5.0 OBJECTIVES

After going through this unit, you will be able to:
- Learn the concepts of economic growth and economic development;
- Know what is the difference between the two;
- Identify the determinants of economic development; and
- Evaluate the Indian performance in terms of growth and development.

5.1 INTRODUCTION

Rapid economic growth has been the buzzword these days. The situation in the early fifties was no different. However, from the sixties till about the mid-eighties the concept of development came into prominence. This was the time when it was increasingly being felt that majority of the population in most of the developing world did not benefit much from the growth process. Since then, however, the clock seems to have gone full circle in terms of the thrust of development strategy and the priority again is on economic growth rather than on economic development.

5.2 ECONOMIC GROWTH

In Unit 2, you were made familiar with the meaning of growth as well as development. Meaning of economic growth was also explained in that Unit. Economic growth occurs whenever people take resources and rearrange them in ways that are more valuable. A useful metaphor for production in an economy comes from the kitchen. To create useful final products (or dishes), we mix ingredients together according to the recipe. The cooking one can do, is limited by the supply of ingredients and by recipes available. Similarly, production of goods and services is limited by the availability of resources/materials and available technology for combining them. From here it follows that the level of production in any economy would expand (or grow) both with increase in available resources and changing technology. This process of increase in level of production is referred to as economic growth. In brief, economic growth could be referred to as growth in national output (or income) or per capita national income in a period of time, say a year.
5.3 ECONOMIC DEVELOPMENT

Economic development, in contrast to economic growth, is a wider concept. It is a complex term. To give it a precise definition is not easy. Development, as we know, is defined as economic development plus social change. Social change consists of better living standards for people, equitable distribution of income and wealth, productive employment facilities for all, adequate facilities for health and sanitation, education for everyone etc. These are reflected in social indicators like life expectancy at birth, literacy rate, birth rate and death rate per 1,000 population, hospitals per 100,000 population, schools per 100,000 population, share of labour force employed in agriculture sector etc.

Attempts to define development have led to some general definitions. Many of them differ from one another, particularly in respect of substance and the index of development. The key element of development is that people are the major participants in the process of change in the economy as well as in the enjoyment of benefits flowing from these changes. This process of change in the economy is what is referred to as economic development. These factors enhance growth of the economy though in an indirect way. The enjoyment of benefits by all could be referred to as development.

Basically, economic development implies the process of securing higher and higher levels of production in all sectors of the economy and this, in turn, is a function of the level of technology. For obtaining a higher level of technology, the economy is required to forge the physical apparatus in the form of machines, equipment, tools and instruments of production on the one hand (i.e. physical capital formation) and on the other, to train labour force of the country by providing better education, sanitation and health facilities to the population of the country (i.e. human capital formation) to make use of the physical apparatus thus created. In nutshell, economic development is a process of stepping up the rate of capital formation in an economy, human as well as non-human, to enhance the standard of living of its population. The process of economic development can be seen as a process of expanding the capabilities of people as well as their access to opportunities.

Indices of economic development attach more importance to the quality of life and give a composite yardstick based on changes in the following three indicators: life expectancy, infant mortality, and literacy. A brief discussion of each one, and an assessment of the three, should help us in understanding these issues. The next Unit discusses various indicators of social change in detail, which gives us some idea about quantifying social change. On the basis of these measures the performance of an economy could be evaluated over time as well as across countries.

Check Your Progress 1

1) Define economic growth? (Answer in three lines)

2) What is economic development? (Answer in three lines)
3) What is the difference between economic growth and economic development? (Answer in five lines)

Determinants of Growth and Development

5.4 THE DETERMINANTS OF ECONOMIC DEVELOPMENT

Economic growth is an essential part of the process of economic development. Providing a continuously rising level of living to population of a country crucially depends on the growth of income. The factors, which are important determinants of economic growth, are also referred to as economic factors.

The rate of growth of national income in an economy depends upon the rate of investment and the capital-output ratio:

\[
\text{Rate of Growth of National Income} = \frac{\text{Investment - Income Ratio (I/Y)}}{\text{Capital - Output Ratio (K/Y)}} = (I/Y) \cdot (Y/K)
\]

Where \(I\) = investment;
\(Y\) = National income or output;
\(K\) = National Stock of Capital;

In other words, to achieve faster rate of growth of national output, economy has to operate on two variables, viz.,

a) to step up the rate of investment (i.e. investment-income ratio). Other things being the same a higher rate of investment (or capital formation) would ensure higher rate of growth of national income. Higher the resources out of its income (or resources) an economy is able to put aside for investment the higher would be the growth of income in future; and

b) to generate forces which reduce the capital-output ratio (COR) through more efficient utilisation of capital resources. Higher efficiency reduces the capital-output ratio and the economy is able to produce a higher level of output with lower doses of capital;

5.4.1 Capital Formation

Capital refers to the stock of machines, tools and equipment (which produce consumer goods as well as machines) and improvements in skill formation of its work force, which has enhancing effect on the process of growth. Any additions to this stock in a time period are called Capital Formation. Investment is also another name given to this concept.

Capital formation is of crucial importance in the process of economic growth and development. It is necessary to step up the rate of capital formation so that the community accumulates a large capital stock of machines, tools and equipment, which can be geared into production. Not only that, capital formation requires the creation of skill formation so that the machines and equipment created can be utilized efficiently to achieve a rising level of production.
"The level of production and the material well-being a community can attain depends, in the main, on the stock of capital at its disposal, i.e. on the amount of land per capita and of productive equipment in the shape of machinery, buildings, tools and implements, factories, locomotives, engines, irrigation facilities, power installations and communications. The larger the stock of capital, the greater tends to be the productivity of labour and, therefore, the volume of commodities and services that can be turned out with same effort." (Planning Commission “First Five Year Plan” p 13.)

Experience of other countries suggests that a high rate of capital formation was achieved to trigger rapid economic growth. In Japan, investment rate between 1913 and 1939 averaged 16 to 20 percent. The First Five Year Plan of the erstwhile Soviet Union had a target of net investment amounting “between a quarter and a third of national income” though in the subsequent plans the rate of investment was lowered and stabilised at about 20 percent of national income. In some of the East European countries like former Czechoslovakia and Poland, gross investment rates ranged between 20 and 25 percent. In view of the experience of other countries, which experienced a faster growth, it is essential for India also to step up the rate of investment to 20-25 percent.

5.4.2 Capital-Output Ratio

Another determinant of economic development is the capital-output ratio. The term ‘capital-output ratio’ refers to the number of units of capital that are required in order to produce one unit of output. In other words, capital-output ratio reflects the productivity of capital in the various sectors of the economy at a point of time. Also in a developing country like India where there is a shortage of capital, it becomes all the more important to conserve its use by utilizing it efficiently. The capital-output ratio for the economy as a whole is only a shorthand description of the productivity of capital.

The capital-output ratio is different for different industries and across different economies and it varies over a period of time.

"There is no unique capital-output ratio applicable to all countries at all times. Much depends on the stage of economic development reached but also on the precise form of further expansion." (First Five-Year Plan).

For instance in the early phase of economic development, when a country is making heavy investment in economic infrastructure, i.e. on building irrigation works, hydroelectric projects, roads, railways, etc. the corresponding additions to output will be small. The problem of these industries is referred to as the problem of indivisibilities. This means that the size of the plant has to be of a specific size even if the need (or demand) for it to start with, is only a small fraction of the total size. Constructing a smaller plant is either costlier or not possible. But with passage of time as the power potential and transport equipment are utilized to the full, there shall be a favourable shift in the capital-output ratio.

On the other hand, basic industries like iron and steel, machine tools, engineering and metallurgy are more capital-intensive than consumer goods industries. Consequently, in the initial years of development when the economic foundations are being laid, capital-output ratio tends to be unfavourable. But as development gathers momentum, and the emphasis is shifted to the production of consumer goods, relatively smaller increases in investment bring about large increments to output. In other words, the stage of economic development and the mix of various types of investment determine the capital-output ratio.
Besides, in certain sectors (e.g. agriculture, small-scale industries etc.) of the economy output can be increased with comparatively small additions to capital (these are also called the labour-intensive industries or sectors), while in other sectors, comparatively large additions to capital are called for. For instance, in Japan, between 1885 and 1915, labour productivity in agriculture was doubled by a comparatively small quantum of investment in the form of better seeds, improvements in water supply, control of crop diseases and use of fertilizers.

In addition to this, capital-output ratio depends upon the efficiency with which the new types of capital equipment are handled and the quality of managerial and organisational skill available at a particular stage of economic development. Coordination of the programme of investment so as to develop complementary economic activity simultaneously has a favourable effect on capital-output ratio. In other words, the capacity of the economy to more effectively use the investment at a particular time also affects the capital-output ratio.

### 5.4.3 Occupational Structure

Another factor, which determines and is determined in due course by economic development is the occupational structure of the working population. Experience from all over the world suggests that in the process of development, transfer of work force from primary to secondary and then secondary to tertiary sector of the economy has invariably taken place. For instance between 1870 and 1930, the proportion of work force engaged in agriculture declined from 54 to 23 percent in U.S.A., from 43 to 25 percent in France, and from 80 to 48 percent in Japan. The process of shift in the occupational structure implies the shift of work force from low productivity primary sector to high productivity secondary and tertiary sectors. Therefore, it is essential that as economic development proceeds there is an optimum distribution of the work force in different occupations. This will not only improve the utilisation of labour but will also boost the overall level of productivity of the economy.

### 5.4.4 Growth of Population

Rapid growth of population is considered to be an important hindrance to rapid economic growth. This happens due to the fact that faster growth of population means less resources per capita. Since economic growth is measured in terms of an increase in per capita income, a part of the increase in national income is utilised to maintain the additional population. In other words, in terms of per capita income, on account of a rise in population, the country is left with small potential of spreading of the benefits of growth across its population. This highlights the need for a large and active programme of family planning so that the benefits of the massive developmental efforts do not get dissipated.

But it may be emphasized that it would not be proper to isolate the population factor because history has shown that birth rate only falls significantly when the standard of living rises significantly for the majority of the population. Hence economic development and population are interconnected. Whereas population hinders economic development, the latter as it gathers momentum, leads to the creation of more appropriate conditions to control population.

### Check Your Progress 2

1) What factors affect the capital-output ratio and how? Discuss any three factors? Answer in 100 words.
2) Mark the correct among the following:

As the economy develops the work force (or the occupational structure) moves in favour of:

a) primary sector  
b) secondary sector  
c) tertiary sector  
d) secondary and tertiary sectors  
e) primary and secondary sectors

3) Which of following is a better indicator of standard of living?

a) National income  
b) Capital formation  
c) Capital-output ratio  
d) Expectations of life at birth  
e) None of the above

4) Indicate which of the following statement is "TRUE" or "FALSE".

a) Higher investment rate is not good for the faster growth of an economy.  
   TRUE/FALSE  
b) Increase in population is good for faster growth of per capita income.  
   TRUE/FALSE  
c) Growth in national income is the best indicator of economic development.  
   TRUE/FALSE  
d) Per capita income is calculated by dividing the National Income by Population.  
   TRUE/FALSE

5.5 THE INDIAN EXPERIENCE

In this section we will discuss and evaluate the Indian performance so far as growth and development are concerned. One of the important targets of India's development has been to accelerate the growth in national income. Besides the growth in national income, we are also interested to examine the trend in per capita income. Let us first study the trend in India's national income since the fifties. We use the estimates of Net National Product (NNP) at factor cost. The following table depicts this:

<table>
<thead>
<tr>
<th>Year</th>
<th>AT CURRENT PRICES</th>
<th>(Rs. Crore) at constant prices (1980-81 prices)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-51</td>
<td>8574</td>
<td>40454</td>
</tr>
<tr>
<td>1960-61</td>
<td>14242</td>
<td>58602</td>
</tr>
<tr>
<td>1970-71</td>
<td>36503</td>
<td>82211</td>
</tr>
<tr>
<td>1980-81</td>
<td>110685</td>
<td>110685</td>
</tr>
<tr>
<td>1990-91</td>
<td>418074</td>
<td>186446</td>
</tr>
<tr>
<td>1995-96</td>
<td>857570</td>
<td>267330</td>
</tr>
<tr>
<td>1999-2000</td>
<td>1590301</td>
<td>1011224*</td>
</tr>
<tr>
<td>2000-2001</td>
<td>1765238</td>
<td>1063479*</td>
</tr>
</tbody>
</table>

Note: * at 1993-94 prices.
From the above table it can be seen that national income (at current prices) has increased from Rs. 8574 Crore to Rs. 857570 Crore i.e., an increase of 100 times over a forty five year period and then to 1765238 crores in 2000-2001. However, the increase was not that pronounced during the First Five Year Plan period (1950-51 to 1955-56). Subsequently, substantial increases have been noticed over the successive Five Year Plans.

The increase in national income at current prices, however, does not really depict a true picture of the economic growth of the nation, because a substantial part of this increase may be the result of the rise in the prices of goods and services in the economy. In order to have a better idea of economic growth we need to consider the above at constant prices (i.e. keeping prices fixed and then looking at by how much has the income in real terms increased), which is also given, in the above table. From the above table we can infer that the increase in real national income is much less than nominal national income. While the former increased about six times, the latter increased more than 100 times during 1950-51 to 1995-96. The much greater increase in nominal income is due to the inflation (or rise in prices) over this period.

Table 2: Trends in Per Capita National Income (NNP at Factor Cost)
(at Current and Constant Prices)

<table>
<thead>
<tr>
<th>Year</th>
<th>At current prices (Rs.)</th>
<th>At constant prices (Rs.) (at 1980-81 prices)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-51</td>
<td>238</td>
<td>1126</td>
</tr>
<tr>
<td>1960-61</td>
<td>328</td>
<td>1350</td>
</tr>
<tr>
<td>1970-71</td>
<td>674</td>
<td>1519</td>
</tr>
<tr>
<td>1980-81</td>
<td>1630</td>
<td>1630</td>
</tr>
<tr>
<td>1990-91</td>
<td>4983</td>
<td>2222</td>
</tr>
<tr>
<td>1995-96</td>
<td>9321</td>
<td>2573</td>
</tr>
<tr>
<td>1999-2000</td>
<td>16047*</td>
<td>10204*</td>
</tr>
<tr>
<td>2000-2001</td>
<td>17530</td>
<td>1056*</td>
</tr>
</tbody>
</table>

Source: Same as in Table 1
Note: * at 1993-94 prices

The above table depicts the per capita income series both at current and constant prices. Just as real income series is used to eliminate the effect of price increase from the nominal income to give a true picture of the changes in total production, so also per capita income series is designed to eliminate the impact of population increase. Increase in per capita income at constant prices also indicates potential increase in the standard of living, if the total population is distributed equitably over different income slabs. Though at current prices per capita net national product increased about 38 times during the forty five year period, at constant prices it showed an increase of only 2.3 times. The much greater increase in nominal per capita income is due to the rise in prices over this period.

The pattern of growth of national income over the different five-year periods also differs when we consider real, rather than nominal income. This highlights the erratic growth in a planned economy in the fifty years of Independence (Graph 3).

The following table demonstrates this feature:
Table 3: Annual Compound Growth Rate of NNP in India
(at Constant (1980-81) Prices)

<table>
<thead>
<tr>
<th>Plan</th>
<th>NNP (percentage)</th>
<th>Per Capita (percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Plan (1951-56)</td>
<td>3.6</td>
<td>1.7</td>
</tr>
<tr>
<td>Second Plan (1956-61)</td>
<td>4.0</td>
<td>1.9</td>
</tr>
<tr>
<td>Third Plan (1961-66)</td>
<td>2.4</td>
<td>0.1</td>
</tr>
<tr>
<td>Three Annual Plans (1966-69)</td>
<td>3.7</td>
<td>1.4</td>
</tr>
<tr>
<td>Fourth Plan (1969-74)</td>
<td>3.3</td>
<td>0.9</td>
</tr>
<tr>
<td>Fifth Plan (1974-79)</td>
<td>5.0</td>
<td>2.6</td>
</tr>
<tr>
<td>Annual Plan (1979-80)</td>
<td>-6.0</td>
<td>-8.2</td>
</tr>
<tr>
<td>Sixth Plan (1980-85)</td>
<td>5.4</td>
<td>3.2</td>
</tr>
<tr>
<td>Seventh Plan (1985-90)</td>
<td>5.9</td>
<td>3.6</td>
</tr>
<tr>
<td>Annual Plan (1990-91)</td>
<td>5.1</td>
<td>3.0</td>
</tr>
<tr>
<td>Annual Plan (1991-92)</td>
<td>-0.1</td>
<td>-2.1</td>
</tr>
<tr>
<td>Annual Plan (1992-93)</td>
<td>5.1</td>
<td>3.1</td>
</tr>
<tr>
<td>Annual Plan (1993-94)</td>
<td>5.9</td>
<td>4.1</td>
</tr>
<tr>
<td>Annual Plan (1994-95)</td>
<td>6.8</td>
<td>4.9</td>
</tr>
<tr>
<td>Annual Plan (1995-96)</td>
<td>6.9</td>
<td>5.1</td>
</tr>
<tr>
<td>Annual Plan (1999-2000)</td>
<td>6.6*</td>
<td>4.8*</td>
</tr>
<tr>
<td>Annual Plan (2000-2001)</td>
<td>5.2*</td>
<td>3.5*</td>
</tr>
</tbody>
</table>

Source: Same as in Table 1
Note: * at 1993-94 prices

As is clear from the above table, the growth has fluctuated a lot over the last 50 years. Seventh Plan achieved the highest growth (of NNP as well as per capita NNP). Till Fourth Plan growth has been well below 5 percent but since the Fifth Plan onwards the growth has accelerated.

Table 4: The Gross Capital Formation in the Indian Economy

<table>
<thead>
<tr>
<th>Year</th>
<th>Investment Rate (%)</th>
<th>ICOR</th>
<th>GDP growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951/2-55/6</td>
<td>10.66</td>
<td>2.95</td>
<td>3.61</td>
</tr>
<tr>
<td>1956/7-60/1</td>
<td>14.52</td>
<td>3.40</td>
<td>4.27</td>
</tr>
<tr>
<td>1960/1-65/6</td>
<td>15.45</td>
<td>5.44</td>
<td>2.84</td>
</tr>
<tr>
<td>1966/7-70/1</td>
<td>15.99</td>
<td>3.43</td>
<td>4.66</td>
</tr>
<tr>
<td>1971/2-75/6</td>
<td>17.87</td>
<td>5.80</td>
<td>3.08</td>
</tr>
<tr>
<td>1976/7-80/1</td>
<td>21.47</td>
<td>6.63</td>
<td>3.24</td>
</tr>
<tr>
<td>1981/2-85/6</td>
<td>20.98</td>
<td>4.15</td>
<td>5.06</td>
</tr>
<tr>
<td>1986/7-89/90</td>
<td>22.70</td>
<td>3.91</td>
<td>5.81</td>
</tr>
<tr>
<td>1986/7-91/2</td>
<td>23.17</td>
<td>4.36</td>
<td>5.31</td>
</tr>
<tr>
<td>1991/2-1996/7</td>
<td>24.9</td>
<td>3.7</td>
<td>6.8</td>
</tr>
<tr>
<td>1999-2000</td>
<td>28.2</td>
<td>4.3</td>
<td>6.5</td>
</tr>
</tbody>
</table>

where Investment Rate = (I/Y), GDP growth = growth rate of Y (or gross domestic product)

ICOR = (K/Y = Incremental Capital-Output ratio

It is clear from the Table 4 that the capital formation (i.e. the investment rate) in the Indian economy has been rising continuously since Independence. It was around 10 percent in 1951/2-1955/6 and has risen to over 23 percent in 1986/7-91/2 period and then to 28 percent during 1997-2000, an increase of about 18 percent. This has been a remarkable achievement. However, the growth of the economy has not shown the corresponding rise in growth of income.

The above table shows incremental capital output ratio rather than capital-output ratio because of two reasons: i) it is very difficult to measure capital and ii) the incremental capital (or investment) is what matters for immediate increase in growth of national income. In the economic analysis also, therefore, the stress is on ICOR rather than on COR. The reason for this has been mainly the fluctuations in the incremental capital-output ratio(ICOR) over this period. This reflects the fluctuation in the level of efficiency in the use of capital stock in the economy.

From the above discussion it is clear that the growth in national income or even in the per capita income does not throw light on the development process. Ultimately the process of economic development has to be concerned with living standards of people i.e. whether they live longer, escape morbidity, be well nourished, be able to read and write and communicate with each other, take part in scientific pursuits, and so forth. The process of economic development can be seen as a process of expanding the capabilities of people and their access to opportunities along with an improvement in their quality of life.

With the above in mind, we focus on some social (or development) indicators. The following Table depicts some basic indicators of Human Development:

<table>
<thead>
<tr>
<th>Year</th>
<th>Expectation of Life at Birth (years)</th>
<th>Literacy Rate (%)</th>
<th>Birth Rate (per)</th>
<th>Death Rate (thousand)</th>
<th>Infant Mortality Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951</td>
<td>32.1</td>
<td>18.3</td>
<td>39.9</td>
<td>27.4</td>
<td>146</td>
</tr>
<tr>
<td>1961</td>
<td>41.3</td>
<td>28.3</td>
<td>41.7</td>
<td>22.8</td>
<td>146</td>
</tr>
<tr>
<td>1971</td>
<td>45.6</td>
<td>34.5</td>
<td>36.9</td>
<td>14.9</td>
<td>129</td>
</tr>
<tr>
<td>1981</td>
<td>50.4</td>
<td>43.6</td>
<td>33.9</td>
<td>12.5</td>
<td>110</td>
</tr>
<tr>
<td>1991</td>
<td>59.4</td>
<td>52.2</td>
<td>29.5</td>
<td>9.8</td>
<td>80</td>
</tr>
</tbody>
</table>


As can be seen from the above table, there has been significant improvement in almost all indicators of economic development. For instance, life expectancy at birth in last 45 years period rose from 32.1 to 59.4 years, literacy rate has almost tripled from 18.3 percent to 52.2 percent over the same period, birth rate and death rate came down. Death rate has fallen at a faster pace than birth rate resulting in rapid growth of population. Infant mortality rate has also come down significantly in this period (146 to 80).

In India, in 1991 the occupational structure absorbed 65 percent of the work force in the agriculture (or primary) sector, about 15 percent in industry (or secondary) and rest (20 per cent) in the services (or tertiary) sector indicating that agriculture is still the main employer of the work force in the economy. The secondary and tertiary sector of the economy are supporting relatively a much smaller proportion of the labour force and that there is an unduly high proportion of population drawing its livelihood from agriculture. This is against the background that the share of agriculture
Indian Economy: Growth and Development

in the GDP has declined from more than 50 percent at the time of independence to around 33 percent in 1991.

The experience of the Indian economy in terms of occupational structure has been very depressing. This, obviously, means that the per capita income in agriculture sector in India is much lower compared to the rest of the population depending on industrial and services sector. On average income of the population in non-agriculture sector was around 2.3 times that of the ones depending on agriculture sector. This difference has risen to more than 4 times in the last fifty years of Independence. This indicates the urgent need to raise the level of productivity of agriculture sector as well as absorption of larger proportion of the work force in non-agriculture sector for faster growth and development of the Indian economy.

Check Your Progress 3

1) What has been the Indian experience of growth and development since Independence? Discuss in about 100 words and point-wise.

2) Fill in the blanks:
   a) Share of agriculture in GNP has dropped from 50 percent in 1950 to about ______ percent in 1991.
   b) Capital formation is also known as ______.
   c) Faster growth in national income at current prices is due to ______.

3) The literacy rate in India has increased to
   a) 99.1 percent
   b) 52.4 percent
   c) 45.7 percent
   d) 23.5 percent
   e) None of the above

4) The expectation of life at birth in India has increased to
   a) 99.1 years
   b) 23.5 years
   c) 45.7 years
   d) 59.4 years
   e) None of the above

5) The infant mortality rate has fallen to
   a) 80
   b) 90
   c) 150
   d) 108
   e) None of the above
6) The proportion of the work force in India dependent on Agriculture sector is
   a) one-third
   b) two-third
   c) one-half
   d) three-fourth

7) The national income at current prices is higher than that of national income at
   constant prices, because of:
   a) population growth
   b) inflation (or rise in prices)
   c) slowing down of growth rate
   d) deflation (fall in prices)

8) The growth of national income is higher than that of per capita national income,
   because of
   a) positive population growth
   b) inflation (or rise in prices)
   c) slowing down of growth rate
   d) negative growth of population

9) Rate of capital formation has risen to
   a) 12 percent
   b) 15 percent
   c) 19 percent
   d) 23 percent
   e) 35 percent

5.6 LET US SUM UP

Objective of this Unit was to familiarise the reader with the concept of economic
growth and economic development and with the difference between the concept of
economic growth and economic development. Many a time people use these two
concepts interchangeably which is not appropriate. The concept of economic
development is much wider than the concept of economic growth.

Later part of the Unit looked at the Indian performance in terms of growth and
development in the period since Independence.

In short, it is quite possible that mere emphasis on gross national product or growth
approach to development may result in increase of national income by the manipulation
of capital-output ratio but in the process, the economy may be faced with the problem
of massive unemployment. It is, therefore, of vital importance that the pattern of
investment should be so designed that certain areas such as defence equipment,
engineering and metallurgical industries, heavy industries, railways, shipping etc
may be permitted to use sophisticated capital-intensive technology but bulk of the
consumer goods industries and various programmes of agricultural development should
emphasise on labour-absorbing technologies with lower doses of capital. Such a
course is vitally necessary in the early phases of development in which population
pressure is heavy on account of a fast decline in the death rate. The harmonisation
of the objective of expanding production with that of securing full employment is a
logical necessity in developing economies like that of India.
Over the last fifty years since independence, Indian economy has made only limited progress towards self-sustained economic growth. After five decades of effort, a substantial number of Indians, which can be counted in millions, remain desperately poor and can look forward to more abject poverty. A complete re-orientation of development policy is required to benefit the bottom half of the population from the growth process.

5.7 KEY WORDS

Economic Growth: Economic growth refers to a rise in national or per capita income (or product).

Economic Development: The process of improving the quality of life.

Income per capita: Total national income of a country divided by total population.

Morbidity: death or deathlike position.

National income: Total money value of all final goods and services produced in an economy during a year.

Primary sector: Consists of agriculture and allied activities like forestry, fishing etc.

Secondary sector: consists of industries of all types, manufacturing and construction related activities, also referred to as industrial sector.

Tertiary sector: services related activities fall in the purview of this sector. These include banking, transport, insurance, administration, trade etc.

Vicious circle: A self-reinforcing situation in which factors tend to perpetuate a certain undesirable phenomenon.

5.8 SOME USEFUL BOOKS


Oxford University Press, New Delhi, Chapter 1 p 1-23.

Foundation, Delhi, Chapters 1-3 p 25-45.


Oxford University Press, New York.

5.9 ANSWERS OR HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) Economic growth refers to rise in national income or per capita income. For the details see Section 5.2.
2) Economic development is the process of economic growth and social change. For details of concept of economic growth and economic development go through section 5.3 carefully.

3) See Section 5.2 and 5.3

Check Your Progress 2

1) a) indivisibilities; b) capital-intensity; c) labour-intensity; d) quality of managerial and organisational skills; and e) complementary economic activities (Section 5.4.3 for details).

These factors affect ICOR in different ways some positively and some negatively. This is discussed in Section 5.4.3 elaborately

2) d). 

3) d)

4) a) False; b) False; c) False; d) True;

Check Your Progress 3

1) For this answer you should go through the Section 5.5 and 5.6 and study all the tables and discussions about them in the Unit thoroughly. Discussion should be based on performance in terms of growth of national income and per capita income, capital formation, investment rate and the social indicators. 

2) a) 33 b) investment c) inflation (or price rise)

3) b) 4) d) 5) a) 6) b) 7) b) 8) a) 9) d).