growth in manufacturing reduced the sector size, as prices fell and employment shrank relative to other sectors. Theories and models [ edit ] Classical growth theory[ edit ] In classical Ricardian economics, the theory of production and the theory of growth are based on the theory or law of variable proportions, whereby increasing either of the factors of production labor or capital , while holding the other constant and assuming no technological change, will increase output, but at a diminishing rate that eventually will approach zero. Criticisms of classical growth theory are that technology, an important factor in economic growth, is held constant and that economies of scale are ignored. In fact, the natural growth rate is the highest attainable growth rate which would bring about the fullest possible employment of the resources existing in the economy. Solowâ€™Swan model[ edit ] This section is about a neoclassical growth model. It is not to be confused with Steady-state economy Main article: Solowâ€™Swan model Robert Solow and Trevor Swan developed what eventually became the main model used in growth economics in the s. Capital accumulates through investment, but its level or stock continually decreases due to depreciation. As a consequence, growth in the model can occur either by increasing the share of GDP invested or through technological progress. As a consequence, with world technology available to all and progressing at a constant rate, all countries have the same steady state rate of growth. Implicitly in this model rich countries are those that have invested a high share of GDP for a long time. Poor countries can become rich by increasing the share of GDP they invest. One important prediction of the model, mostly borne out by the data, is that of conditional convergence; the idea that poor countries will grow faster and catch up with rich countries as long as they have similar investment and saving rates and access to the same technology. The Solowâ€™Swan model is considered an "exogenous" growth model because it does not explain why countries invest different shares of GDP in capital nor why technology improves over time. Instead the rate of investment and the rate of technological progress are exogenous. The value of the model is that it predicts the pattern of economic growth once these two rates are specified. Its failure to explain the determinants of these rates is one of its limitations. Although the rate of investment in the model is exogenous, under certain conditions the model implicitly predicts convergence in the rates of investment across countries. In a global economy with a global financial capital market, financial capital flows to the countries with the highest return on investment. Endogenous growth theory[ edit ] Main article: Endogenous growth theory Unsatisfied with the assumption of exogenous technological progress in the Solowâ€™Swan model, economists worked to " endogenize " i. Unlike physical capital , human capital has increasing rates of return. Research done in this area has focused on what increases human capital e. Endogenous growth theory was satisfied with accounting for empirical regularities in the growth process of developed economies over the last hundred years. As a consequence, it was not able to explain the qualitatively different empirical regularities that characterized the growth process over longer time horizons in both developed and less developed economies. Unified growth theories are endogenous growth theories that are consistent with the entire process of development, and in particular the transition from the epoch of

Malthusian stagnation that had characterized most of the process of development to the contemporary era of sustained economic growth. In doing so, they make old technologies or products obsolete. This can be seen as an annulment of previous technologies, which makes them obsolete, and "destroys the rents generated by previous innovations. Europeans adopted very different colonization policies in different colonies, with different associated institutions. In places where these colonizers faced high mortality rates e. Thus, although other economists focus on the identity or type of legal system of the colonizers to explain institutions, these authors look at the environmental conditions in the colonies to explain institutions. For instance, former colonies have inherited corrupt governments and geo-political boundaries set by the colonizers that are not properly placed regarding the geographical locations of different ethnic groups, creating internal disputes and conflicts that hinder development. In another example, societies that emerged in colonies without solid native populations established better property rights and incentives for long-term investment than those where native populations were large. Human capital has been included in both neoclassical and endogenous growth models. The most commonly-used measure of human capital is the level average years of school attainment in a country, building upon the data development of Robert Barro and Jong-Wha Lee. One problem with the schooling attainment measure is that the amount of human capital acquired in a year of schooling is not the same at all levels of schooling and is not the same in all countries. This measure also presumes that human capital is only developed in formal schooling, contrary to the extensive evidence that families, neighborhoods, peers, and health also contribute to the development of human capital. He shows that economic growth is not correlated with average scores in more educated countries. Econodynamics Further information on Energy efficiency: A fixed relationship between historical rates of global energy consumption and the historical accumulation of global economic wealth has been observed. These include the great improvements in efficiency of conversion of heat to work, the reuse of heat, the reduction in friction and the transmission of power, especially through electrification. For example, the United Kingdom experienced a 1. It grew to 1,, million pounds by A growth rate that averaged 1. The large impact of a relatively small growth rate over a long period of time is due to the power of exponential growth. For example, a growth rate of 2. Thus, a small difference in economic growth rates between countries can result in very different standards of living for their populations if this small difference continues for many years. Quality of life[ edit ] One theory that relates economic growth with quality of life is the "Threshold Hypothesis", which states that economic growth up to a point brings with it an increase in quality of life. But at that point "€" called the threshold point "€" further economic growth can bring with it a deterioration in quality of life. Business cycle Economists distinguish between short-run economic changes in production and long-run economic growth. Short-run variation in economic growth is termed the business cycle. Generally, economists attribute the ups and downs in the business cycle to fluctuations in aggregate demand. In contrast, economic growth is concerned with the long-run trend in production due to structural causes such as technological growth and factor accumulation. The neutrality of this section is disputed. Relevant discussion may be found on the talk page. Please do not remove this message until conditions to do so are met.

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