<u>UNIT I:</u>

<u>Meaning of Underdeveloped Countries:</u>

Eugene Staley defined an underdeveloped country as – **“**A country characterised by (i) mass poverty which is chronic and not the result of temporary misfortune and (ii) obsolete methods of production and social organisation, which means that the poverty is not due to poor natural resources and hence could presumably be lessened by methods already proved in other countries”.

- This definition of underdevelopment is quite satisfactory. A group of experts of the **United Nations** states, “We have had some difficulty in interpreting the term ‘underdeveloped countries ‘in which per capita real income is low when compared with the per capita real income of the United States of America, Canada, Australia and Western Europe. In this sense, an adequate synonym would be poor countries”.
- The **Planning Commission of India** offered a definition of underdeveloped country as one “which is characterised by the co-existence, in greater or lesser degree, of unutilised or under-utilised manpower on the one hand and of the unexploited natural resources on the other”.
- **Prof. Ragner Nurkse** was of the opinion that underdeveloped countries are those which “Compared with the advanced the advanced countries are under-equipped with capital in relation to their population and natural resources”.

<u>CHARACTERISTICS OF UNDER DEVELOPMENT:</u>

They are classified into four ways :

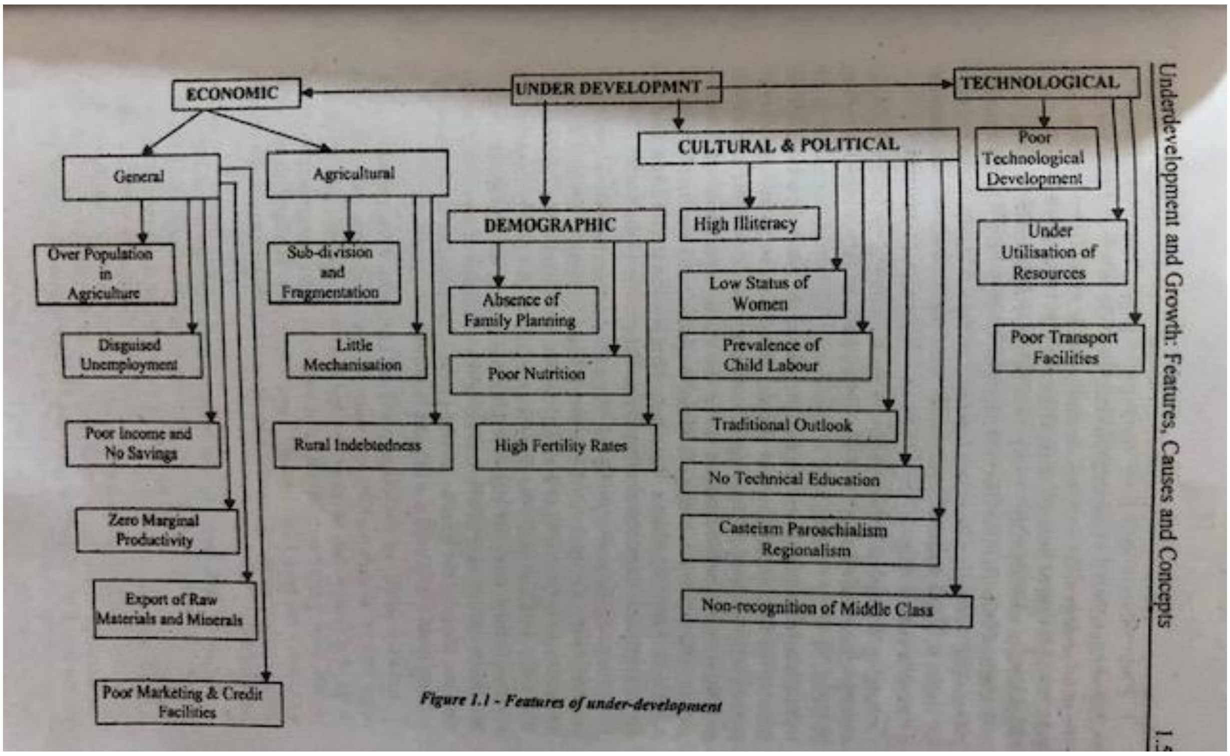
- 

Figure 1.1 - Features of under-development

FACTORS DETERMINING OR INFLUENCING ECONOMIC DEVELOPMENT AND GROWTH:

The process of economic growth is determined by two sets of factors

- Economic factors
- Non-Economic factors

ECONOMIC FACTORS:

1. Natural Resource: The principal factor affecting the development of an economy is the availability of natural resources. The existence of natural resources in abundance is essential for development. A country deficient in natural resources may not be in a position to develop rapidly. But a country like Japan lacking natural resources imports them and achieve faster rate of economic development with the help of technology. India with larger resources is poor.

2. Capital Formation: Capital formation is the main key to economic growth. Capital formation refers to the net addition to the existing stock of capital goods which are either tangible like plants and machinery or intangible like health, education and research. Capital formation helps to increase productivity of labour and thereby production and income. It facilitates adoption of advanced techniques of production. It leads to better utilization of natural resources, industrialization and expansion of markets which are essential for economic progress.

3. Size of the Market: Large size of the market would stimulate production, increase employment and raise the National per capita income. That is why developed countries expand their market to other countries through WTO.

4. Structural Change: Structural change refers to change in the occupational structure of the economy. Any economy of the country is generally divided into three basic sectors: Primary sector such as agricultural, animal husbandry, forestry, etc., Secondary sector such as industrial production, constructions and Tertiary sector such as trade, banking and commerce. Any economy which is predominantly agricultural tends to remain backward.

5. Financial System: Financial system implies the existence of an efficient and organized banking system in the country. There should be an organized money market to facilitate easy availability of capital.

6. Marketable Surplus: Marketable surplus refers to the total amount of farm output cultivated by farmers over and above their family consumption needs. This is a surplus that can be sold in the market for earning income. It raises the purchasing power, employment and output in other sectors of the economy. The country as a result will develop because of increase in national income.

7. Foreign Trade: The country which enjoys favorable balance of trade and terms of trade is always developed. It has huge forex reserves and stable exchange rate.

8. Economic System: The countries which adopt free market mechanism (laissez faire) enjoy better growth rate compared to controlled economies. It may be true for some countries, but not for every country.

NON-ECONOMIC FACTORS:

'Economic Development has much to do with human endowments, social attitudes, political conditions and historical accidents. Capital is a necessary but not a sufficient condition of progress. – Ragnar Nurkse.

1. Human Resources: Human resource is named as human capital because of its power to increase productivity and thereby national income. There is a circular relationship between human development and economic growth. A healthy, educated and skilled labour force is the most important productive asset. Human capital formation is the process of increasing knowledge, skills and the productive capacity of people. It includes expenditure on health, education and social services. If labour is efficient and skilled, its capacity to contribute to growth will be high. For example Japan and China.

2. Technical Know-how: As the scientific and technological knowledge advances, more and more sophisticated techniques steadily raise the productivity levels in all sectors. Schumpeter attributed the cause for economic development to innovation.

3. Political Freedom: The process of development is linked with the political freedom. Dada Bhai Naoroji explained in his classic work 'Poverty and Un-British Rule in India' that the drain of wealth from India under the British rule was the major cause of the increase in poverty in India.

4. Social Organization: People show interest in the development activity only when they feel that the fruits of development will be fairly distributed. Mass participation in development programs is a pre-condition for accelerating the development process. Whenever the defective social organization allows some groups to appropriate the benefits of growth. Majority of the poor people do not participate in the process of development. This is called crony capitalism.

5. Corruption free administration: Corruption is a negative factor in the growth process. Unless the countries root-out corruption in their administrative system, the crony capitalists and traders will continue to exploit national resources. The tax evasion tends to breed corruption and hamper economic progress.

6. Desire for development: The pace of economic growth in any country depends to a great extent on people's desire for development. If in some country, the level of consciousness is low and the general mass of people has accepted poverty as its fate, then there will be little scope for development.

7. Moral, ethical and social values: These determine the efficiency of the market, according to Douglas C. North. If people are not honest, market cannot function.

8. Casino Capitalism: If People spend larger proportion of their income and time on entertainment liquor and other illegal activities, productive activities may suffer, according to Thomas Piketty.

9. Patrimonial Capitalism: If the assets are simply passed on to children from their parents, the children would not work hard, because the children do not know the value of the assets. Hence productivity will be low as per Thomas Piketty.

OBSTACLES TO ECONOMIC DEVELOPMENT:

- Vicious circle of poverty
- Market imperfection
- Low rate of capital formation
- Social – cultural obstacles
- International forces
- Administrative incompetence & corruption

MEANING OF ECONOMIC DEVELOPMENT:

The process in which an economy grows and becomes more advanced, especially when both economic and social conditions are improved:

- They are trying to promote economic development in the border areas.
- The state has added $5,00,000 from the state economic development fund to help close the gap.
- An economic development/ initiative/ strategy.
- Energy play a key role in economic development strategy.

DEFINITION OF ECONOMIC DEVELOPMENT:

According to Meier& Baldwin, “economic development as a process where by an economy’s real national income increased over a long period of time”.

Benjamin Higgins define economic development as “a discernible rise in total and per capita income of a country, widely diffused throughout occupational and income groups, and continuing long enough to become cumulative”.

MEANING OF ECONOMIC GROWTH:

- Economic growth is an increase in the production of goods and services in an economy.
- Increases in capital goods, labour force, technology, and human capital can all contribute to economic growth.
- Economic growth is commonly measured in terms of the increase in aggregated market value of additional goods and services produced, using estimates such as GDP.

DEFINITION OF ECONOMIC GROWTH:

Economic growth is the process of increasing the sizes of national economies, the macro-economic indications, especially the GDP per capita, in an ascendant but not necessarily linear direction, with positive effects on the economic-social sector.

DIFFERENCES OR DISTINGUISH BETWEEN ECONOMIC DEVELOPMENT & ECONOMIC GROWTH:

	Economic development	Economic growth
Implications	Economic development implies an upward movement of the entire social system in terms of income, savings and investment along with progressive changes in socioeconomic structure of country (institutional and technological changes).	Economic growth refers to an increase over time in a country`s real output of goods and services (GNP) or real output per capita income.
Factors	Development relates to growth of human capital indexes, a decrease in inequality figures, and structural changes that improve the general population's quality of life.	Growth relates to a gradual increase in one of the components of Gross Domestic Product: consumption, government spending, investment, net exports.
Measurement	Qualitative. HDI (Human Development Index), gender- related index (GDI), Human poverty index (HPI), infant mortality, literacy rate etc.	Quantitative. Increases in real GDP.
Effect	Brings qualitative and quantitative changes in the economy	Brings quantitative changes in the economy
Relevance	Economic development is more relevant to measure progress and quality of life in developing nations.	Economic growth is a more relevant metric for progress in developed countries. But it's widely used in all countries because growth is a necessary condition for development.
Scope	Concerned with structural changes in the economy	Growth is concerned with increase in the economy's output