UNIT 2 ECONOMIC DEVELOPMENT

Structure

2.1 INTRODUCTION

A variety of types of development are discussed in this block. They are economic development, political development, and human development. In general, economic development refers to a rise in income and the productivity of a nation. However, various economists define economic development in different terms. This unit discusses definitions of economic development, and how it differs from economic growth; the measurement of economic development; the factors influencing economic development, and; the characteristics of underdeveloped countries.

After studying this unit, you should be able to

- explain various views on economic development
- define economic development
- differentiate between economic development and economic growth;
- explain the measurement of economic development
- describe various factors influencing economic development
- illustrate various features of underdeveloped countries.

2.2 ECONOMIC DEVELOPMENT: VIEWS AND DEFINITIONS

Before going into the definitions of economic development, and the difference between economic development and economic growth, let us discuss the various view points on economic development.

i) Views on Economic Development

The four main views on economic development are put forth by:

- Classical
- Neo Classical
- Structuralists
- New Development Economists

The Classical Views of Economic Development

Economic development was customarily referred to as economic growth by classical and neo classical economists. The economists of the eighteenth, nineteenth, and early twentieth century, such as Adam Smith, David Ricardo, John Stuart Mill, Karl Marx, and Alfred Marshall had a profound concern for understanding the roots of economic wealth and the reasons for poverty. Adam Smith in his ***Progressive State*** identified three major sources of growth: (i) growth in the labour force and stock of capital; (ii) improvement in the efficiency with which capital is applied to labour through greater division of labour and technological progress; and (iii) foreign trade that widens the market and reinforces the other two sources of growth. According to Adam Smith, growth can be promoted through the market institutions and through the activity of competition. The classical economists including Adam Smith relied heavily on variables, such, as capital, population, and trade, for economic development.

Neo Classical Views of Economic Development

The neo classical economists believed that growth occurs as a result of the long term effects of capital formation, labour force expansion, and technological changes. Those are assumed to take place under conditions of competitive equilibrium. According to them, the shift in demand, and movement of resources from one sector to another are not necessarily important for development, because labour and capital produce equal marginal returns in all uses. Markets, prices, and incentives are the central issues. Besides, these three aspects, the neo classical economists advocated getting all national policies right in order to achieve a high growth rate.

The Structuralist Views of Economic Development

The early developmental economists adopted a somewhat structuralist approach to development problems. They tried to identify specific rigidity, lags, shortages and surpluses, low elasticities of supply and demand, and other characteristics of the structure of developing countries that affect economic development. According to them, economic development is caused by changes in the structure of the economy, rather than movement of labour from one sector to that of the other.

New Development Economists

The new development economists considered economic development as the removal of poverty and inequality, rather than an increase in the growth rate and GNP (Gross National Product). They are of the view that growth in GNP is not a sufficient condition for the eradication of poverty. Further, there is very little possibility of the trickle down effects of income, and, therefore, both, poverty and income inequalities are high in many countries. They questioned the very meaning of economic development and the value of measuring it in terms of GNP. They added other dimensions to the objectives of development. The World Bank emphasized redistribution with growth, and the International Labour Organization (ILO) concentrated on basic human needs. Now, development economists give emphasis more directly on the quality of the development process. They consider that people and the quality of their life are central to development. They argue that there is a need for a perspective of economic development that incorporates human development. The UNDP emphasizes the concept and measurement of the Human Development Index (HDI). The HDI measurement takes into consideration, not only per capita income, but social indicators, such as life expectancy and literacy, too. The Swedish Nobel Prize winner Gunnar Myrdal (1968) said that development is implicitly based on a series of modernized ideals, and, therefore, means achievement of those modernization ideals. The modernization ideals complied by Myrdal are: (i) rationality; (ii) planning for development; (iii) increases in production, production per capita, and production per worker; (iv) improvements in the standard of living; (v) declines in social and economic inequalities; (vi) consolidation of national state and national integration;(vii) national independence; (viii) political democratization; and, (ix) increased social discipline. Harvard's philosopher economist, Amartya Sen stressed that economic development should be interpreted as a process of expansion of positive freedom of the people. He said that development is a process that expands the 'entitlements' and 'capabilities' of the people, and advocates that development economists should concentrate on entitlement of the people, and the capabilities that these entitlements generates.

Economic development, as perceived by the modern economists, has been nicely summed up by Sizirmai (2005) in the following four points: (i) development is a normative concept involving very basic choices and values; (ii) development goals include the reduction of poverty, increased economic welfare, improved health and education ; (iii) an increase in productivity and production per head of population in poor countries and; (iv) Finally, there are modernization ideals or development goals does not means that all societies ought to develop in the same manner or that they converge to same common standard.

ii) Economic Development: Meaning and Definitions

In the first part of this section, you read different views on economic development. Now, let us give a few definitions of economic development, and, then, discuss the differences between the economic development and economic growth. According to C P Kindleberger, "economic development implies both more output and changes in technical and constitutional arrangements by which it is produced." Bernard Okun and W. Richardson opines, "economic development may be defined as a sustained improvement in well being, which may be considered to be reflected in an increasing flow of goods and services." According to Viner, "the term economic development signifies not merely economic growth, but economic development, which is associated either rising per capita levels of income, or, the maintenance of existing high levels of income."

iii) The Differences between Economic Development and Economic Growth

Now, we will outline the differences between economic development and economic growth. The main differences between economic development and economic growth are

- Development is a discontinuous and spontaneous change in the stationary state which, forever alters and displaces the equilibrium state previously existing, while growth is a gradual and steady change in the longrun, which comes about by a general increase in the rate of savings and population.

- Economic development deals with the problem of underdeveloped countries, whereas economic growth deals with the problems of developed countries.

- Prof. Maddison is of the view that, "The rising of income levels is generally called economic growth in rich countries and in poor countries it is called economic development, which is the outcome of deliberate planning". Thus, the term economic development is used for the fuller utilization of unutilized natural and human resources of the underdeveloped countries, while the term economic growth is referred for maintaining the situation of full employment in developed countries.

- According to Kindleberger, "Economic growth means more output. Economic development is the technical and institutional setup by which such output is produced and distributed."

- Economic Development means changes such as social, economic, and other changes which boost economic growth. Economic growth is measurable, but economic development cannot be precisely measured.

- In the opinion of Robert Clower growth is possible without development. Economic growth may not have any percolation effect on the society. It may bypass the people. Growth can be jobless and ruthless. It may not bring real prosperity and social welfare. People's standard of living may not rise due to higher economic growth. On the other contrary, the process of economic development has favourable effect on economic growth.

The difference between the growth and development is summarized in the Table-2.1 below.

Table 2.1: Differences between Economic Growth and Economic Development

Economic Development	Economic Growth
(1) Multi dimensional	(1) Single dimensional
(2) Qualitative changes: composition and distribution of national income	(2) Quantitative Changes: change in national and per capita income
(3) Gradual and steady change, planned	(3) Spontaneous change
(4) Continuous change	(4) Discontinuous change
(5) Growth is prerequisite for development	(5) Growth is possible without development
(6) Solution to the problem of under developed countries	(6) Solution to the problem developed countries
(7) Economic and non economic factors	(7) Economic factors

These differences show that there are no water tight differences between economic development and economic growth. Economic growth is a quantitative measure of development, while economic development is both quantitative and qualitative measure of development. Today's economic development can be tomorrow's economic growth. Most often we loosely refer only to 'growth', and, occasionally, for the sake of variety to 'progress' and 'development'. However, Gills *et.al.* (1996) said that the term economic development and economic growth are sometimes used interchangeably, but there is a fundamental distinction between them. Economic growth refers to a rise in national or per capita income and product, but economic development implies fundamental changes in the structure of the economy.

In this section you studied the meaning of economic development and differences between the economic development and economic growth. Now, answer a few questions given in *Check Your Progress 1*

Check Your Progress 1

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit

1) Define economic development?

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2) Do you agree that economic growth is different from economic development: Explain?

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2.3 MEASUREMENT OF ECONOMIC DEVELOPMENT

Measuring economic development is a varied and difficult task. There are several measures of economic development and some of the common measures are

1) Gross National Product/ Gross National Income
2) Per Capita Income
3) Incidence of Poverty
4) Human Welfare
5) Standard of Living
6) Green Index

Gross National Product (GNP) / Gross National Income (GNI)

The Gross National Product (GNP) is the value of all the goods and services produced in an economy, plus the value of goods and services imported, minus the goods and services exported. The Gross National Income is the total value of all income in an economy, plus the value of all income received from other countries, minus payments made to other countries. Thus, GNP and GNI measure indicate the levels of development. However, between the two, GNI is a more appropriate measure of development, as it measures what is actually available for contributing to the standard of living. On the other hand, GNP is a measure of the total value of goods and services produced by a country, and not the income and output available for use by a country. Cypher and Dietz (2004) remarked that "real GNP is a less desirable measure to use if one is interested in a surrogate welfare measure for the broad range of development goals of a nation." The gross national product hardly takes into account the output produced by the unorganized sector. The GDP and GNI of a few countries are given in Table-2, which shows that China's GDP and GNI are higher than those of Bangladesh and Jamaica. Thus, it can be concluded that China is a more developed country as compared to Bangladesh and Jamaica.

Table 2.2: GDP/GNI Per Capita, Comparison of Selected Countries, 2006 (billion $)

Country	Total GDP($)	Total GNI($)
Bangladesh	62.0	65.4
Brazil	1068.0	1038.4
China	2668.1	2694.8
India	906.3	900.9
Jamaica	10.5	9.4
Kenya	21.2	20.9
Korea (Rep.)	888.0	888.0
Pakistan	128.8	126.2
Sri Lanka	27.0	26.6

Source: World Bank, *World Development Indicators* (online)

Per Capita Income

Many economists argued that per capita income is a better measure of development than GDP and GNI. According to them development is meaningless, if it does not improve the standard of living of the people. Per capita income is calculated as national income, divided by total population. The GNI per capita, in dollar terms, of China, as shown in Table-2.3, is more than two times higher than that of India.

Table 2.3: GNI Comparison of Selected Countries, 2006

Country	GNI Per Capita ($)	Population in Millions
Bangladesh	453	144.3
Brazil	5503	188.7
China	2054	1311.8
India	812	1109.8
Jamaica	3525	2.7
Kenya	596	35.1
Korea (Rep.)	18340	48.4
Pakistan	793	159.0
Sri Lanka	1344	19.8

Source : World Bank, *World Development Indicators*(online)

Per capita income is considered to be better measure of development as it takes into account the benefits that accrue to individuals. In India, the per capita income is considered a barometer of development. Punjab, which enjoys substantially higher per capita income than Orissa, Bihar, and Madhya Pradesh, is generally considered a developed state compared to these other states.

Table 2.4: Per Capita Income of Selected States and All India at Constant Prices (1993-94) (in rupees)

State	2003-04
Andhra Pradesh	11333
Bihar	3557
Haryana	15721
Madhya Pradesh	8284
Orissa	6487
Punjab	15800

Source: http://somepark.chd.nic.in/images/statistics/SDP2

The Incidence of Poverty

The Incidence of Poverty is another measure of development. Many countries have calculated the number of people, and, even families, living below the poverty line. The simplest and most widely used measure of poverty is the Head Count Index (HCI), which is the ratio of the population living in poor households, with incomes below the poverty line, to total population. The calories norm has been used in India, *i.e.*, a minimum 2400 calories in rural areas, and 2100 calories in urban areas, to determine the poverty line. Another absolute measure of poverty that has been commonly used by the World Bank and other multilateral organizations for international comparisons is US dollar (one, or, two dollars) in purchasing power parity, per capita, per day. This yardstick is very simple and easy to use. The UNDP introduced the Human Poverty Index (HPI) in 1997, which is considered a measure of assessing the development of a nation from the angle of poverty. A high incidence of poverty means lower economic development. The incidence of poverty in Bangladesh and India is much higher than that of China.

Table 2.5: Percentage of Population Living Below Poverty Line in Selected Countries

Country	Population below Poverty line National Poverty line	Population below poverty line (International Poverty line)	
		1 $ a day	2 $ a day
Bangladesh	51.0 (1995-96)	38.3	84.0
Cambodia	36.1 (1997)	34.5	77.7
China	6.0 (1996)	12.5	34.9
India	36.0 (1993-94)	34.6	80.0
Pakistan	28.6 (1993)	26.1	73.6
Sri Lanka	20 (1990-91)	11.9	41.6

Source: *World Development Indicator 2007*, The World Bank.

Human Welfare

Economic development can be measured in terms of welfare. Human welfare includes both individual and community welfare. Individual welfare would include access to basic needs, equity in the distribution of income and wealth, literacy, health, sanitation, safe drinking water, and employment. Community welfare measures for human welfare are delivered through the active community participation.

Standard of Living

The economic development of a country is also measured in terms of its standard of living. To be comparable across households, the standard of living indicator may be expressed either in terms of consumption, or, income. Although, consumption seems to be a more appropriate measure, yet income is used as a better measure for the purpose of analysis.

Green Index

The World Bank's Environmentally Sustainable Division has developed an index, called the Green Index. The Green Index uses a new system of measurement for the assessment of economic development. It attaches a dollar value to the following three components: (i) produced assets, (ii) natural resources, and (iii) human resources. It puts price tags on produced assets, the sum of all machinery, factories, roads, and other infrastructure. It also assigns an economic value to land, water, timber, minerals, and all natural resources. Finally, it takes into consideration, the available human resources, the education level, and the range of skills. All these indicators are not usually taken into consideration in the traditional indicators of economic development.

In this section you studied about the tools and measures of economic development. Now, answer a few questions given in *Check Your Progress 2*.

Check Your Progress 2

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit

1) Explain one measure of economic development.

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2) How is the poverty line a measure of economic development?

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2.4 THE FACTORS INFLUENCING ECONOMIC DEVELOPMENT

Economic development is influenced by many factors, and these may, broadly, be categorized as economic and non economic factors.

i) Economic Factors

The economic factors influencing development are

Acceleration in Industrialization

Economic growth and development depends increasingly on faster industrialization. Higher industrial growth rates boost the national growth rate. The use of technology is higher in the industrial sector, which enhances productivity, and, also, ensures higher wages to the labour force engaged in the sector. Higher income results in higher purchasing power of the people engaged in a particular sector, which, ultimately influences their quality of life. The developed nations are largely industrially developed, while developing nations are mostly lagging in industrialization.

Mechanization of Agriculture

Agriculture is the mainstay of people in many developing countries. However, agriculture, in underdeveloped countries, use traditional methods of cultivation. This affects the productivity and per capita income of the families engaged in agriculture. Because of the low agricultural growth rate, the overall growth rate of a nation is affected. Technological progress and labour productivity is typically lower in primary sector particularly agriculture. Therefore, with growing urbanization, there is a shift of labour from traditional agriculture sector to the urban industrial sector. This affects agriculture and simultaneously puts pressure on the urban infrastructure. The nation, region, and state that employ a mechanized system of agriculture enjoy higher economic development. For example, Haryana and Punjab, in India's northern region, are economically developed states. The contribution of labour intensive traditional agriculture to economic development will certainly be lower, as compared to the modernized agriculture sector.

Climate, Soil and Terrain

Climate plays an important role in the process of economic growth and development. Generally, it seems that most developed countries are situated in temperate climates, while the developing countries are concentrated in tropical and subtropical zones. In the tropical zones, human energy and achievement are low because of the heat and humidity. The countries situated in the tropics face development problems different from those of temperate zones. For example in India, the cold climate of Punjab, Haryana, and Western Uttar Pradesh gives them higher agriculture productivity, compared to the hot and humid climate in eastern region states like Orissa, Bihar, and West Bengal. Moreover, the tropics are also fertile breeding grounds for a variety of agricultural pests and diseases. The low income in the tropical and subtropical zones is a great obstacle for capital formation in other sectors. Cattle and small livestock are also susceptible to diseases in temperate zones. The annual productivity from livestock in hot climate is lower than those of the cold climate. The countries situated in mountainous terrain like Nepal are at a disadvantage with respect to transport and communication. Thus, geography is a vital determining factor in economic development. The non-supportive geographical conditions adversely affect economic development.

Capital Formation

Capital is kingpin to development. Both agriculture and industry require capital for their modernization. Therefore, capital formation is a major determinant of economic growth and development. Capital formation means investment in dams, irrigation, canal, highways, power, etc. Of course, these projects take long period for completion, and, therefore, the benefits are indirect and spread out over a long period. However, in the long run, this capital formation directly influences the productivity and development of a nation. For example, after independence, Jawaharlal Nehru's vision of the construction of the Bhakra Nagal Dam in Punjab, Hirakund Dam in Orissa, and similar capital investment in agriculture and large scale industries are now paying dividend to the nation today. The green revolution in Punjab has considerably lessened hunger and ensured reasonable food security to India. Capital formation is measured by an equation called the capital-output ratio = K/O, where K is capital and O is output. The capital output ratio is a relationship between the value of a country in capital stock in a given year, and output in that year. The higher the ratio, the more development there is, and, vice-versa. The vicious circle of poverty, a widely used term, is based on the notion of capital formation. It says that lack of capital is the key factor preventing growth and development. The circle of poverty has two sides, the supply side, and the demand side as given in figures 2.1 and 2.2.

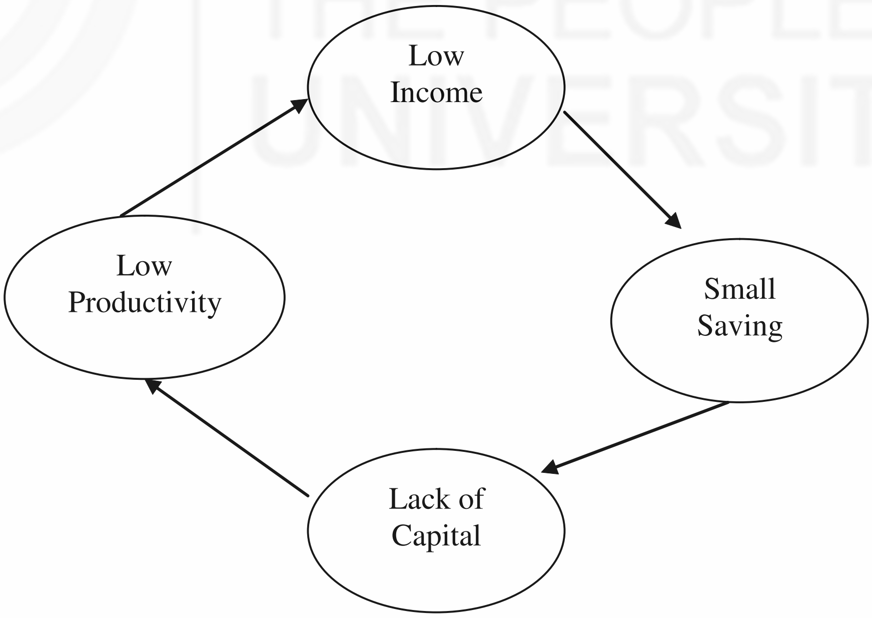

Fig.2.1: Supply side

Diagram-I: Market Imperfection and Production Possibility Curve

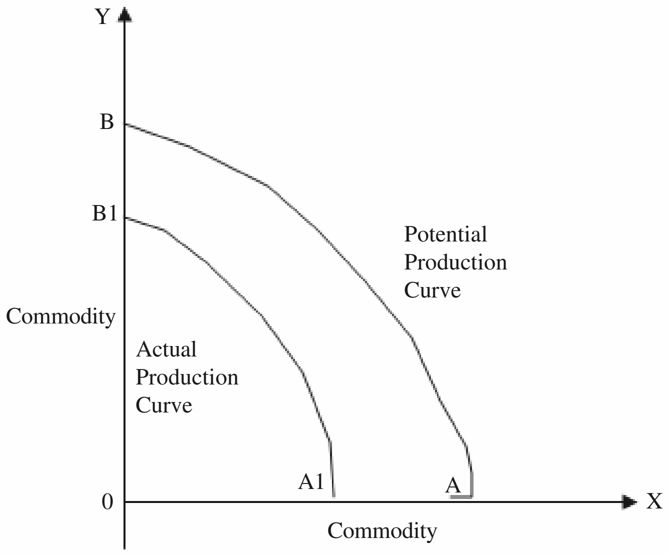

Fig.2.2: Demand Side

The supply side explains how low income leads to lower saving, which, in turn, results in low capital, or, investment, which means lower productivity, ultimately resulting in low income, and, thus, completing the cycle. Similarly, the demand side explains how low income means limited purchasing power, which discourages capital investment, ultimately resulting in low productivity, and lower income.

Market Imperfection

Market imperfection is responsible factors for underdevelopment. It refers to the factors such as price rigidity, factor immobility, ignorance about market conditions, etc., which hinder the smooth functioning of an economy. Market imperfection does not allow a flow of resources from the less productive sector to the more productive sector, which results in underutilization and ineffective utilization of resources. The ineffective utilization, that is, production which is far below the potential of resources, keeps a country on a lower production curve. In other words, market imperfection leads to factors disequilibrium, which, in turn, depresses production potential. The removal of market imperfections is essential for greater level of capital formation and more productivity.

The market imperfection is explained with the help of in diagram-I. Suppose a country produces two commodities A and B. The figure explains that AB is the production possibility curve, which denotes the maximum amount of commodity A and B that a country can produce by allocating resources in the best possible manner. Thus, AB can also be called a potential production possibility curve, or, productive possibility curve.

However, given market imperfections the country cannot make best possible use of its resources, and, therefore, it runs below its potential, shown in the curve A1B1.

The need is to push the production frontier upward, rather than to make adjustments to the existing resources at the margin. Therefore, the removal of market imperfections is essential for the effective utilization of resources, and for faster economic development.

Meier and Baldwin have described a third vicious circle based on capital deficiency due to market imperfection. It is given in figure–2.3.

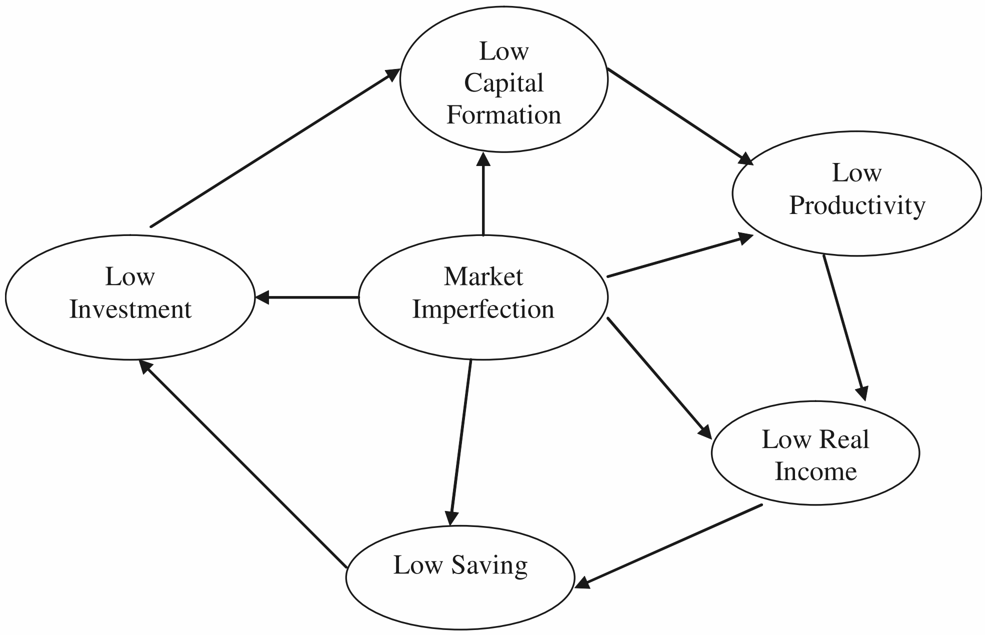

Fig. 2.3:

A country caught in the vicious circle of market imperfection cannot achieve rapid development.

Appropriate Investment Criterion

Proper selection of investment priorities need to be made, in order to maintain a low capital output ratio, or, to yield the maximum productivity from a minimum investment. Some of the aspects that need to be taken in to consideration, while investing, are

i) Investment may be made in those areas where social marginal productivity is high. By social marginal productivity, we mean investment that are made from the viewpoint of society, and, not an individual.

ii) Investment may be made in such a manner that would help to reduce market imperfections, and raise economic externalities. Market imperfection would create constraints in productivity and marketing.

iii) Balanced investment in both consumer goods and capital goods sector, between industrial and agricultural sector; between economic and social sector, and, between domestic and the foreign sector, are essential for the balanced economic development of a nation. Imbalanced investment would promote imbalanced growth and development. Since all sectors are interdependent and interrelated, it is necessary that investment should be directed towards a wider vision.

iv) Investment should take into consideration the capital output ratio. While selecting investment projects, and in determining the priorities for investment, the capital output ratios of various projects must be compared.

Technological Advancement

In the recent era of globalization, development is governed by technology and the higher the technological advancement, the greater is the pace of development.

Technological advancement customarily means the application of improved technical know-how in various sectors of development. However, technological manpower, and, enterprising entrepreneurs who are willing to adopt technology in their business and industry, are the keys to development. The three key advantages of technological progress are: (i) capital saving, (ii) labour saving and (iii) time saving. It can be said that a 'High Innovation Nation' generally develops faster than a 'High Investment Nation'.

International Economic Relationship

In this globalized world, the dependency among the nations has been amplified. Foreign direct investment plays an important role in the development of the developing countries. China and India are the two illustrious examples. The outsourcing of a number activities from the developed nations to developing nation (in recent years, IT) has promoted mutual development. The important areas of international economic cooperation are

i) Trade

ii) Foreign direct investment

iii) Transfer of technology and technical manpower.

Thus, in the globalized world, international cooperation has become one of the important determinants of development.

ii) Non-Economic Factors

Some non economic factors influencing economic development are discussed below.

Developmental Social Attitude

Traditional societies are conservative by nature, and resist changes. They have a cautious attitude towards change and modernization. In a traditional society, new ideas are viewed with suspicion, and are perceived as threats to the integrity of the existing culture. Inherited beliefs and values rule in traditional societies. These beliefs and values may be obstacles to development. The countryside people see modernization as a threat to their culture, beliefs and values and therefore oppose it. Traditional societies distrust outsiders and outside agencies working for change and modernization. However, changes in traditional societies have usually been caused by outsiders intentionally. The advancement in Goa, which the society talked about, was largely because of Portuguese influence and in Kerala it is because of the gulf and Punjab because of NRI effect.

Entrepreneurship

The Government, in general, and those belonging to developing countries in particular, nowadays, emphasize entrepreneurship as an important factor of production after land, labour, and capital. The entrepreneurs are visionary and innovative actors of development in many countries. Entrepreneurship, both in agriculture and in the industrial sector, is required for the formation of capital. The industrial growth rate has risen after liberalization, because of the rise in entrepreneurship in this sector, compared to the agriculture sector. The government of India is promoting women's entrepreneurship through microfinancing in its rural areas. Bangladesh is a classic example of women's entrepreneurship nurtured by microfinancing. They are not only actors for economic development, but for social development as well.

The Political Environment

Some scientists have observed that one of the obstacles to economic growth and development is political instability. Political instability and the expenses in elections also affect economic development. However, the relationship between political instability and economic growth is not easy to determine. The instability is also associated with poor governance, leading to a high degree of unrest, riots and demonstration. An unstable climate does not encourage investors.. In India, the fluctuations in the share market during the change of government is an example of the relationship between political instability and the climate for investment. One school of thought argues that authoritarian leadership is favourable for economic development. The examples cited are China, South Korea, Taiwan, and Yugoslavia.

Governance

Economic development is closely linked to governance. The administrative system must have quick delivery mechanism. Bureaucratic red tape creates hurdles in the path of development. Transparency in an administration is essential for the effective implementation of economic policies and programmes. A corrupt administration cannot promote rapid economic development. A former Prime Minister of India, Rajiv Gandhi used to say that when we send one rupee for development, only 20 paisa actually reaches the people, and the rest is siphoned off by middlemen. Therefore, an efficient and result oriented administration is an essential prerequisite for faster economic development.

In this section you studied the characteristics of underdeveloped countries. Now, answer a few questions given in *Check Your Progress 3*.

Check Your Progress 3

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit

1) What are three economic factors governing economic development?

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2) What are the non economic factors governing economic development?

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2.5 THE CHARACTERSTICS OF UNDERDEVELOPED COUNTIRES

It is not easy to define and pinpoint various characteristics of underdeveloped countries. Economists have defined underdeveloped countries differently. Even the word underdeveloped is used in different situations differently, such as, 'less developed', 'developing', 'third word', or, 'backward' countries.

Rangar Nurkse says, "Underdeveloped countries are those which, compared to advanced countries, are underdeveloped with capital in relation to their population and natural resources".Colin Clark, a pioneer in the study of underdeveloped economies wrote, that "underdeveloped economies are such in which the primary occupation like agriculture pre-dominates". In the opinion of M.P. Tadaro, "Underdeveloped economy is that economy in which there are low levels of living, absolute poverty, low per capita income, low consumption levels, poor health services, high death rates, high birth rates and dependence on foreign countries". According to Gunner Myrdal, " an underdeveloped countries is that country in which there is a constellation of numerous undesirable conditions of work and life, output, income, and levels of living are low; many modes of production, attitude and behaviour patterns are disadvantageous and these are unfavourable institutions".

From these few definitions, we can draw basic characteristics of underdeveloped countries, as given below.

- Overdependence on the primary sector
- Low capital formation
- High poverty and malnutrition
- Under utilization of natural resources
- Under utilization of labour
- Dualistic economic structure
- Technological backwardness
- Unchecked population growth
- Uneven urbanization and environmental degradation
- Poor infrastructure
- Political instability and poor governance

Overdependence on the Primary Sector

Agriculture plays a predominant role in the economy of most of the underdeveloped country. As agriculture is not technically advanced, it absorbs a larger labour force. This is because of the less progressive secondary and tertiary sector, and the lack of capital formation. However, the contribution of the agricultural labour force in an underdeveloped country is not significant compared to the agricultural labour force in developed countries. On an average, 60 per cent to 80 per cent of the population are engaged in agriculture in underdeveloped countries. The countries depending purely on agriculture are likely to be unprogressive because agriculture alone cannot provide sustainable employment to all its population. Development of the industrial sector, along with the agriculture sector would complement and supplement each other, and promotes faster economic development.

Low Capital Formation

The underdeveloped countries face a chronic deficiency of capital. This shortage of capital is one of the factors responsible for low per capita income. Low capital formation creates a vicious circle of under development shown in figure 2.4.

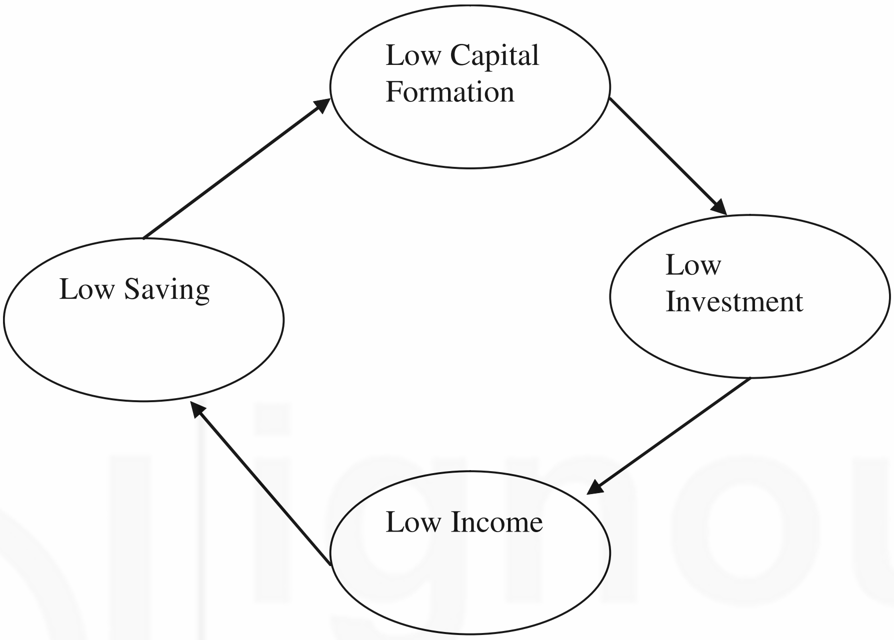

Fig.2.4:

The underdeveloped countries can be termed capital poor, low saving, and low investment economies. This low level of capital formation is because of lacklustre inducements for investment, and a propensity to save. High population growth affects the saving capacity of the family. Therefore, the underdeveloped economy has a poor capacity to invest in the modernization of agriculture, opening industries, or investing in social overhead capital. Thus, the economy remains in a primitive state. There is a general lack of entrepreneurship among the people living in underdeveloped countries.

High Poverty and Malnutrition

One of the important features of underdeveloped countries is the prevalence of poverty and malnutrition. Poverty and malnutrition are more seen in rural areas, where more than 70 per cent of its population resides. Few earning member and more consuming members affect the per capita income of families in these labour intensive economies. Lower income leads to lower purchasing power. The nutritional anemia among the women and children in the developing countries are much higher, compared to developed countries. The consumption of less than the required calories has promoted nutritional anaemia. Therefore, both, adults and children, look stunted, and the morbidity rate is quite high. The maternal mortality rates in underdeveloped countries like India, Bangladesh, Pakistan, Bhutan, and Nepal is higher than developed countries.

Underutilization of Natural Resources

Many underdeveloped countries in the world have sizeable natural resources. However, all of these natural resources have not been adequately tapped and have remained either unutilized, or, underutilized. The eastern part of India is endowed with abundant mineral resources, Africa possess large hydro-power potential. Similarly, the potential of the forests of Africa and South Africa remains unexploited. It is said that focusing on river projects in India would enhance its irrigation potential.

The Under Utilization of Labour

Generally, underdeveloped countries are labour surplus countries. Most of the labour, particularly in rural areas is unemployed, underemployed, or disguised unemployed in the agriculture sector. This labour is grossly underutilized. They do not get the required days of employment, and remain idle despite their willingness to work. Underemployment and disguised unemployment affects per capita income. Many agricultural and casual labourers suffer from acute poverty and are unable to provide minimum education and basic health care facilities to their woman and children.

Dualistic Economic Structure

Another important feature of underdeveloped countries is dualism, where the traditional subsistence sector co-exists with the modern sector. The modern sector is found in the urban areas, and the traditional subsistence sector, in rural areas. There is hardly any technological diffusion from the modern sector to traditional sector. Besides this, other form of dualism found prevailing in these countries are regional dualism and cultural dualism. This dualism is a hurdle in the path of development. Inequality, in underdeveloped countries, is a function of dualism.

Technological Backwardness

Technological backwardness in underdeveloped countries lead to economical backwardness. Many developing countries are still handicapped by very low levels of technological capabilities, owing to inadequate schooling, technical training, and experience. This low level of technological capabilities limits the rate of technological change and economic growth, and keeps developing countries dependent on outside knowledge and expertise (Szirmai, 2005).

Unchecked Population Growth

High population growth affects the economic development of underdeveloped countries. The other feature of population growth in developing countries is that it is higher, among the lower income groups and in rural areas, as compared to high income group and in urban areas. As a result of population growth, a sizable percentage of resources in high population growth underdeveloped countries is spent on consumption rather than on investment and capital formation. Overpopulation affects the income, employment, and capital formation scenario of underdeveloped countries.

Uneven Urbanization and Environmental Degradation

Urbanization and urban population growth in underdeveloped countries are largely due to rural to urban migration. Some social scientists term it 'the transgression of rural poverty to urban areas'. This uneven, migrated population is resides mostly in urban slum areas that are deficient in basic amenities. This has an adverse impact on environmental sanitation, as well as the employment situation in urban areas. The money which is required to be spent on capital formation is directed toward urban renewal.

Poor Infrastructure

Underdeveloped countries are characterized by poor infrastructure. The quantity, as well as quality of infrastructure, such as roads, electricity, drinking water, etc. is poor, compared with developed countries. Infrastructure is the key to development. Besides, many underdeveloped countries are still to fulfil social infrastructure needs, such as, education and health institutions, because of capital deficiency. These countries are unable to invest in essential infrastructure like irrigation and hydroelectricity projects.

Political Instability and Poor Governance

Many developing countries are marred by political instability. Examples of South Asian countries, like Pakistan and Bangladesh can be cited here. Besides political instability, regional separatism, ethnic and religious extremism, pose serious threats to the development of these developing countries. Lack of political and administrative will towards development is commonly observed in underdeveloped countries. The multiparty system and coalition politics are also gradually developing in these countries. Political stability and integrity, and good governance are prerequisites for rapid development. Corruption in politics and the bureaucracy impedes development in these countries.

In this section you studied the characteristics of underdeveloped countries. Now, answer a few questions given in *Check Your Progress 4*.

Check Your Progress 4

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit

1) What are five important features of underdeveloped countries.

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2.6 LET US SUM UP

This unit on economic development discusses various aspects of economic development such as definition of economic development, measurement of economic development, factors governing economic development and characteristics of developing countries. Customarily, economic development is defined as the rise in productivity, growth rate, and national income. However, modern economists have different viewpoints on economic development. The measures of economic development are GNI, standard of living, poverty line, etc. Factors such as a will for development, market imperfections, technological advancement, political and administrative stability, capital formation, international economic relations, govern the economic development of a country. Some important characteristics of underdeveloped countries are: overdependence on agriculture, low capital formation, high poverty and malnutrition, underutilization of natural resources, technological backwardness, economic dualism, and high population growth.

2.7 REFERENCES AND SELECTED READINGS

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2.8 CHECK YOUR PROGRESS POSSIBLE - ANSWERS

Check Your Progress 1

1) Define economic development?

   Answer. Economic development has been defined differently by different economists. It is defined as raised output, and a change in the technical arrangements by which it is produced. Second, economic development is defined as a sustainable improvement in wellbeing, reflected in an increasing flow of goods and services. A third definition of economic development : "Economic development is a process of raising real per capita income on a permanent and long term basis".

2) Do you agree that economic growth is different from economic development: Explain?

   Answer. Generally economic growth is the quantitative measure of development, while economic development is both a quantitative and qualitative measure of development. The term economic development is used for underdeveloped countries, while economic growth is used for developed countries. However, there are no watertight differences between economic development and economic growth. Today's economic growth can be tomorrow's economic development. Therefore, it is remarked that, most often, we refer only to growth, but occasionally, for the sake of variety, to Progress and Development.

Check Your Progress 2

1) Explain two measures of economic development

Answer. The measures of economic development are Gross National Product (GNP) and Gross National Income (GNI)**.** GNP is the total value of all final product created within a country, regardless of the place of recipient, while GNI is the total value of all income accruing to residents of a country, regardless of the place of recipient. The, GNP/GNI measures tells that higher the value, higher the development.

2) How is the poverty line a measure of economic development?

Answer. The simplest and most widely used measure of poverty is the Head Count Index (HCI), which is the ratio of population living in poor households with income below the poverty line to the total population. Another absolute poverty line that has been commonly used by the World Bank and other multilateral organizations for international comparisons is US dollar (one, or, two dollars) in purchasing power parity per capita per day. The higher the level of poverty, the less development, and vice versa.

Check Your Progress 3

1) What are three economic factors that govern economic development.

Answer. Three economic factors governing economic development are industrialization, mechanization of agriculture, and capital formation. Most of the developed countries are highly industrialized and their agriculture is mechanized. On the other hand, the underdeveloped countries adopt mostly the traditional methods of cultivation, and, therefore, the income from agriculture is low. This affects overall economic development. Further, poor capital formation also affects investment, which retards economic development.

2) What are the noneconomic factors governing development?

Answer. Poor developmental social attitudes, lack of entrepreneurship, and poor administrative efficiency, or governance, are some of the factors that influence the economic development of a nation. It is said that if the horse is not thirsty no amount of dragging it to the water will make it drink. Likewise, if the people of a country are not interested in development, no coercive means will promote development. Poor governance, such as, lack of political and administrative will, also affect economic development.

Check Your Progress 4

1) What are five important features of underdeveloped countries?

Answer. The five important features of underdeveloped countries are

- Over dependence on the primary sector
- Low capital formation
- High poverty and malnutrition
- Under utilization of natural resources
- Under utilization of labour

The underdeveloped countries are largely agricultural countries, and the agricultural communities use traditional methods of cultivation. The percentage of population that depend on agriculture is quite high as compared to the industrial and service sectors. There is also low capital formation, high poverty among the people, under utilization of natural resources, particularly land and forest, and, under utilization of labour force, because of lack of effective employment.