33rd Revised Edition

INDIAN ECONOMY

V.K. Puri ◆ S.K. Misra

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— ITS DEVELOPMENT EXPERIENCE

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PREFACE TO THE THIRTY THIRD EDITION

The CSO has recently released a new series of national accounts with base year 2011-12. This series presents a considerably improved performance of the economy during the years 2012-13 and 2013-14 *vis-a-vis* the earlier series with base year 2004-05. However, many economists have criticised the methodology adopted by the CSO in arriving at the new estimates while some others have argued that the overall macroeconomic overview of the economy during these years does not justify the optimistic results arrived at by the CSO. In any case, the new series gives data for only three years and thus cannot be used for a comparative long-run study over a period of time. Till such series becomes available, one has no option but to continue to use the series with base year 2004-05. This is what we do in the present edition although results based on the new series are also presented at relevant places.

As in the case of the earlier editions, in this edition also we critically analyse the performance of the Indian economy over the years, discuss the problems confronting the different sectors, and carry out a threadbare evaluation of the different programmes being undertaken by the government in considerable detail. We also examine the challenges and opportunities facing the Indian economy in the new emerging global environment. The organisation, structure and contents of the present edition are as follows:

Part I of the book 'Economic Development: A Theoretical Background' is divided into three chapters. It discusses the concepts of economic growth and development, common characteristics of underdeveloped countries, the role of economic and non-economic factors in economic development, the concept of human development, human development index, gender inequality index, multidimensional poverty index, etc., and issues concerning the relationship between environment and development.

Part II discusses the 'Structure of the Indian Economy' and consists of thirteen chapters. It is devoted to the discussion of various issues relating to the nature of the Indian economy including the natural resources and ecological issues, infrastructural development, population problem, poverty and unemployment, income growth and inequalities, etc.

Part III of the book 'Basic Issues in Agriculture' consists of nine chapters. It starts with a discussion of the role, nature and cropping pattern of Indian agriculture and then takes up for discussion the issues in Indian agricultural policy (including a review of the new global opportunities and challenges facing Indian agriculture in the wake of the various agreements concluded under WTO). We then proceed to a discussion of agricultural production and productivity trends, progress and failures in the field of land reform, green revolution and its impact on the rural economy of the country, agricultural finance and marketing, agricultural prices and agricultural price policy, the food security system in India, and agricultural labour.

Part IV on 'The Industrial Sector and Services in Indian Economy' consists of ten chapters. It starts with a discussion of industrial development during the period of planning and then proceeds to discuss some major industries of India. This is followed by a discussion of small-scale industries, industrial policy, role and performance of public sector enterprises, the issue of privatisation in public sector enterprises, role of private sector in the Indian economy, CSR (corporate social responsibility), the problem of industrial sickness, and various issues relating to industrial labour (including exit policy). The last chapter in this part (Chapter 35) discusses the growth of the services sector and related issues.

Part V of the book concerns 'Foreign Trade and Foreign Capital.' Consisting of eight chapters, it starts with a discussion of the changes in the composition and direction of India's foreign trade, and then proceeds to a discussion of India's balance of payments, trade policy, policy relating to foreign capital, exchange rate and capital account convertibility, MNCs (including a discussion on FERA and FEMA), etc. The last two chapters of this part discuss in detail the opportunities and challenges that the Indian economy faces in the new global environment. We critically examine the overall working of the WTO and also take up for discussion India's new product patent regime.

Part VI on 'Money and Banking' consists of six chapters. It starts with a discussion of the problem of inflation in India and then takes up the discussion of Indian money market, expansion and progress of commercial banking in India, Reserve Bank of India and a critical appraisal of its monetary policy, development of capital market in India and steps taken to strengthen this market in recent years (including steps taken by SEBI) and institutional financing.

Part VII on 'Public Finance' contains five chapters. In this part, we start with a discussion of the Indian tax structure. This is followed by a discussion of public expenditure and public debt in India. The chapter on 'India's Fiscal Policy' in addition to discussing the various aspects of fiscal policy as is being implemented in India, examines the issue of fiscal responsibility in detail. The last chapter of this part focuses on the issues related to federal finance in India. It also discusses the report of the Fourteenth Finance Commission in detail.

Part VIII which is the last part of the book is on 'Economic Planning and Policy.' It contains nine chapters. Starting from a discussion of the rationale, features and objectives of planning, we proceed to discuss the strategy of development as envisaged in the various five year plans. This is followed by a discussion of the financing pattern of India's five year plans, sectoral allocation of resources, regional planning in India, the problem of black money, and assessment of planning in India (including a detailed discussion of the post-economic reform period). The last chapter of the book (Chapter 63) considers the Twelfth Five Year Plan in detail.

We take this opportunity to thank the large body of students, candidates appearing in different competitive examinations, researchers and teachers in various universities and colleges spread all over the country for continuously patronising our book all through these years and making it a standard textbook in its field. We are overwhelmed by the tremendous response to our efforts which has been an incentive for us to work hard to constantly revise and update our analysis and incorporate all new issues on Indian Economy in all their dimensions over the years. We also thank Dr. Divya Misra of Lady Shri Ram College, Delhi University, and Mrs. Kiran Puri for their help and support in preparing this edition. We also place on record our deep sense of gratitude to our publishers M/s. Himalaya Publishing House for their wholehearted cooperation all through the process of production of this new edition.

V.K. Puri

PREFACE TO THE FIRST EDITION

The present book discusses the development issues facing the Indian economy. It is the experience of the authors that the traditional textbooks carry ample description and heaps of data but little analytical framework. The study of Indian economy is, therefore, reduced to a study of 'descriptions' and cramming of data. The student feels bored and loses interest in the subject. From a long-term point of view, this tendency is harmful for the development of the subject itself. Undoubtedly, some brilliant studies have been conducted by different scholars on some specific issues facing the economy but these studies are spread over a number of journals and research papers. The student has neither the time nor the patience to go through all of them. Their treatment is also highly technical and they are not easily accessible to the students. The authors have for long felt the need of a book that *integrates* the main results of these studies in the main text and supplies the 'missing links of information' to the student while strictly maintaining the overall textbook structure.

Out of this conviction the present book is born. It is divided into 46 chapters dealing practically with all issues confronting the Indian economy. The treatment is exhaustive like other competing books but it differs from them in that particular attention has been paid to 'analysis' rather than mere 'description' of facts. This should enhance the utility of the book from the point of view of the students and teachers. Within the framework of a textbook, the chapters on 'population problem', 'strategy of development', 'capital, technology and institutions', and a number of other chapters raise a number of issues that are generally glossed over in the traditional textbooks on Indian economy.

Some issues have emerged recently as serious issues of debate. These include the question of inter-sectoral terms of trade between agriculture and industry, farm size and productivity, underutilisation of capacity in Indian industries, the paradox of rising saving and investment rate but slow economic growth, etc. These questions are not even raised, let alone discussed, in traditional textbooks. The authors of the present book have given the respect that is due to these topics by discussing them in detail.

Conceived thus, the present book should be of immense value to the students of Indian Economics appearing in various University examinations and competitive examinations. It fills an important gap in the area.

In writing this book, we have benefited immensely from the studies of a number of scholars spread over various journals and magazines. We are grateful to all of them. We also express our deep sense of gratitude to Miss Divya Misra, Lecturer in Economics, Lady Shri Ram College, Delhi and Shri Shashi Prakash Sharma, Lecturer in Economics, Shyam Lal College (Evening), Delhi, for rendering assistance in various forms in preparing the manuscript of this book. Thanks are also due to Vijay Batra for typing the manuscript with patience and efficiency. We are deeply indebted to the publisher for bringing out this book in a record time. Suggestions for improving the book are welcome from all quarters and will be gratefully acknowledged.

V.K. Puri and S.K. Misra

FIGURES/UNITS USED IN THE BOOK

One lakh	1,00,000
One million	10 lakh
One crore	10 million
One billion	1,000 million/100 crore
One trillion	1,000 billion/1,00,000 crore

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BOXES

ACRONYMS

A

AAY	Antyodaya Anna Yojana
ACRC	Agricultural Credit Review Committee
ADLG	Agricultural Development-Led Growth
ADLI	Agricultural Development-Led Industrialisation
ADRs	American Depository Receipts
AEZ	Agri-Export Zones
AGMARK	Agricultural Marketing
AIBP	Accelerated Irrigation Benefit Programme
AICTE	All-India Council of Technical Education
AMC	Asset Management Company
AMS	Aggregate Measure of Support
AoA	Agreement on Agriculture
APL	Above Poverty Line
APMC	Agricultural Produce Marketing Committee Act
ASHA	Accredited Social Health Activist

B

BASIC	Brazil, South Africa, India and China
BCR	Balance from Current Revenues
BIFR	Board for Industrial and Financial Reconstruction
BOT	Build-Operate-Transfer
BPL	Below Poverty Line
BPO	Business Process Outsourcing
BRGF	Backward Regions Grant Fund
BRIC	Brazil, Russia, India and China
BRICS	Brazil, Russia, India, China and South Africa
BRPSE	Bureau for Reconstruction of Public Sector Enterprises
BSE	Bombay Stock Exchange

C

CABE	Central Advisory Board of Education
CAC	Capital Account Convertibility
CACP	Commission for Agricultural Costs and Prices
CAD	Command Area Development
CAG	Comptroller and Auditor General
CAGR	Compound Anuual Growth Rate
CARE	Credit Analysis and Research Limited
CCI	Competition Commission of India
CCS	Cash Compensatory Support
CD	Certificate of Deposit
CDL	Central Depository Services (India) Ltd.
CDS	'Current Daily Status' Basis
CENVAT	Central Value Added Tax
CL	Compulsory Licensing
CLB	Company Law Board
CMP	Common Minimum Programme (of UPA Government)
CP	Commercial Paper
CPI-AL	Consumer Price Index (Agriculture Labourers)

CPI-IW	Consumer Price Index (Industrial Workers)
CPI-RL	Consumer Price Index (Rural Labour)
CPI-UNME	Consumer Price Index (Urban Non-Manual Employees)
CRAR	Capital to Risk-Weighted Asset Ratio
CRF	Calamity Relief Fund
CRR	Cash Reserve Ratio
CRISIL	Credit Rating Information Services of India Limited
CSO	Central Statistical Organisation
CSR	Child Sex Ratio
CSRE	Crash Scheme for Rural Employment
CWS	'Current Weekly Status' basis

D

DCRF	Debt Consolidation and Relief Facility
DEPB	Duty Entitlement Pass Book
DFHI	Discount and Finance House of India
DFIs	Development Finance Institutions
DGFT	Director General of Foreign Trade
DGTD	Directorate General of Technical Development
DPAP	Drought Prone Areas Programme
DTA	Domestic Tariff Area
D*v*P	Delivery *versus* Payment

E

EAS	Employment Assurance Scheme
ECB	External Commercial Borrowing
ECGC	Export Credit and Guarantee Corporation
EEFC	Exchange Earners' Foreign Currency Account
EFF	Extended Fund Facility
ELG Strategy	Export-Led Growth Strategy
EMRs	Exclusive Marketing Rights
EOU	Export-Oriented Unit
EPC	Export Promotion Council
EPIP	Export Promotion Industrial Parks
EPZ	Export Processing Zones
ERM	Extension, Renovation and Modernization
ESI Act	Employees' State Insurance Act
EU	European Union
EXIM Bank	Export-Import Bank

F

FC (B&O) D	Foreign Currency (Bank and Other) Deposits
FCDs	Fully Convertible Debentures
FCNRA (B)	Foreign Currency Non-Resident (Banks) Accounts
FDI	Foreign Direct Investment
FEMA	Foreign Exchange Management Act
FERA	Foreign Exchange Regulation Act
FIIs	Foreign Institutional Investors
FMR	Female-Male Ratio
FRBM	Fiscal Responsibility and Budget Management
FWP	Food for Work Programme

G

GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GBS	Gross Budgetary Support

GCF	Gross Capital Formation
GCFA	Gross Capital Formation in Agriculture
GDCF	Gross Domestic Capital Formation
GDI	Gender-Related Development Index
GDP	Gross Domestic Product
GDPD	Gross Domestic Product Deflator
GDRs	Global Depository Receipts
GEM	Gender Empowerment Measure
GER	Gross Enrolment Ratio
GHG	Greenhouse Gases
GNP	Gross National Product
GQ	Golden Quadrilateral
GRT	Gross Registered Tonnage
GSP	Generalised System of Preferences
GST	Goods and Service Tax
GT	Gross Tonnage
H	
HDI	Human Development Index
HPI	Human Poverty Index
HDR	Human Development Report
HYVP	High-Yielding Varieties Programme
I	
IADP	Intensive Area Development Programme
ICAR	Indian Council of Agricultural Research
ICDS	Integrated Child Development Services
ICICI	Industrial Credit and Investment Corporation of India
ICOR	Incremental Capital-Output Ratio
ICRA	Investment and Credit Rating Agency
ICT	Information and Communication Technology
IDBI	Industrial Development Bank of India
IEBR	Internal and External Budgetary Resources
IIBI	Industrial Investment Bank of India
IIP	Index of Industrial Production
IMF	International Monetary Fund
IPO	Initial Public Offering
IPRs	Intellectual Property Rights
IRCI	Industrial Reconstruction Corporation of India
IRDP	Integrated Rural Development Programme
ISP	Internet Service Providers
IT	Information Technology
ITES	Information Technology Enabled Services
IWAI	Inland Waterways Authority of India
IWT	Inland Water Transport
J	
JGSY	Jawahar Gram Samridhi Yojana
JRY	Jawahar Rozgar Yojana
K	
KCC	Kisan Credit Cards
KGBV	Kasturba Gandhi Balika Vidyalaya
L	
LAF	Liquidity Adjustment Facility
LDCs	Less Developed Countries

LERMS	Liberalised Exchange Rate Management System
LOI	Letters of Intent
LTFP	Long-Term Fiscal Policy
M	
MAT	Minimum Alternate Tax
MDM	Mid-day Meal
MFs	Mutual Funds
MFA	Multi-Fibre Arrangement
MFAL	Marginal Farmers and Agricultural Labourers
MFIs	Microfinance Institutions
MFN	Most Favoured Nation
MGNREGS	Mahatma Gandhi National Rural Employment Guarantee Scheme
MMMFs	Money Market Mutual Funds
MMPs	Mission Mode Projects
MNCs	Multinational Corporations
MODVAT	Modified Value Added Tax
MOFAs	Majority Owned Foreign Affiliates
MOU	Memorandum of Understanding
MRTP	Monopolies and Restrictive Trade Practices
MSE	Medium and Small Enterprises
MSME	Micro, Small and Medium Enterprises
MSP	Minimum Support Price
MSS	Market Stabilisation Scheme
MTNs	Multilateral Trade Negotiations
N	
NABARD	National Bank for Agriculture and Rural Development
NACIL	National Aviation Company of India Limited
NAFB	National Afforestation and Eco-Development Board
NAMA	Non-Agricultural Market Access
NAS	New Agricultural Strategy
NAV	Net Asset Value
NBFC	Non-Banking Finance Companies
NCAER	National Council of Applied Economic Research
NCDs	Non-Convertible Debentures
NCLT	National Company Law Tribunal
NCMP	National Common Minimum Programme
NDC	National Development Council
NDP	Net Domestic Product
NDS	Negotiated Dealing System
NEF	National Equity Fund
NELP	New Exploration Licensing Policy
NEP	New Economic Policy
NER	North-Eastern Region
NGO	Non-Government Organisation
NHB	National Housing Bank
NHM	National Health Mission
NHDP	National Highways Development Project
NITI	National Institution for Transforming India
NNP	Net National Product
NPAs	Non-Performing Assets
NPEGEL	National Programme for Education of Girls at Elementary Level
NPRE	Non-Plan Revenue Expenditure
NREGA	National Rural Employment Guarantee Act
NREGS	National Rural Employment Guarantee Scheme
NREP	National Rural Employment Programme

NR(E) RA	Non-Resident (External) Rupee Accounts
NRF	National Renewal Fund
NRHM	National Rural Health Mission
NRI	Non-Resident Indian
NR (NR) RD	Non-Resident (Non-Repatriable) Rupee Deposits
NRY	Nehru Rozgar Yojana
NSCC	National Securities Clearing Corporation
NSDL	National Securities Depository Limited
NSE	National Stock Exchange
NSSO	National Sample Survey Organisation
NTBs	Non-Tariff Barriers
NTP	National Telecom Policy
O	
OBCs	Other Backward Castes
OCB	Overseas Corporate Bodies
OECD	Organisation for Economic Co-operation and Development
OGL	Open General Licence
ONGC	Oil and Natural Gas Corporation
OPEC	Oil and Petroleum Exporting Countries
OPP	Oilseeds Production Programme
OTDS	Overall Trade Distorting Support
P	
PACS	Primary Agricultural Co-operative Societies
PCARDBs	Primary Co-operative Agricultural and Rural Development Banks
PCDs	Partly Convertible Debentures
PCO	Public Call Office
PDS	Public Distribution System
PIN	Postal Index Number
PMBJP	Pradhan Mantri Bharat Jodo Pariyojana
PMGSY	Pradhan Mantri Gram Sadak Yojana
PMJDY	Pradhan Mantri Jan Dhan Yojana
PMRY	Prime Minister Rozgar Yojana
PNDT	Pre-Natal Diagnostic Techniques
POL	Petroleum Oil and Lubricants
PPP	Purchasing Power Parity (also Public-Private Partnership)
PQLI	Physical Quality of Life Index
PSE	Public Sector Enterprise
PSU	Public Sector Undertaking
Q	
QFI	Qualified Financial Investors
QMS	Quick Mail Services
QRs	Quantitative Restrictions
R	
RBI	Reserve Bank of India
RIDF	Rural Infrastructure Development Fund
RKVY	Rashtriya Krishi Vikas Yojana
RLEGP	Rural Landless Employment Guarantee Programme
RM	Reserve Money
RMSA	Rashtriya Madhyamik Shiksha Abhiyan
RPS	Retention Price Scheme
RRBs	Regional Rural Banks
RTAs	Regional Trade Agreements
RTE	Right to Education

RTI	Right to Information
RWP	Rural Works Programme
S	
SCARDBs	State Co-operative Agricultural and Rural Development Banks
S&DT provisions	Special and Differential Treatment Provisions
SDP	State Domestic Product
SDRs	Special Drawing Rights
SEBI	Securities and Exchange Board of India
SEZ	Special Economic Zones
SFC	State Financial Corporation
SFDA	Small Farmers' Development Agency
SGL	Subsidiary General Ledger
SGRY	Sampoorna Grameen Rozgar Yojana
SGSY	Swarnajayanti Gram Swarojgar Yojana
SHG	Self-Help Group
SICA	Sick Industrial Companies (Special Provisions) Act
SIDBI	Small Industries Development Bank of India
SIDO	Small Industries Development Organisation
SIL	Special Import Licence
SJSRY	Swarna Jayanti Shahri Rozgar Yojana
SLR	Statutory Liquidity Ratio
SME	Small and Medium Scale Enterprise
SPM	Suspended Particulate Matter
SSA	Sarva Shiksha Abhiyan
StCBs	State Co-operative Banks
T	
TFC	Twelfth Finance Commission
TFP	Total Factor Productivity
TFPG	Total Factor Productivity Growth
TNC	Transnational Corporation
TPDS	Targeted Public Distribution System
TRAI	Telecom Regulatory Authority of India
TRIMs	Trade Related Investment Measures
TRIPs	Trade Related Intellectual Property Rights
TRYSEM	Training Rural Youth for Self-Employment
U	
UA	Urban Agglomeration
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
UPSS	Usual Principal and Subsidiary Status
V	
VAT	Value Added Tax
VGF	Viability Gap Funding
VRS	Voluntary Retirement Scheme
W	
WADR	Weighted Average Discount Rate
WPI	Wholesale Price Index
WTO	World Trade Organisation
WMA	Ways and Means Advances

PART – I

Economic Development: A Theoretical Background

1. Economic Growth, Development and Underdevelopment
2. Economic and Human Development
3. The Environment and Development

Part - I: Summary Statistics

I. GNP per capita in US dollars (2013)

– High income economies	39,820
– Middle income economies	4,751
– Low income economies	709
– India	1,570
– China	6,560

II. HDI, 2013 (HDI calculated for 187 countries)

– Norway (first rank)	index value 0.944
– Australia (second rank)	index value 0.935
– India (135th rank)	index value 0.586
– Niger (last rank)	index value 0.337

III. GII, 2013 (GII calculated for 149 countries)

- Values of GII range from an average of 0.317 for Europe and Central Asia to 0.575 for Sub-Saharan Africa and from an average of 0.197 for the very high human development group to 0.586 for the low human development group.
- India with GII value of 0.563 in 2013 ranks 127th.

IV. Multidimensional Poverty Index (MPI)

- In most of the countries falling in the medium and low human development category, more than one-third of the population suffers from multidimensional poverty. In fact, in countries falling in low human development category, more than half of the population suffers from multidimensional poverty.
- In India, 55.3 per cent of the population, *i.e.,* as many as 63.2 crore people suffer from multidimensional poverty. Not only this, 27.8 per cent of the population lives under conditions of severe poverty.

V. Growth and Environmental Degradation

- According to a World Bank Report published in June 2013, the total cost of environmental degradation in India is about ₹ 3.75 trillion annually, equivalent to 5.7 per cent of GDP in 2009.
- According to the same Report, over the period 1953-2009, damages from natural disasters stood at ₹ 150 billion a year on average (at constant 2009 prices).
- Of the cumulative 1,169.1 billion metric tonnes of carbon dioxide emissions in the world over the period 1850 to 2005, high income countries accounted for as much as 750 billion metric tonnes (*i.e.,* 64.2 per cent) while the share of low income countries was just 24.0 billion metric tonnes (2.1 per cent) and the share of middle income countries was 395.1 billion metric tonnes (34.0 per cent).

1 Chapter

ECONOMIC GROWTH, DEVELOPMENT AND UNDERDEVELOPMENT

Today, economic growth is everybody's concern and in such a milieu, growth theory has received particular attention of economists. Yet surprisingly, there is no consensus on the definition of the term. Different economists have used the term 'economic growth' to convey different meanings. In some cases the concepts differ in essence, whereas in others only in emphasis. Some other economists are of the view that the term 'economic growth' is very much obvious and there is no need to frame a precise definition of it. Thus, quite often no distinction is made between 'economic growth' and 'economic development' and the two terms are used interchangeably. Others feel that clear and unambiguous definitions are a prerequisite to any precise analysis. Underlying the difficulties which most social scientists face in the absence of precise definitions, Ronald A. Shearer stated, "The literature of social sciences is a testimony to the errors; unnecessary confusions and prolonged debates which can result from an ambiguity on the level of basic conceptualisation."[1] There is certainly weight in Shearer's observations. We also feel that to avoid ambiguity, it is better to identify economic growth in terms of some measurable criteria.

In this chapter, we propose to address the following issues:

- The concept of economic growth
- The concept of economic development
- Growth and development: A contrast in concepts
- Meaning and indicators of underdevelopment
- Common characteristics of underdeveloped/ developing countries.

THE CONCEPT OF ECONOMIC GROWTH

Economic growth may be defined as a rate of expansion that can move an underdeveloped country from a near subsistence mode of living to substantially higher levels in a comparatively short period of time, *i.e.,* in decades rather than centuries. For nations already advanced economically, it will mean a continuation of existing rates of growth. ***Historically, rapid economic growth has been accompanied by greater industrialisation. But more accurately the process of economic growth can be described in terms of greater commercialisation of economic activities.*** Though this concept of economic growth is correct in essence, it lacks precision and makes its measurement difficult. However, there is nothing wrong if a change in industrial structure is treated as an auxiliary index along with some better measuring yardstick of economic growth.

Rise in gross domestic product. According to some economists, economic growth is a process whereby an economy's gross domestic product (GDP) increases over a long period of time.[2] In this context, it is necessary to distinguish between gross national product (GNP) and gross domestic product (GDP). In a closed economy, no distinction is to be made between gross national product and gross domestic product (GDP), whereas in an economy open to foreign trade, national product may be greater or less than domestic product depending upon the net inflow or outflow of income. A country may record an increase in its GNP if its people have invested massive capital outside the country and earn big profits therefrom. But this does not mean that the economy has developed. Therefore, the only rational approach to the problem will be to differentiate the term GDP from the term GNP in the context of economic growth. Obviously, of the two variables, GDP will a more accurate picture of economic growth as compared to GNP. In this context, it is pertinent to mention that the increase in GDP must be steady and prolonged. A short period increase, as occurs within the boom period of a trade cycle, cannot be accepted as growth.

However, it is not correct to define economic growth in the above manner. The reason is that if the population in a country grows faster than GDP, product per capita (or income per capita) will decline. Obviously, this cannot be termed economic growth. Accordingly, Simon Kuznets has argued that economic growth is a situation where a sustained increase in population is accompanied by sustained increase in per capita product (or income).[3]

Rise in per capita product. Many economists have defined economic growth as sustained increase in per capita product (or income). However, economic growth is a complex process and it is not proper to limit it to mere increases in per capita product. A large number of changes continue to take place during the process of economic growth. The directions of these changes could be different. For example, GDP or GNP may rise, while per capita product may decline, or productivity per labour unit may rise, while per capita consumption may go down. Therefore, it is necessary to exercise extreme caution while selecting a variable that may be used as an index of economic growth.

If the objective is to study changes in the standard of living of the people, improvement in per capita consumption would be the most appropriate indicator of the growth performance of an economy. However, this cannot be regarded as the best indicator of economic growth because during the process of economic development, many underdeveloped countries intentionally keep the level of consumption low in a bid to increase savings and investment. In fact, it is only by increasing investment and capital formation that economic growth can be increased. Such efforts would push up investment, expand the production capacity and increase the national income but levels of consumption will not increase. Yet, this indeed would be a situation of economic growth.

Equitable distribution of wealth. Jacob Viner has associated the concept of economic growth with equitable distribution of wealth. He insists that the reduction of mass poverty be made the crucial test of economic growth.[4] In his opinion, an increase in per capita product is undoubtedly an important index of economic progress, but it cannot be wholly depended upon to gauge economic growth unless it is also followed by a reduction in the existing inequalities in the distribution of national wealth. As such, ***economic growth may be interpreted to mean a sustained increase in per capita output accompanied by a reduction in the existing economic inequalities and an economic betterment of masses.*** Though this concept of economic growth sounds good, it is not wholly correct. It is quite possible that with every increase in GNP (or GDP) accompanied by a rise in per capita product, greater inequality in the distribution of wealth and income may crop up.

Thus, after considering alternative definitions of the term 'economic growth', we feel that ***the most appropriate approach to measure economic growth is in terms of a rise in per capita product.*** In this study of India's problems of growth, maximum reliance has been placed on this crucial index. However, care should be taken to note structural changes which this country has undergone over the years, because in many cases these changes are of greater importance than some increase in per capita product. Charles Bettleheim has pertinently argued that, in planning for economic growth, "the aim should be not quantitative change (large production) only, but qualitative change too *(i.e., higher productivity of labour)*. Only on the basis of such qualitative change can an economy as a whole rise to higher level."[5]

THE CONCEPT OF ECONOMIC DEVELOPMENT

Till the 1960s, the term 'economic development' was often used as a synonym of 'economic growth' in economic literature. Now, economic development is no longer considered identical with economic growth. It is taken to mean growth *plus* progressive changes in certain crucial variables which determine the well-being of the people. There are qualitative dimensions in the development process which may be missing in the growth of an economy expressed in terms of an increase in the national product or the product per capita. Development economists are no longer impressed by the growth performance of a country which gets reflected in the rise in its GDP (or GNP); they now concentrate more directly on the development process. Mahbub ul Haq, a leading Pakistani economist has remarked, "***the problem of***

Box 1.1

The Concept of Economic Growth

Historically, economic growth is accompanied by:

- Greater industrialisation
- Greater commercialisation

Theoretically, economic growth is conceptualised in any one of the following ways:

- A rise in gross domestic product (GDP)
- A rise in gross national product (GNP)
- A rise in per capita gross domestic product
- A rise in per capita gross national product
- A rise in per capita net domestic product
- A rise in per capita net national product
- A rise in per capita output accompanied by a reduction in economic inequalities

The most appropriate approach to measure economic growth is in terms of a rise in per capita net domestic product.

development must be defined as a selective attack on the worst forms of poverty. Development goals must be defined in terms of progressive reduction and eventual elimination of malnutrition, disease, illiteracy, squalor, unemployment and inequalities. We were taught to take care of our GNP because it would take care of poverty. Let us reverse this and take care of poverty because it will take care of the GNP. In other words, let us worry about the content of GNP even more than its rates of increase."[6]

The Traditional Approach

In the present-day development economics, one finds broadly two main approaches to the concept of economic development. The first one often known to be the *traditional* approach, defines development strictly in economic terms. For the exponents of traditional approach ***economic development implies a sustained annual increase in GNP (or GDP) at rates varying from 5 to 7 per cent or more together with such alteration in the structure of production and employment that the share of agriculture declines in both, whereas that of the manufacturing and tertiary sectors increases.*** The policy measures thus suggested are the ones which induce industrialisation at the expense of agricultural development. Objectives of poverty elimination, economic inequalities reduction and employment generation are mentioned in passing reference only and in most cases, it is assumed that rapid gains in overall growth in GNP or per capita national (or domestic) product would trickle down to people in one form or the other. ***This is known as the 'trickle down' effect of economic growth.***

The New View of Economic Development

Having realised that about 40 per cent of the developing world's population had not benefited at all from economic growth during the 1950s and 1960s, an increasing number of economists called for the rejection of the narrow definition of economic development. During the 1970s, they redefined the concept of economic development in terms of the reduction or elimination of poverty, inequality and unemployment in the context of a growing economy. In this phase, "Redistribution with Growth" became the popular slogan. Talking in this framework, 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 general among the working age population rather than the situation of a 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."[7]

Dudley Seers posed the basic questions about the meaning of development in the right perspective when he asserted, ***"The questions to ask about a country's development are therefore: What has been happening to poverty? What has been happening to unemployment? What has been happening to inequality? If all three of these have declined from high levels, then beyond doubt this has been a period of development for the country concerned. If one or two of these central problems have been growing worse, especially if all three have, it would be strange to call the result 'development' even if per capita income doubled."***[8]

In light of the environmental destruction that is taking place all over the world presently in the pursuit of the objective of growth, protection of environment is now regarded as an integral part of development. As pointed out by Dreze and Sen, "In the broader perspective of seeing development in terms of promoting substantive human

Box 1.2

The Concept of Economic Development

- Till the 1960s, economic development was often used as a synonym of economic growth.
- Once economic development was not conceptualised as economic growth, two different approaches developed.
- The ***traditional approach*** stresses two aspects:
  (*i*) Sustained annual increase in GDP at the rate of 5 to 7 per cent or more.
  (*ii*) Structural transformation of an agrarian economy into an industrialised economy.
- The ***new economic view of development*** has been defined to include improvements in material welfare, specially for persons with the lowest incomes, the eradication of mass poverty with its correlates of illiteracy, disease and early death and finally alleviation of unemployment and income inequality.
- ***Protection of environment*** is now considered to be a part of the new concept of development.

freedom, fighting poverty and being responsible about the environment cannot but be closely linked... Indeed, important components of human freedoms – and crucial ingredients of our quality of life – are thoroughly dependent on the integrity of the environment, involving the air we breathe, the water we drink, and the epidemiological surroundings in which we live. ***The opportunity to live the kind of lives that people value – and have reason to value – depends among other things on the nature and robustness of the environment. In this sense, development has to be environment-inclusive….”***[9]

GROWTH AND DEVELOPMENT: A CONTRAST IN CONCEPTS

As stated earlier, in recent literature the term ***economic growth*** refers to increases over time in a country's real output of goods and services — or more appropriately product per capita. Output is generally measured by gross or net national product, though other measures could also be employed. The term ***economic development,*** in contrast, is more comprehensive. It implies progressive changes in the socio-economic structure of a country. Viewed in this way, economic development involves a steady decline in agriculture's share in GNP and a corresponding increase in the share of industries, trade, banking, construction and services. This transformation in economic structure is invariably accompanied by a shift in the occupational structure of the labour force and an improvement in its skill and productivity. Charles P. Kindleberger rightly asserts that whereas economic growth merely refers to a rise in output, economic development implies changes in technological and institutional organisation of production as well as in distributive pattern of income. Compared to the objective of development, economic growth is easy to realise. By mobilising larger resources and raising their productivity, output level can be raised. The process of development is far more extensive. Apart from a rise in output, it involves changes in the composition of output as well as a shift in the allocation of productive resources so as to ensure social justice.

In some of the underdeveloped countries, the process of economic growth has been accompanied by economic development. This, however, is not necessary. It is quite probable that a country produces more of the same type of goods and services, to keep up with a growing population, while basic structure of the economy remains intact. In a well-known book on *Liberia*, Robert Clower had observed that in spite of the fact that the various concessions to foreign firms induced exports in a big way and resulted in a considerable increase in gross national product, there was virtually no complementary development in other sectors of the economy. The institutional set-up of the country essentially remained unaltered in this phase of growth. Further, the benefits of this growth went almost exclusively to a privileged few, while the vast majority of the country's people remained completely unaffected. Clower thus calls it "***growth without development***."[10] Hence, Singer asserts, "for developing countries it is not difficult to demonstrate from numerical models, given their high rates of population increase, increasingly capital-intensive technology, the technological monopoly of the industrialised countries and their limited resources, that widespread 'trickle down', let alone the creation of social welfare states, is most unlikely in the normal context of purely economic growth."[11] However, in this context, it must be remembered that ***development without growth is inconceivable. A substantial rise in a country's GNP is required before it can hope to expand its industries, financial institutions, trade, public utilities, and government administration.*** Nowhere in the world has the occupational distribution of population changed in the absence of growth.

Emphasizing the importance of economic growth for achieving development, Jean Dreze and Amartya Sen have stated, "Economic growth is indeed important, not for itself, but for what it allows a country to do with the resources that are generated, expanding both individual incomes and the public revenue that can be used to meet social commitments."[12]

Most of the underdeveloped countries of today have a colonial past and their growth pattern is quite similar in many respects. The essence of this pattern of growth is dualism. ***Dualism refers to coexistence of developed and underdeveloped sectors in a country's economy side-by-side. In such an economy, one sector or subsector experiences perceptible growth, while the rest of the economy does not***. Income generated by this growth in the past was shared by the representatives of the colonial power and by a small segment of the native population. Dualistic growth in a great number of countries has completely bypassed those areas and people who contributed nothing to the export economy.[13] In the absence of any connection with the growing sectors of the economy, these self-sufficient subsistence societies had suffered a long period of stagnation.

Political colonialism which could exclusively be blamed for enclave growth in backward countries has now disappeared, but its imprints on the economies of Asian, African and Latin American countries are still visible. It is distressing to note that ***even modern growth processes leave large segments of the population completely untouched. Former World Bank President Robert McNamara had estimated that about 40 per cent of the***

developing world's population did not benefit at all from the economic growth during the 1950s and 1960s.[14] This experience was rather frustrating to multitudes of population. It also led to the adoption of an alternative conception of economic development. This viewpoint is generally referred to as the basic needs approach. This approach emphasizes that mere economic growth (even if accompanied by an equitable distribution of income) cannot meet the basic needs of the people. Consequently, ***"policies must be implemented to ensure a rising and properly distributed supply of goods, both private and public, if basic needs are to be met."***[15]

UNDERDEVELOPMENT: MEANING AND INDICATORS

Since the end of the World War II, economists in both; Western countries and the Third World have taken particular interest in the problems of relatively backward economies, and yet there is no definition of underdevelopment which will be universally acceptable. It is also difficult to classify different regions of the world into 'developed' and 'underdeveloped'. In fact, there are vast differences in the natural and human resources of different countries. Levels of capital formation, technological knowledge and economic organisation also differ considerably. All these differences are of such a magnitude that it does not seem possible to classify countries into developed and underdeveloped on their basis. USA, UK and Germany are all richly endowed with natural resources and all of them are classified as developed countries. However, the countries in Latin America and the Middle East are classified as underdeveloped in spite of the presence of large mineral resources. Density of population is high in India, Bangladesh, Pakistan, Indonesia, etc., whereas it is distinctly less in Latin American and African countries. However, all these countries are classified as underdeveloped. Therefore, density of population also cannot be relied upon to assess the degree of underdevelopment.

Occupational Distribution and Underdevelopment

In debates on problems of economic underdevelopment, occupational distribution of population is often mentioned as an objective criterion to divide countries between developed and underdeveloped. No doubt it is a useful criterion; at the same time from the point of view of analytical rigour, it is not completely reliable. It is widely held that ***the countries in which the primary sector (i.e., agriculture, forestry, animal husbandry, etc.), provides employment to a large proportion of labour force, are underdeveloped. This notion has certainly an objective basis***. Most of the poor countries are essentially agricultural and even if some industries have been established in these countries, their impact is yet to be felt on the socio-economic life of the people. India, Nepal, Bangladesh, Pakistan and Tanzania fall in this category. In contrast, Mexico, Chile, Brazil and Argentina, are not agrarian economies, yet these countries are underdeveloped though the degree of underdevelopment is not exactly the same as in essentially agrarian economies. The occupational distribution of population and the sectoral distribution of national income are surely the indicators of the direction of economic change but they may not always correctly indicate the level of development achieved in a particular country.

Low Per Capita Income as an Indicator of Underdevelopment

The UN experts have defined an underdeveloped country as the one in which per capita real income is low when compared with the per capita real income of the USA, Canada, Australia and Western Europe.[16] This definition has focused its attention on the relatively lower levels of real income per capita in Afro-Asian and Latin American countries.

Natural resources of a country act as a limiting factor in economic development. Man by his ingenuity can develop productive forces, but poor natural resources of a region will always prove to be a serious obstacle to widespread

Box 1.3

Economic Growth, Development and Underdevelopment

Economic Growth

'Economic growth' refers to increase over time in a country's real output of goods and services – or more appropriately product per capita.

Economic Development

'Economic development' implies progressive changes in the socio-economic structure of a country. Further, development goals are defined in terms of progressive reduction in unemployment, poverty and inequalities.

Economic Underdevelopment

An underdeveloped country is characterised by a low level of per capita income. The Indian Planning Commission defines an underdeveloped country as one which is characterised by the coexistence of unutilised or underutilised manpower and of unexploited natural resources.

industrial activity. Therefore, it is quite possible that a country fails to reach the European level of affluence, though it has harnessed all of its productive resources. Real income per capita in such a country may be lower than in the West European countries, yet it cannot be characterised as underdeveloped by any logic.

Moreover, we cannot treat a country as developed merely because its per capita income is comparable to that of the USA or Australia. Joan Robinson rightly asserts, "For several of the Arab States, GNP per capita suddenly jumped to levels which exceed that of the richest Western States, yet in these countries are found some of the poorest and least developed communities in the world."[17] This clearly indicates that underdevelopment or development of a country or a region may not always be reflected in its per captia national product or the average living standard.

Poverty Based Concept of Underdevelopment

Modern development economists now define development as a process involving elimination of poverty, income inequalities and unemployment. In this framework, underdevelopment is a situation characterised by the worst kinds of deprivation. Todaro, while defining underdevelopment in terms of poverty, goes beyond narrow economic criteria when he states, "Underdevelopment is a real fact of life for more than 3 billion people in the world — a state of mind as much as a state of national poverty."[18] Denis Goulet provides a forceful portrayal of underdevelopment in terms of poverty. He states, "Underdevelopment is shocking: the squalor, disease, unnecessary deaths, and hopelessness of it all! No man understands if underdevelopment remains for him a mere statistics reflecting low income, poor housing, premature mortality or underemployment. The most emphatic observer can speak objectively about underdevelopment only after undergoing, personally or vicariously, the 'shock of underdevelopment'. This unique culture shock comes to one as he is initiated to the emotions which prevail in the 'culture of poverty'. The reverse shock is felt by those living in destitution when a new self-understanding reveals to them that their life is neither human nor inevitable... The prevalent emotion of underdevelopment is a sense of personal and societal impotence in the face of disease and death, of confusion and ignorance as one gropes to understand change, of servility toward men whose decisions govern the course of events, of hopelessness before hunger and natural catastrophe. Chronic poverty is a cruel kind of hell; and one cannot understand how cruel that hell is merely by gazing upon poverty as an object."[19]

Development Potential and Underdevelopment

According to Jacob Viner, development potential of a country is a much better criterion to judge the extent of its underdevelopment. Therefore, he defines an underdeveloped country as the one "which has good potential prospects for using more capital or more labour or more available natural resources, or all of these, to support its population on a higher level of living, or if its *per capita* income level is already fairly high, to support a larger population on a not lower level of living."[20] Definition of an underdeveloped country given by the Indian Planning Commission in the First Five Year Plan is akin to the one given by Jacob Viner. ***The Indian Planning Commission defines an underdeveloped country as "one which is characterised by the coexistence, in greater or less degree, of unutilised or underutilised manpower on the one hand, and of unexploited natural resources on the other."***[21]

The definition of underdevelopment given by Jacob Viner and the Indian Planning Commission appears to be quite scientific and logical as it focuses its attention on a basic characteristic of underdeveloped countries – their development potential.

COMMON CHARACTERISTICS OF UNDERDEVELOPED/DEVELOPING COUNTRIES

Notwithstanding differences in approaches to the question of underdevelopment, it is always possible to identify some common characteristics of underdeveloped/developing countries. Most underdeveloped countries, as already discussed, are poor and their present rate of capital formation is hardly adequate for sustained development efforts. Their economies are essentially agrarian and not much industrialisation has taken place in them, in response to demand for their products in export markets. In the following pages, we shall now discuss common characteristics of underdeveloped countries in some detail:

1. Low GNP per capita. GNP per capita in underdeveloped countries is appallingly low. Naturally, mass of the population leads a wretched life under subhuman conditions. In India, for example, where GNP per capita has been estimated to be $ 1,570 in 2013 at current prices, roughly one-third of the population is below the poverty line. On world scale, income inequalities between the developed and underdeveloped countries are not only large, but the gap between them increases with every year that passes. According to the World Bank estimates, in 2013 the average GNP per capita of the high income economies was $ 39,820, whereas it was $ 709 in low income underdeveloped countries. It is, however, pertinent to mention that all Third World countries are not equally underdeveloped in terms of GNP per capita. Argentina, Brazil, Malaysia, Mexico, Turkey and Venezuela are far more affluent than most of the South and East Asian countries such as India, Nepal, Pakistan, Bangladesh, Myanmar, and Indonesia. Depending upon the degree of underdevelopment, the development potentials in these countries differ significantly.

The estimates of GNP per capita are usually calculated by converting GNP to US dollars using exchange rates as conversion factors. These estimates, however, do not reflect appropriately the purchasing power of currencies due to the fact that relative prices of goods and services not traded on international markets vary substantially from one country to another. The use of purchasing power parity (PPP) conversion factors corrects for these differences and may, therefore, provide a better comparison of average income. If we use PPP estimates of GNP per capita, we find that income inequalities between the developed and under-developed countries are somewhat lower than those we observe on the basis of exchange rates as conversion factors. For instance, we can see from Table 1.1 that while GNP per capita in India was only \$ 1,570 in 2013 as against \$ 53,470 in USA, the PPP estimate of GNP per capita in India was \$ 5,350 against \$ 53,750 in USA in 2013. Thus, India's GNP per capita was about *one-thirty fourth* of USA's GNP per capita in 2013 but *one-tenth* of USA's PPP estimate of GNP per capita. Nevertheless, one cannot deny that there are substantial income inequalities as among the developed and the underdeveloped countries and within the underdeveloped countries themselves as brought out clearly in Table 1.1.

2. Scarcity of capital. The rate of capital formation is relatively low in most of the low income less developed economies due to widespread poverty. When the absolute income is high, the ability to save is also high. This explains why the rate of capital formation is high in Japan, a highly developed economy. In other developed countries, saving rates are modest because of the sway of consumerism. The saving rates are presently very high in some of the fast growing East Asian economies. For example, the saving rate in Malaysia, China and Singapore was 40 per cent or more than 40 per cent of GDP, on an average, during 1997-2003.[22] In most of the low income underdeveloped economies, the saving rate continues to be very low (less than 20 per cent of GDP in many cases). ***It has been argued by Ragnar Nurkse that most of the underdeveloped countries have been caught in the vicious circle of poverty, and thus their capacity to save is very low. On the demand side, the small size of the market acts as a disincentive and the potential savers indulge in wasteful consumption which they might not do, if adequate investment opportunities are available.***

3. Rapid population growth and high dependency burden. Population has been increasing in underdeveloped countries at the rate of 2 per cent per annum or more over the past several decades. This demographic trend has been determined mainly by the fact that the medical facilities now available in these countries have effectively brought down the mortality rates among all sections of the society, whereas the birth rate continues to be high due to widespread poverty, ignorance and religious orthodoxy. ***Fast growing population in the Third World countries is both a cause and an effect of underdevelopment.***

Table 1.1

GNP Per Capita and PPP Estimates of GNP Per Capita in US Dollars (2013)
(Selected Regions/Countries)

Developed Regions	*GNP per capita*	*PPP estimates of GNP per capita*	*Underdeveloped regions*	*GNP per capita*	*PPP estimates of GNP per capita*
Developed countries			*Underdeveloped countries*		
High Income Economies	**39,820**	**40,790**	**Low Income Economies**	**709**	**1,903**
USA	53,470	53,750			
Germany	47,270	45,620	**Middle Income Economies**	**4,751**	**9,561**
Japan	46,330	37,790	Brazil	11,690	14,750
France	43,460	38,530	Malaysia	10,430	22,530
UK	41,680	38,160	China	6,560	11,850
Italy	35,860	35,540	Thailand	5,340	13,430
Korea, Rep. of	25,920	33,440	Indonesia	3,580	9,270
Greece	22,690	25,700	India	1,570	5,350
			Pakistan	1,360	4,840
			Bangladesh	1,010	3,190
			Ethiopia	470	1,380

Note: Countries are arranged in order of GNP per capita.
Source: World Bank, *World Development Indicators,* 2014, Table 1.1.

Over the past six decades, the population in African, South Asian and Latin American countries has increased at an alarming rate making any significant improvement in the living standards of the people rather difficult. Some of the agrarian economies in these regions have actually recorded some decline in the living standards of the multitude of population in recent periods. Though this trend is unfortunate, it is not at all surprising. In any country where population grows roughly at a rate of 2 per cent per annum, for a stable per capita income the GNP must also record an annual increase of 2 per cent. Assuming a capital-output ratio of 4.0:1, which according to available statistical evidence is fairly reliable, an average 2 per cent annual increase in GNP would require an investment rate of 8 per cent. Therefore, any country which plans for an annual 6 per cent rise in its GNP per capita will have to mobilise roughly 32 per cent of its GNP for investment purposes. This, under given socio-economic framework of underdeveloped countries, appears to be rather difficult.

4. Low levels of productivity. Productivity of labour in underdeveloped countries is generally low. It is both a cause and an effect of the low levels of living in these countries. ***According to Todaro, "low levels of living and low productivity are self-reinforcing social and economic phenomena in Third World countries, and, as such, are the principal manifestations of and contributors to their underdevelopment."***[23] Obviously, at low levels of productivity the national income will be small and thus, apart from a microscopic minority, rest of the people in the country will have an appallingly low living standard. Hence, for raising the living standards of the mass of the presently deprived people, productivity of labour must rise considerably.

Labour productivity depends on a number of factors, such as, availability of other inputs which are combined with labour in production process, health and skill of workers, motivation for work and institutional set-up. The two inputs, *viz*., capital and managerial skill when combined with labour in the required quantity raise its productivity substantially. But in underdeveloped countries these inputs are in short supply. If these countries wish to raise the productivity of labour, they will have to augment the supplies of these strategic inputs. Moreover, there are clear linkages between poverty of the workers and their health and skill which determine their productivity levels. Therefore, tackling of poverty in underdeveloped countries is required not merely because it involves a human problem, but it is quite important from the point of view of growth as well.

5. Technological backwardness. In underdeveloped countries over a wide range of industrial activity, production techniques are backward. Often, lack of Research and Development (R&D) is blamed for the technological backwardness in these countries. In certain cases, weak communication system between the research institutes and the producers is believed to be the cause of sorry state of affairs in this regard. This, however, does not explain the whole situation. In most cases, it is not the ignorance which prevents producers from making use of most sophisticated technology requiring extensive supply of capital. Many underdeveloped countries willingly opt for labour-intensive technology and their choice, though often dictated by their relative poverty, is not altogether irrational under the given circumstances. In the absence of any social security against unemployment, workers' unions oppose introduction of labour displacing technology in industries. This organised attempt of workers is certainly a retrogressive act from the point of view of economic growth, but in order to check an increase in unemployment, the State in underdeveloped countries cannot permit unrestricted replacement of outmoded machines by the most sophisticated ones.

6. High levels of unemployment and under-employment. Widespread unemployment particularly among the unskilled workers is an universal phenomenon in the Third World. Bulk of rural as well as urban unemployment in underdeveloped countries is involuntary. Due to high levels of poverty in these countries, markets for industrial products are small and provide little incentive to industrialists to expand their activities. Faced with lack of effective demand, industries grow haltingly and offer too few new job opportunities to the continuously increasing number of working population. The traditional agriculture characterised by low productivity also suffers from lack of labour absorption capacity. Hence, with an increasing pressure of population on land, disguised unemployment continues to grow. Peasants are often aware of this phenomenon, but in the absence of alternative employment opportunities, they stick to small pieces of land which are not adequate even for subsistence living. Over a period of time, structural unemployment in underdeveloped countries tends to grow worse. This is due to the absence of any automatic mechanism that could be called into play as unemployment rose. At present, the gravity of the situation can be followed from the fact that ***"almost 35 per cent of the combined urban and rural labour forces in poor nations is unutilised."***[24]

7. Lower level of human well-being. Generally, three broad kinds of indices are used in constructing a measure of a person's well-being: his current and prospective real income, his health and educational attainments. We have earlier stated in this chapter that in less developed countries, the GNP per capita is much lower than in developed countries. When we consider the two other indices, we find that the human well-being in less developed countries is far lower than that in developed countries. Let us now consider the health indicator first. ***In most studies, experts have relied on mortality indices and morbidity to judge the state of health. On these indicators, less developed countries are far behind the developed countries of the West***. In 2011, life expectancy at birth for males was 60 years and for females 62 years in low income economies (as against this, life expectancy at birth for males was 76 years and for females 82 years in high income economies). Further, infant mortality rate in the low income economies was 56 per 1,000 live births in contrast to 5 in the high income economies in 2012. Quantitative measurement of morbidity is not easy. Yet, there is no doubt about the fact that the degree of morbidity is significantly higher in underdeveloped countries than in the developed countries.

The output of education is a durable good and thus its contribution to human well-being is significant. Further, among different levels of education it is the primary level that has the highest productive value (a rate of return of about 26 per cent). However, ***less developed countries have consistently underinvested in primary education relatively to education's higher reaches***.[25] As a consequence of this neglect of primary education, adult illiteracy rate was 39 per cent in low income countries over the period 2005-10 whereas it was just 2 per cent in high income countries.

8. Wide income inequalities. Compared to developed countries, income inequalities are larger in underdeveloped countries. Data published in the *World Development Indicators, 2014* suggest that income disparities are far greater in many less developed countries than in the developed countries. For example, if we compare the share of national income accruing to the poorest 10 per cent of a country's population with that of the richest 10 per cent as a rough measure of income inequalities, we note that a great number of underdeveloped countries, *e.g.*, Kenya, Namibia, Lesotho, Nigeria, Zambia, Colombia, Malaysia, Brazil, Mexico, Venezuela and Argentina have considerable degree of income inequality, while developed industrial market economies such as Finland, Denmark, Netherlands, Sweden, Germany, France and Japan have relatively less inequalities. (See Table 1.2 for data on income inequalities for some developed and developing countries).

World Development Report 2006 asserts that "From an equity perspective, the estimation of opportunities matters more than the distribution of outcomes."[26] Unequal opportunities are large within many underdeveloped countries. Inequalities in health and education in these countries often translate into unequal economic opportunities.

9. High incidence of poverty. The extent of absolute poverty is an important dimension of the problem of income distribution in the developing countries. At relatively lower levels of GNP per capita, large income inequalities, as they exist in the developing countries of Asia, Africa and Latin America, have resulted in widespread poverty. The poverty problem could perhaps be overcome in these countries with a more equitable income distribution. In near future, if developing countries wish to wipe out poverty they have no choice except to improve the income distribution so as to ensure a minimum standard of living in terms of calorie

Table 1.2

Income Inequality in Selected Countries

Country	*Survey Year*	*Share of income or expenditure*		*Inequality measures*	
		Poorest 10%	*Richest 10%*	*Richest 10% to Poorest 10%*	*Gini index**
Developed Countries					
Denmark	2010	3	22	7.3	27
France	2005	3	25	8.3	32
Germany	2010	3	24	8.0	31
Netherlands	2010	3	23	7.7	29
Norway	2010	3	22	7.3	27
Sweden	2005	4	21	5.2	26
Underdeveloped Countries					
Argentina	2011	2	32	16.0	44
Brazil	2012	1	42	42.0	53
Colombia	2012	1	42	42.0	54
India	2010	4	29	7.3	34
Malaysia	2009	2	35	17.5	46
Mexico	2012	2	39	19.5	48
Nigeria	2010	2	33	16.5	43
Zambia	2010	1	47	47.0	57

* The Gini index lies between 0 and 100. A value of 0 represents absolute equality and 100 absolute inequality.
Source: World Bank, *World Development Indicators* 2014 (Washington DC, 2014), Table 2.9.

intake and nutrition levels, clothing, sanitation, health, education and so on.

Poverty is, however, not easy to define and whatever be the approach, there is bound to be an element of arbitrariness in it. The World Bank uses a poverty line of $ 1.25 (2005 purchasing power parity $) a day a person to compare poverty levels. According to this international poverty line, 53.2 per cent of the people were below the poverty line in South Asia in 1990 and 24.5 per cent in 2011. In Sub-Saharan Africa, 56.6 per cent of the people were below the poverty line in 1990 and 46.8 per cent in 2011. The number of poor people in South Asia was 399 million in 2011 while the number of poor people in Sub-Saharan Africa was 415.5 million in that year.[27] Levels of poverty in other underdeveloped regions of the world are also at comparable levels. Moreover, as pointed out by *Human Development Report* 2014, sizeable portions of the population of the developing countries are close to the poverty threshold (the 'near poor') and any 'shocks' could easily push a large number of people back into poverty.[28] Also, in addition to the fact of low levels of income on which the vast mass of the population has to subsist in the developing countries, there is ample evidence of malnutrition, disease, ill-health and illiteracy in less developed countries.

10. Agrarian economy. According to Harvey Leibenstein, underdeveloped economies are essentially agrarian in their character.[29] About 30 to 70 per cent of the population depends on agriculture in these countries. Therefore, it is quite natural that a significant part of the GDP originates in this sector (See Table 1.3). The share of income in agriculture is, however, less than the share of employment in agriculture which clearly reflects the relatively low productivity per labour unit in the agricultural sector. Moreover, as J.K. Galbraith has stated, ***"a purely agricultural country is likely to be unprogressive even in its agriculture".*** In spite of transfer of agricultural technology from developed countries to less developed countries, the situation has not significantly changed and Galbraith's observations remain as much correct now, as they were a few decades ago.

In underdeveloped countries, technologically agriculture is far more backward than in developed countries. Application of chemical fertilisers to soil is rather small and high-yielding variety (HYV) seeds have not been developed for all crops. In all those countries where per capita cultivable land is small due to high pressure of population, operational holdings are both subdivided and fragmented. Survival of feudal relations of production in agriculture has made the situation worse, as it has arrested development of agriculture on modern lines.

11. Lower participation in foreign trade. Some economists have asserted that most underdeveloped economies have foreign trade orientation. But this does not necessarily suggest that their proportions of exports and imports to domestic product are much higher than those of developed countries. According to Simon Kuznets, the extent of participation of a country in foreign trade cannot be measured directly because the proportion of foreign trade to total output is affected by the size of a country. He is therefore of the view that the effects of size should first be quantified and eliminated. "Once this adjustment is made, it becomes clear that ***the extent of participation in foreign trade by underdeveloped countries is distinctly lower than that of developed countries.***"[30] Underdevelopment of a country cannot, by itself, induce large foreign trade. The inadequate development of infrastructure for foreign trade, particularly transportation system, trade organisation and

Table 1.3

Employment and Income in Agriculture in Some Selected Developing Countries

Country	*Agricultural Employment as Percentage of Total Employment*	*Percentage of GDP Originating in Agriculture*
	2010-12	*2012*
(1)	*(2)*	*(3)*
Albania	41.5	22
Bhutan	62.2	17
Cambodia	51.0	36
China	34.8	10
Egypt	29.2	14
India	47.2	18
Indonesia	35.1	15
Philippines	32.2	12
Sri Lanka	39.4	11
Thailand	39.6	12
Vietnam	47.4	20

Source: World Bank, *World Development Indicators* 2014, Table 3.2 and Table 4.2.

banks with overseas branches prevent growth of foreign trade. In addition, backwardness of production technology in underdeveloped countries is one such factor that would make large exports and imports impossible.

12. Dependence. Since the process of underdevelopment began in Asia, Africa and Latin America with their colonial exploitation by the metropolitan countries, and their economies over time got conditioned by the development in advanced capitalist countries, even though these countries have won political freedom, their dependence persists on their former rulers. This phenomenon has been caused by the integration of the economy of the colony with that of the metropolitan country giving rise to an international division of labour which allows industrial development to take place only in the latter. The economies of colonies in the process became subservient to metropolitan interests and were forced to specialise in primary producing activities. The pattern and direction of their foreign trade is also conditioned by this basic development taking place in their structure. While most of the economy remains backward, a few industries are sometimes established in response to demand in foreign markets.[31] This explains why for a long period tea and jute contributed a major part of India's exports. Similarly, Brazil's great dependence on the exports of coffee, Malaysia's on rubber and Cuba's on sugar reflected the backward nature of their economies.

Apart from the above-mentioned characteristics of underdeveloped economies, there are a few other distinguishing features of these economies. For example, social life in the Third World countries is traditional. People are generally orthodox in their outlook and hardly make any attempt to change outdated socio-economic relations. ***The economic organisation thus remains retrogressive and proves to be a serious obstacle to development.*** Even though land reforms have been carried out in some underdeveloped countries, their rural structure continues to remain medieval. In some of these countries, special institutions of agricultural finance have not been set up and thus the grip of moneylenders on agriculture is quite strong.

Box 1.4

Underdeveloped/Developing Countries: Common Characteristics

- **Low GNP per capita** — According to World Bank, low income economies and middle income economies are underdeveloped/ developing economies.
  - — GNP per capita in low income economies (2013) $ 709
  - — GNP per capita in middle income economies (2013) $ 4,751
  - — GNP per capita in India (2013) $ 1,570
  - — GNP per capita in China (2013) $ 6,560
- **Scarcity of capital** — Most underdeveloped countries save less than 20 per cent of their GDP and they have smaller stock of capital.
- **Rapid population growth** — 2 per cent per annum or more.
- **Low levels of productivity** — Low levels of productivity and low levels of living reinforce each other.
- **Technological backwardness**
  - — Lack of R&D
  - — Labour displacing technology is opposed by the workers.
- **Unemployment and underemployment**
  - — Almost 30 per cent of labour remains unutilised or underutilised
  - — Disguised unemployment in agriculture is widespread.
- **Lower level of human well-being in low income economies**
  - — Adult illiteracy rate (2005-10): 39 per cent
  - — Life expectancy at birth (2011): 60 years for males and 62 years for females
  - — Infant mortality rate (2012): 56 per thousand.
- **High incidence of poverty** — 399 million people in South Asia below the poverty line in 2011 (24.5 per cent of total population).
- **Agrarian economy** — 30-70 per cent of the workforce employed in agriculture.
- **Lower participation in foreign trade**
- **Dependence**
- **Less development of human capital**
- **Developing economies are 'Soft States'**.

As compared to developed countries, the human capital is also far less developed in the Third World countries. Whereas the adult literacy rate is as high as 98 per cent in high income countries, it is as low as 62 per cent in low income countries. Furthermore, the expenditure on research is pitiably low in underdeveloped countries.

Lastly, ***almost all underdeveloped countries are 'soft States'.*** Their characterisation as soft States implies that they lack social discipline. The legal system is also defective and various legislative measures are generally scuttled at implementation level. This happens because the bureaucracy operates under the influence of those very people whose activities are to be regulated by the State. In Gunnar Myrdal's opinion, this acts as a serious obstacle to development in the Third World countries.

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