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ECONOMIC DEVELOPMENT AND UNDERDEVELOPED COUNTRIES

The term 'economic development' is quite often used as a synonymn of economic growth in modern economic literature. Some leading economists however, prefer to treat economic development as a distinct concept. Schumpeter defines development as "a continuous 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 long run which comes about by a gradual increase in the rate of savings and population."[1]

Charles P. Kindleberger and Bruce Herrick argued, "economic development is generally defined to include improvements in material welfare, especially for persons with the lowest incomes, the eradication of mass poverty with its correlates of illiteracy, disease and early death, changes in the composition of inputs and outputs that generally include shifts in the underlying structure of production away from agricultural towards industrial activities; the organisation of the economy in such a way that productive employment is a general among the working age population rather than the situation of the privileged minority; and the correspondingly greater participation of broadly based groups in making decisions about the directions, economic and otherwise, in which they should move to improve their welfare."[2]

Economic development is thus a process with noble ideals and backward countries without exception are endeavouring to make it successful.

Economic development is measured in four ways:

1. GNP - An increase in the economy's real national income over a long period of time.

2. GNP per Capita - An increase in the per capita real income of the economy over a long period, that means the rate of increase in real income should be higher than the growth rate of population.

3. Welfare - Economic development is regarded as a process where by there is an increase in the consumption of goods and services of individuals.

4. Social Indicators - These include health, food and nutrition, education including literacy and skills employment, conditions of work, consumption of basic necessities, transportation, housing including household facilities, clothing, recreation and entertainments, social security etc. All these indicators emphasise on the quality of the development process.

FACTORS IN ECONOMIC DEVELOPMENT

Economic development is a complex process. It is influenced by both economic and non-economic factors.

Among the economic factors which determine the development process in any country, the most prominent ones are the available capital stock and the rates of its accumulation, capital-output ratios in various sectors, size of population and its growth rate, agricultural surplus and balance of payment position. In addition, some non economic factors such as political freedom, social organisation, technical know-how and general education, absence of corruption and above all, will to develop on the part of the people play an important role in determining the pace and direction of development. The role of natural resources in development is also important.

Natural Resources

Until 1930s the development or underdevelopment of an economy was often explained in terms of the relative quantities of natural resources available. But some of the leading economists like Jacob Viner has stated, "much obviously depends on the character of the physical environment or the quality, ... of the natural resources considered as factors of production.... An unfavourable physical environment can be a major obstacle to development."[3] Indeed, development and affluence of a number of countries may be associated, among other things, with the kind and size of the resource base they have. Availability of fertile soil with abundant supply of water for irrigation purposes provides favourable conditions for agricultural development. Similarly adequate reserves of coal and petroleum and water resources for the generation of electricity can be profitably utilised by an underdeveloped country for its radical transformation into a developed economy. Minerals also can induce the process of industrialisation.

Obstacles to Economic Development

Scarcity of capital is perhaps the principal obstacle to development in underdeveloped countries. "When capital is in short supply, major technological break-through is not possible and productivity of labour remains low."

Ragnar Nurkse has attributed the poverty in the third world countries to shortage of capital. In his opinion some of these countries have been cought in the "vicious circle of poverty." "Apart from the scarcity of capital some other major obstacles to development in these countries are difficulties in adopting western technology, pressure of growing population, political instability, poor administration and unfavourable international situation."[5]

Let us discuss the issues in brief -

1. Vicious Circle of Poverty and the Shortage of Capital

There are circular relationships known as the vicious circles of poverty that tend to perpetuate the low level of development. According to Nurkse the vicious circle of poverty implies. "Circular constellation of forces tending to act and react upon one another in such a way as to keep a poor country in a state of poverty." When a country is poor, its ability to save can not be much and national income is very low because of scarcity of capital. Hence low level of capital accumulation. Naturally, both national production and productivity of labour remain low. The vicious circles operate both on the demand side and supply side. The demand side - the low level of real income leads to a low level of demand. Which leads to a low income - low savings - low investment and deficiency of capital - low level of productivity and back to low income. Thus the vicious circle is complete from supply side.

2. <u>Low Rate of Capital Formation</u>

People are mostly illiterate and unskilled, out moded capital equipment and methods of production. Their marginal productivity is extremely low. Low productivity leads to low real income - low saving, low investment and to a low rate of capital formation.

3. <u>Socio-cultural Constrains</u>

This is another obstacles of economic development, which has much to do with human endowments, social attitudes, political conditions and historical accidents, capital necessary but not a sufficient condition of progress.

4. Agricultural Constraint

The majority of national income is predominantly derived from agriculture. Agricultural production constitutes a large share of underdeveloped countries as well as contributing considerably to earning foreign exchange for the country through exports. However, agricultural practices are controlled by custom and tradition.

5. Human Resources

Human resources also constitute an important obstacle to economic development in the less developed countries. Surplus labour in much countries is to a considerable extent due to the shortage of critical skill - low levels of productivity, factor immobility, limited specialisation of occupation and customary ~~rule~~ values and traditional social institution that minimise the incentives for economic development.

6. Foreign Exchange Constraint

Condition in foreign trade have particularly unfavourable impacts on relatively poor countries because only produce to primary production. Their balance of payments position is negative due to the excess imports over the exports.

The Indian economy is gripped by the vicious circles of poverty and backwardness. Several factors, economic as well as social and others are responsible for this slow growth and development of the country.

A sure rapid progress in economic and real ~~terms~~ terms presupposes the emergence of those factors which can lead to the breaking up of the vicious circles of poverty and backwardness. This is particularly so with respect to the primary, especially the (rural) agricultural sector in India.

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