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TABLE OF CONTENTS

1. Learning Outcomes

The study of economic growth and development is important to know not only the rate of increase in output and capacity but also the mechanism by which this rate is realized, sustained or impeded.

- Learn the concepts of economic growth and economic development
- Analyze that while economic growth is a single dimensional concept, economic development is a multi-dimensional concept
- Identify that economic development has a social content as well and the quality of life should be the focus of economic development
- Learn the concept of economic development and the features which differentiate these underdeveloped economies from the developed economies
- Examine the factors responsible for perpetuation of the conditions of underdevelopment in same economies
- Evaluate various measures through which the economic and social aspects of development can be estimated and the gaps in various indices will measure the differences in levels off development

2. Introduction

Since World War II more interest has been taken by the economists in the problems of backward and less developed countries. Thus, the students of economics of development must understand and distinguish between the concepts of economic growth and economic development. Whereas development may not result from economic growth, economic growth always results from economic development. Economic growth is therefore a concern of advanced countries; economic development is a major issue for less developed nations.

As the ultimate objective of economic development is human development and an improvement in the social well- being of the people, development strategy must aims at improving the standard of life of the people.

Moreover, as the economies are classified into developed and underdeveloped, one must understand the differentiating features of the two categories as well as the reasons for the persistence of gap between the two. The unit also examines the factor which helps in measurement of levels of growth and development across various nations.

3. Concepts of growth and development

The concept of economic development has taken a central place in economic literature since World War II. Although economists like Karl Marx and even some of the classical economists explained about this problem in 18th century yet economic growth and development has now become a special area of study. The key element of development is that people are the major participants in the process of change in an economy as well as in the enjoyment of benefits flowing from these changes and this process of change in the economy is referred to as economic development.

The traditional approach to the concept of development was strictly in economic terms whereby an economy is transformed from a low level of economic activity to a higher level. Development process, here, implied some forces working over a period of time to change certain variables which result in the growth of national product. While growth is only a quantitative change, the process itself involves many other changes which can be classified into

a) Changes in factor supplies which comprises of
   - The discovery of additional resources
   - Capital accumulation
   - Population growth
   - New technology
   - Skill formation &
   - Institutional and organizational changes

b) Changes in the structure of demand due to the change in the level and distribution of income as well as due to the changes in the structure of production and employment.

This quantitative approach towards growth was based on the policy of inducing industrialization at the expense of agriculture. The concepts of poverty elimination, reduction in inequality, generation of employment were assumed to be the outcome of rapid growth in GNP and GNP per capita. Since a vast majority of world population could not get the benefits of economic growth this narrow approach of development had to be redefined. Therefore, while growth involves focusing on an increase in height or weight (or GNP) development draws attention to changes in both functional and learning capacities. In the early stages any economy that grows is likely to develop. But, the

study of Liberian economy 'Growth without development' which shows an absence of both structural changes to induce complementary growth in other sectors and of institutional changes to diffuse gains in all sectors has necessitated the focus back on the problem of development.

The achievements in enhancing gross national product has been indeed remarkably significant in certain countries (e.g Brazil, South Africa and Oman) but their success in delivering public health, education and enhancing the life expectancy and reducing mortality has been quite dismal, what Professor Sen has termed an example of 'unaided opulence' (Dreze and sen, 1990). While the countries like China and Sri Lanka with relatively quite low-income levels have made significant progress in the pubic provisioning of these services.

The concept of development, therefore, has been redefined to include direct attack on the problems of poverty, unemployment and inequalities etc. Thus, economic development is a wider concept which not only includes improvements in material welfare but also includes changes to fulfill the objectives of eradication of mass poverty along with its correlates of illiteracy, morbidity and early death. It also includes changes in the structure of output, a change in occupational structure, and changes in institutional and organizational set up along with the changes in allocation of resources. Moreover, it also includes changes in attitudes of people which make them more rational and more modern in outlook and behavior, as Kindleberger puts "Whereas economic growth merely refers to a rise in output, economic development implies a change in technological and institutional organization of production as well as the distributive pattern of income."

Thus, while economic growth is a single dimension concept economic development is a multi-dimensional concept which includes both an increase in GDP per capita as a primary goal as well as a number of sub-goals like poverty alleviation, reduction in inequalities, more employment opportunities and improving the living standard of the masses.

4. Underdevelopment and the common characteristics of underdeveloped countries

Since the end of World War II, more interest has been taken in the problems of backward and less developed countries. Although, there is no single definition of under-

development which is universally acceptable yet there are certain indicators on which there is a consensus and those can be used to identify the under-developed countries. The United Nation experts have defined "an Under-developed country as the one which has a real per capita income that is lower in relation to the real per capita income of USA, Canada, Australia and Western Europe". Thus, under-development is a relative concept as it involves comparison of one set of countries with the other. It refers to the state of an economy where levels of living of masses are too low due to low per capita income resulting from low level of production. Although, it is a relative concept yet it sustains absolute poverty wherein more than 30% of the people fail to fulfill their basic needs of food, clothing and shelter. But, an under-developed country should not be identified as a potentially poor country. These economies have the capabilities for achieving higher growth rates and only need a big push through some concerted domestic factors as well as some outside help. They also need same internal re-organization to make them move in the desired direction. These are the countries whose actual and potential resources have not been fully utilized due to lack of capital, technological backwardness and unskilled manpower. These have good potential for development if provided with sufficient capital with modern technology. Even, Planning Commission of India has observed "An under-developed economy is one which is characterized by the co-existence of unutilized or under-utilized manpower on the one hand and of unutilized natural resources on the other. This state of affairs may be due to stagnancy of techniques or to certain inhibiting socio-economic factors which prevent the more dynamic forces in an economy from asserting themselves."

World Bank, in the World Development Report has classified countries as low income, middle income and high income countries. This classification is based on per capita GNP. The data shows that low income countries comprise 12.5 % of the World Population but account for only 0.7% of the total world GNI while high income economies which have only 16.5% of world population account for 71% of world GNI. The middle income countries which account for 71% of world population have 27.4% of world GNI. Thus, lower and middle income groups taken together which are known as developing economies comprise about 83.5% of world population but account for only 28.1% of the world GNI. Most of these countries are in Asia, Africa, Latin America and some part of Europe. The most common characteristics of these economies are

- Low per capita income
- Wide spread poverty
- High rates of population growth

- Low levels of productivity
- Unemployment and under-employment
- Weak infrastructure
- More dependence on primary sector
- Low rates of capital formation
- Unequal income distribution
- Poor quality of human capital
- Dualistic economy
- Low social indicators
- Sociological factors

Thus, under-developed countries are low income countries whose resources have not been fully utilized. These economies can achieve high rates of growth if their resources are fully utilized by mobilizing more capital and by utilizing the modern technology judiciously.

5. Factors which perpetuate under development

The history of modern economic growth and development shows that it has not affected all corners of the globe. While in some parts the economic performance in the aggregate has led to a thorough transformation of a country's economic and social framework, there are countries which have been lost untouched and the conditions of under-development perpetuate. We can, therefore, discuss those factors which have been responsible for perpetuation of under-development between nations. These factors include:

A. **Agricultural conditions: -** The influence of agriculture to achieve sustainable living is generally underestimated. But in fact, agriculture is the cornerstone of rural development and thereby poverty alleviation, particularly for developing countries. The major challenges in this sector like fragmented landownership, low public and private investment levels and low productivity keep the role of this sector limited, particularly in rural socio-economic development. Even, trade liberalization to create equal market access could only benefit the developed nations. The lack of modern technology comprehensive support measures and lack of resources in this sector has kept the rate of growth low in both this sector as well as in the overall economy.

B. **Urban Bias:** - The govt. policies based in favor of metropolitan areas have encouraged migration from rural areas and thereby, increasing facilities for the urban population may promote growth in the short period but it won't produce long term sustainable and equitable development industrial investment, if promoted at the cost of agriculture will further reduce land for agriculture and thus will force migration to urban areas. This distorts urban labour market and restricts comprehensive economic development. In the absence of rural development, especially agricultural development resources particularly unskilled labour shifts to the urban areas and stimulates social unrest and thus perpetuates under-development.

C. **Rapid population growth:** - Rapid growth of population in most of the African and Asian nations is due to factors like poverty, illiteracy, unemployment and social norms. The bulk of the population growth is in those countries which are under-developed. This ever increasing number is putting pressure on land, houses, other services and infrastructure. As these economies fail to provide sufficient food, housing, health care and education etc. this promotes persistent under-development which is further compounded by poverty. Over population even leads to environment degradation. Thus, high population hinders both social and economic development.

D. **Institutional framework:** - Institutions are those rules and conventions which govern human behavior and social interactions. These form the social structure on which the edifice of economic development can be built. Since, these are the constraints imposed by the society and are both formal and informal in nature; development requires that these institutions are reformed. Although formal institutions can be easily changed with the help of low but it takes a long time to change the conventions and codes of behavior which depends on the mindset of the society. Since, the changed formal rules work only in a social set up which is willing to accept these changes, it is necessary that the informal constraint must change. Thus, development is not simply related to use of material resources but is also linked up with institutional framework. Any economy caught up in the traditional and primitive institutional set up cannot expect a high rate of development unless the institutions are modernized.

E. **Dualism:** - By dualism we mean the co-existence of well-developed modern sector with traditional backward sector in various parts of the economy. While the modern sector uses scientific and sophisticated technology and is guided by the profit motive the traditional sector uses outmoded techniques and produces for self-consumption. The economy is thus divided into two major segments-one which is well organized prosperous and progressive while in the other poverty,

backwardness and misery continues. This dualistic situation also becomes a cause of stagnation and under-development in these economies.

6. Understanding the measures of Economic Development

Since development is a multidimensional phenomenon no single measure of economic development completely describes such an intricate and subtle process. However, most economists follow the spirit of Lord Kelvin's assertion that we are unlikely to know much about a subject unless we can measure it in some way. The multiplicity of development goals can be shown by a variety of development measures e.g. when we are interested in material output we measure it in terms of GNP or GDP. Levels of mass poverty are indicated by the income distribution, the utilization of resources by sample surveys and the qualitative aspect of economic development is measured through various social indicators.

The first and the most important measure of economic development is the Gross Domestic Product which means the total value of goods and services, produced within a country during a year or GNP which also includes the net income from abroad or GNP per capita which is obtained by dividing the total value of GNP by population. Here a distinction has to be made between the level which is a crude indicator of average welfare and the rate of change which indicates the speed and direction of change. A country grows if its total income increases, but since our interest in development is for human welfare income per capita is more important which takes into account the size of the population and can provide some information about efficiency. But, there are some theoretical and practical problems of using GDP/GNP/or income per capita as a measure of development. The basic problems faced are

- It remains hard to draw a line between consumption and costs or between final product and intermediate product.
- The valuation of goods and services.
- The exclusion of govt. spending on administration and distribution in particularly socialist economies.
- Informal economy and unpaid work such as home-makers services, and subsistence farming and bartering.
- High informal sector as rural economy cannot give accurate information.

- It hides inequality in distribution even within a country.
- Negative externalities like pollution and environmental damage is not included.
- The benefits of environmental services are not included.

Thus, GNP is only a measure of the economic value of what is produced and paid for. It does not take into account the environmental and social costs as well as the distribution aspect. There are a number of other problems faced whenever attempt is made to reduce national product originating under different social conditions to comparable aggregates. In order to measure and evaluate a country's development performance, one can use measures of the extent to which people in the country receive the benefits of development process. One approach is to look at the indices like -

Absolute Poverty- Those living in a situation where they are unable to satisfy their basic needs for survival, food, clothing, shelter, water and sanitation for which the World Bank gives an income of $1.25 per day and that of

Relative Poverty- A level of poverty relative to the rest of the population which has been taken as 50% of the average earnings and inequalities in income distribution which has increased over the planning period in India. Inequality becomes a problem when differences in income across sections of society are deemed to be excessive and perpetuating.

An alternative approach to measure development is in terms of social indices which may be single component indicators or composite indicators using multiple components. These social indices give us some idea about people's quality of life. These are Demographic Statistics on mortality and fertility. The population growth rate can indicate the stage of demographic transition the country is at, which can be linked to development. The infant and maternal mortality rate, the fertility rate, the life expectancy, the % of GNP spent on health, the doctors and hospital beds per 1000 of population and the levels of urbanization in an economy can also be linked to development. Other social indices which can also measure the level of development in an economy are:

- Percentage of GNP spent on education.
- Literacy rates including male and female literacy rates.
- Full time teachers per 1000 people

- No. of people having higher and professional education.
- Access to safe water.
- Percentage of GNP spent on housing and dwelling floor space per capita.
- Besides single component indices there can be multiple component indices which combine a number of single components to give a combined score.

7. Understanding the Development Gap

The Development Gap refers to the widening difference in levels of development between the world's richest and poorest countries. Although this development gap can also occur within countries i.e. between regions, urban and rural areas but here we are concerned with development differences between rich and poor countries. In order to measure development gap we can evaluate all those indicators which are used to measure development such as

- GDP/GNP/GNP Per Capita in which the gap between India and USA is around 40 times. While the average GNP per capita in India was $ 1180 that of USA was $ 47240 at the official exchange rate.
- The employment structure and GDP contribution of agriculture also indicates wide gaps between the two countries. While, in USA only 4% of the population worked in agriculture and its share in GDP was only 1.3%, its ratios were 58 % and 17% in India.
- As far as the consumption of energy is concerned while per capita consumption of electricity in USA was 7766 kg oil equivalent, in India it has been only 529 kg of oil equivalent.
- Nearly 51% of the bottom household own only 10% of the assets and 10% of the rich own 49% of the assets in India which shows the extent of inequality.
- Around 1/3 of the population in India lives below poverty line.
- Not only in Economic indices even the social indicators show a wide gap between developed and under-developed nations. While life expectancy in USA was 79 years in India it was 64 years, the literacy ratios were 99 and 66 respectively. The infant mortality rate and the total fertility rates were 53 & 2.6 in India while there were as low as 4 and 1.2 in the country like Korea. While India ranked 134 in HDI index Canada occupies fourth place in this index. The PQLI index and International suffering index which covers daily calorie intake, access to clean

water& communication, inflation rate and political freedom and civil rights also indicate the similar types of gaps.

8. Summary

- It is clear from the discussion above that while economic growth in terms of a sustained increase in real national income is a uni-dimensional concept. But economic development on the other hand, involves many structural and functional changes. More recently the focus of development has been shifted to the quality of life and enrichment of human life as the ultimate aim of all development is improving the well-being of the people. The unit also examines some diverse features of underdeveloped countries which differentiate these economies from the developed economies.
- Since no single definition or characteristic of economic development can capture the multidimensional nature of this concept, no single measure of development can completely describe its intricate process. Therefore, the multiplicity of development goals is seen by a variety of development measures. These may range from material output to social indicators.
- Moreover since many of the countries could not transform their economic and social framework, a few factors have been discussed which are responsible for the perpetuation of the problem of underdevelopment in these economies.