**STUDY MATERIAL**

**SEM-IV**

**C.C 8(T)**

**TOPIC- Concept and Cause of Underdevelopment**

**Provided by – Prof. Niladri Sekhar Singha**

**Introduction**

**All nations strive and direct their efforts to the achievement of development, hence be better and competitively placed in terms of power and wealth. As explained by Andre Gunder Frank, it's hard to formulate adequate development policy and theory for most populations in the world suffering from underdevelopment without having ample understanding of how past economic and social history has shaped the current underdevelopment (Frank 1972, p. 4). In order to understand the process of underdevelopment, we should not only study the developed metropolitan nations but should as well include those that lag behind in terms of prosperity. However, most of the present theoretical guides and theories to development policy have widely borrowed from the historical experience of the powerful and wealthy North American and European advanced capitalist nations, hence overlooking the underdeveloped countries. In the work of Andre Gunder Frank, the term development of underdevelopment implies that the present or modern status of underdevelopment is as a result of past social and economic history.**

**The Idea of Underdevelopment by Frank**

**Frank is regarded as one of the individuals who were very critical of the theories of sociology of development and the related processes of evolution and modernization (Mondal 2015). According to Frank, earlier scholars such as McClelland (1961) and Hagen (1962) have continuously ignored the fact that historical conditions are responsible for the establishment of a system of one world economy, where the Third World entities or countries work to develop the First World. Therefore, the underdeveloped nations are in such circumstances due to their connection with the developed societies. It is the view of Andre that economic development happens in a series of a succession of capitalist stages. In this opinion, the nations that are underdeveloped today are still in a particular stage which could be viewed as the original stage of history, through which the better-placed countries were and passed many years ago (Frank 1972, p. 3). However, there still lies the idea that underdevelopment is not traditional or rather original; hence the past or the present status of the underdeveloped nations align or is similar to the past of the current developed countries (Frank 1972, p. 3). In this school of thought, the developed countries were therefore never underdeveloped, but there was a time when that they were undeveloped. Similarly, the idea of Frank of the development of underdevelopment holds that the contemporary underdevelopment of a given nation could be viewed as the reflection or product of solely its political, social, economic, and cultural structures (Frank 1972, p. 3). In that note, the only way to compare the positive progression of a particular society or country should be with its own historical structures, but not with those aspects of the developed countries. However, historical research has proven that contemporary underdevelopment is in high proportion or part the historical product of past as well as continuing relations (such as economic, political or cultural) between the now developed metropolitan and the satellite underdeveloped nations (Frank, 1972 p. 3). As explained by Frank, such relations are an important part of the process of development of the capitalist system on a world scale in general. The notion by Frank (1972) is that development and underdevelopment are simply the two aspects of the same system. Frank holds the view that world capitalist system entails both concepts of development and underdevelopment as the dual dimensions of the same structure (Mondal 2015). As explained by Mondal (2015), the presence of growth in one area implies a direct result of underdevelopment in a different area. Frank's work could be viewed as holding the opinion that the world system contravenes the essence of national boundaries (Frank 1972, p. 7). In this case, Frank holds the perspective that countries are structured into a relationship of metropolitan and their satellite counterparts. Such relationships are not only present between the wealthy urbanite North American or European nations and the have-not's satellite countries of the rest of the world but within a particular society too, where the boondocks make their supply to and is also exploited by the same city (Mondal 2015). The term development of underdevelopment by Frank (1972) rejects the theory of diffusion that implies that the less-developed communities or societies do not have the potential for development since they are not influenced by the dynamics present in the developed or First World as a result of the many obstacles to progress (Mondal 2015). Frank further differs with the view that evolution of such underdeveloped societies, including their most primitive domestic areas, must and will ultimately be stimulated through the diffusion of institutions, values, and or capital from the international capitalist and dynamic metropolis to them (Frank 1972, p. 7). According to Frank (1972), economic diffusions are not capable of bringing transformation in the Third World countries. Various historical perspectives evaluating the past experiences of the underdeveloped societies states that there are chances of economic development occurring independently of the primary relations of diffusion. In this light, the progress of a satellite country is therefore not dependent on the influence from the core capitalist metropolis. Frank uses the example of Latin America, with the conception that the country has become a capitalist or feudalist since the colony. According to Frank’s theoretical scheme, the conventional dualist view of Latin America as both feudalist and capitalist should be rejected (Frank 1972, p. 5-6). The proposition of duality of Latin America holds that such societies have two structures, one being incredibly changing while the other one is stagnant and that the two structures are independent of each other (Frank 1972, p. 6). The structure that is ever changing is linked to the core or metropolitan countries that are capitalist and developed. On the other hand, the stagnant or rigid structure is not connected to the dynamic core countries; hence it is feudal and underdeveloped. Frank rejects the proposition implying that the capitalist structure or system has placed major impacts on all sectors of the economy. In the current structures, there still exist tendencies in the Latin American as well as world capitalist structure that leads to the development of the metropolis and negative progress of the satellite societies. The primary reason is the historical imposition and maintenance of the monopolistic structure as well as relationships that exploit the satellites. As a result, the satellite countries or cultures or societies in Latin America hold the view that their economic development is nothing but s limited development. According to the explanation above, the present state of underdevelopment of Latin America is highly attributed and linked to its long-term participation to develop the First World capitalist nations (Frank 1972, p. 5-6).**

**Implications of Development of Underdevelopment from a Developmental Point of View**

**From a developmental point of view, the regions that are the most underdeveloped and feudalistic in nature could be attributed to increased historical support of the development of the First World nations. The most underdeveloped countries had the strongest and closest links with the metropolis capitalists years ago. Similarly, the less developed were the greatest exporters of major products to the wealthy and powerful nations, as well as being the biggest sources of capital for the First World metropolis. Such boondocks were later abandoned by the metropolis once business declined. As per this perspective, the theory of development could be described to entail the concept of historical influences to the extent of progress for any given society. From a developmental point of view, it is evident that there exists a close relationship between the two terms namely, development and underdevelopment in that the two are aspects of the same system. One nation, in this case, the metropolis and wealthy fully depends on the support of the satellite and or less developed one for positive progress. The view by Frank represents a majority of the situations that happened during the colonial period where the relationship was not only between rich metropolitan Western nations and the poor but also within a country where the remote regions supplies to the city, with high levels of exploitation (Mondal 2015). Development, or underdevelopment for that matter, should be viewed regarding the historical occurrences that have most likely influenced the economic system. Similarly, the extent in which a nation lags behind in progress should be assessed on the basis of understanding the contemporary underdevelopment of the society as the product of its own structures such as political, cultural, social and economic entities (Frank 1972, p. 4).**

 **Conclusion**

**The concept of development of underdevelopment by Andre Frank implies that understanding the present state of underdevelopment requires a full understanding of past economic and social history of a given nation or society. Similarly, it has been established that the process of economic progression or development takes place in a series of stages. However, there is the need to note that the currently developed societies were never underdeveloped, even though they may have been undeveloped at some point in history. Nonetheless, the surest way to assess the cause of contemporary underdevelopment is the historical product of relations in the past as well as the current ones between the developed towns and the satellite underdeveloped societies.

Read more at: https://originwritings.com/samples/development-of-underdevelopment**

**The following points highlight the fourteen basic characteristics of underdeveloped countries. Some of the characteristics are: 1. Low Level of Income 2. Mass Poverty 3. Lack of Capital Formation 4. Heavy Population Pressure 5. Agricultural Backwardness 6. Unemployment Problem 7. Unexploited Natural Resources and Others.**

**Characteristic # 1. Low Level of Income:**

**Underdeveloped countries are maintaining a very low level of income in comparison to that of developed countries. The per capita incomes of these groups of countries are extremely low if we compare it with that of developed countries. Moreover, inequality in the distribution of income along with this low level of income worsens the situation in these economies to a disastrous level.**

**Characteristic # 2. Mass Poverty:**

**Existence of chronic mass poverty is another characteristic of underdeveloped economies. This problem of poverty arises not due to any temporary economic maladjustment but arises mainly due to existence of orthodox methods of production and social institutions. The degree of poverty in these economies gradually increases due to increase in its size of population, growing inequality in income and increasing price level. Nearly 76.8 per cent of the world populations are living in those underdeveloped or developing countries of the world, enjoying only 15.6 per cent of total world GNP.’ Iii these countries, majority of the population are living below the poverty line.**

#### ****Characteristic #**** 3. Lack of Capital Formation:

**Developing or underdeveloped countries of the world are suffering from poor rate of capital formation. As the level of per capita income in these countries is very low thus their volume and rate of savings are also very poor. This has resulted lack of capital formation and which is again responsible for low rate of investment in these countries.**

**As for example, the rate of investment in countries like India and Pakistan is lower than even 10 per cent but, on the other hand, the same rate is ranging between 15 to 30 per cent in developed countries like U.S.A., Canada etc. Thus this poor rate of capital formation is one of the major obstacles towards the path of development of these underdeveloped countries of the world.**

#### ****Characteristic #**** 4. Heavy Population Pressure:

**The underdeveloped countries are also characterised by heavy population pressure. The natural growth rate of population in these countries is very high due to its prevailing high birth rate and falling death rate. This excessive population pressure has been creating the problem of low standard of living and reduction in the average size of holding. This has also resulted in low rate of capital formation in these countries. The population in these countries is increasing by 2 to 3 per cent per annum which has created various problems like scarcity of agricultural land, small size of holding, problem of unemployment, food crisis, poverty etc.**

#### ****Characteristic #**** 5. Agricultural Backwardness:

**The underdeveloped countries are also suffering from agricultural backwardness. Although being the most important sector, agricultural sector in these countries remains totally underdeveloped. But what is more peculiar is that these countries are depending too much on this agricultural sector.**

**Nearly 60 to 70 per cent of the total population of these countries is depending on agriculture and about 30 to 40 per cent of the total GNP of these countries is generated from agricultural production. Agricultural productivity in these countries remained still very poor in spite of its great importance.**

**In these underdeveloped countries, agriculturists are still following traditional methods and are applying modernised techniques on a very limited scale.**

#### ****Characteristic #**** 6. Unemployment Problem:

**Excessive population pressure and lack of alternative occupations have resulted in huge unemployment and underemployment problem in these underdeveloped countries. In the absence of growth of alternative occupations both in the secondary and tertiary sector of these countries, this increasing number of population is being thrown on land to eke out their living from agricultural sector.**

**This sort of increasing dependence on agricultural sector leads to disguised unemployment or under-employment in these economies to a large scale. Moreover, problem of educated unemployment in these economies is also increasing gradually day by day due to lack of industrial development.**

#### ****Characteristic #**** 7. Unexploited Natural Resources:

**For maintaining a rapid pace of economic growth in these underdeveloped countries, possession of different types of natural resources in sufficient quantity and its utilisation are very important. But under-developed countries are either suffering from scarcity of raw materials or from un-exploited natural resources of its own.**

**If we look at the endowment position of these countries then we can see that some of the underdeveloped countries are having natural resources like land, water, minerals, forest etc. in sufficient quantity but these resources remain largely under-utilized or even untapped due to various difficulties faced by these countries.**

**These difficulties include inaccessibility of the region, shortage of capital, lack of proper attention, primitive technology, transport bottlenecks and small extent of the market. Thus by utilising its natural resources, underdeveloped countries can develop their economies with minimum initiative of their own.**

#### ****Characteristic #**** 8. Shortage of Technology and Skills:

**Underdeveloped countries are facing low level of technology and acute shortage of skilled manpower’s. Poor technology and lower skills are responsible for inefficient and insufficient production which leads to poverty of masses. The pace of economic growth in these countries is very slow due to application of poor technologies.**

**But the application of modern sophisticated technology both in agricultural and industrial sector is of utmost need in these countries. This requires sufficient amount of capital, technological advancement and training.**

#### ****Characteristic #**** 9. Lack of Infrastructural Development:

**Lack of infrastructural development is a common feature of underdeveloped countries. In respect of transportation, communication, generation and distribution of electricity, credit facilities, social overheads etc. these countries are very much backward than most of the developed countries. Thus due to inadequate infrastructural facilities, the pace of economic development in these countries are very slow.**

#### ****Characteristic #**** 10. Lack of Industrialization:

**Underdeveloped countries are characterized by lack of industrial development. The pace of industrialisation in these countries is very slow due to lack of capital formation, paucity in the supply of machinery and tools and also due to lack of initiative and enterprise on the part of people of these countries.**

**In spite of having huge potential for industrial development, these countries could not develop the industrial sector on a sound footing. Moreover, whatever industrial development that has been achieved by these countries are very much restricted only to some limited areas.**

#### ****Characteristic #**** 11. Lack of Proper Market:

**Underdeveloped countries are also suffering from lack of properly developed market. Whatever market these countries have developed, these are suffering from number of limitations viz. lack of market information, lack of diversification, lack of proper relation or connection between markets, lack of adequate demand etc.**

#### ****Characteristic #**** 12. Mass Illiteracy:

**Underdeveloped countries are mostly characterised by the existence of mass illiteracy. Due to illiteracy the people in these countries are very much superstitious and conservative which is again responsible for lack of initiative and enterprise on the part of people of these countries.**

#### ****Characteristic #**** 13. Poor Socio-Economic Condition:

**Underdeveloped countries are also suffering from totally poor socio-economic conditions. The path of economic development in these countries is being obstructed by various socio-economic factors like-joint family system, universal marriage, costly social customs and the law of inheritance.**

#### ****Characteristic #**** 14. Inefficient Administrative Set Up:

**Underdeveloped countries are also suffering from its existing inefficient administrative set up. In the absence of efficient and sound administrative set up, these countries are suffering from lack of proper economic organisation, lack of investments and lack of appropriate decisions leading to total mismanagement of these economies.**

# Meaning of an Underdeveloped Economy

**On several occasions, we hear the experts of**[**Economics**](https://www.toppr.com/guides/fundamentals-of-economics-and-management/basic-concepts-of-economics/)**referring to India as an underdeveloped or a less-developed economy. While it is evident that as a country we still have miles to go before we call ourselves a truly developed nation, what exactly is the meaning of an underdeveloped economy? In fact, what is the concept of development according to Economics? In this article, we will explore the meaning of an underdeveloped economy and talk about the Indian context.**

**Before, we look at the concept of development, let’s take a peek at our Economy’s key strengths and performance in recent years.**

### Key Strengths of the Indian Economy

**As a country, India has some strong macro-fundamentals and performance. During the years 2005/06 to 2011/12, the key strengths of the Indian Economy were:**

* **High savings and**[**investment**](https://www.toppr.com/guides/fundamentals-of-economics-and-management/national-income/concept-of-consumption-saving-and-investment/)**ratios**
* **Excellent growth prospects**
* **Strong and highly competitive**[**organizations**](https://www.toppr.com/guides/business-management-entrepreneurship/organizing/structure-of-organization/)**in the private sector**
* **Robust regulatory framework**
* **Economic**[**liberalization**](https://www.toppr.com/guides/economics/liberalization-privatisation-and-globalisation/liberalization/)
* **High-quality human**[**capital**](https://www.toppr.com/guides/business-laws/companies-act-2013/classification-of-capital/)**or a highly educated workforce**
* **A strong domestic**[**demand**](https://www.toppr.com/guides/business-economics/theory-of-demand/meaning-and-determinants-of-demand/)
* **Innovation ingrained in society**
* **A Strong external liquidity position**
* **Steadily increasing**[**Government**](https://www.toppr.com/guides/civics/what-is-government/meaning-of-government/)**revenues**

**These strengths have therefore led to significant growth in our country’s macroeconomic parameters as shown below:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Parameters** | **2005/06** | **2011/12** | **Percentage Change** |
| **Real Gross Domestic Product(GDP)(INR Billion)** | **32,542** | **52,220** | **60% increase** |
| **Real Per Capita GDP(INR)** | **33,548** | **46,221** | **38% increase** |
| **Exports(US $ Billion)** | **103** | **303** | **194% increase** |

**While the figures certainly look promising, India still has a lot of ground to cover. The per-capita income (PCI) of an Indian is still considerably lower than most of the other countries in the world like the UK, USA, Japan, etc.**

**Learn more about the**[***methods of measuring the National Income here***](https://www.toppr.com/guides/general-awareness/economy/methods-of-measuring-national-income/)**in detail.**

## Meaning of an Underdeveloped Economy

**India is still battling a lot of problems like illiteracy, poverty, child mortality, etc. As a nation, we have to defeat these enemies before the world starts looking at us as an emerging**[**economy**](https://www.toppr.com/guides/general-knowledge/indian-economy/indian-economics-and-development/)**. In order to comprehend the meaning of an underdeveloped economy, let’s first look at the concept of development.**

### What is the concept of Development?

**By now, we know that the National Income and Economic Welfare are two separate entities. A high National Income does not imply Economic Welfare. In fact, there are various other factors like education, health, political stability, prosperity (cultural and social), etc. which constitute welfare.**

**Similarly, growth and development are also separate aspects. Growth, in simple terms, means quantitative improvement. On the other hand, development considers growth as well as various aspects of human development.**

**Therefore, we can classify all the countries around the world into two broad categories – Developed and Developing countries. A developing country means that even though the**[**country**](https://www.toppr.com/guides/geography/life-lines-of-national-economy/economy-of-a-country/)**is underdeveloped, it has initiated the process of development. Take a look at the following diagram:**

****

**As you can see in the figure above, a developing economy is sub-divided into Low, Middle, and High-Income groups. Further, the Middle-Income group is broken down into Lower-Middle-Income group and Upper-Middle-Income group.**

**In the current scenario, two Asian economies – India and China are developing faster than the other High-Income countries. In fact, as of 2011, China has already entered the Upper-Middle-Income group with a PCI (per capita income) of $4940. India, with a PCI of $1410 in 2011/12 has a long way to go.**

## Solved Question on Underdeveloped Economy

**Q1. How are developing countries sub-divided based on their income?**

**Answer:**

**If the per capita income of a developing country is:**

* **Less than $ 1025 – it is a Low Income Developing Country**
* **Greater than $ 1026 but less than $ 4035 – it is a Low Middle Income Developing Country**
* **Greater than $ 4036 but less then $ 12475 – it is an Upper Middle Income Developing Country**
* **Also, if the PCI > $ 12476 – it is a High Income Developing Country**

# 7 Main Characteristics of Less Developed Countries (LDCs)

**The following points highlight the seven main characteristics of Less Developed Countries (LDCs). Some of the characteristics are: 1. Low per capita income and widespread poverty 2. Shortage of capital 3. Population explosion and high dependency 4. Massive unemployment and Others.**

#### ****Characteristic # 1. Low per capita income and widespread poverty:****

**The most important indicator of economic backwardness is per capita income. Per capita GNP of LDCs is very low.**

**That is why most people in such countries live under severe hardships. They do not get sufficient food to eat, adequate medical care and minimum educational opportunities. About 40- 50 p.c. people in such countries live below the poverty line.**

**In terms of per capita income and living standards not only the gap between the developed and underdeveloped countries is large, but the gap is widening over the years. For example, in 2006, India’s per capita GNP (in U.S. dollars) was a modest $ 820 compared to $ 44,970 of the USA, $ 66,530 of Norway, and $ 57,230 of Switzerland, Norway. The average GNP per capita of low income countries in 2006 stood at $ 650 compared to $ 37,529 for high-income countries. (Data Source: World Development Report 2008).**

#### ****Characteristic # 2.**** Shortage of capital:

**In LDCs like India, there is a shortage of capital of all varieties. There is shortage of not only private capital like structure, factories, steel mills, etc., but also shortage of social overhead capital such as roads, highways, railroads, hospitals, schools, etc. This is largely due to low per capita income and widespread poverty. Since most people are poor they cannot save much.**

**In fact, poor people have a high propensity to consume (or a low propensity to save). Ragnar Nurkse has pointed out that most LDCs are caught in a vicious circle of poverty: A country is poor because it is poor. Low per capita income leads to low saving. Low saving leads to low growth and low growth, in turn, leads to low per capita income. In fact, low per capita income is both the cause and the consequence of poverty.**

#### ****Characteristic # 3****. Population explosion and high dependency:

**Another major characteristic of LDCs is the high rate of growth of population. The population bomb has exploded in most such countries, as has been predicted by T. R. Malthus in 1798.**

**This is due to a two-fold reason:**

**(a) A sudden fall in the death rate, and**

**(b) Almost unchanged or constant birth rate.**

**As a result, population has virtually exploded.**

**Population in these countries is increasing annually at the rate of almost 2 p.c. On the contrary, supply of inputs is inelastic. Consequently, land-labour ratio has become unfavorable leading to a growth of an army of surplus labour. These labourers are unproductive in the sense that they depend on productive labourers. In fact, due to lack of adequate employment opportunities, the dependency burden is very high.**

#### ****Characteristic # 4****. Massive unemployment:

**Another important characteristic of LDCs is the existence of a considerable amount of unemployment, underemployment, and disguised unemployment. Traditional agricultural sector cannot cope with the rising population.**

**As a result, the magnitude of disguised unemployment is mounting in these countries. Finding no alternative employment opportu­nities, rural people flock to the urban areas in order to survive. But, the rate of industrial growth is not encouraging to absorb rural masses. In addition to this, a large number of educated youth do not find employment in these countries.**

#### ****Characteristic # 5****. Predominance of agriculture:

**An underdeveloped economy is predomi­nantly an agrarian economy. Predominance of agriculture is viewed from two angles—first is the contribution of this sector towards national income. In LDCs, agriculture contributes roughly 30-50 p.c. towards national income. On the other hand, in the developed countries, agriculture occupies a secondary position since 2 p.c. to 8 p.c. of national income comes from this sector.**

**Secondly, LDCs mainly depend upon agriculture and extractive industries like mining, fisheries and forests. This means that the bulk of the population is engaged in agriculture and allied pursuits. About 55-75 p.c. of the people are engaged in agriculture. Only 10 p.c. are employed in the secondary sector, and the rest in the tertiary sector.**

**In advanced countries, agriculture provides employment to a small fraction of the people (2 p.c. to 5 p.c.). All these explain the predominance of agriculture in LDCs. Though agriculture occupies a predominant position in LDCs, it is always in a backward condition leading to low productivity.**

#### ****Characteristic # 6****. Unproductive investment:

**It is anybody’s knowledge that due to massive poverty people have very little power to save in LDCs. These countries are not capable of saving of more than 15 p.c. of GDP as compared to more than 35 p.c. of GDP saved by people of advanced countries.**

**The small amount, which is saved in LDCs is not invested properly. Some of it is used in hoarding, black marketing and other unsocial activities, like decorating ‘gods’ in temples by gold ornaments. A large part is used to buy unproductive assets like gold and jewellery. This sort of unproductive investments cannot promote economic growth.**

#### ****Characteristic # 7****. Low levels of productivity:

**Another feature of an LDC is low productivity of land, labour and capital. The productivity of land is low for various reasons—institutional, technological, and natural. Productivity of labour is also low for various reasons.**

**Most workers are poor and do not get either sufficient food or adequate medical care. So they cannot work hard. They are most illiterate, unskilled and lack technical training. They do not have sufficient complementary resources such as land and capital to work with.**

**In short, low productivity of labour is both a cause and an effect of the low levels of overall productivity and living in these countries. Low levels of living and low productivity go hand in hand. It is really difficult, in practice, to identify the cause and the effect.**

# Less Developed Countries (LDCs) | Economics

**The following points highlight the top characteristics of Less Developed Characteristics (LDCs). The characteristics are: 1. Low Per Capita Income and Widespread Poverty 2. Shortage of Capital 3. Population Explosion and High Dependency 4. Low Levels of Productivity.**

#### ****Characteristic # 1. Low Per Capita Income and Widespread Poverty:****

**The most important indicator of economic backwardness is per capita income. The per capita ‘ income of LDCs is very low. This is why most people in such countries live under severe hardships. They do not get sufficient food to eat, adequate medical care and minimum educational opportunities.**

**About 40-50 A peo­pled such countries live below the poverty line. In terms of per capita income and living standards not only the gap between the developed and underdeveloped countries is large, but the gap is widening over the years.**

**For example, in 1991, India’s per capita income (in US dollars) a modest $330 compared to $26,930 in Japan, $23,650 in Germany, $22,240 in the USA, and $20,350 in France. As Colin Clark comments,“Incomes in underdevel­oped countries today are form about one-sixth to one-third of the per capita incomes of the developed countries a century ago.”**

#### ****Characteristic #**** 2. Shortage of Capital:

**In LDCs like India, there is shortage of capital of all varieties. There is shortage of not only private capital like structures, factories, steel mills, etc., but also shortage of social overhead capital such as roads, highways, railroads, hospitals, schools, etc.**

**This is largely due to low per capita income and widespread poverty. Since most people are poor they cannot save much. In fact, poor people have a high propensity to consume (or a low propensity to save). Ragnar Nurske has pointed out that most LDCs are caught in a vicious circle of poverty.**

**A country is poor because it is poor. Low per capita income leads to low saving. Low saving leads to low growth and low growth, in its turn, leads to low per capita income. In fact, low per capita income is both the cause and consequence of poverty.**

**As H.W. Singer has put it, “An underdeveloped country is poor because it has no industry, and an underdeveloped country has no industry because it is poor”. As Misra and Puri have rightly commented, “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.”**

**There is general agreement among economists on at least one point: of all the factor determining the rate of economic growth and the pattern of development, capital is the most strategic of all. As Benjamin Higgins has rightly remarked: “Capital accumulation is the key to economic develop­ment”.**

**Whether in a predominantly private enterprise like the American economy or in socialist economy like the Chinese, economic development cannot take place without capital accumulation. So, one point which has been highlighted by development economists is that the low levels of saving and investment (capital formation) act as a major obstacle to growth and development in LDCs.**

#### ****Characteristic #**** 3. Population Explosion and High Dependency:

**Another major charac­teristic of LDCs is high rate of growth of population. The population bomb has exploded in most such countries, as has been predicted by T. R. Malthus in 1798.**

**This is due to a twofold reason:**

**(1) A sudden fall in the death rate in recent years due to increase in medical facilities and growing expenditure on health, as has been highlighted by the World Bank, 1993; and**

**(2) Almost unchanged or constant birth rate (mainly due to low cost of raising children in rural areas, widespread poverty, ignorance and religious orthodoxy). As a result, population has virtually exploded.**

**In fact, for most LDCs, growing population seems to be both the cause and effect of underdevelopment. For poor people, living under sub-human conditions, family planning and small family norm have no meaning, as they have hardly any stake in life. Due to poverty, they are quite indifferent to the size of their family.**

**This in its turn, increases their economic burden and causes greater hardship. As the old saying goes- rich people get money and poor people get children. The overall dependency burden in LDCs is much higher than in developed countries.**

**Moreover, due to the prevalence of joint family system, lack of adequate employment opportunities both in rural and urban areas, the dependency burden is very high. This, in its turn leads to a fall in saving rate and acts as an obstacle to economic growth. While 2-3 people depend on a single individual in a developed country, at least 4-5 people do so in an LDC.**

#### ****Characteristic #**** 4. Low Levels of Productivity:

**Another feature of an LDC is low productivity of land, labour and capital. The productivity of land is low for various reasons – institutional, technological and natural. Due to rapid population growth, particularly in rural areas, per capita land availability falls over time.**

**Again, due to population growth and breakdown of the joint family system, there is sub-division and fragmentation of holdings. Due to overcrowding on land and scattered holdings economies of scale associated with large-scale production cannot be derived in agriculture.**

**Moreover, in most parts of LDCs, old and traditional methods of cultiva­tion are practised. Governments do not encourage the use of highly capi­tal-intensive methods due to its labour displacement effects. It is apprehended that use of modern implements like tractors, pump-sets and will cause technological unemployment in such labour-surplus countries.**

**Moreover, they can use threshers seeds and chemical fertilizers. All these as also various other factors – both natural and institutional – (such as institutional dependence on wealth due to lack of irrigation facilities, lack of marketing and credit facilities)-account of low agricultural productiv­ity.**

**Although agriculture is the dominant sector of the economy (which provides direct and indirect employment to the majority of the population and which makes the maximum contribution to gross domestic product), it is itself in a state of backwardness. Productivity of labour is a so low for various reasons.**

**Most workers are poor and do not get either sufficient food or adequate medical care. So, they cannot work hard. They are mostly illiterate, unskilled and lack technical training. They do not have sufficient complementary resources such as land and capital to work with.**

**In short, low productivity of labour is both a cause and effect of the low levels of living in this countries.**

**As M. P. Todaro has put it, “Low levels of living and low productivity go hand in hand”. It is really difficult, in practice, to identify the cause and the effect.**

# Causes Responsible For Economic Backwardness of Under Developed Countries

**Causes Responsible For Economic Backwardness of Under Developed Countries:**

#### (i) Capital Deficiency:

**Capital is of crucial importance for economic growth, but this is what the under-developed countries lack.**

**With the low level of national output much saving is not possible but whatever there is, it is frittered away in conspicuous consumption and extravagance in social ceremon­ies or is invested in real estate or jewellery.**

**Lack of sufficient capital handicaps all productive enterprise and inhibits economic growth. Such countries are caught up in a vicious circle of poverty explained below.**

#### (ii) Lack of Entrepreneurial and Managerial Talent:

**It is the bold and prudent entrepreneur and a wise manager who makes success of a business enterprise. Lack of this talent is responsible for missing available opportunities of profitable investment. Hence such countries remain economically backward.**

#### (iii) Lack of Skilled Personnel and Technical Know-how:

**Another very important bottleneck in the way of economic growth is the scarcity of technical know-how and skilled personnel. These elements of productive power take long in building up and foreign technicians are very costly. Hence, the under­developed countries remain under-developed.**

#### (iv) Limited Size of the Market:

**The purchasing power of the people is very low on account of their proverbial poverty. Hence the productive enterprises are handicapped in the sale of goods. Only an expanding market can provide a fruitful field for profitable investment and result in economic development of the country.**

#### (v) Weak Infrastructure:

**The backward countries lack an adequate and efficient means of transport and communications, a well-organised and deve­loped banking system and adequate facilities for technical education. Without these no country can develop economically. Lack of adequate infrastructure is a big abstracted to economic growth.**

#### (vi) Social and Institutional Set-up:

**Social customs and attitudes of the people of backward countries are a great bar to economic progress. Conserva­tism, superstition, lack of ambition, undue regard for custom and status are a drag on economic progress. Economic backwardness in India is in no small measure due to joint family system, caste system, peculiar laws of inheritance and the other-worldly attitude of the people.**

#### (vii) Alien Rule:

**Most of these countries have been under foreign rule which has kept them down. The foreign rulers could not be expected to take any genuine interest in the economic regeneration of the people. Economic backwardness of India may be largely attributed to the policies followed by its British rulers.**

#### (viii) Growing Population:

**The explosive rate of population growth in the backward countries undoubtedly retards their economic growth. Whatever development fakes place is swallowed up by the rising tide of population. The fruits of development are hardly sufficient-to feed the torrent of babies.**

#### (ix) Preponderance of Agriculture:

**The bulk of the population is engaged in agriculture which is carried on in a primitive manner. Naturally the national income remains at a low level. Economic development cannot be brought about in the absence of rapid industrialization.**

# Economic Growth and Economic Development (Differences)

**Economic Growth:**

**(1) Single dimensional i.e., increase in output alone.**

**(2) Quantitative Changes-Change in national and per capital income.**

**(3) Spontaneous in character.**

**(4) Discontinuous Change**

**(5) Growth is possible without development**

**(6) Determinant of economic growth may be economic development.**

**(7) Solution of the problem of under developed countries.**

**(8) Developments related to underdeveloped countries**

**(9) Economic developed is regulated and controlled in character**

**(10) Economic development is not possible with Economic growth**

**(11) Economic development is an innovative process leading to the structural transformation of social system**

**Economic Development:**

**(1) Multi dimensional i.e., more output and changes in technical and institutional arrangements.**

**(2) Qualitative Changes-Change in composition and distribution of national and per capital income and change in functional capacities.**

**(3) Gradual and steady change in the long run.**

**(4) Continuous Change.**

**(5) Growth to some extent is essential for development.**

**(6) Economic development is the determinant of economic growth**

**(7) Solution of the problem of developed countries.**

**(8) Growth relates to developed countries**

**(9) Economic growth is spontaneous in character.**

**(10) Economic growth is possible without Economic development.**

**(11) Economic growth is an expanses of the system in one or more dimensions without a change in its structure.**