3

ECONOMIC DEVELOPMENT AND INDIAN ECONOMY

3.1 INTRODUCTION

You have learnt in the previous lesson that every economy tries to produce more and more goods and services for its people. In this lesson you will study about the meaning of economic development and characteristics of economies. You will also study the main characteristics of the Indian economy.

3.2 OBJECTIVES

After going through this lesson you will be able to :

- define economic growth;
- differentiate between economic growth and economic development;
- identify the developed and developing economies;
- state some common characteristics of the developed and developing economies;
- list the main characteristics of Indian economy.

3.3 MEANING OF ECONOMIC GROWTH

An increase in the total volume of goods and services produced by a nation is termed as economic growth. However, such an increase must not be one time but must continue over a long time. Any increase in the volume of goods and services due to some sudden occurrence (i.e. one time increase) cannot be termed as economic growth. For example, if agricultural production increases only in one year but does not increase in subsequent years, it will not be termed as economic growth. We talk of economic growth as an increase in total volume of goods and services produced by a nation spread over a long period of time.

It does not necessarily mean an increase in the volume of all goods and services. It is an overall increase in total physical production. It also does not mean a uniform increase in the volume of all goods and services. In fact, it is possible that the volume of some goods and services may have increased much more and of some, much less. The volume of some goods and services may have even fallen.

The volume of goods and services produced by a nation is expressed in value (money). We must take into account only the real increase (physical quantity) by eliminating that increase in the value of total output which is due to the increase in prices. For example, suppose the value of total production in a country in 1995 is Rs. 4000/- crores and in 1996 it is Rs. 5000/- crores. This amounts to an increase of 25% over 1995. Suppose prices in 1996 were 25% higher than in 1995. Is the rate of growth in the country in 1996, 25%? No, because 25% is the increase in the value of production and not in volume of production. 25% increase in 1996 is due to increase in prices of goods and services. This means that there was no change in total production of goods and services. Hence the rate of growth was zero. In the example we have taken a period of one year to make you understand the meaning of real increase in total output. Remember that economic growth refers to the increase in total physical production and not to the increase in value of total production over a long period.

3.4 MEANING OF ECONOMIC DEVELOPMENT

'Economic development' is a wider concept than the concept of 'economic growth'. Development is a concept which includes not only economic growth but certain other positive changes in other spheres of life. In fact, it includes development in all spheres. We will confine ourselves to the meaning of only economic development.

Economic development means economic growth along with desired changes in the distribution of national income and other technical and institutional changes. Mere economic growth is not economic development. It is also to be seen whether an increase in the volume of goods and services produced in a country has resulted in an overall increase in the level of living of the people of that country. In other words, one must find out what has been happening to per capita real income, poverty, unemployment and inequalities of income in a nation during the period of economic growth.

For example, if in a country the volume of goods and services produced increases at a certain rate but its population also increases by the same or higher rate, then its per capita real income remains the same or falls. In this case although total production has increased but average level of living of the people has not improved.

Similarly, suppose along with the increase in per capita real income there is also increase in the inequalities of income. It means that the benefits of economic growth have not been distributed equally. The rich have become richer and the poor poorer. This is not economic development. In this situation there is 'economic growth' because per capita real income has increased. But, at the same time, it is not economic development because inequality has increased.

Further, although a rise in per capita real income and reduction in inequality reflects economic development but this is not all. Economic development means many more things. It means increase in the efficiency of the factors of production, better techniques of production, positive changes in attitudes towards work and life increase in the importance of non-agricultural sectors and so on.

To sum up, we can say that economic development is nothing but economic growth plus 'change'. The term 'change' here refers to the qualitative changes in the economy. These are in the form of improvement in the level of living, reduction in inequality, rise in efficiency, improvement in technique, fast growth of industrial sector, positive changes in attitudes and so on.

The terms 'economic growth' and 'economic development' may be mistaken as synonymous. But as student of economics. we must keep in mind the difference between these two terms.

POINTS TO REMEMBER

- Economic growth means continuous increase in total volume of production over a long period.
- Economic development is a concept wider than economic growth. Economic growth accompanied by increase in real per capita income, reduction in inequalities of income and in the number of poor people, and generating institutional changes and development of technology that affect growth, is called economic development.

INTEXT QUESTIONS 3.1

Fill in the blanks from words given in brackets.

1. ___________ means increase in total output over a longer period of time. (Economic development, Economic growth)
2. Economic development is the problem of ___________ countries. (developed, developing)
3. Economic growth is the problem of ___________ countries. (developed, developing)
4. Economic ___________ means increase in real income alongwith reduction in inequalities and the number of the poor. (development, growth)
5. When with economic ___________ per capita real income rises and other institutional changes take place, it is called economic ___________. (development, growth)

3.5 DEVELOPED AND DEVELOPING ECONOMIES

Countries are generally categorised into (a) less developed and (b) more developed. The less developed countries are called underdeveloped or 'developing' countries. More developed countries are called 'developed' countries. But on what basis countries are classified into 'developing' and 'developed'?

Problem in classification

We have learnt in the last section that development means 'economic growth' plus qualitative changes in the form of rise in per capita real income, reduction in inequality, increase in productivity, improvement in technology, improvement in the quality of life and so on. It means that we have to apply all these tests to call a country 'developed' or 'underdeveloped'. But there are practical problems in applying all these tests simultaneously. The major problem is of obtaining data. In the absence of data, the present practice is to classify countries on the basis of per capita real income. The World Bank undertakes such an exercise every year and publishes the data in the World Development Report every year.

Classification based on per capita income

The World Bank classifies countries into four groups : (a) Low income, (b) Lower middle income, (c) Upper middle income and (d) High income. Out of these the first two groups are termed 'developing' countries. The last two groups are termed 'developed' countries. The following table 3.1 shows the basis of classification.

Table 3.1

Group	Per capita GNP limit (in U.S. dollars)
(a) Low income countries	$725 or less
(b) Lower middle income countries	$726 to $2895
(c) Upper middle income countries	$2896 to $8955
(d) High income countries	$8956 or more

Let us notice two things about this classification. First, it is based on GNP i.e. Gross National Product. (This concept has been explained in lesson No. 10. Second, the GNP is expressed in U.S. dollars. Although different countries' GNP is expressed in different currencies, yet it is necessary that GNP of all countries is converted into a single currency to facilitate a comparison. Per capita GNP of some countries for the year 1994 is shown in the following table.

Table 3.2
Year: 1994

(US dollars)

Country	Per capita GNP ($)	Country	Per capita GNP ($)
Bangladesh	220	U.K.	18,340
India	320	Canada	19,510
Pakistan	430	France	23,420
China	530	Germany	25,580
Sri Lanka	640	U.S.A.	25,880
Indonesia	880	Japan	34,630

You will observe that among the countries included in the table 3.2, Bangladesh has the lowest per capita GNP ($ 220) and Japan has the highest per capita GNP ($ 34,630). There are countries having even lower per capita GNP than Bangladesh. On the basis of per capita GNP India's rank is 23 from the bottom among 133 countries of the world. In comparison to Japan, India's per capita GNP is less than 1/100. In other words, on an average a Japanese gets 100 times more income than an Indian. Obviously, it indicates that the standard of living of the people in Japan is very much higher than the standard of living in India. If we compare India's per capita GNP with its neighbouring countries like Pakistan, Sri Lanka and China we find that the per capita GNP is higher in these countries. The difference in per capita GNP shows the contrast in the standard of living of the people of different countries.

Characteristics of developing countries

As stated earlier although no two countries among the developed countries or even among the developing countries will have similar characteristics, it is still possible to broadly identify some of the most common characteristics of developing and developed countries. Some economists call the developing countries as underdeveloped countries. Since all these countries have started the process of development and are developing, they are grouped as developing countries.

The common characteristics of developing economies are:

i) Most people of these countries have a very low level of income and consumption.
ii) A large number of people are below the poverty line meaning thereby that they are not able to meet even their basic requirement of food, clothing and shelter.
iii) A large number of people in these countries do not find employment for a large part of the year.
iv) The quality of life of the people in these countries is poor. The quality of life depends on literacy level, medical facilities, hygenic and sanitation facilities, infant mortality rate and life expectancy etc.
v) Agriculture in these countries is the main occupation of the people. The industry and technology is backward.
vi) The rate of growth of population in these countries is high and they are overpopulated.

Characterstics of developed countries

The common characteristics of developed countries are

i) In these countries the level of income and consumption is high. In other words, the people of these countries enjoy a high standard of living.
ii) The quality of life of the people in these countries is better. The literacy rate is very high. They enjoy much better medical facilities. Life expectancy is very high. Infant mortality rate is very low.
iii) These countries are generally advanced in industry and technology.

iv) Most people in these countries are able to meet their basic needs of food, clothing and shelter.

v). In most of these countries the rate of growth of population is low because the birth rate and death rate both are low.

'Quality of life' indicators

The following table 3.3 shows the difference in quality of life in some of the developing and developed countries :

Table 3.3
Quality of Life Indicators

Country	Life expectancy at birth (1994)	Adult illiteracy rate (1995)	Infant mortality rate	Birth rate (1993)	Death rate 1993	Contribution of agriculture to GNP
India	62	48	70	29	10	30
Bangladesh	57	62	81	35	11	30
Pakistan	60	62	40	09	25	
Sri Lanka	72	10	16	20	06	24
Ethiopia	49	65	120	48	18	57
China	69	19	30	19	08	21
Vietnam	68	06	42	30	08	28
Indonesia	63	16	53	24	08	17
Rep. of Korea	71	Less than 5%	12	16	06	07
South Africa	64	18	50	31	09	05
Japan	79	Less than 5%	04	10	08	02
USA	77	"	08	16	09	-
UK	76	"	06	13	11	02
France	78	"	06	13	10	02
Germany	76	"	06	10	11	01

The above table 3.3 shows the wide disparities between the developing countries as well as developed countries in the quality of life. This table when read with table 3.2 indicates that almost all those countries which have very low per capita GNP (i.e. the developing countries) do not have good quality of life. For example, life expectancy at birth in India is 62, in Pakistan-60, Bangladesh-57, China-69; while the life expectancy in Japan, U.S.A., France, Germany (developed countries) is more than 75 years. Japan has the highest life expectancy in the world (79 years). Similarly, you will observe that the adult illiteracy rate in all the developed countries is less than 5% whereas this rate is very much higher in developing countries. In respect of birth rate, death rate, infant mortality rate, we find the same trends. You will also observe that in the developed countries the contribution of agriculture to their Gross National Product is just 2 to 5% whereas in the developing countries it is much higher (30% in case of India). It shows that the developed countries are highly industrialised countries.

Among the developing countries some are developing faster than the others. Each one of these countries have reached a certain stage of development but are still far from being categorised as developed countries. For example, Republic of Korea and India were almost at the same stage of development in 1950's. But that country developed much faster than India and is now categorised as a developed country.

POINTS TO REMEMBER

- Economies of the world are divided into developed and underdeveloped economies on the basis of per capita real national income.
- Countries with per capita GNP of $ 2896 or more are classified as developed and less than $ 2896 are classified as developing countries.
- The main characteristics of developed economies are :(i) High level of income and consumption, (ii) Quality of life in these countries is much better, (iii) They have advanced technology and industry, (iv) The basic needs of all the people are met, (v) The rate of growth of population in most of these countries is low.
- The main characteristics of developing economics are : (i) Level of income and consumption is low, (ii) The quality of life is poor, (iii) There is unemployment and poverty, (iv) Agriculture is the main occupation, (v) Rate of growth of population is high.
- The quality of life is determined by life expectancy, adult illiteracy rate, infant mortality rate etc.

INTEXT QUESTIONS 3.2

Tick (✓) the correct answer :

(i) The countries of the world are classified into developed and developing countries on the basis of :

a) per capita real income
b) life expectancy
c) literacy rate
d) level of unemployment.

(ii) Developed countries have :

a) very high birth rate and high death rate
b) very high birth rate and very low death rate
c) very low birth rate and very high death rate
d) very low birth rate and very low death rate.

(iii) In developing countries :
a) Most of the people are engaged in tertiary (service) sector.
b) Agriculture is the main occupation.
c) Advanced technology is used in industries.
d) Level of adult literacy is very high.

3.6 INDIAN ECONOMY - A DEVELOPING ECONOMY

Indian economy has all the characteristics of a developing economy. Let us try to know in some detail the various characteristics of Indian economy. The main characteristics of the Indian economy are as follows :

1. Low level of income :
The per capita NNP in India in 1995-96 was about Rs. 9,300. It is one of the lowest in the world. Among the 133 countries of world India's rank is 110. It means that there are 109 countries of the world which have higher per capita income than India. Low level of income indicates low standard of living i.e. low level of consumption. Whatever progress has been made in terms of the increase in production since Independence, the same is not reflected in increase in per capita income because along with increase in production, the population has also increased rapidly. Furthermore, everybody in India does not get an income of Rs. 9,300/- in a year as is indicated by the average per capita income. There are wide disparities in income. This means that a large proportion of population have income level much below the average. About one third of the population is living below the poverty line i.e. they are not able to afford even the minimum nutrition required. Due to the low level of living the efficiency of labour is also low.

2. Predominance of agriculture :
About two third of India's work force is engaged in agriculture. The contribution of agriculture to national income is about 30%. As against this the contribution of agriculture to the national income in most of the developed countries is between 2 to 4% and the working force engaged in agriculture is between 2 to 9%. Rainfall continues to be the main source of irrigation. The technology used in agriculture is also backward. Although in some areas modern techniques of cultivation are in application, still the vast agricultural area uses primitive techniques of cultivation. A vast area of agricultural land is still not covered by irrigational facilities.

3. Capital - deficiency :
The low level of income results in low level of savings which results in low level of capital formation. For want of capital other resources like labour and natural resources remain unutilised. India has a large potential for renewable as well as non-renewable resources. We are not able to utilise them fully for want of capital.

4. Technological backwardness :
In large parts of almost all sectors of the Indian economy, technology used in production

is backward. The expenditure incurred on research and development is also low. Advanced technology is in use in only a few industries.

5. Inadequate infrastructural facilities :

Infrastructural facilities include power, transport, communication etc. These facilities are essential for industrial development of the country. They also affect the development of agriculture and services sector. All these facilities are inadequate.

6. High rate of growth of population :

India's population is very large (more than 84 crores in 1991) and is rising at a fast rate (about 2.1%). Since 1951 when the development process was started, the birth rate had declined very slowly; while the death rate declined faster. A high growth rate of population puts additional pressure on resources. In such a situation the increase in per capita income will be much less than the increase in total production (national income).

7. High rate of illiteracy :

Illiteracy rate is quite high. Although it has declined substantially since 1951, it is still very high. Almost half of the Indian population is illiterate. Illiteracy rate in females is much higher than in males.

8. High infant mortality rate :

The number of deaths of infants under one year of age per thousand live births in India is very high. It was 70 in 1995. This shows the inadequate medical facilities, low level of nutrition and poor sanitary conditions.

9. Tradition bound attitudes towards work and life :

The Indian society is divided into many castes and sub-castes resulting in frictions in the society. The religious and social beliefs and customs inhibit the development of scientific attitudes. For example, the child is considered a gift of God. Each family wishes to have a male child. There is universality of marriage i.e. adults prefer to lead a married life.

10. Joint family system :

Joint family system obstructs mobility of labour. Families prefer to live together even if this may mean having a low level of living.

These are some of the important characteristics of the Indian economy, though this is not an exhaustive list. However, the Indian economy has developed during the last fifty years. The per capita income has increased though not at a very fast rate. The infrastructural development has also taken place. In fact there has been development in almost all sectors. But the rate of development is slowed down because of the high rate of growth of population. India is categorised as a developing economy. The process of development had started long back with the advent of the five year plans and it is gaining momentum.

POINTS TO REMEMBER

- India is a developing country. It has low levels of income and consumption. Agriculture is the main occupation and it is backward.
- India lacks infrastructural facilities due to lack of capital.
- Rate of growth of population is high. The attitude of the people is not scientific.
- The joint family system in India reduces mobility of labour.

INTEXT QUESTIONS 3.3

Fill in the blanks from the words given in brackets :

i) Indian economy is a ________ economy (developed, developing)
ii) Adult ____________ rate is very high in India (literacy, illiteracy).
iii) Joint family system obstructs ________________ (mobility of labour, infrastructural development).
iv) There is ____________ of capital in India (scarcity, abundance)

WHAT YOU HAVE LEARNT

- Increase in output of an economy continously and over a long period is called economic growth.
- If in an economy alongwith economic growth there are positive changes like improvement in the standard of living of the people, decline in the number of the poor, improvement in the efficient use of resources, reduction in inequalities of income, it is called economic development.
- Economies of the world are classified into two groups – developed and underdeveloped – on the basis of per capita real national income.
- India is a developing country. Here per capita income is low. Standard of living is low. There is shortage of capital and infrastrutural facilities. Attitude towards life is traditional. There is over-population. Infant mortality rate and illiteracy rate is high.

TERMINAL EXERCISE

1. Differentiate between economic development and economic growth.
2. What is the World Bank criterion for classifying world economies into developed and underdeveloped countries.
3. Explain the difference between characteristics of Indian and developed economies.

ANSWERS

Intext Questions 3.1

(i) Economic growth (ii) developed (iii) developing (iv) development (v) growth, development

Intext Questions 3.2

(i) a (ii) d (iii) b

Intext Questions 3.3

(i) developing (ii) illiteracy (iii) mobility of labour (iv) scarcity

Terminal Exercise

1. Read section 3.3 & 3.4
2. Read section 3.5
3. Read section 3.6