

Lecture I: Concepts of Development and Underdevelopment

Objectives: After studying this section you should be able to:

- i) define the key concepts of development and under-development
- ii) Discuss why some countries develop and others remain poor?
- iii) Understand the sources of development and how do we measure development?

What is Development: The problematical nature of development??

In economic terms, development has been understood as achieving sustainable rates of growth of income pa capita to enable the nation to expand its output faster than the population (Todaro and Smith 2011). This definition fails to take into consideration problems of poverty, discrimination, unemployment and income distribution; the assumption being that increased output or economic growth would deal with these issues.

In sociological terms, the term 'development' is used (often by Western sociologists) to mean industrialization, economic growth and the living standards associated with prosperity, such as increased life expectancy, health-care, free education, etc. Those countries that have not yet achieved these objectives are said to be 'undeveloped' and are often termed 'less-developed countries' (LDCs).

This definition of development is both loaded and ethnocentric – it reflects the view that Westernisation is the only worthwhile and desirable direction development should take. Not all sociologists agree with this definition of development. For example, some regard liberation from oppression as more important to progress than industrialisation. Others regard industrial development as a problem if it means increasing social and economic divisions within a country.

The views on development above think of development as material or social change in the material world. However, others (Myers 1999) providing a religious view on development consider it as a positive change in the whole of human life materially, socially and spiritually. Myers calls this transformational development.

Torado and Smith (2011) sum up development and underdevelopment using 3 key questions;

- What has been happening to poverty?
- What has been happening to unemployment?
- What has been happening with inequality?

They conclude that if the three of these have declined from higher levels, then beyond doubt, this has been a period of development. If one or more of these problems have been growing worse, especially if all the three have, then that would be a period of 'underdevelopment.

Economics of Development: Concepts and Approaches

Economics of development refers to the problems of economic development of underdeveloped countries. In the early days, the focus was on problems that were statistic in nature and largely related to a Western European framework of social and cultural institutions. However, after the Second World War economists started devoting attention towards analyzing the problems of underdeveloped countries and formulating theories and models of development and growth. The interest in economics of development was further stimulated by the wave of political resurgence that swept across Asia and Africa which gained independence after the world war. After the Second World War, the poverty and backwardness of some of the world countries became extremely conspicuous. Many reasons, including colonial exploitation, devastation by war, war-induced inflation and the like, could possibly be said to be responsible for such a sad state of affairs in many countries. It is precisely at this time that the subject of development economics came into being to study the problems of backwardness and underdevelopment of these nations.

Development economics (DE) was basically designed to theorize on economic backwardness of the less developed countries (LDCs) and apply the theoretical knowledge to the analysis of particular problems of underdevelopment, low income and poverty, and to find ways and means to solve these problems. DE is indeed a blend of many types of issues and questions, including the analysis of causation and its perpetuation, and policies towards solution of a host of problems relating to underdevelopment. The purpose of DE has been

mainly to study the phenomenology of underdevelopment, and to prescribe appropriate policies to eradicate it. Theories developed by development economists have encompassed the theoretical underpinnings of empirical facts drawn across the board from socio-economic-political realms of life of many poor countries.

Economic growth Versus Economic development

Economists often tend to use the two terms economic development and economic growth interchangeably, as they appear to be synonymous with each other. The economic development of a country is defined as the development of the economic wealth of the country. Economic development is aimed at the overall well-being of the citizens of a country, as they are the ultimate beneficiaries of the development of the economy of their country.

Economic development is a sustainable boost in the standards of living of the people of a country. It implies an increase in the per capita income of every citizen. It also leads to the creation of more opportunities in the sectors of education, healthcare, employment and the conservation of the environment.

Economic growth on the other hand, is a narrower concept than economic development. It is defined as the increase in the value of goods and services produced by every sector of the economy. It is usually expressed in terms of the gross domestic product or GDP of the country.

Measurement of economic development

Economic development is measured in four ways:-

1. Gross National Product (GNP):
2. GNP per capita
3. Welfare
4. Social Indicators

Gross National Product

GNP is the total value of all final goods and services produced within a nation in a particular

year, plus income earned by its citizens (including income of those located abroad), minus income of non-residents located in that country. Basically, GNP measures the value of goods and services that the country's citizens produced regardless of their location. GNP is one measure of the economic condition of a country, under the assumption that a higher GNP leads to a higher quality of living, all other things being equal. Closely related to GNP is Gross Domestic Product (GDP):- which is the total market value of all final goods and services produced in a country in a given year, equal to total consumer, investment and government spending, plus the value of exports, minus the value of imports.

One common way of measuring development is the increase in the economy's real national income over a long period of time. GNP as a measure of national development is faced with several challenges including:-

- i. It fails to take into consideration changes in growth of population. If a rise in real national income is accompanied by a faster growth in population, there will be no economic growth but retardation.
- ii. The GNP figure does not reveal the costs to society of environmental pollution. It considers natural resources to be free.
- iii. It tells nothing about the distribution of income in the economy.
- iv. GNP is always measured in money terms, but there are a number of goods and services which are difficult to measure in terms of money e.g. taking care of the children by the mother.
- v. Double counting which arises from the failure to distinguish properly between final and intermediate products.

GNP as an index of economic development has not been successful in reducing poverty, unemployment, inequality nor has it helped raise standards of living in developing countries. Therefore, on its own GNP cannot be regarded as a satisfactory measure of economic development.

GNP per capita

This relates to increase in the per capita real income of the economy over the long period. This indicator of economic growth emphasizes that for economic development the rate of increase in real per capita income should be higher than the growth rate of population. However, several difficulties still remain:-

- i. An increase in per capita income may not raise real standard of living of the masses.
- ii. There is possibility that the masses remain poor despite an increase in the real GNP per capita if the increased income goes only to the few rich instead of going to the many poor.
- iii. International comparisons of the real GNP per capita are inaccurate due to exchange rate conversion of different currencies into a common currency.
- iv. The real GNP per capita fails to take into account problems associated with basic needs like nutrition, health, sanitation, housing, water and education. The improvement in living standards by providing basic needs cannot be measured by increase in GNP per capita.

Despite these limitations, the real GNP per capita is the most widely used measure of economic development

Welfare

Economic development is often measured from a welfare point of view. From this perspective, economic development is regarded as a process whereby there is an increase in the consumption of goods and services by individuals. From a welfare perspective, economic development is defined as a sustained improvement in material well-being, which is reflected in an increasing flow of goods and services. Welfare as a measure of economic development has its own limitations:-

- i. The first limitation arises with regard to the weights to be attached to the consumption of individuals. Consumption of goods and services depend on the taste and preferences of individuals. It is therefore not correct to have the same weights in preparing the welfare index of individuals.
- ii. Caution should be exercised with regard to the composition of the total output that is giving rise to an increase in per capita consumption, and how the output is valued. The increased total output may be composed of capital goods. It may be at the cost of a reduced output of consumer goods.
- iii. From the welfare point of view, we must also consider not only what is produced but how it is produced. The expansion of real national output might have resulted from long hours of labour and deterioration of working conditions of the labour force.
- iv. Increase in welfare might be accompanied by increased inequality in distribution of income i.e. the rich might have become richer and the poor poorer.

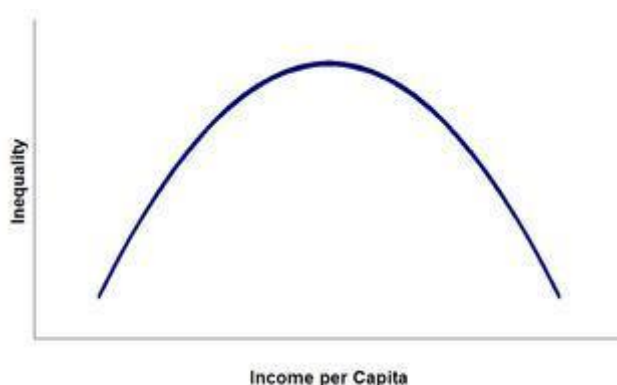
Social Indicators

Due to dissatisfaction with GNP/GNP per capita as measures of economic development, certain economists have tried to measure it in terms of social indicators. Some indicators are 'inputs' e.g. nutrition standards or number of hospital beds or doctors per head of population while others are outputs e.g. infant mortality rates, sickness rates etc. Social indicators are normally referred to as basic needs of development. The direct provision of basic needs such as health, education, food, water, sanitation and housing affects poverty in a shorter period and with fewer monetary resources than GNP/GNP per capita strategy which aims at increasing productivity and incomes of the poor automatically over the long run. The limitations of social indicators as measures of economic development include:-

- i. There no unanimity among economist as to the number and type of items to be included in such an index.
- ii. There is the problem of assigning weights to the various items which may depend upon the social, economic and political set-up of the country.
- iii. Majority of indicators are 'inputs' and not 'outputs' such as education, health etc
- iv. They involve 'value judgements' hence they are not popular.

Economic growth and income distribution: The Kuznets hypothesis

There has been much controversy among economists over the issue of whether economic growth increases or decreases income distribution. Prof. Simon Kuznets was the first economist to study this problem empirically. He observed that in the early stages of economic development relative income inequality increases, stabilizes for a time and then declines in later stages (forming Kuznets curve as in the figure below)



Causes of increase in inequality with development

There are many factors that tend to increase relative income inequality in the early stages of

development of poor countries.

Poor countries are characterized by geographic, social, financial and technological dualism. When the process of transition from a traditional agricultural society to modern industrial economy begins, it increases inequalities in income distribution. There are structural changes which lead to increasing employment opportunities, exploitation of new resources and improvements in technology. All these lead to increase in per capita income in the industrial sector. The incomes of workers, managers, entrepreneurs etc in urban areas increase more rapidly. But income per capita of workers engaged in agricultural and non-agricultural occupations in rural areas does not rise due to subsistence agriculture, defective land tenure system and rural backwardness.

The industrial sector uses capital-intensive techniques which absorbs only educated, skilled and trained workers. Workers in this sector have high incomes and employers earn large profits. Thus the modern industrial sector grows faster than the rural subsistence sector. As a result, the relative share of income and profit in national income of this sector rises, more than in the rural sector.

The migration of rural population to urban areas does not provide gainful employment opportunities to the uneducated and unskilled people in towns and cities. The majority of them take up low skilled jobs e.g. vegetable and fruit vendors, car washers, domestic servants etc. All such persons are underemployed and have low incomes. With technological advance and increase in financial facilities in urban areas, new class of entrepreneurs emerges which leads to diversification in manufacturing, trade and business. Consequently, incomes and profits of persons engaged in them increase. There is also urban bias in the allocation of financial resources for development on part of government with the result that the rural economy remains backward with disguised unemployment and low per capita income. Above all, higher growth rate of population among the masses in LDCs increases the absolute number of people and hence relative inequality.

Causes of reduction in inequality with development

Kuznets gives two reasons for the decrease in inequality of income distribution when the country reaches high income levels in the later stages of development. First, the per capita

income of the highest income groups falls because their share of income from property decreases. Second the per capita income of the lowest income groups rises when government takes legislative decision with respect to education And health services, inheritance and income taxation, social security, full employment and economic relief either to whole groups or individuals.

As development proceeds, it sets in motion a chain of cumulative expansion in the industrial sector, thereby leading to higher per capita income. This in turn increases the demand for farm products and other products and backward areas which raises the per capita income of the people of these areas. In development economics literature, this is called “trickling down effects” or ‘spreads effect’ of development. Besides the incomes of rural areas, also increase from urban remittances and or/foreign remittances. People belonging to rural areas but working in urban areas and or living in foreign countries remit large sums to their dependants.

References

Myers B (1999). *Walking with the Poor: Principles and Practices of Transformational Development*. Orbis Books, New York

Todaro M.P and Smith S.C, (2011). *Economic Development* , Addison Wesley, New York

Willis, K. (2011). *Theories and Practices of development*. London, Routledge

7

9