Indira Gandhi National Open University
School of Extension and Development Studies

MDV-101
Introduction to Development and Development Theories

Block

1

DEVELOPMENT: AN OVERVIEW

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PROGRAMME DESIGN COMMITTEE

Prof. Amita Shah
Gujarat Institute of Development Research, Ahmedabad

Prof. S. K. Bhati
Jamia Millia Islamia, New Delhi

Prof. J. S. Gandhi (Rtd)
Jawaharlal Nehru University, New Delhi

Prof. Gopal Krishnan (Rtd)
Punjab University, Chandigarh

Prof. S. Janakrajan
Madras Institute of Development Studies, Chennai

Prof. Kumar B. Das
Utkal University, Bhubaneswar

Prof. Nadeem Mohsin (Rtd)
A.N.Sinha Institute of Social Sciences, Patna

Prof. P. Radhakrishan
Madras Institute of Development Studies, Chennai

Prof. Ramashray Roy (Rtd)
Centre for Study of Developing Societies, Delhi

Prof. R. P. Singh (Rtd)
Ex-Vice-Chancellor, MPUAT, Udaipur

Prof. K. Vijayaraghavan
Indian Agriculture Research Institute, New Delhi

Dr. Nilima Shrivastava
IGNOU, New Delhi

Prof. B. K. Pattanaik
IGNOU, New Delhi

Dr. Nehal A. Farooquee
IGNOU, New Delhi

Dr. P.V.K.Sasidhar
IGNOU, New Delhi

PROGRAMME DESIGN COMMITTEE (REVISED)

Prof. T.S. Papola
Institute for Studies in Industrial Development, New Delhi

Prof. S. Janakrajan
Madras Institute of Development Studies, Chennai.

Prof. S. K. Bhati
Jamia Millia Islamia, New Delhi

Prof. Preet Rustagi
Institute for Human Development, Delhi

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Jawaharlal Nehru University, New Delhi

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Hindu College, University of Delhi, Delhi

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A.N.Sinha Institute of Social Sciences, Patna

Prof. Rajesh
University of Delhi, New Delhi

Prof. B. K. Pattanaik
IGNOU, New Delhi

Prof. Nehal A. Farooquee
IGNOU, New Delhi

Prof. P.V.K. Sasidhar
IGNOU, New Delhi

Dr. Pradeep Kumar
IGNOU, New Delhi

Dr. Nisha Varghese
IGNOU, New Delhi

Dr. Grace Don Nemching
IGNOU, New Delhi

COURSE PREPARATION TEAM

Unit Writer:

Prof. B. K. Pattanaik
IGNOU, New Delhi (Unit 1 & 2)

Dr. Preet Rustagi and
Dr. Rajinik Menon
Institute of Human Development, New Delhi (Unit 3)

Prof. Nehal A. Farooquee
IGNOU, New Delhi (Unit 4)

Editors:

Prof. T. S. Papola (Content Editor)

Mr. Praveer Shukla (Language Editor)

Prof. P.V.K. Sasidhar

Dr. Nisha Varghese

Dr. Grace Don Nemching

Course Coordinator : Dr. Nisha Varghese, E-mail : nishavarghese@ignou.ac.in

Programme Coordinators : Prof. P.V.K. Sasidhar, Prof. B.K. Pattanaik, Prof. Nehal A. Farooquee,

PRINT PRODUCTION

Mr. S. Burman	Mr. KN Mohanan	Mr. Babu Lal Rewadia
Deputy Registrar (Publication)	Asst. Registrar (Publication)	Section Officer (Publication)
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MDV-101 INTRODUCTION TO DEVELOPMENT AND DEVELOPMENT THEORIES

Development is a dynamic and multidimensional concept. Introduction to Development and Development Theories is one of the important courses in Master of Arts in Development Studies. Theories that gain recognition in a discipline shape the field and help define the scope of practices and help the professionals to gain basic understanding of the discipline. This course will help understand various paradigms and theories of development which are essential in understanding the process of development

MDV 101 has four blocks namely Development: An Overview, Classical and Neo-Classical Theories, Developmentalist Theories and Heterogeneous Theories.

Block 1: on **'Development-An Overview'** consists of 4 units, these are Development - Concept and Paradigms, Economic Development, Human Development and Political Development.

Block 2: on **'Classical and Neo-classical Theories'** comprises four units viz., Classical Theories, Neo-classical Theories, Marxian Theory and Schumpeter Theory.

Block 3: 'Developmentalist Theories' consists of four units, namely, Balanced Development Theories, Unbalanced Development Theories, Rostow's Stages of Economic Growth and Development; and Developmental State Theory.

Block 4: 'Heterogeneous Theories' consists of four units, namely, Neo-Liberal Theories, Dependency Theory, Human Capabilities Theory and Gandhian Theory.

BLOCK 1 DEVELOPMENT: AN OVERVIEW

Block 1 on 'Development: An Overview' with four units gives an overview of various categories of development relevant to Development Studies.

Unit 1 on **'Development - Concept and Paradigms',** discusses the meaning and concept of development. The unit also gives a detailed account of various paradigms of development.

Unit 2 on **'Economic Development'** discusses the definition of economic development and how it is different from economic growth. This unit also discusses some of the common measures used in the measurement of economic development. It also gives an account of the obstacles to economic development and features of underdeveloped countries.

Unit 3 on **'Human Development'** this unit provides a general introduction to the concept of human development. It also discusses the human development measurements and indices and the various dimensions of human development.

Unit 4 on **'Political Development'** gives an account of development of political system. It discusses the various attributes and contributions of political development. The unit also gives a brief history of political development at international level.

UNIT 1 DEVELOPMENT – CONCEPT AND PARADIGMS

Structure

1.1 Introduction

1.2 Development: Its Meaning and Variants

1.3 Development Paradigms

1.4 Let Us Sum Up

1.5 References and Suggested Readings

1.6 Check Your Progress - Possible Answers

1.1 INTRODUCTION

Development is an easy word to say, but a difficult and complicated one to define. Although, the term is used abundantly in common parlance, as well as in academic discourse, yet, its definition has always remained as a debated issue amongst social scientists. However, development, and its related terms, remains fundamental to contemporary thinking.

After going through this unit, you should be able to

- define development and paradigm of development
- discuss various development paradigms

1.2 DEVELOPMENT: ITS MEANING AND VARIANTS

After the Second World War, and, with the independence of the Asian and African countries from the colonial rule, the developmental priorities of these nations become subjects of study of the USA and other Western countries. Since the per capita real income in all these countries was conspicuously low, high priority was given to developmental programmes which could help Asian and African countries realize the maximum possible growth rate. In this process, several factors cropped up, such as education, health, sanitation, poverty eradication, and malnutrition. It was in this connection that the importance of development was realized. Development is no longer considered to be the same as growth, as it was earlier perceived by developed world. Development economists are no longer impressed by the growth performance of the economy reflected in terms of rise in GNP; rather, they concentrate more directly on development processes. The differences between the terms, growth, and development, urged social scientists to begin to define the term, development. Development and its related terms remain fundamental to contemporary thinking. There is no agreement among developmental thinkers regarding a common definition of development. Some say it is an increase in income and productivity while others lay emphasis on the quality of life, provision of basic needs, happiness, and wellbeing. Some of the definitions of development, given by a few developmental economists are discussed below.

Gunnar Myrdal (1960), treats development as an upward movement of the whole social system by providing better living condition, *viz*. adequate food,

better housing, improved facilities for health, education and training, and the general improvement of cultural facilities, which are all desirable.

According to Bernstein (1973), "development embodies a value judgment, as it encompasses the desirability for overcoming malnutrition, poverty, and diseases which are the most immediate and widespread aspects of human suffering. In positive terms, it advocates a commitment to development that transcends the limiting term of economic growth to embrace such features as social justice, equality of opportunity, full employment, equitable distribution of income, and basic political freedom."

The International Labour Organization (ILO, 1976) insists on incorporating the basic needs strategy in the development plans for developing countries. First, a plan should include the minimum requirements of a family for private consumption: adequate food, shelter, and clothing, and the necessary household equipment and furniture. Second, it would include essential services provided by, and for, the community, such as safe drinking water, sanitation, public transport, and health and education facilities.

According to Seers (1979), the three additional requirements for the use of the term development are a decrease in poverty and malnutrition, a decline in inequality, and improvement in the employment situation.

According to Meir (1995), development means growth plus change; there are essential quality dimensions in the development process that extend beyond the growth or expansion of an economy through a simple widening process.

According to Amartya Sen (1999), a country can grow rapidly but still do badly in terms of literacy, health and life expectancy. Sen interprets development as a process that expands what he terms, the entitlements and capabilities, of the people. He opined that instead of concentrating on national product or aggregate income, development economists should concentrate on the entitlements of people and the capabilities these entitlements generate.

According to Cypher and Dietz (2009), development incorporates the diverse and broad aspirations of, what might be called, the 'good life', in all its economic, social, and political dimensions. They were of the view that development is about realizing very fundamental human values, and finding the means to extend the fruits of these values to the greatest majority of the world's population.

According to Tadaro, "development is both a physical reality and a state of mind in which society has, through some combination of social, economic, and institutional processes, secured the means for obtaining a better life." In order to achieve development, all society must have at least the following three objectives-

1. To increase the availability and widen the distribution of basic life sustaining goods such as food, shelter, health, and protection to all members of society.
2. To raise levels of living, higher incomes, provide more jobs, better education, and more attention to cultural and humanistic values. These all are required not only to enhance material wellbeing but to generate greater individual and national self-esteem

3. To expand the range of economic and social choice to individuals and nations by freeing them from servitude and dependence, not only in relation to other people, nation, and states, but to the forces of ignorance and human misery.

Adiseshiah termed development, 'growth with social justice'. Adiseshiah, in the 1960s, extended the Horrod Domar Model by including various other dimensions of development. The model as written by him is

Y1= f (L1, K1, T1, R1, S1)

Y1 = The total output during a period of time T

L1 = Labour

K1 = Capital

T1 = Technical knowledge

R1 = Natural resources

S1 = All social, educational, cultural and political factors

According to Adiseshiah (1990), development is the removal of poverty, unemployment, inequality, illiteracy, and ill health, and, is one of ensuring participation in government.

The Millennium Development Goals declared by the United Nations General Assembly on September 8, 2000 delineate the paradigm of development for the nation state. Those are

Group – 1: Eradication of extreme poverty and hunger

Group – 2: Achieve universal primary education

Group – 3: Promote gender equity and empower women

Group – 4: Reduce child mortality

Group – 5: Improve maternal health

Group – 6: Combat HIV/ AIDS, malaria and other diseases

Group – 7: Ensure environmental sustainability

Group – 8: Develop a global partnership for development

Thus, from this review, it is clearly observed that development is not merely raising economic growth, but that it goes much beyond it, and economic growth is one of the components.

Some of the important components of development could be

- increase in income and productivity
- increase in social welfare through the provision of better healthcare and education
- increased access to basic needs, i.e., food, clothing, and shelter
- enhanced choices and opportunities
- increase in income and employment opportunities
- reduction of disparities
- Enhance quality of life of the people by way of increased and improved social services
- reduction of poverty, malnutrition, and diseases
- increased access to potable drinking water and sanitation
- provision of infrastructure facilities for better living conditions such as road, electricity, and information gadgets.

After reading this section, you will have gained an idea about the term, development: its meaning and variants. Now, answer the questions given in *Check Your Progress-1*.

Check Your Progress 1

N**ote:** a) Use the spaces given below for your answers.

b) Check your answer with those given at the end of the unit.

1. Development is a multi-dimensional concept — illustrate.

   .....

   .....

   .....

2. Discuss various components of development.

   .....

   .....

   .....

1.3 DEVELOPMENT PARADIGMS

Thomas Kuhn in his book, 'The Structure of Scientific Revolutions', tried to popularize the term, paradigm. According to Kuhn, a paradigm is a "universally recognized scientific achievements that, for a time, provide model problems and solutions to a community of practitioners". Kuhn used the term, paradigm, due to the tremendous shift in the scientific worldview, from the mechanistic approach of Newton to the realistic one of Einstein. Hussain (2003) has remarked that a paradigm, according to Kuhn, is a framework of thought within which questions are posed, and, answers, pursued. In other words, a development paradigm is a way of perceiving development in terms of its manifestations, process, and causes through a certain prism. According to Sato and Smith, ODII (1993), a paradigm shift in development, to be minimally consistent with Kuhn's concept, would need to meet three conditions: (i) it must provide a metatheory, that is, one that serves to explain many other theories; (ii) it must be accepted by a community of practitioners; and (iii) it must have a body of successful practice, 'exemplars', that are held up as 'paradigms' in practice. To them and according to the metatheory, development should be people-centered; democratically organized; responsive to the whole environment, not only the ecological and the economic, but also the political, social and cultural and balanced, for example between centre and periphery, between public and private, between the roles of men and women. The Johannesburg Growth and Development Strategy outline, Development Paradigm as an in-principle argument for how to conceptualize and overcome the development challenges confronting nations. Some of the principles which they included are sustainable and inclusive development, basic needs, a focus on people and not on place, and decentralized development strategies. The ODII (Organizing for Development, an International Institute) report, while defining the term, development paradigm, has mentioned that "development must be human-centered, coming from within, rather than imposed from the outside. In addition, the center of effort in development needs to shift from resource-based strategies to interactive or participative strategies."

Bellu (2011) while defining 'development paradigm' noted that development was very rarely considered to be a "God-given" condition of socio-economic system, implying that policy makers at national and international level have always thought that some activities were required to promote positive changes.

V.R. Panchamukhi, in his article, 'New Paradigms of Development' has the following observations about development

(i) development can no longer be identified as a process of shifting surplus labour from agriculture to the industrial sectors

(ii) growth is no longer the guarantor for trickle down effects

(iii) market as an instrument for ensuring optimum allocation of resources has been discredited

(iv) concepts such as take off, big push, great support, backward and forward linkages, have also lost their essence.

Therefore, he said that simplistic paradigms of the development economics are no longer valid. The existence of large pockets of poverty, despite a long period of planned development, widening gaps between the haves and have-nots, neglect of the inadequacies of the social aspects of development, such as education, health, and other basic needs, have cast doubts on the utility of received paradigms of development. Development, in the sense customarily perceived as growth and increase in income, no longer persists.

Some of the facets of the development paradigm are

- development not only means the increase of GNP, but includes aspects such as social, human, cultural, and political dimensions
- the focus has shifted from the one sector model to dual sector models, for example, rural-urban; agriculture and industry linkages, etc.
- the shift from a centralized to a decentralized model, for faster development.
- inclusive development, where every individual participates in development processes, and exclusion is minimal.
- linkages of the national economy with the international economies, and the role of FDI in development of the developing economy.
- development with a humane face removing poverty, hunger, and human misery from society.

Different paradigms of development are as follows:

(i) Less Consumerism and More Welfare Paradigm

At the outset, the modern philosophy of development intends to enhance the human wellbeing. In other words, it wants to move from consumerism towards welfare and from the concentration of wealth towards the dissemination of wealth. Consumerism is guided by selfish motives leading to malpractice and distortions of the market. The use of terms such as, creative capitalism, or, benevolent capitalism, are steps towards moving away from the consumerism of an elite group, voluntary or forced, either of which would be suitable strategies for better distribution of the benefits of growth. The existing development paradigm has made man largely into an economic species by making

him more and more materialistic, individualistic, and self-created. Mahatma Gandhi once said that "complete non-possession is an abstraction. It can never be fully realized. There is a distinction between possession and possessiveness. The evil lies not in possession as such, but in possessiveness it is this (possessiveness) which is the root cause of conflict." Consumerism, in general, and imitative consumerism, in particular, has brought about distortions in the pattern of development. In the words of JRD Tata "industrial enterprise, whether in the private or the public sector, can and could do much within their means to improve the conditions of life of the surrounding population, relieve distress where it exists, help find work for the unemployed and extend a helping hand to those who need it." In the new paradigm of development, economic growth, consisting of the accumulation of wealth and gross national product, would not be considered as sole objectives of development.

(ii) The Human Development Paradigm

Human beings are the key factors of the development. The concept human capital came into the development arena in the 1960s. It emphasized the quality of human capital, their skills and education, for the generation of wealth, and for the accumulation of capital. Education is regarded as a means of differentiation of labour skills through making use of one's mental and physical talents, or, by developing new ones, which enable one person to differentiate his labour from that of others (Adiseshiah, 1990). Thus, education is the seed as well as the flower of development. The income and wealth of a person would be better enhanced, not by the accumulation of wealth, but by the accumulation of knowledge. Developed countries like the US, Japan, and South Korea have grasped the importance of human capital, better than developing countries. The per capita expenditure on education, and the expenditure on education as a percentage of GDP are much higher in developed countries compared to that of developing countries. Harbinson (1973) says: "human resources constitute the ultimate basis for the wealth of nations. Capital and resources are passive factors of production. Human beings are the active agents who accumulate capital, exploit natural resources, build social, economic and political organizations and carry forward national development. The human resource development is one of the pivotal aspects of development, which promote economic, social and all other development". Human capital plays a significant role in simulating growth. It is the quality of the human beings that counts. It is man who builds up the wealth and fabric of a nation.

The UNDP launched its first Human Development Report in 1990 and constructed a composite index called the Human Development Index (HDI). The three important components of HDI are: Life Expectancy-representing a long and healthy life; Literacy-educational attainment; and, Real GDP- representing a decent standard of living. UNDP (2001) has envisaged that Human Development is about much more than the rise and fall of national incomes. It is about creating an environment in which people can develop that potential, and lead productive and creative lives according to their needs and interests. It considers that the people are the real wealth of a nation. The National Human

Development Report – 2001, Government of India, had a consensus and a broad-based view about human development. It viewed development in terms of three critical dimensions of wellbeing: those that are related to long life - the ability to live long and healthy lives; education- ability to read, write, and acquire knowledge; and, command over resources - the ability to enjoy a decent standard of living, and have socially meaningful lives.

(iii) Basic Needs Paradigm

The basic needs approach is an attempt to deal directly with poverty in the fields of food, nutrition, sanitation, health, education, and housing. The ILO (International Labour Organization) has indicated two crucial elements in the Basic Needs Approach: (i) first, they include certain minimum requirements of a family for private consumption, i.e., adequate food, shelter, and clothing, as well as certain household equipment and furniture; and (ii) second, they include essential services provided by, and, for the community at large, such as safe drinking water, sanitation, public transport, health, education and cultural facilities. Todaro (1977) mentioned that development in all societies must have at least the following three objectives: (i) to increase the availability and widen the distribution of basic life sustaining goods such as food, shelter, health, and protection; (ii) to raise the level of living including, in addition to higher incomes, the provision of more jobs, better education and greater attention to cultural and humanistic values, all of which will serve not only to enhance material well being but also to generate greater individual and national self esteem; and (iii) to expand the range of economic and social choices available to individuals and nations by freeing them from servitude and dependence, not only in relation to other people, but also to the forces of ignorance and human misery.

(iv) Social Development Paradigm

Social development is not only influenced by economic development, it also influences economic development. Social indicators such as education, health, women's empowerment, and participation by the socio-economically backward people in the development process would promote faster development. Therefore, social inclusion is, today, considered as one of the important factors of growth and development. The welfare of women and children is not only the responsibility of the family but also of society and the nation. Therefore, national and international agencies have launched many programmes for the welfare of women and children. The Integrated Child Development Scheme (ICDS), launched in many developing countries with the support of UNICEF, is an example of pre-school education and health care of children, and nutritional care of children and lactating mothers is one of such examples. It is realized that human, or, social capital seems to be more significant for development than material resources. In recent years, social capital has become one of the important dimensions of human inputs in community development and wellbeing. Moreover, social development is influenced by the social norms, values, traditions, etc., which influence development, directly, or, indirectly. Maiti in his book 'Development Ethics' gives eight components of social capital described in Figure-1.

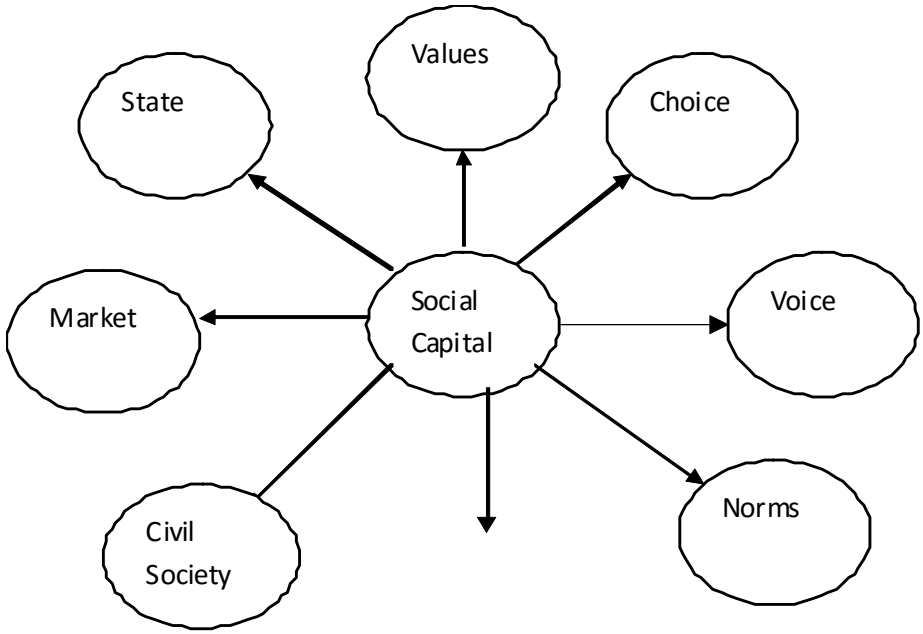


Figure 1: Social Capital

Source: *Maiti, P (2008), Development Ethics, Concept Publishing Company, New Delhi.*

All eight components of social capital play important role in the development processes. Social capital must be emphasized for the speedy socioeconomic development of a nation.

(v) The Agriculture-Industry Interface Paradigm

Development requires a frequent, equity based interaction between agriculture and industry. In the dualistic growth models, the relationship between subsistence agriculture and manufacturing industry is rarely established to augment growth and development. The modern industrial sector develops by importing labour, capital and raw materials, while agriculture remains a subsistent activity. There is poor connection between agriculture and industry. Customarily, the connection between agriculture and industry is established by the use of unskilled and semi-skilled labour force from the agriculture to be used in the industrial sector. In this set up, economic growth and development are referred to as the transfer of the labour force from subsistence agriculture to the market oriented industrial sector. In other words, this implies that industry is associated with everything that is modern and growing, and agriculture is traditional and stagnant. Agriculture is largely treated as low in productivity, while industry as high in productivity, in other words, industry is considered to be the big brother in the process of development. As a result, in many developing countries, the contribution of the industrial sector is seen to be increasing, while the contribution of the agricultural sector to GDP is either constant, or, slow, or even, diminishing. As industrial employment goals and per capita income expand, the urban demand for agricultural products increases. This requires a market oriented agricultural growth and historically this happens only in a few countries where agriculture faces genuine negligence. Agricultural economists cite the example of Japan from the Meiji revolution to World War I, when agriculture and industrial development went forward, concurrently.

Therefore, for balanced development, both agriculture and industry must be interdependent and help one another for their mutual promotion. One

example of triangular trade-off between agriculture, industry, and the rest of the world is the Brazilian growth process, from the 1930s to the early 1960s, which is described in Figure-2.

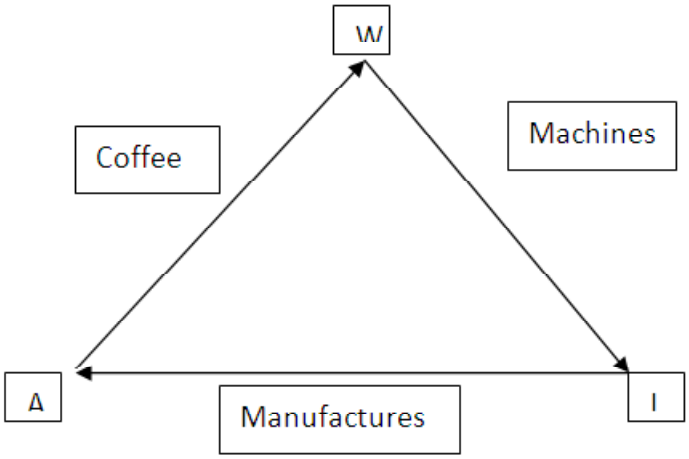


Figure 2: Brazilian pattern of trade between agriculture, industry and the rest of the world

In this model, agriculture (A) sells coffee to the world (W) and buys manufacturing products from industry (I) which, in turn, requires capital good from foreign markets. Another type of interlink between agriculture and industry is the establishment of agro-processing industries for the advancement of agriculture.

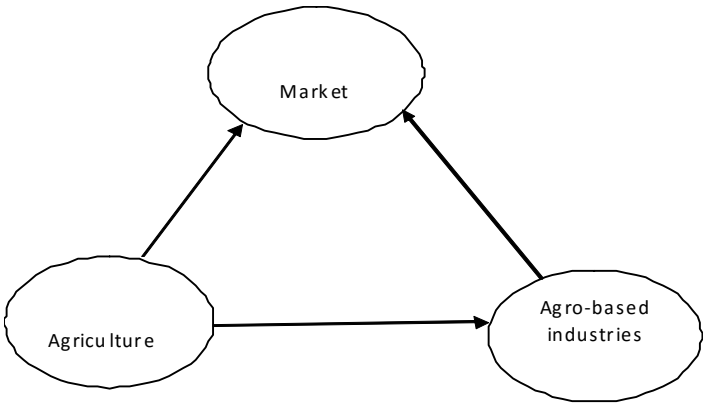
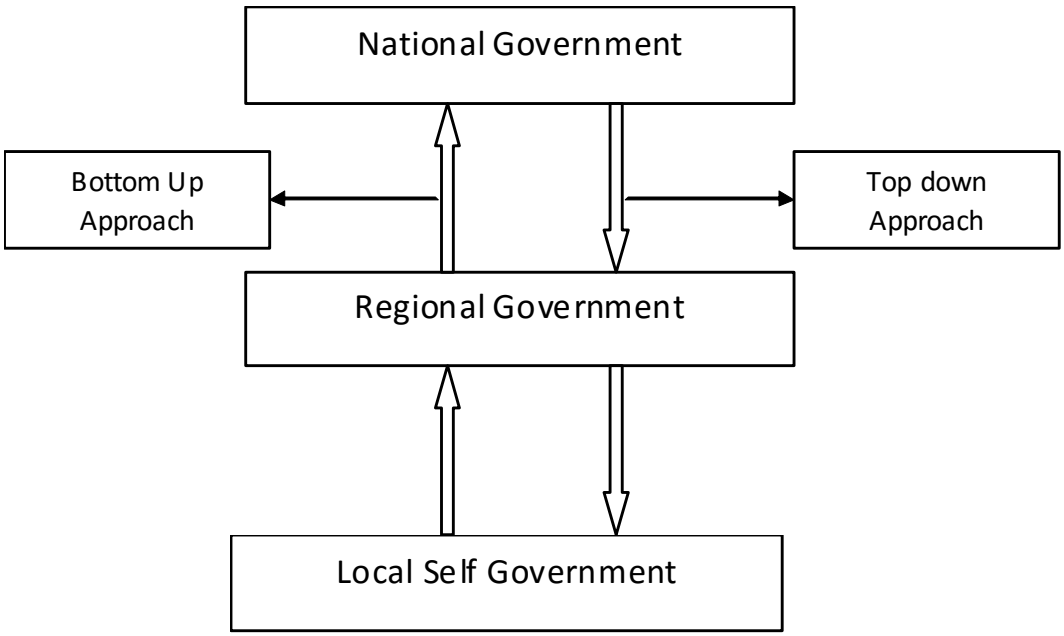


Figure 3: The interlinks between agriculture and industry

The effective linkage between the agriculture and industries is, today, a development agenda pursued by countries for the concurrent development of both agriculture and industry. Unless strong linkages are established and maintained between agriculture and industry, either sector will face demand bottlenecks, thereby retarding the overall pace of growth and development. V.R. Panchamukhi (1990), in his analysis remarks that for a large number of developing countries, from 1970 to 1984, there is a significant positive relationship between the growth rate of GDP and the strength of linkages between manufacturing and agriculture (as measured by the elasticity of manufacturing GDP, with respect to agriculture GDP). Therefore, it is being increasingly realized that the strength of the agriculture-industry linkages influences the pace of development, and weak linkages between agriculture and industry would have detrimental effects on both the sectors, as well as on the economy. In the new paradigm of development, this is given serious consideration.

(vi) Decentralization and Development Paradigm

Decentralization of functions, functionaries, and funds to the local self governments has proved to be an effective strategy for development in many countries. The Local Government declaration to the World Summit on Sustainable Development, held in 2002, maintains that: "We live in an increasingly interconnected, interdependent world. Local government cannot afford to be insular and inward looking." In the Indian context, Gandhiji maintained that "Independence must begin at the bottom, and every village will be a republic of panchayats having full powers. It is, therefore essential, that every village has to be self sustained and capable of maintaining its affairs even against the whole world. It will be trained and prepared to perish in the attempts to defend itself against any onslaught". The decentralized model adopted by the Scandinavian countries in Europe, and in Kerala of India has enabled these nations and state to achieve all round development. The decentralization of economic decision making and implementation would not only reduce the cost of development, but would also ensure more equitable distribution of the fruits of development.



The top-down centralized approach is more instructive and less participatory as compared to the bottom-up approach. Further, the top-down approach is too bureaucratic in nature and allows less room for peoples' participation. The bottom up approach has been found to be a more successful approach, to facilitate faster development. The paradigm of development in recent years is shifting from the highly centralized towards the decentralized system. However, the decision maker at the bottom level must be given complete freedom to exercise their power with less bureaucratic interventions.

(vii) Inclusive Development Paradigm

The concept of inclusive growth and development has gained wider emphasis in many countries, particularly in developing countries, including India. The UNDP (2008) has defined inclusive growth, laying emphasis on the production and income side of GDP as: "the process and the outcome, where all group of people have participated in the organization of growth, and have benefited from it. Thus, inclusive growth represents

an equation-with organization on the left hand side and benefits on the right hand side." Inclusive growth is achieving a growth process in which people in different walks in life participate and benefit from the process of growth and development. In inclusive development, contributions made by each individual are valued. Thus, inclusive growth, by very definition, implies an equitable allocation of resources with benefits accruing to every section of the society. Inclusive development can have several dimensions as given below-

- It is a development process in which every individual feels included.
- It includes the excluded groups such as women, disabled and other marginalized sections in the process of development. They not only receive benefits, they also contribute equally to growth and development. They are not treated as passive beneficiaries of the fruits of development, but are active participants in the development process.
- It gives equal emphasis to both rural and urban development. The urban bias is minimized and an equal emphasis is placed on the balanced development of both rural and urban sectors.
- In inclusive development, all the sectors, both formal, as well as informal, are equally empowered to contribute towards development.
- The countries experiencing exclusions in different forms, i.e., (i) regional; (ii) social exclusion within the region; and (iii) sectoral exclusion must be done away with, as this leads to inequality. This needs to be understood in the context of access to opportunities in labour markets, access to benefits from the service delivery mechanism, and, access to political process.
- The process of development creates opportunity for the poor and downtrodden to participate in the process of development.

The inclusive development believes that the economic growth achieved through social exclusion can be neither economically nor socially sustainable. Only the broadest social participation involving education, health, and habitation will enable a nation to achieve viable, sustainable, and equitable development. It can be said that the greatest challenge facing today's government is to present a united front to address shared problems. In other words, inclusive development means development for all, and all for development.

(viii) Development with a Human Face Paradigm

A landmark development in the formulation and recognition of new human rights is the declaration of the Right to Development, adopted by the UN General Assembly on 4th December, 1986. The declaration recognized that development is a comprehensive, economic, social, cultural, and political process which aims at the constant improvement of the wellbeing of all, and of all individuals on the basis of their active, free, and meaningful participation in development, and, in the fair distribution of benefits resulting there from. The declaration envisages that nations have the right, and a duty to formulate appropriate national development policies that aim at constant improvement of the wellbeing of the entire population. Development with a human face means the removal of poverty, hunger, child labour, human morbidities, and preventable diseases. It further means

that the rich should invest their resources for the wellbeing of the poorest of the poor, which can be called benevolent capitalism. It calls for pro-poor policies. Jawaharlal Nehru's speech which was delivered in the midnight of the day of independence was a clear message for development with a human face. Nehru said, "The service of India means the service of the millions who suffer. It means the ending of poverty, ignorance, and diseases, and inequality of opportunity. The ambition of the greatest man of our generation has been to wipe every tear from every eye. That may be beyond us, but as long as there are tears and sufferings, so long our work will not be over". Thus, the greatest challenge before the nation is to have an agenda of development with a human face, i.e., to energize the economic, social, political and administrative system which delivers with a human face, working towards the wellbeing of the downtrodden, socio-economically backwards sections, the disabled, and other excluded groups

(ix) The International Economic Relationship Paradigm

Today, we recognize that we live in a global economy and that no country can remain de-linked from the rest of the world. The developed countries, through different multi-lateral organizations, are investing a lot of money for the economic and social development of developing countries. The impact of FDIs on various sectors of development is visible in many developing countries. Krueger (1978), Bhagwati (1985), and Sachs and Warner (1995) stressed that countries that started exporting early, pursued sober macro-economic policies, and depreciated their exchange rates performed much better, economically, than other countries. However, many exponents believe that reforms should be owned by developing countries, rather than being imposed by an outside donor. Dogmatic imposition of free market reforms by the international institutions, especially with regard to the free movement of capital, threatens the growth prospects of developing countries. However, in spite of these debates, the relationship between aid flows and development are stronger after liberalization, privatization and globalization adopted by various countries, since the beginning of the 1990s. Globalization, the process which integrates economies across the world through global trade and investment, has become an economic reality for almost all countries.

Table-1: FDI Inflow to India from 1999 to 2016(million dollar)

Year	Million of Dollar
1990-2000	1705
2005	6598
2011	36190
2012	34196
2013	28199
2014	34582
2015	44064
2016	44486

Source: *UNCTAD, World Investment Report 2006 & 2017*

(x) The Sustainable Development Paradigm

Sustainable development emerged as an important theme of development in 1987. The Brundtland Commission on Environment and Development, in its report, "Our Common Future", called for the application of sustainability as a criterion for all development initiatives. The commission said that "in order for development to be sustainable, it must meet the needs of the present without compromising the ability of future generations to meet their own needs." Sustainable development has two important goals: (i) Basic needs for all human beings, i.e., food, clothing, shelter, education, health, and social security, and;(ii) it must maintain ecological balance. In order to achieve this goal all nations and their people need to join hands. Thus, sustainable development can be looked at from a variety of perspectives, such as environmental, economic, social, political, cultural, and technological. The Brundtland Report envisaged that sustainable development requires

(i) a political system that secures effective citizen participation in decision making

(ii) an economic system that is able to generate surpluses, and technical knowledge on self-reliant and sustained basis

(iii) a social system that provides for solutions for the tensions arising from disharmonious development

(iv) a production system that respects the obligations to preserve that ecological base of development

(v) a technological system that can search continuously for new solutions

(vi) an international system that offers sustainable pattern of trade and finance

(vii) an administrative system that is flexible, and has the capacity of self-correction.

Sustainable development is a holistic approach towards development, where the sustainable development vision is shared by the sectors, nations and people. It presupposes that the actors of sustainable development are interdependent, and, not independent.

Sustainable Development Goals: On 25th of September 2015, 193 countries of the United Nations General Assembly adopted the 2030 Development Agenda named as Transforming Our World: The 2030 Agenda for Sustainable Development. The 17 identified Sustainable Development Goals are as follows:

(i) End poverty in all its forms everywhere.

(ii) End hunger, achieve food security and improved nutrition and promote sustainable agriculture.

(iii) Ensure healthy lives and promote well-being for all at all ages.

(iv) Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.

(v) Achieve gender equality and empower all women and girls.

(vi) Ensure availability and sustainable management of water and sanitation for all.

(vii) Ensure access to affordable, reliable, sustainable and modern energy for all.

(viii) Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

(ix) Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.

(x) Reduce inequality within and among countries.

(xi) Make cities and human settlements inclusive, safe, resilient and sustainable.

(xii) Ensure sustainable consumption and production patterns.

(xiii) Take urgent action to combat climate change and its impacts.

(xiv) Conserve and sustainably use the oceans, seas and marine resources for sustainable development.

(xv) Protect, restore, and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification and halt and reserve land degradation and halt biodiversity loss.

(xvi) Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.

(xvii) Strengthen the means of implementation and revitalize the global partnership for sustainable development.

From these various goals it can be concluded that various indicators of sustainable development are: poverty, inequality, literacy and education, health, morbidity and mortality, social justice, climate change and environment, women empowerment, food security and sustainable energy.

Table 2: Sustainable Development Goals Index, 2017

Countries	Score	Rank
Sweden	85.6	1
Denmark	84.2	2
Finland	84	3
Norway	83.9	4
Czech Republic	81.9	5
Germany	81.7	6
Austria	81.4	7
Switzerland	81.2	8
Slovenia	80.5	9
India	58.1	116

Source: *http://sdgindex.org/assets/files/2017/2017-SDG-Index-and-Dashboards-Report—full.pdf (accessed on 11/3/2018)*

The Sustainable Development Goals of different countries shows that all the developed countries of Europe rank high in achieving sustainable development goal. The Asian in general and the South Asian countries are lagging far behind.

(xi) Poverty Reduction Paradigm

At the Millennium Summit 2000, the international community agreed on the Millennium Development Goals - including halving the proportion of the world's population living in extreme poverty, by 2015. More than half of the populations in the developing countries, (around 2.8 billion) are living on less than US $ 2 a day. How to scale up the fight against global poverty is a new development paradigm of the new millennium. Here, scaling up means formulating and implementing programmes, policies, or projects in different places over time and space to fight against poverty. Even replications of good practices are recommended.

Here are a few of examples of poverty reduction projects, or, programmes, prepared by Wolfensohn (2004).

- In northeast Brazil, a decade of piloting and expanding rural community driven programmes has benefited some 7.5 million rural poor, and resulted in 35,000 community associations and 1500 representative municipal councils. 90 percent of the project resources directly benefit the people.
- The Yemen Social Development Fund provides clean water, education, cultural restoration, and health delivery in rugged rural communities, which decide on their own priorities, contribute a percentage of the costs, and play a key role in maintaining the services themselves.

One widely quoted example of poverty reduction in India is the National Rural Employment Guarantee Programme, a poverty reduction programme implemented by the Government of India, in 2002. It has provided unskilled employment to millions of disadvantaged people, particularly women, Scheduled Castes and Scheduled Tribes in rural areas. It is implemented by the *panchayati Raj* Institutions. Hussein (2003), in his article on ***A New Paradigm for Overcoming Poverty*** says that "if poverty is to be overcome, what is required is to understand the processes of poverty creation, and, to identify the points of intervention in the poverty process through which the poor can be enabled to overcome poverty on a sustainable basis."

In this section, you studied development paradigms. Now, answer the questions given in *Check Your Progress-2*.

Check Your Progress 2

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit

1. What are the various paradigms of development?

   .....

   .....

   .....

2. What is meant by inclusive development?

   .....

   .....

   .....

1.4 LET US SUM UP

Development is an easy word to say, but a difficult and complicated one to define. Customarily, it has two dimensions: quantitative, and, qualitative. It is also called growth plus change. There are several paradigms of development such as human wellbeing, human resources development, social development, sustainable development, inclusive development, development with a human face, and the international impact on development paradigms. Thus, development is a multi-dimensional concept, where the dimensions are interdependent.

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1.6 CHECK YOUR PROGRESS - POSSIBLE ANSWERS

Check Your Progress 1

Answer 1: Development is an easy word to say, but a difficult and complicated one to define. Development is perceived as economic, social, political, and cultural development, a process that helps to raise the quality of life of people. One development scientist define it as both a physical reality and a state of mind in which society has, through some combination of social, economic, and institutional processes, secured the means for obtaining a better life.

Answer 2: Some of the important components of development are

- increase in income and productivity
- increase in social welfare through the provision of better health care and education
- increased access to basic needs i.e. food, clothing and shelter
- enhanced choices and opportunities
- increase in income and employment opportunities
- reduction of disparities
- enhanced quality of life of the people by way of increased and improved social services

Check Your Progress 2

Answer 1: The various paradigms of development are social development and promotion of social capital, human development, inclusive development, sustainable development, interface between agriculture and industry for mutual benefit to both the sector, and the role of foreign capital in development. These are a few important paradigms of development.

Answer 2: Inclusive development is the process and the outcome where all group of people have participated in the organization of growth, and, have benefited from it. Thus, inclusive growth represents an equation, with organization on the left hand side, and, benefits on the right hand side. Inclusive development is a development process in which people from different walks of life participate, and benefit from the process of growth and development. In inclusive development, contributions made by each individual are valued.

UNIT 2 ECONOMIC DEVELOPMENT

Structure

2.1 Introduction

2.2 Economic Development: Views and Definitions

2.3 Differences between Economic Development and Economic Growth

2.4 Measurement of Economic Development

2.5 The Factors Influencing Economic Development

2.6 The Characteristics of Underdeveloped Countries

2.7 Let Us Sum Up

2.8 References and Suggested Readings

2.9 Check Your Progress - Possible Answers

2.1 INTRODUCTION

A variety of types of development are discussed in this block. They are economic development, political development, and human development. In general, economic development refers to a rise in income and the productivity of a nation. However, various economists define economic development in different terms. This unit discusses definitions of economic development, and how it differs from economic growth; the measurement of economic development; the factors influencing economic development, and; the characteristics of underdeveloped countries.

After studying this unit, you should be able to

- explain various views on economic development
- define economic development
- differentiate between economic development and economic growth
- explain the measurement of economic development
- describe various factors influencing economic development
- illustrate various features of underdeveloped countries

2.2 ECONOMIC DEVELOPMENT: VIEWS AND DEFINITIONS

Before going into the definitions of economic development, and the difference between economic development and economic growth, let us discuss the various view points on economic development.

2.2.1 Economic Development Views

The four main views on economic development are put forth by:

- Classical Economists
- Neo-Classical Economists
- Structuralist Economists
- New Development Economists

a. The Classical Views of Economic Development

Economic development was customarily referred to as economic growth by classical and neo- classical economists. The economists of the eighteenth, nineteenth, and early twentieth century, such as Adam Smith, David Ricardo, John Stuart Mill, Karl Marx and Alfred Marshall had a profound concern for understanding the roots of economic wealth and the reasons for poverty. Adam Smith in his 'Progressive State' identified three major sources of growth: (i) growth in the labour force and stock of capital; (ii) improvement in the efficiency with which capital is applied to labour throug14

h greater division of labour and technological progress; and (iii) foreign trade that widens the market and reinforces the other two sources of growth. According to Adam Smith, growth can be promoted through the market institutions and through the activity of competition. The classical economists including Adam Smith relied heavily on variables, such, as capital, population, and trade, for economic development.

b. Neo-Classical Views of Economic Development

The neo-classical economists believed that growth occurs as a result of the long term effects of capital formation, labour force expansion, and technological changes. Those are assumed to take place under conditions of competitive equilibrium. According to them, the shift in demand, and movement of resources from one sector to another are not necessarily important for development, because labour and capital produce equal marginal returns in all uses. Markets, prices, and incentives are the central issues. Besides these three aspects, the neo classical economists advocated getting all national policies right in order to achieve a high growth rate.

c. The Structuralist Views of Economic Development

The early developmental economists adopted a somewhat structuralist approach to development problems. They tried to identify specific rigidities, lags, shortages and surpluses, low elasticities of supply and demand, and other characteristics of the structure of developing countries that affect economic development. According to them, economic development is caused by changes in the structure of the economy, rather than movement of labour from one sector to that of the other.

d. New Development Economists

The new development economists considered economic development as the removal of poverty and inequality, rather than an increase in the growth rate and GNP (Gross National Product). They are of the view that growth in GNP is not a sufficient condition for the eradication of poverty. Further, there is very little possibility of the trickle down effects of income, and, therefore, both, poverty and income inequalities are high in many countries. They questioned the very meaning of economic development and the value of measuring it in terms of GNP. They added other dimensions to the objectives of development. The World Bank emphasized redistribution with growth, and the International Labour Organization (ILO) concentrated on basic human needs. Now, development economists give emphasis more directly on the quality of the development process. They consider that people and the quality of their life are central to development. They argue

that there is a need for a perspective of economic development that incorporates human development. The UNDP emphasizes the concept and measurement of the Human Development Index (HDI). The HDI measurement takes into consideration, not only per capita income, but social indicators, such as life expectancy and literacy, too. The Swedish Nobel Prize winner Gunnar Myrdal (1968) said that development is implicitly based on a series of modernized ideals, and, therefore, means achievement of those modernization ideals. The modernization ideals complied by Myrdal are: (i) rationality; (ii) planning for development; (iii) increases in production, production per capita, and production per worker; (iv) improvements in the standard of living; (v) declines in social and economic inequalities; (vi) consolidation of national state and national integration;(vii) national independence; (viii) political democratization; and, (ix) increased social discipline. Harvard's philosopher economist, Amartya Sen stressed that economic development should be interpreted as a process of expansion of positive freedom of the people. He said that development is a process that expands the 'entitlements' and 'capabilities' of the people, and advocates that development economists should concentrate on entitlement of the people, and the capabilities that these entitlements generates.

Economic development, as perceived by the modern economists, has been nicely summed up by Sizirmai (2005) in the following four points: (i) development is a normative concept involving very basic choices and values; (ii) development goals include the reduction of poverty, increased economic welfare, improved health and education ; (iii) an increase in productivity and production per head of population in poor countries and; (iv) Finally, there are modernization ideals or development goals. It does not means that all societies ought to develop in the same manner or that they converge to same common standard.

2.2.2 Economic Development: Definitions

In the first part of this section, you read different views on economic development. Now, let us give a few definitions of economic development, and, then, discuss the differences between the economic development and economic growth. According to C P Kindleberger, "economic development implies both more output and changes in technical and constitutional arrangements by which it is produced." Bernard Okun and W. Richardson opines, "economic development may be defined as a sustained improvement in well being, which may be considered to be reflected in an increasing flow of goods and services." According to Viner, "the term economic development signifies not merely economic growth, but economic development, which is associated either rising per capita levels of income, or, the maintenance of existing high levels of income."

2.3 DIFFERENCES BETWEEN ECONOMIC DEVELOPMENT AND ECONOMIC GROWTH

Now, we will outline the differences between economic development and economic growth. The main differences between economic development and economic growth are

- Development is a discontinuous and spontaneous change in the stationary state which, forever alters and displaces the equilibrium state

previously existing, while growth is a gradual and steady change in the long run, which comes about by a general increase in the rate of savings and population.

- Economic development deals with the problems of underdeveloped countries, whereas economic growth deals with the problems of developed countries.
- Prof. Maddison is of the view that, "The rising of income levels is generally called economic growth in rich countries and in poor countries it is called economic development, which is the outcome of deliberate planning". Thus, the term economic development is used for the fuller utilization of unutilized natural and human resources of the underdeveloped countries, while the term economic growth is referred for maintaining the situation of full employment in developed countries.
- According to Kindleberger, "Economic growth means more output. Economic development is the technical and institutional setup by which such output is produced and distributed."
- Economic Development means changes such as social, economic, and other changes which boost economic growth. Economic growth is measurable, but economic development cannot be precisely measured.
- In the opinion of Robert Clower growth is possible without development. Economic growth may not have any percolation effect on the society. It may bypass the people. Growth can be jobless and ruthless. It may not bring real prosperity and social welfare. People's standard of living may not rise due to higher economic growth. On the other contrary, the process of economic development has favourable effect on economic growth.

The difference between the growth and development is summarized in the Table-1 below.

Table-1: Differences between Economic Growth and Economic Development

Economic Development	Economic Growth
(1) Multi dimensional	(1) Single dimensional
(2) Qualitative changes: composition and distribution of national income	(2) Quantitative Changes: change in national and per capita income
(3) Gradual and steady change, planned	(3) Spontaneous change
(4) Continuous change	(4) Discontinuous change
(5) Growth is prerequisite for development	(5) Growth is possible without 1 development
(6) Solution to the problem of under developed countries	(6) Solution to the problem of developed countries
(7) Economic and non economic factors	(7) Economic factors

These differences show that there are no water tight differences between economic development and economic growth. Economic growth is a

quantitative measure of development, while economic development is both quantitative and qualitative measure of development. Today's economic development can be tomorrow's economic growth. Most often we loosely refer only to 'growth', and, occasionally, for the sake of variety to 'progress' and 'development'. However, Gills *et.al.* (1996) said that the term economic development and economic growth are sometimes used interchangeably, but there is a fundamental distinction between them. Economic growth refers to a rise in national or per capita income and product, but economic development implies fundamental changes in the structure of the economy.

In this section you studied economic development: views and definitions and differences between economic development and economic growth. Now, answer a few questions given in *Check Your Progress-1*.

Check Your Progress 1

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit

1. Define economic development?

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.....

.....

1. Do you agree that economic growth is different from economic development

.....

.....

.....

2.4 MEASUREMENT OF ECONOMIC DEVELOPMENT

Measuring economic development is a varied and difficult task. There are several measures of economic development and some of the common measures are

1. Gross National Product/ Gross National Income
2. Per Capita Income
3. Incidence of Poverty
4. Human Welfare
5. Standard of Living
6. Green Index

1. Gross National Product (GNP) / Gross National Income (GNI)

The Gross National Product (GNP) is the value of all the goods and services produced in an economy, plus the value of goods and services imported, minus the goods and services exported. The Gross National Income is the total value of all income in an economy, plus the value of all income received from other countries, minus payments made to other countries. Thus, GNP and GNI measures indicate the levels of development. However, between the two, GNI is a more appropriate measure of development, as

it measures what is actually available for contributing to the standard of living. On the other hand, GNP is a measure of the total value of goods and services produced by a country, and not the income and output available for use by a country. Cypher and Dietz (2004) remarked that "real GNP is a less desirable measure to use if one is interested in a surrogate welfare measure for the broad range of development goals of a nation." The gross national product hardly takes into account the output produced by the unorganized sector. The GDP and GNI of a few countries are given in Table-2, which shows that China's GDP and GNI are higher than those of Bangladesh and Jamaica. Thus, it can be concluded that China is a more developed country as compared to Bangladesh and Jamaica.

Table-2: GDP/GNI Comparison of Selected Countries, 2016 (Current US $)

Country	Total GDP (Million $)	Total GNI (Million $)
Bangladesh	221,415.16	216,290.53
Brazil	1,796,186.59	1,835,992.81
China	11,199,145.16	11,374,226.84
India	2,263,792.50	2,212,306.17
Jamaica	14,056.91	13,349.53
Kenya	70,529.01	66,885.89
Korea (Rep.)	1,411,245.59	1,414,399.94
Pakistan	278,913.37	289,100.71
Sri Lanka	81,321.88	80,109.98

Source: *World Bank, World Development Indicators (online)*

2. Per Capita Income

Many economists argued that per capita income is a better measure of development than GDP and GNI. According to them development is meaningless, if it does not improve the standard of living of the people. Per capita income is calculated as national income, divided by total population. The GNI per capita, in dollar terms, of China, as shown in Table-3, is much higher than that of India.

Table-3: GNI Comparison of Selected Countries, 2016

Country	GNI Per Capita (Current US $)	Population in Millions
Bangladesh	1358.8	162.95
Brazil	8649.9	207.65
China	8123.2	1378.66
India	1709.6	1324.17
Jamaica	4878.6	2.88
Kenya	1455.4	48.46
Korea (Rep.)	27538.8	51.25
Pakistan	1443.6	193.20
Sri Lanka	3910.0	21.20

Source: *World Bank, World Development Indicators (online)*

Per capita income is considered to be better measure of development as it takes into account the benefits that accrue to individuals. In India, the per capita income is considered a barometer of development. Haryana and Punjab, which enjoy substantially higher per capita income than Odisha, Bihar, and Madhya Pradesh, are generally considered more developed states compared to these other states.

Table 4: Per Capita Income of Selected States and All India at Current Prices (in rupees)

State	2014-15
Andhra Pradesh	93699
Bihar	31380
Haryana	148485
Madhya Pradesh	56182
Odisha	64869
Punjab	114561

Source: *Press Information Bureau, GoI, Ministry of Statistics & Programme Implementation*

3. Incidence of Poverty

The Incidence of Poverty is another measure of development. Many countries have calculated the number of people, and, even families, living below the poverty line. The simplest and most widely used measure of poverty is the Head Count Index (HCI), which is the ratio of the population living in poor households, with incomes below the poverty line, to total population. The calories norm has been used in India, *i.e.*, a minimum 2400 calories in rural areas, and 2100 calories in urban areas, to determine the poverty line. In 2014, the Rangarajan Committee in it's report said that those spending over Rs 32 a day in rural areas and Rs 47 in towns and cities should not be considered poor. Another absolute measure of poverty that has been commonly used by the World Bank and other multilateral organizations for international comparisons is US dollar ($1.9) purchasing power parity per capita, per day. This yardstick is very simple and easy to use. The UNDP introduced the Human Poverty Index (HPI) in 1997, which is considered a measure of assessing the development of a nation from the angle of poverty. A high incidence of poverty means lower economic development.

Table-5: Percentage of Population Living Below Poverty Line in Selected Countries (Figures in parenthesis show reference year)

Country	Population below Poverty line National Poverty line	Population below poverty line (International poverty line of 2011 PPP $1.90 a day)
Bangladesh	24.3 (2016)	18.5 (2010)
Cambodia	17.7 (2012)	Not available
China	Not available	1.9 (2013)
India	21.9 (2011)	21.2 (2011)
Pakistan	29.5 (2013)	6.1 (2013)
Sri Lanka	6.7 (2012)	1.9 (2012)

Source: *World Development Indicators 2017, The World Bank http://povertydata.worldbank.org/poverty/country (accessed on 28/03/2018)*

4. Human Welfare

Economic development can be measured in terms of welfare. Human welfare includes both individual and community welfare. Individual welfare would include access to basic needs, equity in the distribution of income and wealth, literacy, health, sanitation, safe drinking water, and employment. Community welfare measures for human welfare are delivered through the active community participation.

5. Standard of Living

The economic development of a country is also measured in terms of its standard of living. To be comparable across households, the standard of living indicator may be expressed either in terms of consumption, or, income. Although, consumption seems to be a more appropriate measure, yet income is used as a better measure for the purpose of analysis.

6. Green Index

The World Bank's Environmentally Sustainable Division has developed an index, called the Green Index. The Green Index uses a new system of measurement for the assessment of economic development. It attaches a dollar value to the following three components: (i) produced assets, (ii) natural resources, and (iii) human resources. It puts price tags on produced assets, the sum of all machinery, factories, roads, and other infrastructure. It also assigns an economic value to land, water, timber, minerals, and all natural resources. Finally, it takes into consideration, the available human resources, the education level, and the range of skills. All these indicators are not usually taken into consideration in the traditional indicators of economic development.

2.5 THE FACTORS INFLUENCING ECONOMIC DEVELOPMENT

Economic development is influenced by many factors, and these may, broadly, be categorized as economic and non economic factors.

(i) Economic Factors

The economic factors influencing development are

a. Acceleration in Industrialization

Economic growth and development depends increasingly on faster industrialization. Higher industrial growth rates boost the national growth rate. The use of technology is higher in the industrial sector, which enhances productivity, and, also, ensures higher wages to the labour force engaged in the sector. Higher income results in higher purchasing power of the people engaged in a particular sector, which, ultimately influences their quality of life. The developed nations are largely industrially developed, while developing nations are mostly lagging in industrialization.

b. Mechanization of Agriculture

Agriculture is the mainstay of people in many developing countries. However, agriculture, in underdeveloped countries, use traditional methods of cultivation. This affects the productivity and per capita income of the families engaged in agriculture. Because of the low agricultural growth rate, the overall growth rate of a nation is affected. Technological progress and labour productivity is typically lower in primary sector particularly agriculture.

Therefore, with growing urbanization, there is a shift of labour from traditional agriculture sector to the urban industrial sector. This affects agriculture and simultaneously puts pressure on the urban infrastructure. The nation, region, and state that employ a mechanized system of agriculture enjoy higher economic development. For example, Haryana and Punjab, in India's northern region, are economically developed states. The contribution of labour intensive traditional agriculture to economic development will certainly be lower, as compared to the modernized agriculture sector.

c. Climate, Soil and Terrain

Climate plays an important role in the process of economic growth and development. Generally, it seems that most developed countries are situated in temperate climates, while the developing countries are concentrated in tropical and subtropical zones. In the tropical zones, human energy and achievement are low because of the heat and humidity. The countries situated in the tropics face development problems different from those of temperate zones. For example in India, the cold climate of Punjab, Haryana, and Western Uttar Pradesh gives them higher agriculture productivity, compared to the hot and humid climate in eastern region states like Orissa, Bihar, and West Bengal. Moreover, the tropics are also fertile breeding grounds for a variety of agricultural pests and diseases. The low income in the tropical and subtropical zones is a great obstacle for capital formation in other sectors. Cattle and small livestock are also susceptible to diseases in temperate zones. The annual productivity from livestock in hot climate is lower than those of the cold climate. The countries situated in mountainous terrain like Nepal are at a disadvantage with respect to transport and communication. Thus, geography is a vital determining factor in economic development. The non-supportive geographical conditions adversely affect economic development.

d. Capital Formation

Capital is kingpin to development. Both agriculture and industry require capital for their modernization. Therefore, capital formation is a major determinant of economic growth and development. Capital formation means investment in dams, irrigation, canal, highways, power, etc. Of course, these projects take long period for completion, and, therefore, the benefits are indirect and spread out over a long period. However, in the long run, this capital formation directly influences the productivity and development of a nation. For example, after independence, Jawaharlal Nehru's vision of the construction of the Bhakra Nagal Dam in Punjab, Hirakund Dam in Orissa, and similar capital investment in agriculture and large scale industries are now paying dividend to the nation today. The green revolution in Punjab has considerably lessened hunger and ensured reasonable food security to India. Capital formation is measured by an equation called the capital-output ratio = K/O, where K is capital and O is output. The capital output ratio is a relationship between the value of a country in capital stock in a given year, and output in that year. The higher the ratio, the more development there is, and, vice-versa. The vicious circle of poverty, a widely used term, is based on the notion of capital formation. It says that lack of capital is the key factor preventing growth and development. The circle of poverty has two sides, the supply side, and the demand side as given in figures 1 and 2.

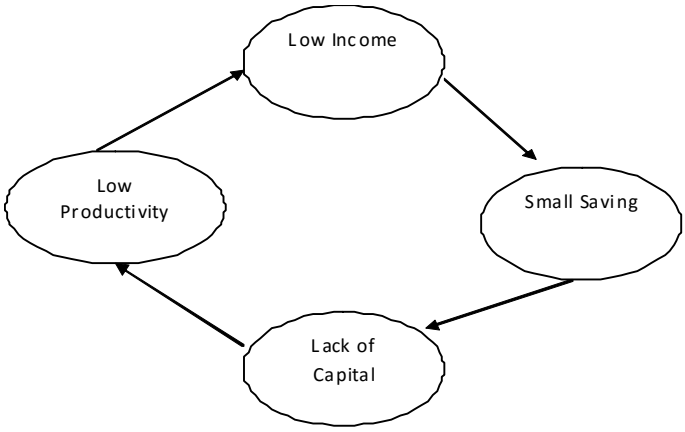


Figure 1: Supply side

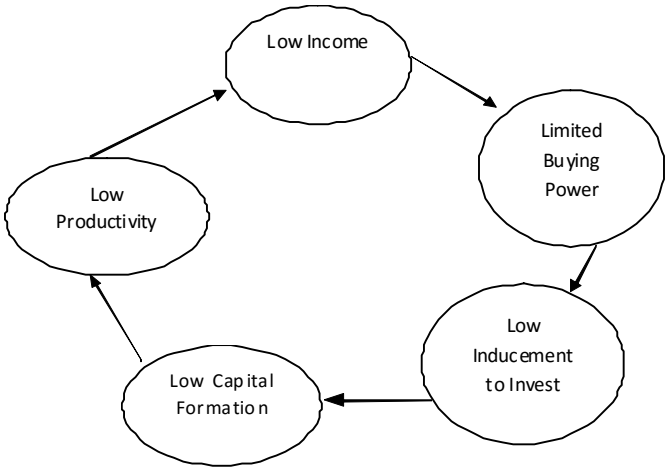


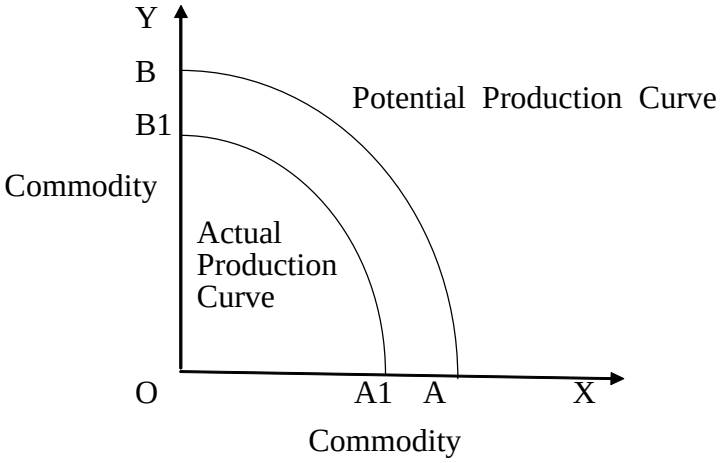
Figure 2: Demand side

The supply side explains how low income leads to lower saving, which, in turn, results in low capital, or, investment, which means lower productivity, ultimately resulting in low income, and, thus, completing the cycle. Similarly, the demand side explains how low income means limited purchasing power, which discourages capital investment, ultimately resulting in low productivity, and lower income.

e. Market Imperfection

Market imperfection is a responsible factor for underdevelopment. It refers to the factors such as price rigidity, factor immobility, ignorance about market conditions, etc., which hinder the smooth functioning of an economy. Market imperfection does not allow a flow of resources from the less productive sector to the more productive sector, which results in underutilization and ineffective utilization of resources. The ineffective utilization, that is, production which is far below the potential of resources, keeps a country on a lower production curve. In other words, market imperfection leads to factors disequilibrium, which, in turn, depresses production potential. The removal of market imperfections is essential for greater level of capital formation and more productivity.

Diagram 1: Market Imperfection and Production Possibility Curve



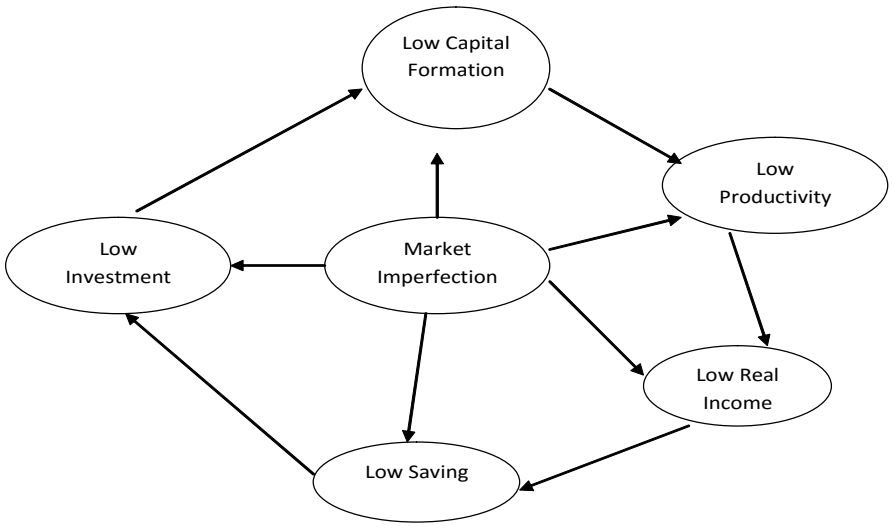
The market imperfection is explained with the help of in diagram-I. Suppose a country produces two commodities A and B. The figure explains that AB is the production possibility curve, which denotes the maximum amount of commodity A and B that a country can produce by allocating resources in the best possible manner. Thus, AB can also be called a potential production possibility curve, or, productive possibility curve.

However, given market imperfections the country cannot make best possible use of its resources, and, therefore, it runs below its potential, shown in the curve A1B1.

The need is to push the production frontier upward, rather than to make adjustments to the existing resources at the margin. Therefore, the removal of market imperfections is essential for the effective utilization of resources, and for faster economic development.

Meier and Baldwin have described a third vicious circle based on capital deficiency due to market imperfection. It is given in figure – 3.

Figure 3



A country caught in the vicious circle of market imperfection cannot achieve rapid development.

f. Appropriate Investment Criterion

Proper selection of investment priorities need to be made, in order to maintain a low capital output ratio, or, to yield the maximum productivity

from a minimum investment. Some of the aspects that need to be taken in to consideration, while investing, are

(i) Investment may be made in those areas where social marginal productivity is high. By social marginal productivity, we mean investments that are made from the viewpoint of society, and, not an individual.

(ii) Investment may be made in such a manner that would help to reduce market imperfections, and raise economic externalities. Market imperfection would create constraints in productivity and marketing.

(iii) Balanced investment in both consumer goods and capital goods sector, between industrial and agricultural sector; between economic and social sector, and, between domestic and the foreign sector, are essential for the balanced economic development of a nation. Imbalanced investment would promote imbalanced growth and development. Since all sectors are interdependent and interrelated, it is necessary that investment should be directed towards a wider vision.

(iv) Investment should take into consideration the capital output ratio. While selecting investment projects, and in determining the priorities for investment, the capital output ratios of various projects must be compared.

g. Technological Advancement

In the recent era of globalization, development is governed by technology and the higher the technological advancement, the greater is the pace of development. Technological advancement customarily means the application of improved technical know-how in various sectors of development. However, technological manpower, and, enterprising entrepreneurs who are willing to adopt technology in their business and industry, are the keys to development. The three key advantages of technological progress are: (i) capital saving, (ii) labour saving and (iii) time saving. It can be said that a ‘High Innovation Nation’ generally develops faster than a’ High Investment Nation’.

h. International Economic Relationship

In this globalized world, the dependency among the nations has been amplified. Foreign direct investment plays an important role in the development of the developing countries. China and India are the two illustrious examples. The outsourcing of a number activities from the developed nations to developing nation (in recent years, IT) has promoted mutual development. The important areas of international economic cooperation are

(i) Trade

(ii) Foreign direct investment

(iii) Transfer of technology and technical manpower.

Thus, in the globalized world, international cooperation has become one of the important determinants of development.

(ii) Non-Economic Factors

Some non economic factors influencing economic development are discussed below.

a. Developmental Social Attitude

Traditional societies are conservative by nature, and resist changes. They have a cautious attitude towards change and modernization. In a traditional society, new ideas are viewed with suspicion, and are perceived as threats to the integrity of the existing culture. Inherited beliefs and values rule in traditional societies. These beliefs and values may be obstacles to development. The countryside people see modernization as a threat to their culture, beliefs and values and therefore oppose it. Traditional societies distrust outsiders and outside agencies working for change and modernization. However, changes in traditional societies have usually been caused by outsiders intentionally. The advancement in Goa, which the society talked about, was largely because of Portuguese influence and in Kerala it is because of the gulf and Punjab because of NRI effect.

b. Entrepreneurship

The Government, in general, and those of the developing countries in particular, nowadays, emphasize entrepreneurship as an important factor of production after land, labour, and capital. The entrepreneurs are visionary and innovative actors of development in many countries. Entrepreneurship, both in agriculture and in the industrial sector, is required for the formation of capital. The industrial growth rate has risen after liberalization, because of the rise in entrepreneurship in this sector, compared to the agriculture sector. The government of India is promoting women's entrepreneurship through micro financing in its rural areas. Bangladesh is a classic example of women's entrepreneurship nurtured by micro financing. They are not only actors for economic development, but for social development as well.

c. The Political Environment

Some scientists have observed that one of the obstacles to economic growth and development is political instability. Political instability and the expenses in elections also affect economic development. However, the relationship between political instability and economic growth is not easy to determine. The instability is also associated with poor governance, leading to a high degree of unrest, riots and demonstration. An unstable climate does not encourage investors. In India, the fluctuations in the share market during the change of government is an example of the relationship between political instability and the climate for investment. One school of thought argues that authoritarian leadership is favourable for economic development. The examples cited are China, South Korea, Taiwan, and Yugoslavia.

d. Governance

Economic development is closely linked to governance. The administrative system must have quick delivery mechanism. Bureaucratic red tape creates hurdles in the path of development. Transparency in an administration is essential for the effective implementation of economic policies and programmes. A corrupt administration cannot promote rapid economic development. A former Prime Minister of India, Rajiv Gandhi used to say that when we send one rupee for development, only 20 paisa actually reaches the people, and the rest is siphoned off by middlemen. Therefore, an efficient and result oriented administration is an essential prerequisite for faster economic development.

2.6 THE CHARACTERISTICS OF UNDERDEVELOPED COUNTRIES

It is not easy to define and pinpoint various characteristics of underdeveloped countries. Economists have defined underdeveloped countries differently. Even the word underdeveloped is used in different situations differently, such as, 'less developed', 'developing', 'third word', or, 'backward' countries.

Rangar Nurkse says, "Underdeveloped countries are those which, compared to advanced countries, are underdeveloped with capital in relation to their population and natural resources". Colin Clark, a pioneer in the study of underdeveloped economies wrote, that "underdeveloped economies are such in which the primary occupation like agriculture pre-dominates". In the opinion of M.P. Tadaro, "Underdeveloped economy is that economy in which there are low levels of living, absolute poverty, low per capita income, low consumption levels, poor health services, high death rates, high birth rates and dependence on foreign countries". According to Gunner Myrdal, "an underdeveloped country is that country in which there is a constellation of numerous undesirable conditions of work and life, output, income, and levels of living are low; many modes of production, attitude and behaviour patterns are disadvantageous and these are unfavourable institutions".

From these few definitions, we can draw basic characteristics of underdeveloped countries, as given below.

i. Overdependence on the primary sector

ii. Low capital formation

iii. High poverty and malnutrition

iv. Under utilization of natural resources

v. Under utilization of labour

vi. Dualistic economic structure

vii. Technological backwardness

viii. Unchecked population growth

ix. Uneven urbanization and environmental degradation

x. Poor infrastructure

xi. Political instability and poor governance

i. Overdependence on the Primary Sector

Agriculture plays a predominant role in the economy of most of the underdeveloped countries. As agriculture is not technically advanced, it absorbs a larger labour force. This is because of the less progressive secondary and tertiary sectors, and the lack of capital formation. However, the contribution of the agricultural labour force in an underdeveloped country is not significant compared to the agricultural labour force in developed countries. On an average, 60 per cent to 80 per cent of the population are engaged in agriculture in underdeveloped countries. The countries depending purely on agriculture are likely to be unprogressive because agriculture alone cannot provide sustainable employment to all its

population. Development of the industrial sector, along with the agriculture sector would complement and supplement each other, and promotes faster economic development.

ii. Capital Formation

The underdeveloped countries face a chronic deficiency of capital. This shortage of capital is one of the factors responsible for low per capita income. Low capital formation creates a vicious circle of under development shown in figure-4.

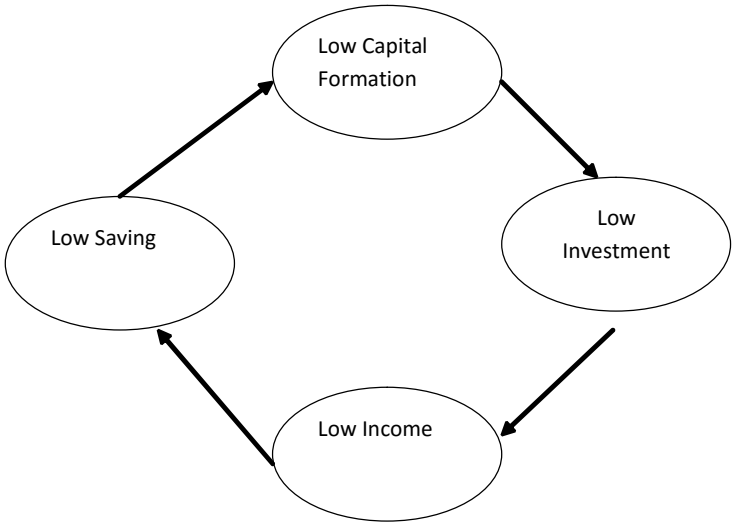


Figure 4: Vicious Circle of Underdevelopment

The underdeveloped countries can be termed capital poor, low saving, and low investment economies. This low level of capital formation is because of lacklustre inducements for investment, and a propensity to save. High population growth affects the saving capacity of the family. Therefore, the underdeveloped economy has a poor capacity to invest in the modernization of agriculture, opening industries, or investing in social overhead capital. Thus, the economy remains in a primitive state. There is a general lack of entrepreneurship among the people living in underdeveloped countries.

iii. High Poverty and Malnutrition

One of the important features of underdeveloped countries is the prevalence of poverty and malnutrition. Poverty and malnutrition are more seen in rural areas, where more than 70 per cent of its population resides. Few earning member and more consuming members affect the per capita income of families in these labour intensive economies. Lower income leads to lower purchasing power. The nutritional anemia among the women and children in the developing countries are much higher, compared to developed countries. The consumption of less than the required calories has promoted nutritional anaemia. Therefore, both, adults and children, look stunted, and the morbidity rate is quite high. The maternal mortality rates in less developed countries like India, Bangladesh, Pakistan, Bhutan, and Nepal is higher than developed countries.

iv. Under Utilization of Natural Resources

Many underdeveloped countries in the world have sizeable natural resources. However, all of these natural resources have not been adequately tapped and have remained either unutilized, or, underutilized. The eastern part of India is endowed with abundant mineral resources, Africa possess large

hydro-power potential. Similarly, the potential of the forests of Africa and South Africa remains unexploited. It is said that focusing on river projects in India would enhance its irrigation potential.

v. Under Utilization of Labour

Generally, underdeveloped countries are labour surplus countries. Most of the labour, particularly in rural areas is unemployed, underemployed, or disguised unemployed as in the agriculture sector. This labour is grossly underutilized. They do not get the required days of employment, and remain idle despite their willingness to work. Underemployment and disguised unemployment affects per capita income. Many agricultural and casual labourers suffer from acute poverty and are unable to provide minimum education and basic health care facilities to their woman and children.

vi. Economic Structure

Another important feature of underdeveloped countries is dualism, where the traditional subsistence sector co-exists with the modern sector. The modern sector is found in the urban areas, and the traditional subsistence sector, in rural areas. There is hardly any technological diffusion from the modern sector to traditional sector. Besides this, other form of dualism found prevailing in these countries are regional dualism and cultural dualism. This dualism is a hurdle in the path of development. Inequality, in underdeveloped countries, is a function of dualism.

vii. Technological Backwardness

Technological backwardness in underdeveloped countries lead to economic backwardness. Many developing countries are still handicapped by very low levels of technological capabilities, owing to inadequate schooling, technical training, and experience. This low level of technological capabilities limits the rate of technological change and economic growth, and keeps developing countries dependent on outside knowledge and expertise.

viii. Unchecked Population Growth

High population growth affects the economic development of underdeveloped countries. The other feature of population growth in developing countries is that it is higher, among the lower income groups and in rural areas, as compared to high income groups and in urban areas. As a result of population growth, a sizable percentage of resources in high population growth underdeveloped countries are spent on consumption rather than on investment and capital formation. Overpopulation affects the income, employment, and capital formation scenario of underdeveloped countries.

ix. Urbanization and Environmental Degradation

Urbanization and urban population growth in underdeveloped countries are largely due to rural to urban migration. Some social scientists term it ‘the transgression of rural poverty to urban areas’. This uneven, migrated population resides mostly in urban slum areas that are deficient in basic amenities. This has an adverse impact on environmental sanitation, as well as the employment situation in urban areas. The money which is required to be spent on capital formation is directed toward urban renewal.

x. Poor Infrastructure

Underdeveloped countries are characterized by poor infrastructure. The quantity, as well as quality of infrastructure, such as roads, electricity, drinking water, etc. is poor as compared to developed countries. Infrastructure

is the key to development. Besides, many underdeveloped countries are still to fulfil social infrastructure needs, such as, education and health institutions, because of capital deficiency. These countries are unable to invest in essential infrastructure like irrigation and hydroelectricity projects.

xi. Political Instability and Poor Governance

Many developing countries are marred by political instability. Examples of South Asian countries, like Pakistan and Bangladesh can be cited here. Besides political instability, regional separatism, ethnic and religious extremism, poses serious threats to the development of these developing countries. Lack of political and administrative will towards development is commonly observed in underdeveloped countries. The multiparty system and coalition politics are also gradually developing in these countries. Political stability and integrity, and good governance are prerequisites for rapid development. Corruption in politics and the bureaucracy impedes development in these countries.

In this section you studied about measurement of economic development, the factors influencing economic development and characteristics of underdeveloped countries. Now, answer the questions given in *Check Your Progress-2*.

Check Your Progress 2

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1. Explain two measures of economic development?

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2. What are the non-economic factors governing economic development?

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2.7 LET US SUM UP

This unit on economic development discusses various aspects of economic development such as definition of economic development, measurement of economic development, factors governing economic development and characteristics of developing countries. Customarily, economic development is defined as the rise in productivity, growth rate, and national income. However, modern economists have different viewpoints on economic development. The measures of economic development are GNI, standard of living, poverty line, etc. Factors such as a will for development, market imperfections, technological advancement, political and administrative stability, capital formation, international economic relations, govern the economic development of a country. Some important characteristics of underdeveloped countries are: overdependence on agriculture, low capital formation, high poverty and malnutrition, underutilization of natural resources, technological backwardness, economic dualism, and high population growth.

2.8 REFERENCES AND SUGGESTED READINGS

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2.9 CHECK YOUR PROGRESS - POSSIBLE ANSWERS

Check Your Progress 1

Answer 1: Economic development has been defined differently by different economists. It is defined as raised output, and a change in the technical arrangements by which it is produced. Second, economic development is defined as a sustainable improvement in wellbeing, reflected in an increasing flow of goods and services. A third definition of economic development : "Economic development is a process of raising real per capita income on a permanent and long term basis".

Answer 2: Generally economic growth is the quantitative measure of development, while economic development is both a quantitative and qualitative measure of development. The term economic development is used for underdeveloped countries, while economic growth is used for developed countries. However, there are no watertight differences between economic development and economic growth. Today's economic growth can be tomorrow's economic development. Therefore, it is remarked that, most often, we refer only to growth, but occasionally, for the sake of variety, to Progress and Development.

Check Your Progress 2

Answer 1: The measures of economic development are Gross National Product (GNP) and Gross National Income (GNI)**.** GNP is the total value of all final products created within a country, regardless of the place of recipient, while GNI is the total value of all income accruing to residents of a country, regardless of the place of recipient. The, GNP/GNI measures tells that higher the value, higher the development.

Answer 2: Poor developmental social attitudes, lack of entrepreneurship, and poor administrative efficiency, or governance, are some of the factors that influence the economic development of a nation. It is said that if the horse is not thirsty no amount of dragging it to the water will make it drink. Likewise, if the people of a country are not interested in development, no coercive means will promote development. Poor governance, such as, lack of political and administrative will, also affect economic development.

UNIT 3 HUMAN DEVELOPMENT

Structure

3.1 Introduction

3.2 Human Development: Meaning and Approaches

3.3 Measurement and Indices of Human Development

3.4 The Dimensions of Human Development

3.5 Let Us Sum Up

3.6 References and Suggested Readings

3.7 Check Your Progress - Possible Answers

3.1 INTRODUCTION

In Unit 1 on paradigm of development, you might have come across the human development paradigm of development. In this unit, you will know the details of human development. The study and understanding of Human Development (HD) has gained importance ever since the disjuncture between income growth and human well being was recognized. Income growth alone is inadequate to ensure the well being of all human beings. The income and economic growth based approach lays emphasis upon rising incomes or expanding output. The Human Development (HD) approach treats the well-being of people as the end of human development, and looks at economic growth as a means to human development. In fact, economic growth is a necessary, but not sufficient condition for human development. The expansion of human capabilities, widening choices, enhancement of freedoms and the fulfillment of human rights are well accepted in the development economics literature as elements that define human development. The measurement and monitoring of human development began more systematically with the launch of the global human development reports (HDRs) in 1990s, and the introduction of the human development indices which include the Human Development Index (HDI), Human Poverty Index-I and II, Gender-related Development Index (GDI) and the Gender Empowerment Measure (GEM).

After studying this unit, you should be able to

- Explain the meaning and approaches of human development
- Discuss the measurement and indices of human development
- Establish relationship between economic development and the human development
- Describe the dimensions of human development

3.2 HUMAN DEVELOPMENT: MEANING AND APPROACHES

In this section, you will read about the meaning and approaches to human development.

3.2.1 Meaning of Human Development

The human development aims to enrich people's lives by widening their choices. Through investing in people, in terms of education, health, safety,

and so on, this discipline attempts to build human capability. Capability is basically what people are actually able to do and to be. Equality, sustainability, productivity, and empowerment are the four pillars of human development. This approach emphasizes the belief that though economic growth is essential, its quality and distribution determine the extent to which it enriches people's lives in a sustainable manner. The attempt is to create an environment in which people can enjoy long, healthy, and creative lives. The idea of human development is also linked with the concepts of rights, liberty and justice.

Seeing humans as ends of development process was not the sole purview of human development paradigm. The UN Declaration on Human Rights (1948) put forward that all humans should be free and equal in dignity and rights, such as the right to work, the right to education, the right to health, the right to vote, the right to non discrimination, the right to decent standard of living etc. It was written in the hope that the atrocities committed during the Second World War would never be repeated again. There are significant connections between human rights approach and that of human development and capability. According to the Human Development Report (2000), "Human Rights and Human Development share a common vision and a common purpose – to secure freedom, well being and dignity of all people everywhere". A human right is claimed to be a fundamental benefit that should be enjoyed universally by all people everywhere on the basis of equality and non-discrimination.

The evolution of the concept of human development can be traced to the writings of renowned thinkers and philosophers of ancient times. Aristotle, the great philosopher reflected in his writing that "wealth is not the good that we are seeking for; it is merely for the sake of something else". Another great philosopher, Immanuel Kant argues that human beings are ends in themselves, rather than the means to other ends. Adam Smith, Robert Malthus, Karl Marx, John Stuart Mill, and many other modern economists have also come forward with the similar idea of treating human beings as the real end of all activities. However the undeniable reality is that human beings are the beneficiaries of progress, and, at the same time, they are directly or indirectly, the primary means of production. Thus, human beings are the means through which a productive progress is brought about.

Human Development has been accepted in development economics literature as

- An expansion of human capabilities
- A widening of choices
- An enhancement of freedoms
- A fulfillment of human rights

3.2.2 Approaches to Human Development

The human development approach is inherently multidimensional. The central goal of human development is to enable people to become direct agents in their own lives. People are not passive objects of social welfare provisions but are active subjects with the power to determine how they choose to live. They should be empowered so that they can define their respective priorities, as well as choose the best means to achieve them.

Thus, agency and expansion of freedom go hand in hand. In order to be agents of their own lives, people need the freedom to be educated, to speak in public without fear, or have freedom of expression and association.

The four main pillars of human development are

i. equity

ii. efficiency and productivity

iii. participation and empowerment

iv. sustainability

i. Equity: The principle of equity encompasses the ideal of equality whereby all human beings should have equal rights and entitlements to human, social, economic, and cultural development, and an equal voice in civic and political life. It also recognizes that those who have unequal opportunities due to various disadvantages may require preferential treatment, or affirmative action. For example, the utility derived from same levels of income or investment will vary for different individuals, depending upon their personal attributes, initial endowments or conversion factors, which facilitate transformation of inputs into outcomes. Since the opportunities available to different sections of society vary, ensuring that the sections deprived of basic opportunities such as health and education are provided access to these benefits, is the goal of equality. Thus, equity aims at equality, not only of economic resources, but of education, health, employment opportunities, democratic participation, etc, too. Realization of the goal of equal opportunities leads to equity outcomes.

ii. Efficiency and Productivity: Efficiency is defined as the least costly method of reaching goals through the optimal use of human, material, and institutional resources to maximize opportunities for individuals and communities, thereby enhancing productivity. Efficient use of scarce national resources leads, for instance, to the building of infrastructure like roads and dams, which in turn lead to better outcomes for human beings. Productivity can be enhanced through efficient use of resources. It also requires investment in people and enabling macroeconomic environment for them to achieve their maximum potential. For human development, people must be enabled to increase their productivity and to participate fully in the process of maximizing opportunities so that they become effective agents of growth.

iii. Participation and Empowerment: Participation and engagement in social and political life is an important aspect of human development. People's participation is crucial in community programmes and government interventions. Mobilization of grassroots support through decentralization in planning will increase people's participation in decision making because it brings government closer to people. Participation also enables people to seek answers from authorities and can go a long way in improving the quality of social service delivery. It pressurizes local authorities to take swift remedial action in situations where gaps or shortfalls are identified in the functioning of institutions. Empowerment can occur through enhanced participation and involvement. For instance, reservations of women in various elected bodies are made to empower them through such participation. Involvement of parents, guardians and/or communities in village education committees is another example.

iv. Sustainability: Human development questions the long-term sustainability of economic growth and aims to ensure that resources are utilized in a manner that meets present day human needs while preserving the environment, so that the needs of future generations can also be met with. Hence, use of resources without degrading the environment is essential to ensure that the improvements made are not temporary in nature and have the potential for future growth as well. For instance, if the development process does not create institutions that are supportive of people's rights, it cannot be sustainable in the long run.

3.2.3 Capability Approach to Human Development

The human development approach has been profoundly inspired by Amartya Sen's pioneering works in welfare economics, social choice, poverty, and famine and development economics. While Sen's works cover an extremely wide range of topics, his 'capability approach' has led to a critical evolution in the field of economics, and in social sciences in general. The roots of the capability approach go back to Aristotle, Adam Smith, and Karl Marx. Aristotle made extensive use of his own analysis of human beings and linked it with his examination of the functions of man. Adam Smith and Karl Marx discussed the importance of 'functionings' and 'capability' as determinants of well being. If life is a set of doings and beings that are valuable, the exercise of assessing the quality of life takes the form of evaluating these functioning's and the capability to function.

But, what actually are 'capability' and 'functioning'? According to Amartya Sen, "Capability is a vector of functioning's, reflecting the person's freedom to lead one type of life or another to choose from possible livings". In other words, capabilities are the substantive freedoms he or she, enjoys to lead the kind of life he, or she, has reason to value. Just as a person with a pocket full of coins can buy many different things, a person with many capabilities can enjoy many different activities, and pursue different life paths. Functioning's are valuable activities and states that constitute people's well being such as healthy body, being safe, being educated, and so on. Functioning is, thus, an achievement of a person: what he or she manages to do, or, to be. For example, when people's basic need for food is met, they enjoy the functioning of being well nourished. Apart from capability and functioning, the third core concept of the capability approach is "agency". It refers to a person's ability to pursue and realize goals he, or she, has reason to value.

However, Martha Nussbaum argues that Sen's 'Capability Approach' is incomplete. Since what people consider to be valuable and relevant can often be the product of structures of inequality and discrimination, and because not all human freedoms are equally valuable – for example, the freedom to pollute is not of equal value to the freedom to care for the environment - she argues that one needs to overcome these limitations, and to go beyond this ambiguity, so that equal freedom for all can be respected. In this context she has proposed a list of ten central human capabilities which constitute the evaluative space for public policy.

The capability approach advocates the removal of obstacles in people's lives, increasing their freedom to achieve the functioning that they value. It recommends progressive social policies which would foster the development

of human capabilities, such as improved health, knowledge, skills and also ensure equitable access to human opportunities.

In this section you studied about human development: meaning and approaches, now you would be able to answer the questions relating to this section which are given in *Check Your Progress- 1*.

Check Your Progress 1

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1. What do you mean by Human Development?

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2. What are the key constituents of Human Development?

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3.3 MEASUREMENT AND INDICES OF HUMAN DEVELOPMENT

In this section, you will read three important aspects relating to the measurement of human resources. Those are: (i) Emergence of Human Development Report; (ii) Measurement of Human Development; and (iii) Other Human Development Indices.

3.3.1 Emergence of Human Development Reports

After the Second World War, an obsession grew with economic growth models and national income accounts, viewing people as agents of change and beneficiaries of development became secondary. The late 1980's were ripe for a counter offensive as in several countries human lives were shriveling, even as economic production was expanding. The human costs of the structural adjustment programmes in the 1980's undertaken in many developing countries under the aegis of International Monetary Fund and the World Bank had been extremely harsh. These measures prompted questions about the human face of structural adjustment, and about whether alternative policy options were available to balance financial budgets while protecting the interests of the weakest and most vulnerable sections of society.

The idea of human development had been circulated in policy circles and public debates over the past two decades. In this favorable climate, Mahbub-ul Haq, a Pakistani economist presented the idea of preparing an annual human development report. This was a move away from the usual Annual World Development Reports, suggested to the Administrator of the United Nations Development Programme in 1989. He readily accepted the idea that such a report should be independent of any formal clearance through United Nations. The first Human Development Report (HDR) emerged in 1990, and subsequent issues sought to bring the human development

perspective to bear on a wide range of issues. In addition to the annual report, many countries produce their own National and Regional Human Development Reports, intended to assess populations from the perspective of the quality of people's life. The broad themes covered in Human Development Reports from 1990-2016 are given in Table-1.

Table-1: Themes of Global Human Development Reports from 1990 to 2016

1990	Concept and Measurement of Human Development
1991	Financing Human Development
1992	Global Dimensions of Human Development
1993	People's Participation
1994	New Dimensions of Human Security
1995	Gender and Human Development
1996	Economic Growth and Human Development
1997	Human Development to Eradicate Poverty
1998	Consumption for Human Development
1999	Globalization with a Human Face
2000	Human Rights and Human Development
2001	Making New Technologies Work for Human Development
2002	Deepening Democracy in a Fragmented World
2003	MDG's: A Compact Among Nations to end Human Poverty
2004	Cultural Liberty in Today's Diverse World
2005	International Cooperation at Cross Roads
2006	Beyond Scarcity: Power, Poverty and Global Water Crisis
2007/08	Fighting Climate Change: Human Solidarity in a Divided World
2009	Overcoming Barriers: Human Mobility and Development
2010	The Real Wealth of Nations: Pathways to Human Development
2011	Sustainability and Equity: A Better Future for All
2012	Africa Human Development Report 2012 Towards a Food Secure Future
2013	The Rise of the South: Human Progress in a Diverse World
2014	Sustaining Human Progress: Reducing Vulnerabilities and Building Resilience
2015	Rethinking Work for Human Development
2016	Human Development for Everyone

Apart from the global reports produced every year since 1990, many regional and sub-country level reports have also been produced. For

instance, in India, many of the state Human Development Reports are published in collaboration with the respective state governments. In recent times, the process of working in sub state level reports has been launched. Human Development Reports are being prepared for many identified districts across the states of India.

3.3.2 Measurement of Human Development

The Human Development Index became a landmark event when it replaced the hitherto supreme income measure. The search for an alternative measure had been on for a long time, beginning around the period after World War II. Various agencies, organizations and individuals (The UN, The Food and Agricultural Organization (FAO), The Organization for Economic Cooperation and Development (OECD), The UN Research Institute for Social Development (UNRISD), The World Bank and others) made efforts to evolve an alternative measure to replace the economic measure representing income, the GDP.

The focus of these attempts was oriented towards calculating an appropriate measure which took into account the social concerns of any country's development, such as individual security, social adjustment, political participation, freedom, justice, peace, and harmony, in addition to health, literacy, employment, income, consumption, and so on. To conceptualize aspects of living standards and to be able to measure them posed many philosophical, as well as statistical, problems. Most agencies arrived at the conclusion that no single indicator could serve a similar purpose as GDP, nor was it considered feasible. Efforts towards creating a composite index by combining a set of crucial variables were ongoing through this period. Many earlier efforts were abortive, although these endeavours resulted in enriching the conceptual issues surrounding human wellbeing.

3.3.3 The Human Development Index

The search for a new composite index of socio economic progress began in the earnest in preparing the Human Development Report (HDR) under the sponsorship of UNDP in 1989. The new human development index (HDI) would measure the basic dimensions of human development to enlarge people's choices. The HDI measures the average achievements of a country in three basic dimensions:

- a long and healthy life, as measured by life expectancy at birth
- knowledge, as measured by the adult literacy rate (with two-thirds weight) and the combined primary, secondary, and tertiary gross enrolment ratio (with one-third weight)
- a decent standard of living, as measured by GDP per capita in purchasing power parity (PPP) terms in US $

With these three variables the HDI is constructed in three simple steps. The first step is to define a country's measure of deprivation of each of the three basic variables. The minimum and maximum values are defined for the actual observed values of each of the three variables in all countries. The deprivation measure then places the country in 0-1 range, where 0 is the minimum observed value, and 1 is the maximum. So, if the minimum observed life expectancy is 40 years, and the maximum is 80 years, and the country's life expectancy is 50 years, its index value for life expectancy

is 0.25. This index value is derived in the following manner: the difference between the actual value of the indicator for any given country, minus the minimum value (that is, 50 – 40) as the numerator, and the difference between the maximum and minimum values as the denominator (that is, 80 - 40), gives the index value.

The second step is to compile an average indicator by taking a simple average of the three indicators. The third step is to measure HDI as one minus the average deprivation index.

Table 2 gives a glimpse of HDI for various countries in the world using 2016 data. In 2016, the top three countries in the world in terms of HDI were Norway (0.949), Switzerland (0.939) and Australia (0.939). Though it is observed that the HDI is steadily rising, in 2016, India's HDI was 0.624 – ranked 131st out of the 185 countries studied in the Human Development Report.

Table 2: Human Development Index of a Few Countries, 2016

Countries	HDI Values	Rank
Very High Human Development Index		
Norway	0.949	1
Switzerland	0.939	2
Australia	0.939	3
High Human Development Index		
Belarus	0.796	51
Oman	0.796	53
Barbados	0.795	54
Medium Human Development Index		
Republic of Moldova	0.699	105
Botswana	0..698	107
Gabon	0.697	109
India	0.624	131
Low Human Development Index		
Swaziland	0.541	149
South Sudan	0.418	179
Burkina Faso	0.402	185

Source: *Human Development Report, 2016, UNDP*

The value of the HDI shows where a country is placed, relative to other countries. A quick glance at the HDI rankings shows which countries are combining economic progress with social development, and which ones lag behind. The HDI can also reveal the potential for economic growth in a country. If a country has built up considerable human capital, it can accelerate its GNP growth by choosing the right macroeconomic policies. This is true for many formerly socialist countries now transiting to a market

economy. But, if the human capital is missing, it would take considerable time to create the human infrastructure needed for sustainable growth – which is true, for example, for Sub Saharan Africa, today. Moreover, if there is significant investment in education and health, it is reasonable to hope that people will be able to gain access to market opportunities so that economic growth will be more equitable. Even though the HDI was initially extolled as a major policy instrument and a major policy tool, it was soon recognized to neither reflect deprivation, nor to suggest the distributional aspects of development, particularly the issue of inequality. Since the HDI is a measure of average achievements it does not take into account the distribution of achievements.

3.3.4 Other Human Development Indices

Over the years, the HDR sought to enrich the concept, analyse one specific aspect of human development critically, and develop more elegant measures of well-being. Among the many indices introduced in the HDR, some have become annual features, while others have been discarded for want of data, and the feasibility of calculating indices across countries (the Human Freedom Index is one such measure). Among the indices that have gained popularity and widespread acceptance, despite a significant share of critique and debates, are the HDI, the Gender-related Development Index (GDI), the Gender Empowerment Measure (GEM), and the Human Poverty Index (HPI-1 for developing countries, and HPI-2 for selected OECD countries).

Each of these indices is based on a set of chosen indicators. The HPI-1, designed for developing countries, considers the same three dimensions through four identified indicators. As opposed to the HDI, which measures the overall progress in a country in achieving human development, the HPI reflects the distribution of progress, and measures the backlog of deprivations that still exists. HPI-1 is based on

- the probability at birth of not surviving to age 40
- the adult illiteracy rate
- deprivation in overall economic provisioning, public and private, reflected by the percentage of population without sustainable access to an improved water source
- the percentage of children under five years who are underweight.

HPI-2, devised as a measure of human poverty in industrial countries, since human deprivation varies with social and economic conditions of a community, is also based on 4 indicators. They are:

- the probability at birth of not surviving to age 60
- the percentage of adults lacking literacy skills
- the percentage of people living below the poverty line
- the long term unemployment rate.

Another two new indices were introduced in 1995. These are the Gender-related Development Index (GDI), and a Gender Empowerment Measure (GEM). The GDI measures achievements in the same dimensions and variables as the HDI, but takes into account inequality in achievements

between women and men. The greater the gender disparity in human development, the lower is a country's GDI compared to its HDI.

GEM exposes inequality in opportunities in selected areas – the participation of women in economic and political life, and in decision making. This index focuses on women's opportunities and agency, and captures gender inequality in three key areas

- political participation and decision-making power, as measured by women's and men's percentage share of parliamentary seats
- economic participation and decision-making power, as measured by two indicators—women's and men's percentage shares of positions as legislators, senior officials, and managers and women's and men's percentage shares of professional and technical positions power over economic resources, as measured by women's earned income share as a percentage of men's (PPP in US $).

In the context of the efforts being made to bring gender issues to center stage, GDI and GEM proved important tools to establish the prevalence of gender inequality across the world. With these indices, the HDRs emphasized the importance of mitigating gender disparities as being critical for overall development (HDR, 1995). HDR 1995 argues that achieving gender equality is not a technocratic goal. It is a political process requiring struggle and radical shifts in mindsets.

The HDRs, over the years, admit that while the concept of human development is much broader, the measures of HDI remain limited. Admittedly, the "HDI is not a substitute for the fuller treatment of the richness of the concerns of the human development perspective". To come up with a comprehensive measure is a daunting task and, in fact, impossible, given the fact that many vital dimensions of human development are non-quantifiable.

3.4 THE DIMENSIONS OF HUMAN DEVELOPMENT

After studying the meaning and measurement of Human Development, it is important now to study various dimensions of human development. This section covers dimensions of human development. Broadly, the three main dimensions are: (i) education; (ii) health; and (iii) gender; and (iv) human development: policy perspectives.

(i) Education: Human Capital and Human Capability

Comparing human capital, as given by Gary S. Becker, Theodore Schultz, with the capability approach, Sen argues that education as a human capital concentrates on the agency of human beings, through skill and knowledge as well as effort, in augmenting production possibilities. The capability approach to education focuses on the ability of human beings to lead lives they have reason to value, and to enhance the substantive choices they have. Both approaches are connected because they both are concerned with the role of human beings, and in particular, with the actual abilities that they achieve and acquire. Consider the following example: if education makes a person more efficient in commodity production, then there is clearly an enhancement of human capital. This can add to the value of

production in the economy, and to the income of the person who has been educated. But, even with the same level of income, a person may benefit from education in reading, communicating, arguing, being able to choose in a more informed way, being taken seriously by others, and so on. The benefits of education, thus, exceed its role as human capital in commodity production. The broader human capability perspective would add these roles. Thus, the human capital perspective fits into the broader human capability perspective, which covers the direct, as well as indirect, consequences of human abilities.

Amartya Sen has identified three distinct ways to link the importance of education to the expansion of valuable capabilities. First, education fulfills an instrumental social role. For example, literacy fosters public debate and dialogue about social and political arrangements. Second, education also has an instrumental process role in facilitating our capacity to participate in the decision making process in the household, and at the community, or national level. Finally, education has an empowering and distributive role in facilitating the ability of disadvantaged, marginalized, and excluded groups to organize themselves politically, since, without education, these groups would be unable to gain access to centers of power, and affect redistribution of resources. Overall, education has an interpersonal impact because people are able to use the benefits of education to help others as well as themselves, and can contribute to democratic freedoms, and to the overall good of society as a whole. International declarations such as the Millennium Development Goals, Education for All, and the Decade of Education for Sustainable Development, attempt to look at education beyond simple human capital concerns. The human development perspective, thus, considers the purpose of education to be much wider than simply developing skills that will enhance economic growth. Education nurtures the processes of critical reflection and connection with others that are intrinsically ethical.

Education brings empowerment, and it is central to human growth. Not only does it open the minds of people and further their horizons, it also opens the way for people to acquire other valuable capabilities. The human development reports take into account the central importance of education by incorporating an education indicator – literacy rates – into the first Human Development Index, later versions include education indicators based on enrollment rates.

(ii) Health and the Human Development: The conventional approach argues that health, through its contribution to the quality of human capital, has a strong, and significant effect on economic growth. This approach puts economic growth as an end, and health as a means to achieving this end. The reverse is also argued, where wealth is seen as a necessary input for the achievement of health outcomes. However, these approaches lead to the critical question of whether economic growth is necessary for improving health. Amartya Sen, by quoting the examples of pre-reform China, Sri Lanka, and Kerala (India), describes that improvement in health (without economic growth) can be attained by prioritizing social services especially health care, and basic education. He says that “health is among the most important conditions of human life, and a critically significant constituent of human capabilities which we have reason to value. In addition

to its intrinsic value, health is instrumental to economic growth, educational achievements and cognitive development, employment opportunities, income earning potential as well as for dignity, safety, security and empowerment". One of the distinguishing features of the human development and capability approach is its focus on the process of generating health. The capability approach recognizes that different people may have different values in terms of health and often weigh these against other dimensions of life. Considerable empirical evidence supports the capability approach in substantiating the importance of conversion factors in translating health inputs to valued health outputs. One clear example of a conversion factor in health is education. Numerous studies have demonstrated that educated individuals tend to have lower mortality and morbidity than less educated counterparts. In addition, children of educated mothers fare better in terms of health than those with less education. Yet another conversion factor is the authority an individual has within their household, or community, to assess or convert, a particular resource into a value added health outcome. For example, the unequal rights to property, unequal access to economic assets, restrictions on physical mobility, especially in the case of women, hamper their health situation. Thus, conversion factors include a number of external conditions, the natural and manmade environment in which we operate, the formal and informal rules and regulations to which we subscribe, social and family dynamics that determine our daily lives, and so on. A basic principle of public health is that all people have a right to health. Differences in the incidence and prevalence of health conditions and health status between groups are commonly referred to as health disparities. Most health disparities affect groups that are marginalized because of socioeconomic status, race or ethnicity, sexual orientation, gender, disability, geographic location, or some combination of these. People in these groups not only experience worse health, they also tend to have less access to the 'social determinants' or conditions (e.g., healthy food, good housing, good education, safe neighborhoods, freedom from racism, and other forms of discrimination) that support a healthy life. Health disparities are referred to as health inequities when they are the result of the systematic and unjust distribution of these critical conditions. According to WHO, health equity, is experienced when everyone has the opportunity to "attain their full health potential" and no one is "disadvantaged from achieving this potential because of their social position or other socially determined circumstance."

Health is, thus, a fundamental capability which is instrumental in the achievement of other capabilities. The unfair distribution of health capabilities may affect social justice in several ways. For example, high maternal under nutrition, leads to intra-uterine growth retardation, which leads to a high prevalence of low birth weight babies. This phenomenon contributes to a high prevalence of child under nutrition and adult ailments. Thus, women's deprivation in terms of nutrition and health attainment has serious repercussions for society as a whole. Deprivation in health can cause deprivation in a number of other dimensions such as education, employment, and participation in social spheres. When people are ill or malnourished, their overall capabilities are greatly reduced. Lack of good health can, therefore, be at the heart of interlocking deprivations. The 2005 WHO Report finds a close link between chronic diseases and poverty. Poor health is not just suffering from illness. For those living in poverty, it pushes

individuals and households towards losses in productivity, incomes, assets, and education further entrenching the cycle of poverty. Health deprivations, thus, reinforce deprivations in other dimensions, which in turn reinforce deprivations in health.

(iii) Gender and the Human Development

In no society do women enjoy the same opportunities as men. A widespread pattern of inequality persists among men and women in their access to education, health, and nutrition, and even more, in their participation in the economic and political spheres.

Amartya Sen has identified seven different types of gender inequalities presently existing in this world.

(1) Mortality inequality: In some regions in the world, inequality between women and men directly involves matters of life and death, and takes the brutal form of unusually high mortality rates of women, and a consequent preponderance of men in the total population, as opposed to the preponderance of women found in societies with little, or no gender bias in health care and nutrition. Mortality inequality has been observed extensively in North Africa, and in Asia, including China, and South Asia.

(2) Natality inequality: Given the preference for boys over girls that many male dominated societies have, gender inequality can manifest itself in the form of the parents wanting the newborn to be a boy rather than a girl. There was a time when this could be no more than a wish, but with the availability of modern medical techniques to determine the gender of the foetus, sex-selective abortion has become common in many countries. It is particularly prevalent in East Asia, in China and South Korea in particular, but also in Singapore and Taiwan, and it is beginning to emerge as a statistically significant phenomenon in India and South Asia as well. This is high tech sexism. Sen coined the term, 'missing women', to describe the phenomena of sex ratio imbalances. Sex ratios were viewed as a composite indicator of the status of women in any society by the Committee on the Status of Women in India (CSWI) in its report, "Towards Equality", in 1974.

(3) Basic facility inequality: Even when demographic characteristics do not show much or any anti-female bias, there are other ways in which women can have less than a fair deal. Afghanistan may be the only country in the world where the government is keen on actively excluding girls from schooling (it combines this with other features of massive gender inequality), but there are many countries in Asia, Africa, and in Latin America, where girls have far less opportunity for schooling than boys. There are other deficiencies in basic facilities available to women, varying from encouragement to cultivate one's natural talents, to fair participation in the social functions of their communities.

(4) Special opportunity inequality: Even when there is relatively little difference in basic facilities, including schooling, the opportunities for higher education may be far fewer for young women than for young men. Indeed, gender bias in higher education and professional training is observed even in some of the richest countries in the world, in Europe, and North America.

(5) Professional inequality: In terms of employment, as well as in promotions at work, women often face greater handicaps than men. A country like Japan may be egalitarian in matters of demography, or basic facilities, and even, largely, in higher education, and yet, progress to elevated levels of employment and occupation seems to be much more problematic for women than for men.

(6) Ownership inequality: In many societies, the ownership of property can also be very unequal. Even basic assets, such as homes and land, may be asymmetrically shared. The absence of claims to property can not only reduce the voice of women, but also make it harder for women to enter and flourish in commercial, economic, and even some social activities. This type of inequality exists in most parts of the world, with local variations. For example, even though traditional property rights have favoured men in most of India, in the state of Kerala, there has been, for a long time, matrilineal inheritance for an influential part of the community, namely the Nairs.

(7) Household inequality: Often enough, there are basic inequalities in gender relations within the family, or the household, which can take many different forms. Even in cases in which there are no overt signs of anti-female bias in, say, survival, or son-preference, or education, or even in promotion to higher executive positions, the family arrangements can be quite unequal in terms of sharing the burden of housework and child care. For example, it is common in many societies to take it for granted that while men will work outside the home, their women could work too, if, and only if, they combine work with various inescapable, and unequally shared household duties.

This unequal status leaves considerable disparities between how much women contribute to human development, and how they share its benefits. The human development approach challenges the development models which measure benefits in purely economic terms, and which are based on the old trickledown theory. According to the trickledown theory, the benefits that are fed into the top of social structures, or community organizations, trickle down to everyone in the community. But, as the relationships within the community and the household are not egalitarian, but are governed by power and status, we cannot assume community development will benefit all the people within the community. Within the household, women do not have equal rights with men, and the benefits at the household level are seldom shared equally between males and females. However, the lower status of women in many of the countries is linked to women's inadequate command over assets, which translates into systematically lower access to community governance, health and education facilities, as well as less than optimal participation in economic decision-making. The exclusion of women from the sphere of public decision-making, weak intra-household bargaining power, and a lack of the kind of kin support that men have within their villages after marriage are also other factors which contribute to women's low status in the society. In a household, it is inevitable that both men and women have to make decisions in the various domains of economic activities within which labour, and resource allocations are made. A person's bargaining strength within the family depends on his, or her, ownership of, and control over assets,

access to employment, and other means of earning an income, support from NGOs, support from the state, social perceptions about needs, contributions, and other determinants of deservedness, as well as social norms. The dominance of patriarchal relations in the market sphere, which extend to credit access, can also adversely affect the efforts of women to improve their relative bargaining strength.

The Human Development approach is sensitive to aspects of discrimination that are particularly important in women's lives, but are unrelated to income and economic growth, such as lack of autonomy in decisions about their lives and the ability to influence decision-making within the family, community, and nation. The Human Development approach also has the scope to delve into complex issues, such as the unequal sharing of unpaid work that constrain women's life choices. Given the constraints on women's agency in almost all societies by political institutions such as male-dominated political parties, social institutions such as the family, and social norms such as women's responsibilities for care work, these issues and their underlying causes clearly must be tackled. Gender analysis has kept the approach vibrant, contributing particularly to the development of its agency aspects.

(iv) Human Development: Policy Perspectives

The Human Development approach is a 'robust paradigm' that can be used over time and across countries as development challenges and priorities shift. In the context of the current challenges that face most countries today, five elements of a general human development agenda are proposed . They constitute what might be called a 'New York Consensus', as these points are reflected in many UN agreements

1. Priority to ''social development'' with the goals of expanding education and health opportunities.
2. Economic growth that generates resources for human development in its many dimensions.
3. Political and social reforms for democratic governance that secure human rights, so that people can live in freedom and dignity, with greater collective agency, participation, and autonomy.
4. Equity in the above three elements with a concern for all individuals, with special attention to the downtrodden and the poor whose interests are often neglected in public policy, as well as the removal of discrimination against women.
5. Policy and institutional reforms at the global level that create an economic environment more conducive for poor countries to access global markets, technology, and information.

This five-point agenda contains a mix of old and new priorities. Social development continues to be important, given that illiteracy is still high and basic health and survival is far from guaranteed in most developing countries. Economic growth also continues to receive attention, since low growth in developing countries is a major obstacle to human development: over sixty countries ended the decade of 1990 – 2000 poorer than at its beginning. At the same time, the human development approach has seen a notable evolution. In the early 1990s, the HDRs emphasized public

expenditure allocations in health and education. Today, priorities in those areas are on service quality, efficiency, and equity of delivery (for which governance reforms are often a precondition), as well as on the level of resources. In education, today's competitive global markets require higher levels than basic primary schooling. Institutional reforms that enable the poor to monitor the use of local development funds also play a significant role in ensuring the equitable and efficient delivery of basic services. Most importantly, the HDRs have placed an increasing focus on social and political institutions that would empower the poor, and disadvantaged groups (such as women), so that they have more voice in public policy-making, and can fight for their interests. Another critical question, now, is how global institutions can be restructured, or created to function on democratic principles mandating the inclusion and participation of all countries, and of all people. For example, what the state could do to expand capabilities in education and health constituted an important pillar of a human development strategy, for both the intrinsic and the instrumental values of education and health. The changes in the human development approach over time highlight its openness to accommodating new concerns, and taking up new policy challenges. The HDRs have reflected these changing circumstances, and they have shifted emphasis in the policy priorities of the human development agenda from public investments to incentives, from economic measures to democratic politics, from education and health to political and civil liberties, and from economic and social policies to participatory political institutions. They also recognize that people's capabilities to undertake collective action in today's era of rapid globalization will play an increasingly important role in shaping the course of development. It is not surprising that, in 1990, advocacy for human development focused on shifts in planning priorities, and on state action.

In this section you studied about the measurement and indices of human development, and dimensions of human development. Now, answer the questions given in *Check Your Progress-2*.

Check Your Progress 2

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1. What is HDI composed of?

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2. Gender development is an important component of Human Development. Narrate.

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3.5 LET US SUM UP

Human development is one of the important paradigms of the development paradigm. In this unit you have studied the meaning of human development and various components of human development. The measurement of Human Development through the Human Development Index are nowadays a regular process in many developed and developing countries. The UNDP also calculates the HDI of various countries. According to the 2016 Human Development Report, India ranks 131 out of 185 countries. This unit also covers various factors influencing Human Development.

3.6 REFERENCES AND SUGGESTED READINGS

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3.7 CHECK YOUR PROGRESS - POSSIBLE ANSWERS

Check Your Progress 1

Answer 1: The human development generally mean following things:

- An expansion of human capabilities
- A widening of choices
- An enhancement of freedoms, and
- A fulfillment of human rights

Answer 2: The key constituents of Human Development are: (i) equity; (ii) efficiency and productivity; (iii) participation and empowerment; (iv) fulfillment of human right.

Check Your Progress 2

Answer 1: The HDI composed of three basic aspects: (i) a long and healthy life, as measured by life expectancy at birth; (ii) knowledge, as measured by the adult literacy rate (with two-thirds weight) and the combined primary, secondary, and tertiary gross enrolment ratio (with one-third weight); and (iii) a decent standard of living, as measured by GDP per capita in purchasing power parity (PPP) terms in US $.

Answer 2: Human development approach is sensitive to aspects of discrimination that are particularly important in women's lives, but are unrelated to incomes and economic growth, such as lack of autonomy in decisions about their lives and the ability to influence decision-making within the family, community, and nation. The higher HDI is also influenced by the performance of women.

UNIT 4 POLITICAL DEVELOPMENT

Structure

4.1 Introduction

4.2 Meaning and Definition of Political Development

4.3 History of Development of Political System: Democracy

4.4 Political Development and its Impact

4.5 Let Us Sum Up

4.6 References and Suggested Readings

4.7 Check Your Progress Possible Answers

4.1 INTRODUCTION

The development of the institutions, attitudes, and values that form the political power system of a society is called Political development. In other words political development means the increased differentiation and specialization of political structures and the increased secularization of political culture. Political development has been especially associated with increasing democratization, with growing bureaucratization and with the professionalization of politics. It enhances the state's capacity to mobilize and allocate resources, to process policy inputs into implementable outputs. Until recently most policy planners and economists ignored the relationships between state formation and economic development. Whereas, political and economic development is closely interconnected, it is well understood that civil strife, political uncertainties and turmoil hamper the development activities. The contemporary notion of good governance also dwells on efficient, effective, and non-corrupt public administration. It is one of the most basic requirements which every nation has to ensure for the existence and continuance as a state, and for political, economic, social and cultural development. A politically sound state can only have faster all round development and protect the interest of its citizens. Although it was certainly possible to study the formation of nations and states across continents and time, political development as a field came to be associated with the new states of Africa, the Middle East, and Asia. Therefore, political development and growth of political evolution became the key to a successful and strong state which, which ultimately promote development.

This unit will familiarize its readers with following basic facts:

- establish relationship between political stability and development;
- elaborate the evolution of democracy and concept new nation state;
- analyze various indicators of political participation and stability;
- explain development and diffusion democratic institutions; and
- role of political will in decision making process

4.2 MEANING AND DEFINITION OF POLITICAL DEVELOPMENT

The origin of the term 'Political Development' can be traced to late 1950's when many political scientists were attempting to study the political dynamics of the newly emerging countries of Asia, Africa, and Latin America. Large quantity of quantitative data and statistical information on the demographic aspects, social, political and economic aspects of these newly formed countries were collected to understand and analyze trend of people's attitude, values and behavior patterns.

Some political scientists like Samuel Huntington, Daniel Learner, W.W. Rustow and Edward Shils have linked the concept of political development with modernization. Even though definitions of political development are varied, most share two closely related characteristics. According to Samuel Huntington, the first characteristic of political development is that growth is synonymous with the idea of modernization. As such, political development is also defined as political modernization. The second is that there exist many ways to measure political development because modernization and development are broad topics that cover many different areas. Additionally, definitions of political development tend to itemize many different criteria. Even though the rules defining political development used are varied, the characteristics that make up political development are all features of the processes of modernization. Four categories occur in all of the definitions of political development. The first characteristic is that of rationalization, which highlights the focus on functional differentiation and achievement criteria. The second criteria are nationalism, which emphasizes nation-states and nation-building as fundamental aspects of political development. The third criteria are the idea of democratization, which is essentially a focus on competition and equalization of power. The last criteria are mobilization, which is a focus on political participation. Political participation stipulates that the greater the level development, the greater the level modernization.

Lucian W. Pye has vividly examined diversity in the explanation of the concept of political development. Accordingly, political development has been explained as Political prerequisite of economic development; The politics typical of industrial and advanced societies; Political modernization under which advanced nations are regarded as pace setters; The operations of a nation state; administrative and legal development, it includes all colonial practices and authoritative structures; mass mobilization and participation involving new standards of loyalty; the building of democracy.

4.3 HISTORY OF DEVELOPMENT OF POLITICAL SYSTEM: DEMOCRACY

4.3.1 Evolution of Democracy

The Ancient Greeks were the first to use democracy as a form of government. Under Pericles, male citizens in Athens participated in the daily running of government. This form of direct democracy excluded all non-citizens, such as women and slaves. In Ancient Rome, a government where officials were chosen from among eligible citizens was established. A republic, as this form of democratic government is known, is not a direct

democracy. It is called representative democracy, since only a few chosen officials represent the citizens as a whole. As a form of government, democracy was rare in Europe between second and thirteenth centuries. In 1215 CE, the nobility in England forced King John to sign a Great Charter, the Magna Carta, recognizing their rights as land-owners, citizens of England, and subjects of the king. After that, it was not until the late 1600s that democratic ideals began to resurface in Europe, when some English and French philosophers began promoting democratic government in place of the absolute monarchies under which they lived.

In England, the English Bill of Rights was passed by Parliament after the Glorious Revolution of 1688. Power was transferred from Catholic James II to his son-in-law and daughter, William and Mary, both of whom were Protestants. The Bill of Rights ensured the supremacy of Parliament over the monarchy in England. England was not yet a true democracy, but it was taking steps toward becoming one. As English subjects, the colonies in America had the benefit of knowing a democratic form of government. In 1776, the American colonies declared their independence from England based on many real and perceived wrongs that they had suffered. The original revolutionaries wrote a declaration outlining their grievances, and claimed the right to self rule, or sovereignty. The Declaration of Independence included many Enlightenment ideas: the right to life, liberty and property, religious toleration and freedom of speech, separation of powers.

The success of the American Revolution and its guiding principles was a major inspiration of the French Revolution in 1789, and the Latin American Revolutions of the 1790s and early 1800s. Proof that foreign rule and slave chains could be thrown off was extremely encouraging to the mixed-blood inhabitants of the Caribbean islands, and Latin America. In the 1830s and 1840s, a series of democratic revolutions occurred throughout Europe. Most of them were harshly put down. After World War II, most of northern, western and southern Europe, America, Japan, South America and the parts of the former British Empire, practiced some form of democracy. Today, democracy is one of the most widely practiced political systems in the world.

4.3.2 Other Quasi-Democratic Institutions

There are other types of local communities which have developed democratic or quasi-democratic ways of decision-making. City-states in particular have an important place in democratic history. At the basic level, there are many groups or communities that moderns do not often think of in their discussion of government, because these groups are not compact geographical units like villages. For instance, in addition to the more obvious types of village government, described above, the Chinese people have engaged for millenia in a maze of guilds, caste and community sabhas, surname clubs, savings associations, Buddhist sanghas, scripture-reading clubs, and religious and cultural societies, many of which have employed councilor, representative, and quasi-democratic techniques. Even a cursory search of the rest of the world finds a great deal of evidence for voluntary, self-governing associations of various types.

Such groups — including religious congregations, resource management cooperatives, labor unions and financial institutions — meet important common needs for those involved in them, and the way they are run has

much to do with the way power is exercised in the greater society of which they are a part. If bodies of this sort are inclusive and have important democratic elements in their governance, or if new groups can be formed easily by interested parties, there results a freer, more open society than if key resources are dominated by a small group or the officials of a distant central authority.

4.3.3 Recent Analysis of Democracy

Samuel P. Huntingdon is a well-known thinker on the subject of democracy, he puts the democratization of the late 1980s in a larger perspective, by pointing out that waves of democratization had occurred in the past. He also identified "reverse waves," in which countries that had for a while been democratic reverted to authoritarian forms of government — sometimes, indeed to redemocratize at a later time. He further concludes that "A twentieth-century political system [is] democratic to the extent that its most powerful collective decision makers are selected through fair, honest, and periodic elections in which candidates freely compete for votes and in which virtually all the adult population is eligible to vote...[Democracy] also implies the existence of those civil and political freedoms to speak, publish, assemble, and organize that are necessary to political debate and the conduct of electoral campaigns." Huntingdon's definition and description of the three waves of modern democratization is only a part of a rich book, but a particularly useful one. He does not take into account many events since early 1991, most especially the splitting of the Soviet Union into its constituent republics. The terminology "democratized," "authoritarian," "reverted to authoritarianism"; Huntingdon's graphic presentation distinguishes between "democratic or semi democratic phases" or "Non democratic phases of previously democratic countries."

Countries in Category	**Number of Countries in Category**	**1st Wave 1828-1926 (long wave)**	**1st Reverse 1922-42**	**2nd Wave 1942-62**	**2nd Reverse 1958-196**	**3rd Wave 1974**	**3rd Reverse? (to 1991)**
Category A Australia; Canada; Finland Iceland; Ireland; New Zealand; Sweden; Switzerland; U.K.; U.S.	10	Democ-ratized in the first wave and have remained democratic since	Demo-cratic	Demo-cratic	Demo-cratic	Demo-cratic	Demo-cratic
Category B Chile	1	Democra-tized	Demo-cratic	Demo-cratic	Reverted to Autho-tarianism	Demo-cratized	Demo-cratic
Category C Austria; Belgium Colombia; Denmark France; W. Germany Italy; Japan; Netherlands Norway	10	Democra-tized	Reverted to Autho-tarianism	Demo-cratic	Demo-cratic	Demo-cratic	Demo-cratic
Category D Argentina; Uruguay Czechoslovakia Greece; Hungary	5	Democra-tized	Reverted to Autho-tarianism	Demo-cratized	Reverted to Autho-tarianism	Demo-cratized	Demo-cratic

Category E East Germany Poland; Portugal Spain	5	Democra-tized	Reverted to Autho-tarianism	Autho-tarianism	Autho-tarianism	Demo-cratized	Demo-cratic
Category F Estonia;Latvia Lithuania Authori-tarianism	3	Democra-tized	Reverted to Autho-tarianism				
Category G Botswana; Gambia Israel; Jamaica; Malaysia Malta; Sri Lanka Trinidad & Tobago Venezuela	9			Demo-tized in the second wave and remained demora-tic since	Demo-cratic	Demo-cratic	Demo-cratic
Category H Bolivia; Brazil; Ecuador India; South Korea Pakistan; Peru Philippines; Turkey	9			Demo-cratized	Reverted to Autho-tarianism	Demo-cratized	Demo-cratic
Category I Nigeria tarianism	1			Demo-cratized	Reverted to Autho-tarianism	Demo-cratized	Reverted to Autho-tariation
Category J Burma; Fiji; Ghana Guyana; Indonesia Lebanon	6			Demo-cratized	Reverted to Autho-tariation	Autho-tariation	Autho-tariation
Category K Bulgaria; El Salvador Guatemala; Haiti Honduras; Mongolia Namibia; Nicaragua Panama; Romania Senegal	11					Demo-cratized	Demo-cratic
Category L Sudan; Suriname Authori-tarianism	2				Reverted to Autho-tarianism	Demo-cratized	Reverted to Autho-tarianism
Democratic Countries		***33* (max.)**	***11 (min.)***	***51* (max.)**	***29 (min.)***	***62* (max.)**	***59 (min.)***
Net Change		***+33***	***-22***	***+40***	***-22***	***+33***	***-3***
Total Countries	***71***						

Source: *Samuel P. Huntingdon, 1991. The Third Wave: Democratization in the late twentieth century, London*

4.3.4 Political Developments and Changes in Type of Governments

When the global economy collapsed in 1929, the older, established democracies rode out the crisis by instituting subsidies and unemployment relief programs, but in nations with shallower democratic roots, the global slump kicked out the underpinnings of liberal democracy and destroyed

its credibility. As the voters turned toward parties with more radical agendas, the number of democracies in the world plummeted as quickly as the economic indicators. For a time it was uncertain whether nations like Germany would swing hard left or hard right, but when it came down to choosing sides, the right wing offered the most and made fewer demands. They promised full employment, consumer gratification and a golden age of national unity of purpose — just like the Communists — but without denouncing God, Homeland and private property. The corporate and military elites supported the Nazis as did a plurality of the voters, so in 1933, Adolf Hitler became chancellor of Germany.

For awhile, the Western democracies themselves had difficulty deciding whether the hard right or left was the greater danger to civilization. Then, in 1936, the Spanish right wing rose against the democratically elected leftist government, and Fascism lost most of its respectability worldwide. Across Asia and North Africa, in the old heartlands of civilizations, there where hints that the old era of imperialism might be coming to an end. In 1932 and 1936, the British set the ancient nations of Iraq and Egypt free, while they also arranged a larger measure of self-government for India in 1935 after a mass protest campaign orchestrated by Mohandas Gandhi. With the 1931 Statute of Westminster, the UK reorganized the Empire into a newer Commonwealth which granted independence to the dominions. The Americans meanwhile set up an autonomous Commonwealth of the Philippines with the passage of the Tydings-McDuffe Act in 1934.

Unfortunately, there were plenty of younger countries which had missed out on the 19th Century frenzy of conquest and had now decided to make up for lost time; however, timing is everything. It was not considered appropriate for them to begin a new round of empire-building now that the civilized world was turning away from that sort of thing, so when Japan invaded Manchuria (1931) and Italy invaded Abyssinia (1935), the rest of the world loudly (but impotently) condemned them. Then Germany started to carve a new empire out of smaller European neighbors (Austria, Czechoslovakia: 1938), but it wasn't until the third nation (Poland: 1939) was overrun that the Western Powers bit the bullet and declared war.

The Second World War changed the political map of the world, it began wiping nations off the earth by the bucketful. Between 1937 and 1942, 18 nations were plowed under by the relentless bulldozer of war. Ten nations (Austria, Czechoslovakia, Poland, Denmark, Norway, Netherlands, Belgium, France, Yugoslavia, Greece) were swallowed up by the Germans in just three years. One country (Albania) was annexed by the Italians, and 3 (Estonia, Latvia and Lithuania) disappeared into the Soviet Union. In addition, 4 theoretically neutral countries (Iceland, Iraq, Egypt, Persia) were occupied by the Anglo-American alliance in order to prevent them from falling into the wrong hands. All in all, 25% of the world's nations disappeared for the duration of the war.

Although the end of the war restored most of the conquered nations, many had had their political structures wrecked. In Eastern Europe, the nations which had been (liberated? conquered? trampled?) by the Soviet Union tried to set up multiparty democracies, but Soviet-sponsored Communist parties quickly gained the upper hand and put an end to that. In China, the Communists and Nationalists resumed the civil war which had been interrupted by the Japanese, while left and right also fought a civil war over who would inherit Greece. In East Asia, a couple of colonies (French Indo-China and the Dutch East Indies) seized the moment and tried to

prevent their former masters from reclaiming control after the Japanese surrendered.

The Dumping of Africa went almost as quickly as the Scramble for Africa of the 1880s. On New Year's Eve, 1955, there were only 5 independent nations in the whole continent; ten years later, there were 38. In most cases, the colonial powers had spent the early 1950s denying that they would ever release their colonies, so they had never bothered to educate a native civil service or middle class, and often forbade natives to travel abroad to seek education on their own. In the Belgian Congo, for example, there was not a single African doctor, lawyer or engineer as late as 1955. Then, suddenly, there were dozens of brand new nations being cut lose with only the slightest preparations — a generic constitution, a hasty election, a red-green-and-yellow flag and a ceremonial salute — before being sent on their way.

In many of these new countries, the local nationalist organization that had been urging the Europeans to quit won the first elections easily — and then postponed the next elections indefinitely. In countries with no local nationalist organization, the army usually took control from whichever poor unfortunate the Europeans had left in chain. Worldwide, the 1960s saw the birth of 45 new nations, and by the decade's end, all the colonial powers had set free any dependency which was big enough to take care of itself. Only Portugal clung to the old ways, but they paid the price with escalating colonial wars in any territory big enough to support rebel strongholds.

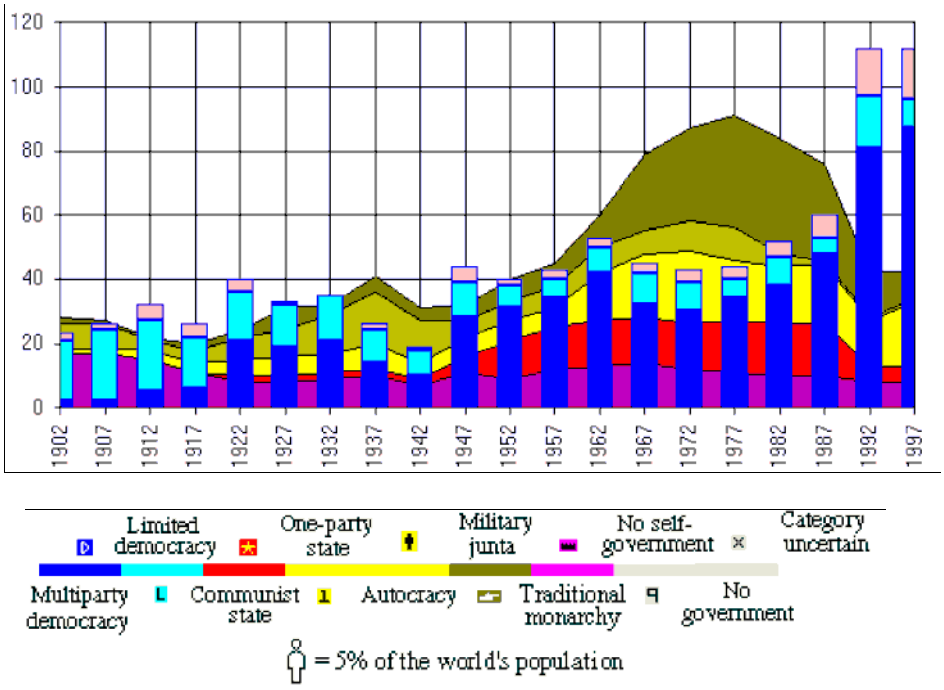
Multiparty democracy hit rock bottom in the 1970s. Whether you measure this decline in absolute numbers (a net loss of 12 visible countries, 1962-72) or percentages (29% fewer), the trend is unmistakable. As a percentage of independent countries, democracies reached their lowest point of the late 20th Century, weighing in at only 30% in 1977. In terms of total population, the post-colonial low of 19% was reached during the period 1975-1977, when Indira Gandhi declared a state of emergency and suspended civil rights in India to avoid being jailed for corruption. What was happening to all these countries? Many were falling to military coups. Of the ten traditional countries of South America, there had been only two military regimes (and eight democracies) in 1962; however, every five years saw the fall of two democracies, reversing the ratio and pushing the number of juntas up to eight by 1977.

In Africa, meanwhile, it had become obvious that the new nations were not going to follow the parliamentary model recommended by their former colonial owners. The lucky ones achieved some semblance of stability under slightly corrupt single-party states, while the unlucky ones lurched from coup to coup under a brutal succession of generals, colonels and sergeant-majors. Throughout the African continent, a net total of eight nations shifted from civilian to military rule between 1967 and 1977. Case by case, each of these authoritarian regimes rose to power based on local circumstances, but overall, the trend towards oppression was boosted by the corrupting influence of the Cold War. Both East and West preferred strong, stable regimes allied to their side and sworn to oppose the other, rather than unstable democracies which might roll left or right without warning. And even if the Western democracies occasionally had moral qualms about arming thugs, they knew that the Soviets didn't, so any nation ostracized by the West stood a good chance of becoming a Soviet ally by default. Therefore, each side had a strong incentive for the superpowers to blindly support their cronies, no questions asked.

The crisis of democracy even touched the United States, normally among the most stable of the world's republics. The failure of the American intervention in Vietnam had polarized national politics, and when the Nixon Administration was caught trying to stifle domestic opposition with a web of illegal activities, the President was forced to resign — an unprecedented event in US history. The trends were not uniformly bleak, however. The Mediterranean rim of Europe — long a stronghold of authoritarianism — finally rejoined the civilized world when Spain, Portugal and Greece all held their first free elections in quite awhile. Another anomaly on the map of West Europe disappeared in 1972 when Switzerland became the last European nation to give women the vote. The liberalization of Portugal led to the hasty withdraw from the world's last overseas empire, followed quickly by exploding civil wars in the successor states.

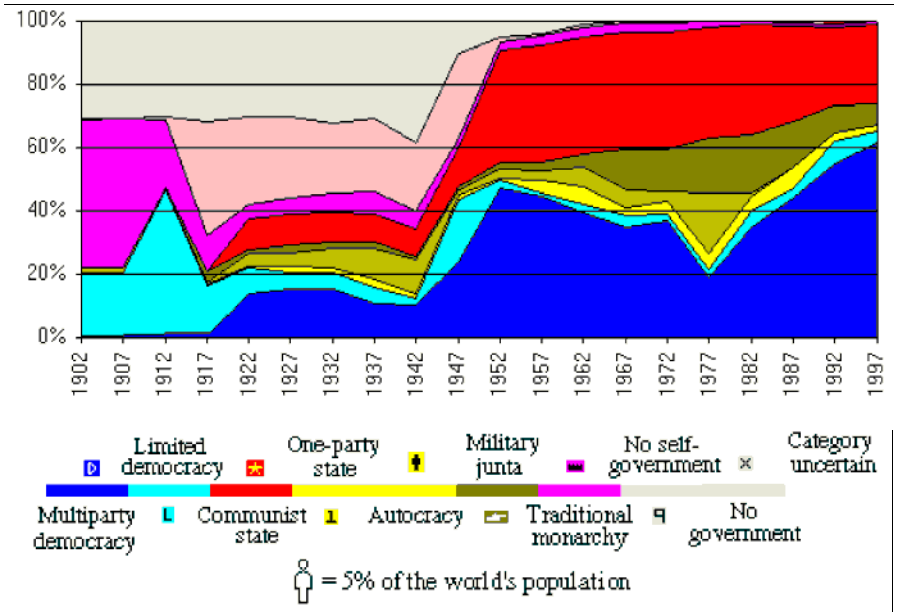
The final year of the decade hinted at the beginning of a change as many of the century's most brutal tyrants were overthrown. In 1979, invading neighbors were driving Pol Pot of Cambodia and Idi Amin of Uganda out of power, while French intervention drove Bokassa out of the Central African Empire. Macias Nguema of Equatorial Guinea was removed and executed by his nephew. Both the Pahlevi dynasty of Iran and the Somoza dynasty of Nicaragua were overthrown by domestic uprisings, and the beleaguered apartheid regime of Rhodesia accepted the inevitability of Zimbabwe. Although the successor regimes were sometimes only slight improvements (if that), the future was looking a bit brighter. The 1980s, however, were a decade of growing freedom in the Third World. In South America, the number of military governments drastically dropped off — from 7 in 1982 to 2 five years later. Along the Pacific Rim of Asia, the pendulum was also swinging back toward democracy as local economies boomed. Meanwhile, pragmatic, reformist regimes had come to power in the Soviet Union and China and were gradually dismantling the Communist state. Then, in the final few months of the decade, the avalanche hit, and the Communists surrendered power throughout Eastern Europe.

Number of Independent Governments

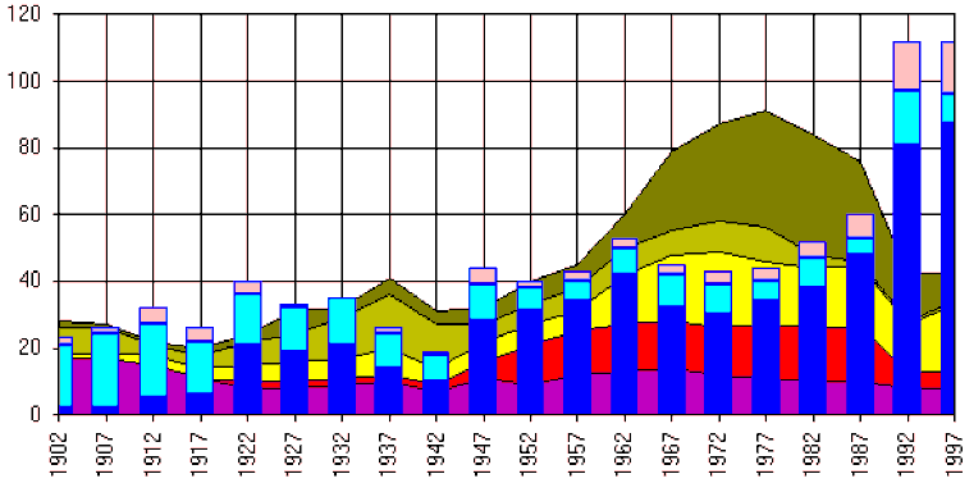


Source: *According to Matthew Whites, 1999 Historical Atlas of the Twentieth Century (online)*

The percentage of the world's population under various political systems



Number of Independent Governments



Source: *According to Matthew Whites, 1999 Historical Atlas of the Twentieth Century (online)*

The crisis and collapse of the Soviet Union brought forth two great surges of democracy, the first in the fall of 1989 when the Communists surrendered their monopoly of power in the satellite nations, and the second in the summer of 1991 when the constituent republics of the Soviet Union seceded. There was also a parallel surge of nationhood as four former Communist unions — the USSR, Czechoslovakia, Ethiopia and Yugoslavia — shattered into 24 ethnic nations. All across the globe, the various petty tyrants who had stayed in power by playing one side against the other in the Cold War were swept away. The pro-Soviet among them were cast adrift, friendless and alone, while the pro-Western soon realized that their former sponsors didn't need anti-Communist thugs anymore. Throughout the Third World, strongmen agreed to relinquish their power. They released opposition leaders from jail, scheduled elections and pilfered national treasuries to set up retirement accounts in off-shore banks.

The end result was a world that has changed unrecognizably from the world twenty years earlier. In the early 1970s, democracies were scattered in a

few small clusters on the edges of the great land masses. By the late 1990s, four continents (Europe, Australia and the Americas) were almost entirely democratic. Africa had gone from almost entirely oppressive to only about half, and even if some of the new "democracies" didn't quite have the hang of it and occasionally continued to harass the opposition, reward cronies and fudge the ballot counts, at least the jails were emptied of dissidents and the press was allowed to complain more vocally about government abuses. There is no single effect that the end of the Cold War had on hot war worldwide. In Africa, several long smoldering civil wars fizzled out as Soviet-sponsored governments and Western-sponsored guerrillas decided it was time to talk. But this trend toward peace in one part of the world was balanced by new conflicts elsewhere. In the former Communist lands of Eurasia, ethnic hatreds which had been kept under control by Russian hegemony now found an opportunity to flare up.

Till now you have read about the meaning and history of political development. Now try and answer the questions given in *Check Your Progress – 1*.

Check Your Progress 1

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1. What do you understand by Political development?

   .....

   .....

   .....

2. How democracy helps in sounding people's requirement/demand?

   .....

   .....

   .....

4.4 POLITICAL DEVELOPMENT AND ITS IMPACT

The concept of political development is also regarded as a process of modernization by many political scientists including Samuel Huntington. Though, the definitions of political development are varied, but most share two closely related characteristics. The first characteristic is that growth is synonymous with the idea of modernization. As such, political development is also defined as political modernization. The second is that there exist many ways to measure political development because modernization and development are broad topics that cover many different areas. The characteristics that make up political development are all features of the processes of modernization.

The paradigm of modernization, which was inspired by Weber, and which is a departure from the premise that economic development flows a series of change in the social order, that in return transforms the political systems.

With the process of urbanization, migrants shift their orientations toward politics, away from parochial loyalties of their villages and their strongmen and toward their nations and the legitimate state bureaucracies that govern them. These transformations of traditional subjects into realm of modern democratic systems were deeply personal, and it did not appear to involve a redistribution of power, and were apparently not subject to being suppressed. Although modernization literature had a dichotomous view of society as either traditional or modern, the political development literature of the 1960s also exhibited ambivalence about precisely how separate the traditional and modern spheres were and even how beneficial or detrimental each was to political development (Hagopian, 2000).

The three great trends in political development at the century's end were modernization, followed by globalization and the third wave of democratization—have led scholars to return to the large question of the nature of the relationship between economic and political development and even to revive modernization theory. Relentless globalization appears to be making world politics as homogenous as popular culture, to the point where one may reasonably wonder today whether distinctions between the First World, Second World, and Third World retain any conceptual validity. International norms (and blue-bereted troops), moreover, are making the world safer for democracy than at any time in history. Indeed, it would be difficult not to be tempted to see in the growth of middle classes, the dissemination of new technologies bringing more information more quickly to more of the globe's inhabitants than ever before, and in the toppling of dictatorships, some connection between socioeconomic change and the march of so many nations toward Western-style democratic governance. If the field of political development depends on the success of political development, then these trends that dominated the 1990s may have breathed new life into political development.

There are as many views as many political scientists on the content, perspective and nature of political development. Most of the scholars and political scientists see political development as something which is dependent on other variables like modernization and westernization. Much of the debate on political development fails to arrive at conclusion due to value judgment, different variables and unidirectional approach to the understanding of political development. There is complete neglect of a country's history and its various political traditions. Paradoxically, these startling developments that render the concept of modernization somewhat problematic at the same time help to make the case that political development deserves to survive as a legitimate subfield of inquiry of comparative politics. At its best, the field of political development will study questions that other subfields would eschew, in an encompassing political context that other subfields might judge overly ambitious. The new and renewed roles of states in development, the resurgence of ethnic identities and conflict and the challenges they pose to the integrity of nations, and the establishment of new democratic political institutions in former authoritarian countries all constitute compelling reasons to revitalize the field of political development (Hagopian, 2000). Political development has been associated with increasing democratization, with growing bureaucratization with decentralization, governance issues, with political values and development of democratic institutions.

4.4.1 Decentralization

Decentralization can be usefully understood as a political process whereby administrative authority, public resources and responsibilities are transferred from central government agencies to lower-level organs of government or to non-governmental bodies, such as community-based organizations (CBOs), 'third party' non-governmental organizations (NGOs) or private sector actors. Decentralization also called departmentalization is the policy of delegating decision-making authority down to the lower levels in an organization, relatively away from and lower in a central authority. A decentralized organization shows fewer tiers in the organizational structure, wider span of control, and a bottom-to-top flow of decision-making and flow of ideas. In a centralized organization, the decisions are made by top executives or on the basis of pre-set policies. These decisions or policies are then enforced through several tiers of the organization after gradually broadening the span of control until it reaches the bottom tier. In a more decentralized organization, the top executives delegate much of their decision-making authority to lower tiers of the organizational structure. As a correlation, the organization is likely to run on less rigid policies and wider spans of control among each officer of the organization. The wider spans of control also reduces the number of tiers within the organization, giving its structure a flat appearance. One advantage of this structure, if the correct controls are in place, will be the bottom-to-top flow of information, allowing all decisions among any official of the organization to be well informed about lower tier operations. For example, an experienced technician at the lowest tier of an organization might know how to increase the efficiency of the production, the bottom-to-top flow of information can allow for this knowledge to pass up to the executive officers.

Decentralized governance

Decentralization is generally defined as the transfer of authority and responsibility for public functions from the central government to subordinate or quasi-independent government organizations. It embraces a variety of concepts. Different types of decentralization show different characteristics, policy implications, and conditions for success. Typologies of decentralization have flourished. For example, political, administrative, fiscal, and market decentralization are the types of decentralization. Drawing distinctions between these various concepts is useful for highlighting the many dimensions of successful decentralization and the need for coordination among them. Nevertheless, there is clearly overlap in defining these terms and the precise definitions are not as important as the need for a comprehensive approach. Political, administrative, fiscal and market decentralization can also appear in different forms and combinations across countries, within countries and even within sectors.

Political decentralization

Political decentralization aims to give citizens or their elected representatives more power in public decision-making. It is often associated with pluralistic politics and representative government, but it can also support democratization by giving citizens, or their representatives, more influence in the formulation and implementation of policies. Advocates of political decentralization assume that decisions made with greater participation will be better

informed and more relevant to diverse interests in society than those made only by national political authorities. The concept implies that the selection of representatives from local electoral constituency allows citizens to know better their political representatives and allows elected officials to know better the needs and desires of their constituents. Political decentralization often requires constitutional or statutory reforms, creation of local political units, and the encouragement of effective public interest groups.

To summarize, international experience suggests three broad conditions under which

decentralization has been found to foster more accountable forms of governance:

- active participation among broad elements of society, including voting, campaigning, attending meetings, running for office, lobbying representatives, etc.;
- fiscal and political support from higher level authorities within government;
- the existence of competitive political parties whose legitimacy depends at least in part on the support of the poor.

4.4.2 Political Stability

There exists a strong relationship between a country's development strategy and its political system. Authoritarianism or democracy has an unfailing influence on the pace of development and justice. Political institutions always dominate the fate of nations in many ways. The strategy of economic development pursued by a country is the outcome of its political system, which, in turn also determines its success or failure. The rate of economic growth and the level of economic and social development represent the well-being and prosperity of an economy and political stability indicates the well-being of its political institutions. When one looks at the economy and politics of a country, there arise a number of questions. For example, what is the role of political institutions in economic growth and development? Which kind of political institutions (democracy or dictatorship) help or hinder economic growth and its 'trickle-down' effect? Is there a trade-off between economic, political and civil liberties and economic growth? What is the role of income distribution, poverty alleviation and other social welfare provisions in determining economic performance?

The conventional economics, somehow, fails to answer these questions mainly because it is devoid of the role of the state or that of political institutions, which are treated exogenously in all discussions. The answer can only emerge if the role of the state is treated endogenously. This is done in what is termed as the 'New Political Economy', which is, in fact, a revival of what, at one time back in history, was known as political economy. The 'New Political Economy' unlike the mainstream conventional economics, incorporates government's impact on the economic system and its components, without going into the questions of the development of political systems, constitutions and their processes. In essence, it accounts for the behavior of the electorate, the legislatures and the bureaucracy. It is only then that we are able to answer various questions related with the

behavior of the state and its impact on the economic functioning of a given system.

There is a strong relationship between economic growth, capital accumulation and democracy on the one hand and between political instability and income inequality on the other. Let us now find answers to the question with regard to the linkages between the well-being of an economy and its political set-up. These answers emerge from the experience of different countries and take the form of distinct hypotheses as given below:

- Democracy retards economic growth (India's experience up to the eighties)
- Democracy helps achieving high rates of economic growth
- Authoritarian regimes lead to faster economic growth (East Asian experience)
- Dictatorial regimes lead to poor economic growth (African and Latin American experience)

All this leads to the conclusion that whether it is a democracy or a dictatorial regime, what matters is its political stability. The degree of political stability cannot be measured directly. It depends on a number of factors like, political upheavals; riots, strikes and lockouts; crime and (political) assassinations; coups and change of power; infighting amongst political parties; scams including rent-seeking and directly unproductive profit seeking activities; lack of people's faith in the government; poverty and income disparities. One may use these indices to work out the degree of political stability in different countries/regions over different periods. This would lead to a number of interesting hypotheses establishing a link between the indices of political stability and economic growth. For example, during the periods of political unrest, or coups, or change of power, or even intense infighting within the ruling party, the rate of growth has been seen to slow down and even become negative, essentially through lower savings and investment rates and also through a lack of vision in the part of the bureaucracy. It is now understood that the magnitude of these activities and political instability reinforce and strengthen each other to quite a great extent with the result that taken together, they work against the growth process. They require being neutralized, weakened and counter-acted.

4.4.3 Political Values

Politics in a liberal, democratic democracy cannot long proceed or survive simply by inertia; instead they must be constantly fed by people who are engaged in the political process and who share some of the basic values necessary for such a democracy to thrive. None of these values depend in any way upon religion or theism; this means that they necessarily "godless" — that they exist independently of people's religions and gods.

Rule of Law

Perhaps nothing is as fundamental as the rule of law: liberal democracy simply cannot exist unless everyone, from the lowest citizen to the highest official, is equally subject to the same laws. As soon as some people or groups are exempted from neutral, generally applicable laws, they are

essentially placed outside the political process and made superior to the rest of us. In the end, the law means nothing unless it is fairly and equally applied to all.

Political Harmony

Something we don't hear much about is "harmony" in politics, which may be one reason why it's been so lacking lately. In music, harmony requires multiple voices singing parts of the same piece; in politics, then, harmony requires the presence of multiple perspectives that all are moving towards the same general goal. Valuing political harmony means opposing efforts to reduce "dialog" to a single perspective as well as efforts to tear the group apart into wildly different directions.

Compromise

Politics is the "art of the possible," which means that it is a pragmatic efforts to find the best possible means for achieving particular goals. In a diverse, pluralistic community, this means that politics cannot exist without compromise: people and groups will generally get some of what they want, but almost never all of what they want because there will always be groups with different desires. Those who categorically oppose compromise thus oppose the political process of democracy.

Liberty & Autonomy

Democracy, which is "government by the people," cannot exist unless people are free, and moreover have the freedom to govern themselves. If sovereign power ultimately rests with the people, it can only be because the people are free to be sovereign over themselves and to explore the various options available for structuring their common government. Otherwise, it's just another dictatorship masked as a democracy.

Secularism

Often derided by those who don't understand or believe in it, secularism is a critical component of liberal democracy. Secularism is the political principle or philosophy that there must exist some sphere of knowledge, values, institutions, and action that is independent of religious authority. If there is no such secular sphere, then everything is under ecclesiastical control and this undermines the possibility for liberty and autonomy.

Dispersed Power & Authority

The more power that is concentrated into fewer hands, the greater the threat to people's liberty and autonomy. This is true even when power is in the hands of those of good will, which is why we must guard against too much concentration of power in the government, in religious entities, and in private groups like corporations. Liberal democracy is best preserved by ensuring that social and political power is distributed as widely as possible, even if unevenly.

Openness & Honesty

If democracy is going to work, then the people must be well informed about what their government is doing in their name. This means, therefore, that the ability of the government to keep secrets from the people must be sharply limited. If the government is given too much latitude to keep

secrets, then it's impossible for the people to make informed, educated decisions, and this means that those in power can retain power without appropriate consent from the governed.

Equality & Justice

Two closely connected political values are equality and justice. A liberal democracy requires equality because otherwise only the privileged portion of the population ends up being truly sovereign. A liberal democracy requires justice because that is the basis for an equitable application of the law. An unjust society is one where the rule of law, morality, and equality are all violated. Neither equality nor justice, though, require any gods or religions to defend them.

Politics without Religion

Labeling these values "godless" simply means that they are not founded upon the alleged will of any gods and do not depend upon belief in any gods for their validity. Many religious theists can adopt them and many godless atheists may reject them; doing so, however, must occur independent of one's religious beliefs and assumptions. At the same time, though, it might be argued that by pursuing political values independent of any gods and religion, then one is also essentially pursuing politics without gods or religion. This would mean that liberal, representative democracy must itself be godless and irreligious in some basic way.

Politicians and voters may have religious values which inform their decisions, but the political system *itself* cannot — the political system itself must be independent of any one group's claims about what their god wants or demands. Only in the absence of such demands can the individuals who participate in the system act with complete freedom regardless of the beliefs of those around them. This is why the godlessness of the political system is good not just for the system, but also for the religious and theistic participants in it.

4.4.4 Development of Democratic Institutions

The problem of efficiency and dynamism of democratic institutions is very relevant for many countries, including Russia. As we know from the history, democracy has often degenerated into different types of autocracies with previous form, but not on the content of political institutions, which gradually lost its democratic nature and acquired a totally different character. Considering the fact that during the democratic process in 1970 – 1990 a lot of countries in the democratic institutions fostered on the top of existed form, not relying on a strong agreement (pact), the main political forces, the probability that in a crisis situation, these institutions may be ineffective.

It might be a kind of vicious circle: the new democratic political institutions cannot be effective enough because they did not provide the necessary support of the mass and elite groups in society, and they cannot gain support and legitimacy of these institutions, because in the eyes of most people this system is not effective to help solve problems which faced by the society. It is quite difficult to break this cycle, especially in a time of the weakness of civil society and the inevitable coming after the first period of disappointment euphoria by popular democracy. The constant reference to the inadequacy and lack of democratic political institutions that lead

to panic exclamations already shows alleged failure of democracy to dictatorship established, etc., can only further reduce the credibility of democratic or semi-democratic institutions, making them fully ineffective and incompetent. In turn, such an atmosphere in society, created by extreme democrats with their statements that democracy is no longer the case and the extreme authoritarianism with their statements that democracy is not needed, only makes it easier for anti-democratic-minded faction of the ruling elite, a faster and easier emasculation of democratic content of the main political institutions, leading to a gradual transformation of them into something else, resulting in an instrument of authoritarian rule. This applies primarily to the institution of elections in the institution of political parties, parliament, etc.

So the main issue in the transition and in the more crisis situation is not so the purity of principles and a full democracy of major political institutions, but their democracy which coupled with efficiency. The main argument of supporters of authoritarianism has always been the adoption of the principle of inefficiency of democratic institutions, allegedly do not conform to national traditions and characteristics of this state, this civilization, etc. Countered this argument cannot just claim that democracy is important and valuable in itself (this point can be received only by part of intellectuals, but not a majority of the population), but the real confirmation of the effectiveness of democratic institutions and the inefficiency of authoritarian or totalitarian regimes.

However, exactly the confirmation of the actual effectiveness of key democratic institutions are the most difficult problem in theory or in practical terms. This applies mainly to Russia, with its small experience of the institutions of democracy, but, of course, not only to it: there is a lot of problems in Latin America, South and South-East Asia, Middle East, including such large states like China, Pakistan, Indonesia, Iran. It should be noted that in the scientific and especially publicist literature effectiveness of democratic institutions is often considered as self-evident, and it does not require proof and justification. Meanwhile, the issue of efficiency and effectiveness of democratic institutions in relation to countries not belonging to the western and other civilizations that seemed to be insufficiently developed. In the context of modernization theory, the modern society and modern political system (which is usually meant as democratic) appears as the most effective, dynamic, adapt to rapidly changing conditions of modern development. But unlike earlier studies of modernization, in more recent work was found that effective modernization could occur only by relying on existing in this society traditions and traditional institutions - otherwise, upgrading will split society and it will increase the social and internal political tensions it means it will lead to the unstable political and economic system. However, the key question consists in how to combine with this consistently upgrading the reliance on tradition with the efficiency of democratic political institutions, in the theory of modernization often remains in the shadows. To a large extent, this issue remains outstanding and, in most theories of democratic transit.

In this section you have read about the impact of political development. Now try and answer the questions given in *Check Your Progress – 2.*

Check Your Progress 2

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1. What do you understand by Decentralization?

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2. Write short note on political stability?

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.....

4.5 LET US SUM UP

The definitions of political development are varied, different political scientists have given different views and understanding, but, all share two closely related characteristics. The first characteristic is that growth is synonymous with the idea of modernization, and as such, political development is also defined as political modernization. The second is that there exist many ways to measure political development because modernization and development are broad topics that cover many different areas. Additionally, political development tends to itemize many different criteria. Even though the rules defining political development used are varied, the characteristics that make up political development are all features of the processes of modernization. Political development has been associated with increasing democratization, growing bureaucratization and with the formalization of politics. Building of nation states has also been equated with political development, and we have seen how the formation of states and evolution of different systems of governance have evolved and survived the time.

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4.7 CHECK YOUR PROGRESS POSSIBLE ANSWERS

Check Your Progress 1

Answer 1: political development has been explained as Political prerequisite of economic development; The politics typical of industrial and advanced societies; Political modernization under which advanced nations are regarded as pace setters; The operations of a nation state; administrative and legal development, it includes all colonial practices and authoritative structures; mass mobilization and participation involving new standards of loyalty; the building of democracy.

Answer 2: The quasi democratic institutions including religious congregations, resource management cooperatives, labor unions and financial institutions meet important common needs for those involved in them. If bodies of this sort are inclusive and have important democratic elements in their governance, there results a freer, more open society than if key resources are dominated by a small group or the officials of a distant central authority.

Check Your Progress 2

Answer 1: Decentralisation can be usefully understood as a political process whereby administrative authority, public resources and responsibilities are transferred from central government agencies to lower-level organs of government or to non-governmental bodies, such as community-based organisations (CBOs), 'third party' non-governmental organisations (NGOs) or private sector actors. Decentralization also called departmentalization is the policy of delegating decision-making authority down to the lower levels in an organization, relatively away from and lower in a central authority.

Answer 2: Whether it is a democracy or a dictatorial regime, what matters is its political stability. The degree of political stability cannot be measured directly. It depends on a number of factors like, political upheavals; riots, strikes and lockouts; crime and (political) assassinations; coups and change of power; infighting amongst political parties; scams including rent-seeking and directly unproductive profit seeking activities; lack of people's faith in the government; poverty and income disparities. One may use these indices to work out the degree of political stability in different countries/ regions over different periods.

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2

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PROGRAMME DESIGN COMMITTEE

Prof. Amita Shah
Gujarat Institute of Development Research, Ahmedabad

Prof. S. K. Bhati
Jamia Millia Islamia, New Delhi

Prof. J. S. Gandhi (Rtd)
Jawaharlal Nehru University, New Delhi

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Indian Agriculture Research Institute, New Delhi

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IGNOU, New Delhi

Prof. B. K. Pattanaik
IGNOU, New Delhi

Dr. Nehal A. Farooquee
IGNOU, New Delhi

Dr. P.V.K.Sasidhar
IGNOU, New Delhi

PROGRAMME DESIGN COMMITTEE (REVISED)

Prof. T.S. Papola
Institute for Studies in Industrial Development, New Delhi

Prof. S. Janakrajan
Madras Institute of Development Studies, Chennai.

Prof. S. K. Bhati
Jamia Millia Islamia, New Delhi

Prof. Preet Rustagi
Institute for Human Development, Delhi

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University of Delhi, New Delhi

Prof. B. K. Pattanaik
IGNOU, New Delhi

Prof. Nehal A. Farooquee
IGNOU, New Delhi

Prof. P.V.K. Sasidhar
IGNOU, New Delhi

Dr. Pradeep Kumar
IGNOU, New Delhi

Dr. Nisha Varghese
IGNOU, New Delhi

Dr. Grace Don Nemching
IGNOU, New Delhi

COURSE PREPARATION TEAM

Unit Writer:

Prof. Kumar B. Das
Utkal University, Bhubaneswar (Unit 1&3)

Dr. Nisha Varghese
SOEDS, IGNOU (Unit 2)

Prof. B. K. Pattanaik
SOEDS, IGNOU (Unit 4)

Editors:

Prof. S. K. Bhati (Content Editor) NCERT, New Delhi

Mr. Praveer Shukla (Language Editor) New Delhi

Dr. Nisha Varghese, IGNOU

Prof. B. K. Pattanaik, IGNOU

Prof. Nehal A. Farooquee, IGNOU

Prof. P. V. K. Sasidhar, IGNOU

Course Coordinator : Dr. Nisha Varghese, E-mail : nishavarghese@ignou.ac.in

Programme Coordinators : Prof. P.V.K. Sasidhar, Prof. B.K. Pattanaik, Prof. Nehal A. Farooquee,

PRINT PRODUCTION

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Deputy Registrar (Publication)	Asst. Registrar (Publication)	Section Officer (Publication)
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BLOCK 2 CLASSICAL AND NEO-CLASSICAL THEORIES

Block-2 of Course MDV-101 consists of four units namely Classical Theories, Neo-Classical Theories, Marxian Theory and Schumpeter Theory.

Unit-1 on **'Classical Theories'** introduces various classical theories of development. The main classical theories of development discussed in this unit are Adam Smith's theory, Ricardian theory, Malthusian theory and J. S. Mill's theory.

Unit-2 on **'Neo-Classical Theories',** discusses Keynesian Theory from which the Neo-Classical theories take their roots, the Harrod Domar model which was built on the Keynesian Theory and Solow's model which has more relevance to less developed countries.

Unit-3 on **'Marxian Theory'** discusses in detail, the philosophy, features and limitations of Marxian theory of development.

Unit-4 on **'Schumpeter Theory',** discusses the Schumpeter's Theory in detail including the various features of the theory and a critical appraisal of the theory.

UNIT 1 CLASSICAL THEORIES

Structure

1.1 Introduction

1.2 The Classical Philosophy of Development

1.3 Classical Theories of Economic Growth and Development

1.4 An Overview of the Classical Theory of Economic Growth and Development

1.5 The Relevance of Classical Theories to Underdeveloped Countries

1.6 A Critical Appraisal of Classical Theories

1.7 Let Us Sum Up

1.8 References and Suggested Readings

1.9 Check Your Progress - Possible Answers

1.1 INTRODUCTION

As you know, theories are fundamental to any subject. If you are a student of Arts with Political Science and Economics as subjects, you might have studied Political Theory and Economic Theory. Likewise, in development studies also, theories of development are fundamental to the concept of development. This unit discusses the classical theories of development. The leading members of the classical school are Adam Smith, David Ricardo, and J. S. Mill. This unit mainly discusses the thoughts of these important economists who belong to the classical school of development. In the subsequent unit you will read about the Neo-Classical Theory.

After studying this unit you should be able to:

- explain classical philosophy of development;
- discuss classical theories of development; and
- point out the criticisms of classical theory of development.

1.2 THE CLASSICAL PHILOSOPHY OF DEVELOPMENT

The philosophical foundation of the classical school is embedded in an individualistic outlook. The classical economists were basically concerned with the activities of individuals. According to classicists, it is the welfare of each individual that leads to the welfare of the society and not vice versa. There is no conflict between the interests of the individuals and those of society. The welfare of society is the sum total of the well-being of all the individuals living in that society. The classical economists derived their conclusions by different reasoning. By adopting the inductive process, Smith says that individualism is the outcome of the principle of natural liberty. Adam Smith contends that when each individual acts freely, according to the natural laws operating within him, he maximizes his individual welfare and his society's welfare in the physical world. In Smith's view, the ideal economy is a self-regulating market system that automatically satisfies the economic needs of the people.

He arrived at this conclusion more from his observations of individual behaviour and functioning of society than from some abstract principle. He describes the market mechanism as an "invisible hand" that leads all individuals, in pursuit of their own self-interests, to produce the greatest benefit for society as a whole. He approves of only three fields for government action: defense, justice, and public works and institutions. On the other hand, classical economists such as Ricardo and Bentham rejected the concepts of natural law and natural liberty, and derived their conclusions on the 'principle of utility'. According to this principle, each individual strives to maximize 'pleasure' in his various decisions.

Another important aspect of the classical school of development is the doctrine of *laissez-faire*. The doctrine of *laissez-faire* upholds the idea of economic liberalism. In other words, it says: let the natural forces of the economic system work independently, and they will produce results beneficial to both the individual and to society. Guided by his philosophy of Naturalism and Optimism, Smith advocated a policy of economic liberty. This policy has both negative and positive arguments. Negative arguments are set against the interference of government in economic activities, while positive arguments demonstrated the desirability of free trade.

Smith gave two arguments in support of the doctrine of *laissez-faire*:

i) Economic liberty allows for full and free working of the mechanism of the invisible hand in a competitive economy, which ensures the maximum national wealth

ii) Economic liberty facilitates setting in forces which are responsible for the growth of the wealth of a country over a period of time.

Thus, the doctrine of natural order works in the economic field through the laws of the market and the laws of motion.

The classical economists are followers of the doctrine of *laissez-faire*. They criticized the mercantilist system of protection. Smith incorporated some of the 'Physiocrats' ideas, including *laissez-faire*, into their economic theories, but rejected the idea that only agriculture was productive. The classical economists were against the subsidization of agriculture in the form of the Corn Laws. They rejected the mercantilist's protectionist policy of trade. They opposed all kinds of restrictions on economic activities. According to them, all economies function best under private initiatives and competitive conditions, rather than under state control. Individual action motivated by enlightened self-interest and regulated by competition tends to promote individual as well as social welfare. The classical economists opposed the system of relief, or subsidy, to the poor on the ground that it promoted laziness, and increased their family size. The economists in the classical school produced their "magnificent dynamics" during a period in which

a) individual actions are regulated by the forces of self-interest and competition

b) production is organized by private individuals with a profit motive

c) all goods and services of productive factors are brought for sale in the market.

The industrial revolution led to vast changes in society. These changes raised the question of how a society could be organized. The market economy posed theoretical as well as practical problems. On the theoretical side, the problem was to show how such an economy could develop and respond to the needs of society. On the practical side of public policy, the problem was whether to allow private forces to function freely, or to allow state intervention to achieve social objectives. The classical economists attempted to answer these questions.

The classical school of thought is further governed by the Law of Market. As mentioned earlier, according to Smith, the market is governed by two forces

a) self-interest (the chief stimulator of individual action)

b) competition (the beneficial outcome of the society).

The natural sentiment of self interest in a society of similarly motivated individuals results in competition. Through this automatic mechanism of competition, these individuals are driven to produce those goods which the society wants, in the quantities that society desires and at prices that the society is prepared to pay. Thus, the invisible hand of beneficial natural order is nothing but the automatic mechanism of a competitive market which regulates the economic activities to produce maximum social welfare.

Almost all the classical economists, except Malthus, accepted Say's formulation that: "Supply creates its own demand". Say's law implies three things

a) Money is a veil: its only function is to serve as a medium of exchange

b) General over production, or market glut, is impossible

c) Full employment equilibrium is automatically ensured.

So, in this view, in the long run, there can never be a market glut. Therefore, the free economy always attains full employment equilibrium in the long run. Imbalance in the labour market is the result of imbalance in the goods market. Full employment equilibrium is automatically restored by free market forces.

Now that you are familiar with the classical philosophy of development, try and answer the following questions in *Check Your Progress-1*.

Check Your Progress 1

Note: a) Write your answer in about 50 words.
b) Check your answer with possible answers given at the end of the unit.

1. Explain the doctrine of laissez-faire.

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2. Discuss Adam Smith's argument in favour of laissez-faire.

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1.3 CLASSICAL THEORIES OF ECONOMIC GROWTH AND DEVELOPMENT

The classical economists were primarily concerned with the dynamics of economic growth of a capitalist economy. In their view, population growth and capital accumulation are the necessary conditions of growth. The forces of diminishing returns and technological advancements determine the pace of economic growth. Capital accumulation, which itself is determined by the rate of profit, on one hand, creates a demand for labour, and, on the other, fosters technological improvements by facilitating the division of labour. Population, which tends to grow rapidly, increases the demand for food. Food production is subject to diminishing returns. Thus, we have two forces working in opposite directions: technological advancements promoting growth on one side, and the eventuality of diminishing returns that retard growth on the other. Thus, the long run trend of the economy depends upon the relative strength of these two forces.

The three theories of economic growth that are based on the classical school of thought are:

a) **The Optimistic Theory (**Adam Smith): According to Smith, the process of development never comes to an end. Capital accumulation has two favourable effects. On one hand, it facilitates technological progress by making division of labour possible. On the other, it expands markets by increasing wages. Thus, economic growth continues forever.

Smith's optimism is because:

i) He took into consideration that machines are complementary to labour, but neglected the labour-replacing effect of technology

ii) He assumed constant returns, and bypassed the gloomy effects of diminishing return

iii) He focused on aggregate wealth resulting from division of labour, economies of scale and the invisible hand.

b) **The Pessimistic Theory** (Ricardo, Malthus): Ricardo and Malthus were pessimistic in their vision of the long run process of growth. Ricardo was less concerned about growth, and more about income distribution and trade. The Ricardian growth model emphasized the limits to growth imposed by the scarcity of land. Malthus maintained that the geometric growth of the population would outrun the arithmetical growth of food production. As a result, the process of economic growth would come to a standstill. The limits to growth are posed by land and population growth.

c) **The Moderate Theory** (J.S. Mill): Mill followed the middle path. On one hand, refused to accept the Pessimistic theory due to two reasons. First, he hoped that the growing popularity and effectiveness of moral restraint would lighten the problem of over-population. Second, he was confident of a cultural change that would occur and would slacken the acquisitive spirit of society. However, Mill was not optimistic. He did not believe in the favourable effects of technological improvements. These improvements, themselves, are subject to diminishing returns.

I. Adam Smith's Growth Model

Adam Smith's theory of economic development is derived from his famous book The ***Wealth of Nations***. The main points of his theory of economic development are

- Natural law
- *Laissez-faire*
- The division of labour
- Capital accumulation

Adam Smith advocated natural law in economic affairs. He opposed any government intervention in economic affairs of a country. He was a staunch free trader and advocated the policy of *laissez-faire* in economic affairs. He opined that natural laws are superior to law of states.

Adam Smith recognized three factors of production, namely land, labour, and capital

$Y = f(K,L,N)$

Y = Income

K = Stock of Capital

L = Labour Force

N = Land

In Smith's growth model, the process of development is initiated by the employment of productive labour, accelerated by the division of labour, and regulated by capital accumulation. The determinants of economic growth are

a) capital accumulation

b) the size of the working population

c) the extent of the market.

Smith's dynamics of the growth process can be understood with the help of the following three propositions

i) a rise in capital accumulation raises the ratio of productive to unproductive workers

ii) increased demand for a work force raises the wage rate above the subsistence level which, in turn, increases the supply of the work force

iii) an increase in the working population enlarges the size of the market, and widens the scope of division of labour.

Given adequate market possibilities and the basis for the capital accumulation, a division of labour takes place which increases the productivity of labour. The increased productivity of labour enhances national income, and enlarges the size of the working population. Both these elements widen market possibilities, and broaden the base for capital accumulation. This further increases the scope for the division of labour. Thus, the system becomes self-sustaining and cumulative. Smith observed that farmers, producers, and businessmen are the key agents of economic growth. It is the free trade, enterprise, and competition that led farmers, producers, and businessmen to expand the market; and which subsequently makes economic development interrelated.

II. The Ricardian Dynamic Model

Ricardo was concerned with a dynamic analysis. His theory of distribution was closely connected with the theory of growth. According to him the tendency to accumulate capital is the prime motive force in the process of economic growth. Capital accumulation means saving, and saving is regulated by the power to save and the will to save. The power to save depends upon the net income or the amount of the surplus over the total product necessary to maintain labour's subsistence level. The will to save depends upon the rate of profit. If the rate of profit is high, the capitalist will tend to consume less, and save more, and, *vice versa*. Thus, capital accumulation is an increasing function of net income.

Capital accumulation increases the demand for labour by pushing up market wages. Rising wages lead to the growth of population which in turn brings wages to the equilibrium level of subsistence minimum. The marginal product (or, total product-less-rent) of capital and labour falls as a consequence of the law of diminishing returns. Thus, real wages being constant at the subsistence level, a fall in the marginal product means that the relative share of labour (wages) increases and the relative share of capital (profits) falls. Out of these profits, again, there will be capital accumulation, but at a reduced rate, because profits will have fallen. The process of growth will continue until the profits fall to zero. At this stage, capital accumulation stops, the progress of economy halts, and the system reaches a stationary state.

In the Ricardian analysis, two more forces determine the pattern of development. They are: the law of population and the law of diminishing returns. The rate of capital accumulation regulates the demand for labour, and the demand for labour regulates the rate of population growth. Diminishing returns can be remedied by technological improvements. But, Ricardo believes that technological progress is also subject to the law of diminishing returns. Thus, in the long run, the law of diminishing returns must operate and productivity must fall.

The other two important edifices of the Ricardian model are the Law of Rent and the Corn Laws. The Law of Rent is based on the observation that the differing fertility of land yields unequal profit to the capital and on the labour that is applied on it. As far as the Corn Laws is concerned, Ricardo was against the Corn Laws. The Corn Laws were important tariffs designed to support domestic corn prices against competition from less expensive foreign imports. The Corn Laws aimed at enhancing the profits of the landowners. Ricardo believed that higher tariffs would shift the distribution of income in favour of the landlords.

III. Malthusian Theory of Development

T. R. Malthus pioneered the theory of population and linked it with development. According to Malthus, population growth is the end product of the whole process of economic development. However, the increase in population cannot take place without proportionate increase in wealth. He was of the opinion that mere increase in population cannot provide a stimulus to economic expansion. In his view, population growth promotes development only when it brings an increase in effective demand.

Malthus contended that the process of growth is not automatic and easy. It needs a conscious deliberate effort on the part of the people to promote

growth. He did not see any movement of the economy towards a stationary state, but, he emphasized that the economy may reach slumps many times before it achieved an optimum level of development. Therefore, the process of development consists of many ups and downs, and the journey is not a smooth one.

The Components of Malthusian Theory

The various components of Malthusian theory are

i) **Population Growth and Economic Development:** The Malthusian principle of population states that the population increases faster than the food supply. According to Malthus, population growth will promote economic development only when it increases the effective demand, and it is the increase in effective demand which will lead to increase in wealth.

ii) **Factors in Economic Development:** According to Malthus the size of potential gross national product depends on land, labour, capital, and organization. When these four factors are combined in the right proportion, they maximize production in the agriculture and industrial sectors. The increase in production in the agriculture and industrial sector could be brought about thorough the accumulation of capital, fertility of soil, and technological progress.

iv) **The Role of Production and Distribution:** Malthus regarded production and distribution, the two vital elements of wealth generation. Their appropriate combination will lead to a faster rate of increase of wealth. The potentiality of economic development depends on the appropriate strategy of production and its distribution.

v) **The Role of Foreign Trade:** Malthus assigned adequate importance to foreign trade in speeding up economic growth. It provides incentives for investing as it leads to the expansion of market for goods produced.

vi) **Economic Stagnation:** According to Malthus, the supply of labour is inelastic in the short run. In this case, the supply of capital increases faster than the increase in population, and this may lead to an increase in wages. However, he believed that rise in wage does not lead to an increase in effective demand because workers prefer leisure to increased consumption. As a result, prices fall, profits decline, investment falls, and, consequently, accumulation of capital is constrained. This state of affairs leads to economic stagnation.

IV. J.S. Mill's Theory of Development

J.S. Mill has made a significant contribution to the theory of economic development. According to Mill, economic development is a function of land, labour, and capital. He treated land and labour as original factors of production, and capital as the stock previously accumulated from the production of labour. According to him, the wealth of a nation increases production faster than the labour force. He also distinguished between productive consumption, and unproductive consumption. Productive consumption is that consumption which increases the productive power of the community.

The important constituents of Mill's theory of development are

i) control of population growth

ii) a wage fund

iii) The role of capital accumulation

iv) rate of profit

v) The role of the state

vi) The stationary state

i) Control of Population Growth: Mill believed in Malthusian Theory of Population. According to Mill, the tendency of a population is to increase faster than the means of living. Therefore, there is a need to restrict population growth in order to bring faster development.

ii) The Wage Fund: According to Mill, the elasticity of labour supply is very high in response to rise in wages. Wages usually cross the subsistence level. Wages are paid out of capital, and, hence, they are limited by the existing fund of capital. Further, wages are determined by the demand and supply of labour. Any change in the wage rate is affected by the change in capital or population. Thus, the rise and fall in wages depends upon whether capital grows faster than a population, or whether population grows faster than capital. Mill pointed out that an increase in consumption leads to a decline in investment. On the other hand, increase in investment leads to an increased wage fund, and this leads to economic progress. Mill believed that the wage fund depends upon the aggregate fund of capital, and the wages that are paid out of capital as advances.

iii) The Role of Capital Accumulation: Capital is defined as the previously accumulated stock of the products of formal labour: the higher the capital, the larger the size of wages and thus, the higher the demand for productive labour. Capital is the result of savings, and savings means abstinence from present consumption for the sake of future investment. According to Mill, capital accumulation depends upon

i) the size of the fund that savings can make, and

ii) the strength of the disposition to save.

Thus, capital is the kingdom of development, and it is the upshot of investment.

iv) The Rate of Profit: According to Mill, the ultimate tendency in an economy is for the rate of profit to decline due to diminishing returns in agriculture, and an increase in the population at a Malthusian rate. In the absence of technical improvement in agriculture, and with a high population growth rate, the rate of profit is bound to decline, and the economy will approach a stationary state.

v) The Role of State: J S. Mill was an ardent supporter of *laissez faire* and advocated a minimum role for the state in economic affairs. Mill was in favour of free trade, and against protectionism. He prescribed protection only for infant industries. In his view, the government has an important role to civilize citizens by providing educational facilities. However, he did not consider education as an investment in capital which stimulates economic growth.

vi) **The Stationary State:** The stationary state is a stage where there could be no increase in either population, or in the stock of capital. Profit becomes minimal. However, there would still be a rise in the standard of living because of improvements in the life style, and increased leisure through technical progress. According to J.S. Mill the stationary state is imminent. He supported the stationary state as it leads to improvement in income distribution, and large remuneration for labour.

Now that you are familiar with the classical theories of economic growth and development, try and answer the following questions in *Check Your Progress-2.*

Check Your Progress 2

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1. Discuss the key features of Ricardian theory.

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2. What are the important constituents of Mill's theory of Development?

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1.4 AN OVERVIEW OF THE CLASSICAL THEORY OF ECONOMIC GROWTH AND DEVELOPMENT

In the previous section we discussed the views of Adam Smith, Ricardo and J S Mill on the process of growth in capitalist economies. We have also explained the process in which a growing capitalist economy would reach stationary state. On several issues, there is little consensus among these economists. Therefore, it gives an impression that it may not be proper to give a single synthesized model and name it as the Classical Model.

However, it is clear that the classical economists had explained growth process in terms of rate of technological progress and population growth. In their view, technological progress continues for some time, but finally slows down and the falling rates of profits further prevent capital accumulation. It is at this stage that the economy slumps into stagnation. Some of the broad features of classical theory follow.

The classical theorists have postulated production, which can be written as:

$Y = f(K,N,L,T)$

K = Capital

N = Labour Force

L = Land

T = Level of Technology

The output depends on the stock of capital, labour force, and level of technology. Technological progress is constrained by capital accumulation. Classical economists are of the opinion that, the process of technological progress was capital absorbing and therefore capital accumulation is a prerequisite for a steady advance of technology.

Investment depends on profit. Classical economists opined that productive activities are motivated by profit, and thus, any productive investment is guided by the profit motive.

The labour supply and technological progress determine the level of profit.
$R = f(L, T)$

R = Profit

L = Labour Supply

T = Techonological Progress

According to classical economists, the level of profit is determined by the supply of the labour force, the population growth, and technological progress.

The size of labour force is constrained by the size of the Wage Fund.

$L = f(W)$

L = Labour force

W = Wage fund

The classical economists asserted that it is the amount of money that is available to pay the wage bill that determines the population growth.

The wage fund is determined by the level of investment

$W = f(I)$

W = Wage fund
I = Investment

The wage fund is defined as the amount of money available for paying wages to hired workers. It constitutes working capital, and is created out of savings.

According to classical economists, an increase in profits brings an increase in investment. This augments the capital stock, which, in turn, permits technological progress, and raises the wage fund. Increased wages lead to population growth, which raises labour costs (through diminishing returns to labour on land), and reduces profits. This circular process continues. As a result of reduced profits, investment falls, technological progress is retarded, wages decline, population growth slows, returns to labour on land increase, labour costs fall, and profits rise, and so on. In the long run, the classical economists envisaged a stationary, or stagnant state. In a mature economy, diminishing returns tend to outrun technological progress. Eventually, profits fall to such a low level that further investments stop, and wages and population cease to grow. This is termed the stationary state.

The circularity that we outlined above is even more apparent when we have the whole system before us. Let us look at a system of equations and its logic.

1)	Production	$Q = f(L,K,S,T)$
2)	Technology	$T = T(I)$
3)	Investment	$I = \Delta K = I(R)$
4)	Profit	$R = R(T,L)$
5)	Employment	$L = L(W)$
6)	Wages	$W = W(I)$
7)	Total Output	$Q = R+W$
8)	Wage rate	$W = wL$

In order to understand the mechanism of the growth process, let us start with profits which are regarded as the prime movers of an economy. The cause and effect process proceeds as follows:

$$\Delta R \rightarrow \Delta I \rightarrow \Delta K \rightarrow \Delta T \rightarrow \Delta W \rightarrow \Delta L \rightarrow \Delta R$$

An increase in profits brings an increase in investment. It permits capitalists to take advantage of the steady flow of improved techniques, and raises the wage fund. This leads to accelerated population growth, which, in turn, causes decreasing returns to labour on the land, thereby raising labour costs, and reducing profits. Contrarily, reduced profits mean reduced investment, retarded technological progress, a diminished wage fund, and the slowing down of population growth.

According to the classical school, when a population is relatively small, returns on land will be high, perhaps even increasing. However, as a population grows, it encounters rapidly diminishing returns. Technological progress takes place at a steady rate, provided enough capital is forthcoming to exploit the opportunities. Thus, in an advanced economy, diminishing returns to land, and the consequent rise in labour costs will outrun effective technological progress. Profit falls, and then investment drops, technological progress is retarded, the wage fund ceases to grow, and so population also ceases to grow. Thus, the classical concept of the stationary state is a historical phase, and not just an analytical model. It is essentially a concept of a mature economy. Stagnation results from the natural tendency of profits to fall, and the consequent decline of capital accumulation. The end result of capitalist development is stagnation.

1.5 THE RELEVANCE OF CLASSICAL THEORIES TO UNDERDEVELOPED COUNTRIES

The classical theories of growth are limited in scope and specific in approach. They developed in England at the time of the Industrial Revolution, and suggested policy measures are particularly suited to the problems of that period. Coincidentally, classical analysis is found to be useful in examining the growth problems of the present day underdeveloped countries. In fact, no other traditional theory of economic growth has so much relevance to the problems of the underdeveloped countries as classical theory. Most underdeveloped countries, today, experience the classic symptoms of economic stagnation, i.e. population growth, higher labour-land ratio, and low wages. The Lewis' Model of Dualism is an offshoot of classical theory. It is applicable

to an underdeveloped economy with two sectors: a subsistence sector, and a capitalist sector. The distinguishing feature of the subsistence sector is the existence of disguised unemployment, which implies zero, or even negative, marginal productivity. Average productivity is very low. The capitalist sector is an advanced sector where capitalists use reproducible capital, and employ wage labour in the productive process in order to earn profits.

As the capitalist sector expands, it draws labour from the subsistence sector. It is assumed that the subsistence sector is the source of unlimited supply of labour. In other words, there are more workers who are willing to work than are demanded at the existing wage rate. The actual wage rate in the capitalist sector is determined by what the workers earn in the subsistence sector. Workers are paid in the subsistence sector with wages that are equal to their average productivity. The producers in the capitalist sector pay higher wages as an incentive for them to leave their traditional areas of work in the subsistence sector. The process of expansion continues until all surplus labour in the subsistence sector is absorbed in the capitalist sector.

1.6 A CRITICAL APPRAISAL OF CLASSICAL THEORIES

The following are the criticisms of classical theories

1) It is a static model as it does not exhibit any sequence. While it looks like a growth model, in a real sense it is not really a growth model.
2) The classical model does not emphasize the role of entrepreneurs, who really bring about innovations that lead to capital formation.
3) The classical theory is based on the unrealistic assumption of perfect competition. However, free and fair competition is never found anywhere.
4) It ignores the role of the state. State non-action is a highly impractical policy. In today's complex society, state intervention is indispensable.
5) It ignores the significant role played by the middle class in modern society. It only recognizes two classes: the capitalist, and the labour class.
6) It neglects the significant contribution made by technological advancement and modern technical know-how.
7) Currently, technological modernization raises labour productivity and total factor productivity. Wages rise, according to the rise in labour efficiency.
8) It is wrong to say that capital accumulation leads to secular stagnation. In reality, it raises the demand for consumer goods, and the share of wages and profits.
9) The Malthusian theory of population and the Ricardian theory of diminishing returns have no relevance in the capitalist or socialist countries that have modern technology.
10) The wage fund theory is absurd. Wages are never fixed or reducible as the classicists believe. Mill related the wage fund to capital, not national dividend.
11) A stationary state is not a likely reality, either for developed countries, or for underdeveloped countries. The stationary state is not necessarily

undesirable. Rather, it is a pleasant social stage when people enjoy leisure, luxury, and peace with economic security.

12) Smith also failed to distinguish between the conditions of a static society and those of a dynamic society.

13) Ricardo's real interest was in the theory of distribution, and not in the theory of growth. He did not analyze the problems of employment and cyclical fluctuations.

You have read about the classical theory of growth and development, its relevance to underdeveloped countries and criticisms of classical theories. Now, try and answer the following questions given in the *Check Your Progress-3*.

Check Your Progress 3

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) Explain, briefly, the Classical Theory of Economic Growth.

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2) Write three important criticisms of classical theory.

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1.7 LET US SUM UP

In this unit, we explained the classical theory of economic growth. We studied Smith's model, Ricardo's model and J.S. Mill's theory of development separately. We made a critical appraisal of classical theory, and examined its relevance to the developing countries.

1.8 REFERENCES AND SUGGESTED READINGS

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1.9 CHECK YOUR PROGRESS - POSSIBLE ANSWERS

Check Your Progress 1

1. The doctrine of *laissez-faire* upholds the idea of economic liberalism. That is, let the natural forces of the economic system work independently, and they will produce results beneficial to both the individual, and to society. Guided by his philosophy of naturalism and optimism, Smith advocated a policy of economic liberty. This policy has both negative and positive arguments. Negative arguments are set against government interference in economic activities, while positive arguments demonstrated the desirability of free trade.
2. Smith gave two arguments in support of the doctrine of *laissez-faire*:
   i) Economic liberty allows for full and free working of the mechanism of the invisible hand in a competitive economy, which ensures the maximum national wealth
   ii) Economic liberty facilitates setting in forces which are responsible for the growth of the wealth of a country over a period of time.

Check Your Progress 2

1. According to Ricardo, capital accumulation increases the demand for labour by pushing up market wages. Rising wages lead to the growth of population which, in turn, brings wages to the equilibrium level of subsistence minimum. The marginal product (or, total product less-rent) of capital and labour fall as a consequence of the law of diminishing returns. The relative share of labour (wages) increases and the relative share of capital (profits) falls. In the Ricardian analysis, two more forces determine the pattern of development. They are: the law of population and the law of diminishing returns. The process of growth will continue until profits fall to zero. At this stage, capital accumulation stops, and an economy reaches a stationary state.
2. The important constituents of Mill's theory of development are
   i) control of population growth
   ii) a wage fund
   iii) The role of capital accumulation
   iv) rate of profit
   v) The role of the state
   vi) The stationary state

Check Your Progress 3

1. According to classical economists, an increase in profits brings an increase in investment. This augments the capital stock, which, in turn, permits technological progress, and raises the wages fund. Increased wages lead

to population growth, which raises labour costs (through diminishing returns to labour on land), and reduces profits. The cause-and-effect process is circular, and proceeds as follows:454

$\Delta R \rightarrow \Delta I \rightarrow \Delta K \rightarrow \Delta T \rightarrow \Delta W \rightarrow \Delta L \rightarrow \Delta R$

2. The following are three important criticisms of classical theories

i) It is a static model as it does not exhibit any sequence. While it looks like a growth model, in a real sense it is not really a growth model.

ii) The classical model does not emphasize the role of entrepreneurs, who really bring about innovations that lead to capital formation.

iii) The classical theory is based on the unrealistic assumption of perfect competition. However, free and fair competition is never found anywhere.

UNIT 2 NEO-CLASSICAL THEORIES

Structure

2.1 Introduction

2.2 The Early Neo-classical Thoughts

2.3 Harrod-Domar Model

2.4 Solow's Model

2.5 Let Us Sum Up

2.6 References and Suggested Readings

2.7 Check Your Progress – Possible Answers

2.1 INTRODUCTION

The classical theories revolved mainly around the role of markets in the economy. The classical economists propounded that if the markets worked freely then the economy would prosper. They were of the opinion that any imperfections in the market need to be dealt with by the government. These are mainly the works of the economists in the 18th and the 19th century. The works of the classical economists were subsequently updated by the modern economists and the theories developed hence were termed as neo-classical theories. The term was originally introduced by Thorstein Veblen in his 1900 article 'Preconceptions of Economic Science'. The neo-classical theory became popular in 1970s. The World Bank also shifted from its Basic Needs approach to Neo-classical approach in 1980.The Neo-classical theory maintains that economic growth can be attained by increase in saving and investment and by improvement in technology. The theory sees underdevelopment as a result of inefficient utilization of resources by the government and state intervention in the market through regulation of prices. This unit gives you a brief of the basic theories from which the neo-classical theory has its origin. It also discusses in detail Solow's theory which is the most important Neo-classical theory. After reading this unit you will be able to:

Discuss the thoughts of early neo-classical economists

Explain the Harrod and Domar's model

Discuss Solow's theory and its implications in short and long run

2.2 THE EARLY NEO-CLASSICAL THOUGHTS

With the economic thought shifting from Classical to Neoclassical, the central theme of economics changed from the growth of national wealth to the marginal principle in the aspects of production and consumption. The theory of rational production propounded by the neoclassical economists believed that the inputs are substitutable i.e. capital (machines) can be substituted for labour (human workers) and that production is efficient only if a given quantity of output cannot be produced with less or fewer inputs.

Alfred Marshall (1842-1924) from England saw producer as the allocator of capital among various factors of production in such a way that the marginal product of each factor was proportional to its price. Marshall

believed that there was increasing returns to scale of production ie. Increased production reduced the per unit cost of the produce. According to him if several firms operate in a single location, it offers pooled market for workers with specific skills, ensures less unemployment for workers and less labour shortages for firms, improved efficiency as a result of information spillovers etc. Marshall saw economy as a well balanced system always tending towards equilibrium. According to him the economic changes occurred through smooth and continuous adjustments and all the forces acting on an economy generate reactions that would tend to push the economy towards optimal state in long run. Eg. A shortage of any good or service will increase its price which in turn would call for more resources being diverted to produce that good, thus creating a greater supply and hence reduction in prices.

Austrian Economist, Carl Menger (1981), considered as the individual to be the ultimate unit of analysis and thought that goods are valued for their specific utility and not because of the amount of labour used in producing them as thought by the Classical economists. The value of labour is in turn derived from the value of goods it produces. People then exchange what they value less for something they value more. Thus both sides gain in exchange.

Leon Walras (1954) from Lausanne, Switzerland developed marginal utility from the concept of scarcity and the degree of utility finally determines the amount of value for each product. According to Walras, for each product, there is a demand function which depends on its price, the price of related goods and consumer's income and taste. Also for each product there is a supply function which depends on cost of production, price of productive services and the level of technical knowledge. In the market, for each product, there is a point of equilibrium at which one price will satisfy both the consumers and the producers. Equilibrium in one market also depends on what happens in other markets. Thus a general equilibrium in an economy involves simultaneous determination of partial equilibria in all the markets. Thus, according to Walras, if all the markets in an economy are in equilibrium, then any specific market should also be in equilibrium. Similarly, if markets for goods are in equilibrium, the markets for labour will also be in equilibrium. Vifredo Pareto (1848-1923) gives mathematical conditions under which Walras's general equilibrium might achieve optimal economy, also called Pareto Optimality.

Thus in nutshell, the neoclassical economists believe that under perfect competition, markets yield a long term set of prices that equilibrate the demand and supply of all commodities in production and consumption. Given the consumer preferences, technology and factors of production, the market forces of supply and demand allocate resources efficiently such that in long run, costs are minimized and consumer utility is maximized. All the factors of production thus receive income commensurate with the efforts they put in. Thus economic growth resulted from the efficiencies produced by rational producers and consumers interacting in self-regulating markets.

2.3 HARROD- DOMAR MODEL

Another model which is in line with the Neo Classical theories of development is the Harrod Domar model. In this section we will learn about

these models and their limitations from the standpoint of less developed economies.

The Harrod and Domar models are the result of their interest in working out the rate of income growth which would be necessary for a smooth and uninterrupted working of the economy. Both the models emphasize on the dual characteristics of investment. Firstly it creates income (demand effect of investment) and secondly it increases the capital stock (supply effect of investment), thereby increasing the productive capacity of the economy. At full employment equilibrium, the real income in an economy expands at the same rate as the productive capacity of the capital stock. Any divergence leads to excess or idle capacity, forcing entrepreneurs to curtail their investment expenditure. This further leads to lowering of income and employment and moving the economy off the equilibrium path of steady growth. Hence to maintain full employment, net investment should expand continuously. This further requires growth in real income at a rate sufficient enough to ensure full capacity use of growing stock of capital. This required rate of income growth is called 'the full capacity growth rate' or the warranted rate of growth.

2.3.1 Assumptions of Harrod Domar models

The Harrod and Domar models are based on the following assumptions:

1. Initial full employment equilibrium level of income
2. Absence of government interference
3. Closed economy and absence of foreign trade
4. No lags in adjustments between investment and creation of productive capacity
5. The average propensity to save is equal to marginal propensity to save
6. Marginal propensity to save remains constant
7. The capital coefficient or the ratio of capital stock to income is assumed to be fixed.
8. Capital goods are assumed to possess infinite life and there is absence of depreciation of the same
9. Savings and investment relate to income of the same year.
10. General price level is constant ie. The money income and real income are the same.
11. There are no changes in interest rates
12. There is a fixed proportion of capital and labour in the production process
13. Fixed and circulating capital both together constitute the capital
14. There is only one type of product

2.3.2 The Domar Model

Domar's model is a result of his probe into the question that … At what rate investment should increase so as to make increase in income equal to increase in productive capacity, so that full employment is achieved.

Domar's explanation of the supply side (Increase in productive capacity):

Let I = annual rate of investment

s = productive capacity per dollar of newly created capital

Therefore, productive capacity of I dollar invested = I.s

It is also true that the new investment would be at the expense of old. The new investment will compete with the old for labour and other factors of production. Hence the output of old plants will be curtailed and the increase in productive capacity or annual output of the economy will be less than I.s.

Let the net potential increase in output of the economy be $I\sigma$

Where $\sigma = \Delta Y/I$ …… (1)

(ratio of annual increase in income to annual rate of investment)

According to Domar this is the increase in output which the economy can produce and it is the supply side of our system.

Domar's explanation of the demand side

Domar explains the demand side by the Keynesian multiplier.

Let the annual increase in income be = ΔY

Annual increase in investment = ΔI

Propensity to save (α) = $\Delta S/\Delta I$

According to Keynes, increase in income will be multiplier times increase in investment.

$\Delta Y = \Delta I \frac{1}{\alpha}$ ……. (2)

Equilibrium: To maintain full employment level of income, aggregate demand should be equal to aggregate supply.

From Equations (1) and (2)

$\Delta I \frac{1}{\alpha} = I\sigma$

Solving the equation,

$\alpha I\sigma = \Delta I$

$$\frac{\Delta I}{I} = \alpha\sigma$$

The above equation shows that to maintain full employment, the growth rate of investment should be equal to the Marginal Propensity to Save times productivity of capital. If investment grows at this rate then there would be a steady growth of the economy at full employment.

2.3.3 The Harrod Model

The Harrod Model is based on three distinct rates of growth: the actual growth rate, the warranted growth rate and the natural growth rate. Let us see each one of these in detail.

I) ***The Actual Growth Rate:*** Basic equation of Harrod model is

GC = s …… (1)

Where G = rate of growth of output in a given period of time ($\Delta Y/Y$)

C = net addition to capital or the ratio of investment to increase in income ($I/\Delta Y$)

s = average propensity to save (S/Y)

Substituting these equations in (1),

$$\frac{\Delta Y}{Y} \times \frac{I}{\Delta Y} = \frac{S}{Y}$$

or $\frac{I}{Y} = \frac{S}{Y}$

or I = S

This restates that ex-post savings equals ex-post investment.

II) ***The Warranted Rate of Growth:***

This growth rate is related to behavior of businessmen. At this rate of growth, the demand is high enough for businessmen to sell what they have produced and continue to produce at the same rate of growth. Given the propensity to save, this is the path on which the supply and demand for goods and services will remain in equilibrium. Mathematically,

GwCr = s …… (2)

Gw = warranted rate of growth or full capacity rate of growth of income which will fully utilize the growing stock of capital ($\Delta Y/Y$)

Cr = Amount of capital needed to maintain the warranted rate of growth or the required capital output ratio ($I/\Delta Y$)

s = average propensity to save (S/Y)

From Eq. (2),

Gw = s/Cr

This equation therefore states that if the economy has to grow at a steady rate of growth that will fully utilize its capacity, income must grow at the rate of s/Cr per year.

III) ***Long run disequilibrium:*** For full employment, the actual rate of growth must be equal to the warranted rate of growth (G=Gw) and the actual capital goods (C) must be equal to the required capital goods for steady growth (Cr). If G and Gw are not equal then there would be a disequilibrium in the economy. If G exceeds Gw, then C will be less than Cr. In such circumstances there would be insufficiency of goods and equipments leading to secular inflation as the actual income grows at a faster rate than that allowed by productive capacity of the economy. There would be further deficiency of capital goods and the aggregate production would fall short of aggregate demand leading to chronic inflation.

On the other hand if G is less than Gw, then C is greater than Cr. Such situation leads to secular depression because, actual income grows more slowly than required by the productive capacity of the economy

leading to excess of capital goods and the aggregate demand falls short of aggregate supply. This results in fall in output, employment and income and there would be chronic depression.

IV) ***The Natural Rate of Growth:*** The natural rate of growth is one that the population and technological improvements allow. It is the rate of increase in output at full employment as determined by a growing population and the rate of technological progress.

GnCr = s

V) ***Divergence of G, Gw and Gn:*** For full employment Gn=Gw=G. However if there are divergences from this state then secular inflation or secular stagnation may occur. If G>Gw, investment increases faster than savings and income rises faster than Gw. On the other hand if G<Gw, saving increases faster than investment and rise of income is less than Gw. If Gw>Gn, secular stagnation will develop. In such situation Gw is also greater than G. When Gw exceeds Gn, C>Cr and there is excess of capital goods due to shortage of labour. The shortage of labour keeps the rate of increase in output to a level less than Gw. There is excess capacity and this dampens investment, output, employment and income. The economy will be gripped by chronic depression and in such situations, saving is a vice.

In another situation where Gw<Gn, Gw is also less than G and there is a tendency to develop secular inflation in the economy. When Gw<Gn, C<Cr. There is a shortage of capital goods and labour is in abundance. Profits are high and businessmen have a tendency to increase their capital stock. This will lead to secular inflation and in such a situation, saving is a virtue as it allows Gw to increase.

2.3.4 Limitations of Harrod and Domar Models from the Standpoint of Less Developed Countries

The Harrod Domar models are more relevant to capitalist economies and cannot be applied in less developed countries due to the following reasons:

1. Different Conditions: Harrod Domar models evolved with the intention to prevent advanced economies from the possible effects of secular stagnation and hence cannot be used to guide industrialization programmes in less developed countries.
2. Saving Ratio: Harrod and Domar growth models are characterized by high saving ratio and high capital output ratio whereas people in less developed countries lead a subsistence life and not many are in a position to save.
3. Capital-output ratio: According to Hrischman, the predictive and operational value of models based on propensity to save and capital output ratio is low and hence would be far less useful in underdeveloped economies.
4. Structural Unemployment: When the population grows faster than accumulation of capital as is the case in less developed countries, structural unemployment arises due to lack of capital equipments. Harrod Domar model is more suited to solve the problem of Keynesian unemployment arising out of deficiency of effective demand than that

of structural unemployment which is more likely to be the case of less developed countries

5. Disguised Unemployment: These models start with a full employment level of income which is nonexistent in underdeveloped countries. These countries are marred by the problem of disguised unemployment, the solution to which cannot be found using Harrod Domar models.
6. Government Intervention: Harrod Domar models assume the absence of government intervention which is not the case in less developed countries. In such countries the state plays an important role in starting large industries and in regulating and directing the private enterprise.
7. Foreign Aid and Trade: Harrod Domar model assumes a closed economy whereas less developed countries are rather open economies where foreign trade plays an important role in economic development.
8. Price Changes: These models assume constant prices whereas in less developed countries, price change is inevitable with development.
9. Institutional Changes: Institutional factors are assumed to be given in these models whereas as far as less developed countries are concerned, economic development is not possible without institutional changes.

Due to the above mentioned reasons, Harrod Domar models have lesser suitability to developing and less developed countries. As an alternative explanation for these countries, Solow model was developed.

2.4 SOLOW'S MODEL

As an alternative to Harrod Domar's model of growth, Noble Laureate Professor R. M. Solow build his model by assigning diminishing returns to labour and capital separately and constant returns to these factors jointly. Technological progress was thought to be the factor explaining long term growth and its level was assumed to be determined exogenously i.e. independent of all other factors.

2.4.1 Solow built his model on the following assumptions:

1. One composite commodity is produced.
2. Output is considered as net output after making allowances for depreciation of capital.
3. There are constant returns to scale in the long run.
4. Labour and Capital are the two factors of production and they are paid according to their diminishing marginal productivities.
5. Prices and wages are flexible
6. There is full employment of labour
7. There is also full employment of available stock of capital
8. Labour and capital can be substituted for each other
9. There is neutral technical progress
10. The savings ratio is constant

2.4.2 Solow's Model:

A typical solow's growth model has a mathematical representation similar to Cobb Douglas kind of production function.

$Q = A K^a L^b$ ……(1)

Where

Q = Gross domestic product

K = Stock of capital (both human and physical capital)

L = Labout

A = Productivity of labour which grows over time at an exogenous rate

In this model, **a** and **b** are less than one, indicating diminishing returns to inputs K (investment) and L (labour) in short run, and **a + b = 1** , indicating constant returns to scale in long run.

Or

$Q = F(K, L)$ ……. 2

Representing Eq. 2 in per worker terms by dividing both sides with L

$Q/L = f(K/L, 1)$ or $q = f(k)$ …….. 3

(representing per worker terms in small case)

Or $q = A k^a$ ……. 4

Equation 4 states that the output per worker is a function that depends on the amount of capital per worker. The more the capital with which each worker has to work, the more the output that worker can produce. The total stock of capital grows when there are more savings than depreciation but the capital per worker grows when savings are greater than what is needed to equip new workers with the same amount of capital as existing workers have.

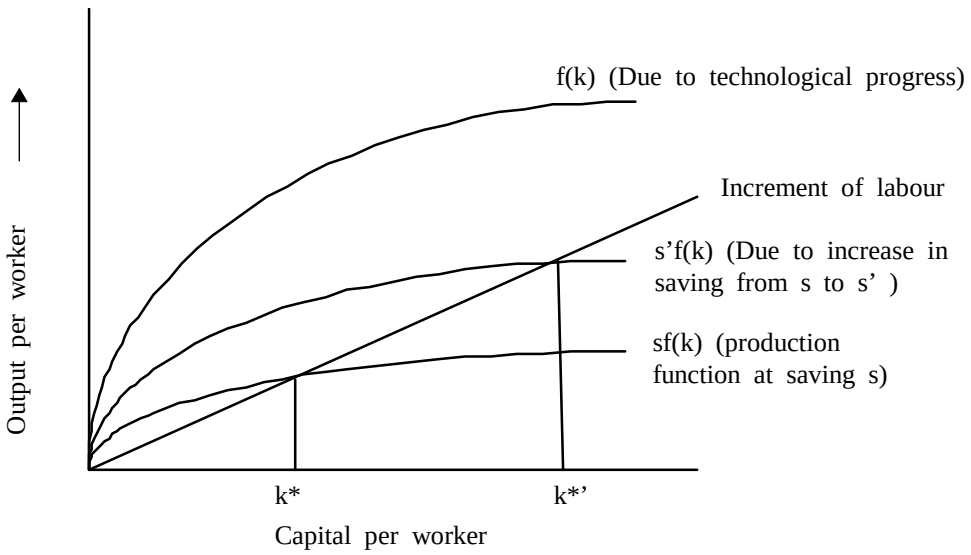

Fig. 1: Solow's growth model

According to Solow, when there is an increase in k by increasing the rate of saving, a temporary increase in the rate of ouput growth is realized. Eventually we return to the steady state growth rate at a higher level of

output per worker. The increase in savings will not increase growth in long run. It will only increase the equilibrium k*. After the economy has time to adjust, the capital labour ratio and the output labour ratio increases but not the rate of growth. An increase in savings from s to s' does raise the equilibrium output per person from k* to k*' which is also a significant contribution to development, but it does not raise the equilibrium rate of growth. The increase in growth rate is only temporary as the economy moves up towards the higher equilibrium capital per worker.

If the rate of saving and hence investment is positively related to the rate of technological progress, the growth of A depends on growth of s. Any change in technology over time leads to upward shift in the production function leading to more output being produced with the same input. In case of no technological change, there is a limit in terms of the total income that can be achieved by varying the use of one of the inputs say K, assuming L to be constant. Solow noted that any increase in Q could come from one of three sources:

1. an increase in L . However, due to diminishing returns to scale, this would imply a reduction in Q/L or output per worker.
2. an increase in K . An increase in the stock of capital would increase both output and Q/L
3. an increase in A or in multifactor productivity could also increase Q/L or output per worker.

2.4.3 Implications of Solow's Model in Short Run

1. Changes in savings rate affect only the short run growth rates while the economy converges to a new steady state level of output.
2. The rate of growth is determined by the rate of capital accumulation.
3. Capital accumulation is determined by the savings rate and the rate of capital depreciation.

2.4.4 Implications of Solow's Model in the Long Run

The long run rate of growth is exogenously determined. Given a constant savings rate, the economy will always converge to a steady state which depends on rate of technological progress and rate of labour force growth. The model predicts that poor countries will grow at a faster rate if they increase their share of output they invest in capital. Since there are limits to the share of output that can be invested, the savings rate will stabilize. When this happens, the economic growth will converge to a steady state rate determined by technological progress.

2.4.5 Criticisms of Solow's Model

Some of the criticisms of Solow's Model are as follows:

1. The theory does not explain about the direction and pace of technological progress.
2. Solow's model has been criticized for its marginal productivity theory of distribution on which he has based his theory.
3. Solow's theory assumes variable capital and labour ratio. However, due to technological progress, capital labour rato are often fixed. Eg. Six men cannot share two computers at the same time.

4. There is no investment function which depends upon rate of profit.
5. Solow's model has also been criticized for its empirical validity.

Till now you have read about, the Harrod Domar model and Solow's model. Now try and answer the questions given in *Check Your Progress – 1*.

Check Your Progress 1

Note: a) Write your answer in about 50 words.
b) Check your answer with possible answers given at the end of the unit.

1. Give any three criticisms to Harrod Domar model.

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2. What are the long run implications of Solow's model?

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2.5 LET US SUM UP

In this unit you have studied about the Neo Classical Theories of Development. You have also read about the Harrod Domar model which was build up on the Keynesian theory. However, since both these theories are more suited for capitalist economies and do not have much relevance to the less developed countries, the Neo Classical Theory by Solow was developed. In this unit you have also read about the Solow model and its implications in long run and short run.

2.6 REFERENCES AND SUGGESTED READINGS

Jhingan, M.L. (1997), The Economics of Development and Planning, Vrinda Publications (P) Ltd.

Solow R.M. (1956), "A contribution to the theory of economic growth," *Quarterly Journal of Economics* 70 (1956): 65–94.

2.7 CHECK YOUR PROGRESS – POSSIBLE ANSWERS

Check Your Progress-1

1. The Harrod Domar models are more relevant to capitalist economies and cannot be applied in less developed countries due to the following reasons:

   1. Different Conditions: Harrod Domar models evolved with the intention to prevent advanced economies from the possible effects of secular stagnation and hence cannot be used to guide industrialization programmes in less developed countries.

2. Saving Ratio: Harrod and Domar growth models are characterized by high saving ratio and high capital output ratio whereas people in less developed countries lead a subsistence life and not many are in a position to save.

3. Capital-output ratio: According to Hrischman, the predictive and operational value of models based on propensity to save and capital output ratio is low and hence wuld be far less useful in underdeveloped economies.

2. The long run rate of growth is exogenously determined. Given a constant savings rate, the economy will always converge to a steady state which depends on rate of technological progress and rate of labour force growth. The model predicts that poor countries will grow at a faster rate if they increase their share of output they invest in capital. Since there are limits to the share of output that can be invested, the savings rate will stabilize. When this happens, the economic growth will converge to a steady state rate determined by technological progress.

UNIT 3 MARXIAN THEORY

Structure

3.1 Introduction

3.2 Marxian Philosophy

3.3 The Marxian Economic System

3.4 The Marxian Model of Economic Development

3.5 A Critical Appraisal of Marxian Theory

3.6 Let Us Sum Up

3.7 References and Suggested Readings

3.8 Check your Progress - Possible Answers

3.1 INTRODUCTION

In the previous units, you studied the classical and neo-classical theories of development. In this unit, we concentrate on the Marxian theory of development. It was propounded by Karl Marx. Karl Heinrick Marx is among the most influential thinkers, writers, philosophers, and economists of the 20th century. He is the celebrated author of *Das Capital*. Marx's approach to understanding the economy is intellectually independent of his advocacy of revolutionary socialism. Adherents of Marxian theory consider Marx's economic theories to be the basis of a viable analytic framework, and an alternative to more conventional neo classical economics. Marx was the first person to predict the inevitable doom of capitalism. He said, capitalism is destined to collapse, not because of population growth, diminishing returns, or stagnation, but due to sociological reasons, i.e., the class struggle. The concept of socialism entered the main currents of economic doctrines because of Marx. The Marxist school of thought challenged the foundations of classical theory.

After studying this unit you should be able to:

- explain Marxian philosophy and the Marxian theory of capital accumulation;
- narrate the Marxian theory of economic development;
- illustrate the theory of surplus value; and
- give a critical appraisal of Marxian theory.

3.2 MARXIAN PHILOSOPHY

Before going into the Marxian theory of development, it is essential to know about Marxian philosophy. Marx's philosophy is known as Dialectical Materialism. According to his philosophy, matter is the driving force of all historical changes. By matter, he meant man's relationship to nature as characterized by the mode of production. Thus, Marx gave an economic interpretation of history which can be summarized in two propositions:

i) The basic factor in the historical evolution of society is the mode of production. It is the mode of production that explains the whole superstructure of ideas and institutions.

ii) Society develops in accordance with the dialectical principle inherent in its structure. Marx maintained that, historically, social change takes place in a regular pattern.

The sequence of the Marxian stages of social evolution is: primitive communism, slavery, feudalism, capitalism, and socialism. Marx attempted to explain how contradictions in the capitalist system will lead to the downfall of this system which will be replaced by socialism.

The two important constituents of Marxian philosophy are

i) Dialectical Materialism and

ii) Historical Materialism.

These are discussed below.

i) **Dialectical Materialism**

Marxian philosophy is termed Dialectical Materialism. Marx's philosophical disposition was greatly influenced by, and at the same time vigorously opposed by, the German philosopher, Hegel. The influence of Hegel is clear in Marx's adoption of Hegel's Dialectical Method. Dialectical Method assumes a definite logical position which maintains that we reach a higher concept by negative judgments, which, because of the negation, is richer than the original one. Any finite concept, when considered as a predicate of reality (thesis) will lead us to its opposite (antithesis). But as the contradiction is repulsive to the original, the cycle does not stop there. Society moves to the third stage, synthesis, which reconciles the mutually opposed concepts, and provides a better description of reality. Thus, in the dialectical process, the thesis and the antithesis do not cancel each other, but are preserved and enriched in the synthesis.

According to Hegel, the world is in the process of continuous development and development takes place according to the dialectical formula. In this respect, Marx, agrees with Hegel. However, he differs on the question of the motive force of development. For Hegel, the motive force is a mystical entity, i.e., spirit, which causes human history to develop according to the dialectical process. Hegel's philosophy was Dialectical Idealism. Marx, on the contrary, evolved a philosophy of Dialectical Materialism in which he considered matter, and not spirit, as the driving force of historical development. It is this philosophy of dialectical materialism on which Marx based his materialistic interpretation of history.

ii) Historical Materialism

Now, let us discuss the historical materialism put forward for consideration by Marx. Marx applied his philosophical ideas to society and gave an economic interpretation of history. Historical materialism is the study of society and the laws of its development. Historical materialism, as a philosophy has the following features

i) It is a philosophical study which deals with objective laws of social development. These laws are independent of man's consciousness. Like the laws of nature, they are knowable and are applied by man in his practical activity.

ii) It deals with social laws as distinct from the laws of nature. The laws of nature reflect the operation of spontaneous forces, while the laws of

social development are always manifested through people who act as intelligent beings. As society is inseparable from men, social laws manifest themselves only through human activity.

iii) It studies the general objective laws governing the development of society. It investigates the most general phases of world history and the objective causes of their appearance and disappearance.

iv) It is more than a method of investigating social phenomena. It explains historical tendencies. History proceeds from lower to higher forms of social organization. The change to higher forms is inevitable, because the old forms stand in the way of further progress.

The subject matter of historical materialism includes the study of

the mode of production

the dialectics of the mode of production

the historical evolution of society.

a) The Mode of Production

The mode of production has logic of its own. According to Marx, the production of material wealth is the basis of human existence, and the mode of production of wealth is the determining factor of social development. Society as a distinct entity is a part of nature. It is inseparable from the rest of nature, and constantly interacts with it. People cannot exist without food, clothing, shelter, and other necessities of life. Nature, however, does not provide things readymade. Thus, people must work to produce these things. Labour, or productive activity, is, therefore, the basis of social life.

The mode of production, which determines the economic structure of society, has two aspects: (i) the forces of production, and (ii) the relations of production.

i) The forces of production: This refers to

the organization, skill and status of labour

the techniques and traditions of production

the geographical conditions and degree of knowledge to utilize materials and resources.

The forces of production determine the relationship between man and nature. Regardless of the form of society, the interaction between man and nature consists in the unity of three elements

i) labour

ii) the objects of labour

iii) the means of labour.

Labour is productive human activity that is aimed at transforming natural objects to satisfy human wants. The objects of labour are the things to which human labour is applied. In the earth, all raw materials, is the universal object of labour. The means of labour are the things used by man to act upon objects of labour. They include all instruments of labour such as, machines,

tools, buildings, transport, etc. Objects and means of labour together are called means of production. The means of production refers to the sum total of material conditions, without which production is impossible.

ii) The Relations of Production This refers to a particular set of property relations which determines the nature of society's class structure. The relations of production, or the economic relations between people, determine the relation between man and machine. These relations are called production relations. According to Marx, production relations are based on the form of ownership of means of production.

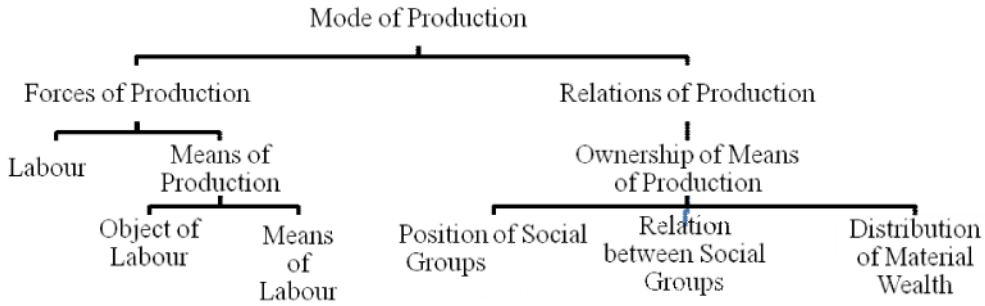
The form of ownership depends on

a) the position (dominating, or subordinate) of various social groups in production

b) their relations (exploitative, or cooperative) in the production process

c) the distribution of wealth, i.e., mutual exchange of their activity.

The components of the mode of production are summarized in the following chart



b) Dialectics of the Mode of Production

Society develops in accordance with the dialectical principle inherent in its structure. This means that the mode of production has a logic of its own. The mode of production changes because of inherent necessity, and is not due to any external force. The working of the mode of production is governed by three laws:

i) The Law of Unity: This law states that the productive forces and the production relations, taken together, determine the mode of production of material wealth. They are linked by an inner unity, i.e., a specific level of productive forces requires specific production relations.

ii) The Law of Correspondence: This law states that production relations tend to correspond to productive forces. The changes in the productive forces induce adjustment in the production relations. The correspondence of production relations to productive forces operates only as an economic tendency. It imposes no rigid mechanical dependence of the former on the latter. It is not a 'law of obligatory correspondence'.

iii) The Law of Conflict: This law states that conflict stems from the intrinsic nature of the two sides of the mode of production, i.e., the forces of production, and the relations of production. This conflict is not accidental. It is inherent in the mode of production. It brings development in the mode of production.

c) Historical Evolution of Society

The relations of production form the economic basis of the society, while political and legal views, and ideology and institutions make up its superstructure. The superstructure is determined by, and acts on, economic basis. The historical sum total of productive forces, economic basis, and the superstructure make up the socioeconomic system. The totality of production relations (property, peoples' relations, and distribution of wealth) constitutes the economic basis of a society. The economic basis plays an important role in the society. It serves as the real foundation of social superstructure, which includes political, legal, philosophical, moral, religious, artistic, and their corresponding relations, institutions, and organizations. Thus, the economic basis is that aspect of the mode of production which directly moulds the face of society, its ideas, and institutions. The superstructure plays a very significant role in social development. According to Marx, the history of society consists of the history of the sequence of socioeconomic formations, or the replacement of one mode of production by another.

According to him there are five different stages of social evolution

i) primitive communism

ii) slavery

iii) feudalism

iv) capitalism

v) socialism.

Class relations do change with the change in the socioeconomic structure of each stage.

In this section you have read about Marxian Dialectical Materialism and Historical Materialism. Now answer the questions given in *Check Your Progress-1*.

Check Your Progress 1

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) What are the main features of Dialectical Materialism?

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2) What are the dialectics of the mode of production?

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3.3 THE MARXIAN ECONOMIC SYSTEM

In this section, you will study the Marxian economic system in the context of development. The Marxian economic system is composed of four components

a) The capitalist economic system

b) The labour theory of value

c) The theory of surplus value

d) The theory of capital accumulation.

a) The Capitalist Economic System.

According to Marx, capitalism is an economic system with the following elements

i) A capitalistic society is divided into two classes: the capitalists, and the workers. The capitalists own the means of production, while the workers do not. The workers sell their services, i.e., labour power, to the capitalists for wages.

ii) A commodity forms the unit of production in a capitalistic society. A commodity is defined as the carrier of use-value (utility) and exchange-value (with other commodities).

iii) The growth of capitalism is based on the exploitation of labour. Labour produces surplus value which is appropriated by the capitalist.

iv) All commodities are produced with a profit motive and the exchange equation is m-C-M. The capitalist purchases commodity, C, (labour power) with money, m, with an intention to sell it (after production) for profit, M.

v) The motive force behind capitalism is profit. The capitalist always reinvests the profit in his business to upgrade technology.

vi) Capitalists adopt labour saving machinery which creates a 'reserve army of the unemployed'. It results in growing the misery of the working class.

b) The Labour Theory of Value.

According to Marx, the value of a commodity is determined by the quantity of labour required to produce it. One commodity has both use-value and exchange-value. When commodities represent use-values, they are qualitatively different due to the different forms of useful labour used in them. Marx was an advocate of the labour theory of value and believed that all production belongs to labour, because workers produce all value within society. Marx predicted that capitalism would produce growing misery for workers as competition for profit leads capitalists to adopt labour-saving machinery. The Marxian 'industrial reserve army' concept is another way of looking at 'technological unemployment'. It is not a biological law, but is an essential feature of the capitalist system. For Marx, a surplus population was largely the consequence of capitalistic tendencies of capital accumulation, labour displacing technological change, and the concentration of capital. The following points explain how the capitalistic process of production leads to the creation of an ever increasing population.

i) Economic development under capitalism depends upon the accumulation of capital, which in turn, depends upon surplus value (or, profits). As long as there is profit, there will be continuous re-investment in the production process.

ii) In static conditions, capitalists accumulate capital and reinvest it to expand production, and to reap further profits. Since all round expansion in production results in an increase in demand for labour (i.e., higher wages), the surplus value has a tendency to fall. It provides additional reason to accumulate more capital.

iii) Under dynamic conditions, the greater amount of surplus value goes to those producers who are capable of producing advanced technology in production. Technological progress, according to Marx, means adoption of capital intensive and labour-replacing technology. Hence, the race for capital accumulation among the capitalists raises the capital output ratio, which reduces profits. Ultimately, the capitalist suffers.

c) The Theory of Surplus Value

Labour power has the unique characteristic of being capable of producing more than its own value when it is put to productive use. The excess of value produced by labour power over its own value is called surplus value. The aim of the capitalist is to, always, increase this surplus value. Surplus value refers to the extra labour of the worker, for which he receives nothing from the producer or employer. It is appropriated by the capitalist. This implies exploitation of labour. It is the only cause of class conflict, or class struggle. Marx's theory of surplus value can be explained by the following set of equations.

i) $Y = C+V+S$

ii) $s = S/V$

iii) $k = C/(C+V)$

iv) $\pi = S/(C+V) = s(1 - k)$*

Where: Y= total income, C= constant capital, V= variable capital, S = surplus value, s = rate of surplus value, k = organic composition of capital (capital intensity) and π = rate of profit.

This equation shows that π is directly related to s, and inversely related to k. It means that the profitability of the producer depends, directly, on his capacity to exploit labour, and, indirectly, on the organic composition of capital. Due to severe competition, the capitalist tries to raise productivity. Therefore, the degree of automation rises, and, in turn, the organic composition of capital grows. It means that the rate of profit increases with the rise in exploitation of labour, and falls with the rise in constant capital. Therefore, the capitalist suffers from continual reduction of his profit and profitability. Capitalism has a built in doom. It will meet its natural death, eventually, in the long run.

* Proof: $\pi = S / (C+V) = SV / V(C+V)$

$$= \frac{SV + SC - SC}{V(C+V)} = \frac{S(C+V) - SC}{V(C+V)}$$

$$= \frac{S}{V} - \frac{SC}{V(C+V)} = \frac{S}{V}\left\{1 - \frac{C}{C+V}\right\} = s(1 - k)$$

d) The Theory of Capital Accumulation

Marx propounded the theory of capital accumulation. Marx contends that under static conditions capitalists are compelled to accumulate due to two reasons

i) The emergence of surplus value in capitalist production induces the capitalist to accumulate, and to re-invest.

ii) The mass effect of this all round expansion of production is an increase in the demand for labour, rise in wage rates, and reduction in surplus value, because surplus value is simply the excess of total produce over the subsistence produce. This provides another reason for an individual capitalist to accumulate.

A capitalist society is marked by continuous change. Under dynamic conditions, the larger share of surplus value goes to those producers who are able to introduce the most advanced and efficient technology in production. The race for capital accumulation among the capitalists', compel them to adopt new technology and gain huge profits. Capital accumulation depends upon the ability of the capitalists to raise the surplus value. Surplus value can be increased in three ways

i) by reducing the wage rates

ii) by extending the working hours

iii) by increasing the productivity of labour.

The first method cannot be pursued for a long time as it curtails labour supply. The second method can be relied upon only temporarily. Thus, Marx put more emphasis on the third method of increasing productivity of labour. This involves technological improvements. Capital intensive techniques increase the total output produced by a given labour force and, thus, increase surplus value.

Capital accumulation and technological progress leads to the following three tendencies

1) The Concentration of Capital

Competition compels capitalists to reduce the price of their commodities. This is done by increasing the productivity of labour through capital intensive technology. But the small capitalists fail in this competition, so they are compelled to exit from their business. Marx terms it as "expropriators are expropriated".

This tendency of concentration has three effects

i) it results in a larger scale of production

ii) the polarization between capitalists and workers is more sharpened

iii) the capitalist production becomes social in nature, though in its property relations, it is still private.

An individual worker is now a part of a large social productive process, and an individual capitalist is the trustee of the society.

2) Immiserization of the Proletariat

Capital accumulation results in the growing misery of the working class. The process of immiserization (i.e., increased unemployment, and reduction in wages) of the proletariat operates in the following two ways

i) Capitalism produces an industrial reserve army, or surplus toiling class. In other words, the capitalist system discards workers at a faster rate

than it hires them. This is because of two reasons

a) Under dynamic conditions, when labour saving technology is adopted widely, the industrial reserve army has a tendency to grow

b) Due to the concentration of capital, larger capitalists prey on small capitalists. Thus, small producers who cannot face the competition from big producers also join the industrial army.

ii) The condition of the few workers who remain employed also deteriorates because

a) Growing unemployment enables capitalists to reduce the wages to subsistence levels

b) Capitalists also lengthen the working day and hours for more surplus

c) Capitalists resort to hiring women and children at still lower wages than men.

3) The Falling Rate of Profit

Capital accumulation results in immiserization for the workers and falling rate of profits for the capitalists. According to Marx, the falling rate of profit is the consequence of two other basic tendencies:

i) Extensive use of capital intensive technology tends to increase capital per man, or the organic composition of capital (*k*). With capital accumulation, capitalists try to get maximum production at minimum costs through the use of capital intensive technology; and

ii) Marx assumes constant rate of surplus value (s). These two tendencies lead to the third eventuality, *i.e.*, the falling rate of profit. This can be easily understood with the help of a fundamental equation, $\pi = s\ (1 - k)$. This equation implies that the rate of surplus value, the rise in organic composition of capital (*k*) reduces the rate of profit.

After having read this section, now you are familiar with the Marxian Economic System. On the basis of your understanding of this concept, answer the following questions in *Check Your Progress-2*.

Check Your Progress 2

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) What are the features of capitalism?

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2) Explain the essence of the Marxian theory of surplus value.

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3.4 THE MARXIAN MODEL OF ECONOMIC DEVELOPMENT

In this section, you will study the Marxian model of economic development. According to Marx, secular economic growth at full employment is a contradiction. There is a class struggle due to the impoverishment of the toiling class. Capital accumulation results in an ever increasing capital-output ratio, and declining profits. This economic development path is self destructive. Marx's theory of economic development is essentially an analysis of capital accumulation, and it effects. According to Marx, in order to reap greater profits, and to ensure their existence in the competitive economy, the capitalist producers tend to accumulate more and more capital, and to introduce mechanization in the process of production.

This tendency of capital accumulation and technological change has three effects

i) it leads to the concentration of capital in the hands of a few entrepreneurs, and to the elimination of small entrepreneurs

ii) it leads to the growing pauperization of the working class, and to the expansion of the industrial reserve army

iii) it leads to the tendency of falling rates of profit.

All these effects are collectively responsible for the eventual breakdown of the capitalist system.

Marx has contributed to the theory of economic development in three ways

i) he formulated the materialistic interpretation of history

ii) he specified the motivating forces for economic development

iii) he suggested an alternative path for planned economic development

Symbolically, the Marxian theory of economic development can be summarized by the following equation:

1) Total output (Q) depends on the size of labour force (L), amount of land (R), stock of capital (K), and technological progress (T).

   $Q = f(L, K, R, T)$,

2) Technological progress (T) depends on investment (I).

   $T=T(I)$

3) Investment (I) depends on the rate of profit (π).

   $I=I(\pi)$

4) The rate of profit (?) is the ratio of surplus value and capital.

   $\pi = S / (C+V)$

5) Wages (W) depend on the level of investment and employment.

   $W = W (I, L)$

6) Labour employment depends on the level of investment.

   $L = L (I)$

7) Consumption Expenditure (E) depends on wage bill (W).

E=E(W)

8) Profits are determined by the level of technology and consumption. $\Pi=\Pi(T,E)$

9) Total output (Q) is equal to profits (Π) plus wages (W). $Q=\Pi+W$

10) The economy has two sectors: consumer goods and producer goods sectors. So, the total output is the sum of consumer goods and producer goods

$Q = Dg+Kg=E+I$

The equation is determinate, because the number of equations and unknowns are equal. Let us have a look at the system of equations in the Marxian model.

1	Production	$Q = f(L,K,R, T)$
2	Technology	$T=T(I)$
3	Investment	$I=I(\pi)$
4	Profit	$\Pi=\Pi(T,E)$
5	Employment	$L =L(W)$
6	Wage	$W=W(I,L)$
7	Total Output	$Q = Cg + Kg$
8	WageBill	$W=wL$
9	Rate of Profit	$\pi = S/(C+ V)$
10	Total Income	$Y= C+V+S$
11	Capital	$K=C+V$

Where: E = consumption expenditure, Π = profit, π= rate of profit, K= Capital, W= wage bill, w = Wage rate, Dg= consumer good, Kg= capital goods, C= Constant capital, V= Variable capital, S= surplus value, L = Employment

We can observe the circularity of the Marxian model. Let us start with profit as the prime mover of the capitalist system.

High profit $\rightarrow$ Competition $\rightarrow$ Capital Intensive Technology $\rightarrow$ Capital-Output ratio $\rightarrow$ Profit fall. An increase in profits brings an increase in investment, and in the stock of capital, which permits capitalists to take advantage of the steady flow of improved technology. Intense competition leads to unemployment and a rise in the capital output ratio, and reduced profits.

In order to remain in the competitive race, capitalists must continually introduce technological improvements, which means accumulating more and more capital, and using more and more capital intensive techniques. As a result, capital stock (K) increases relative to output. Under these conditions, the only way to maintain the prevailing rate of profit (π) is to increase the difference between output per man (q) and the wage rate (w). This objective can be achieved in the following ways

Reduce the wage rate to the bare minimum level

Add more labour saving techniques which raises q and keeps w at the minimum level

Increase hours of work, which raises q without increasing w

Strengthen the monopoly position, which raises prices without raising wages.

According to Marx, all these measures to maintain the rate of profit prove self defeating. In the short run, they produce economic fluctuations. In the long run, these factors lead to the breakdown of the capitalist system. This is illustrated in the diagram below. The OY axis represents income and the OX axis represents time periods.

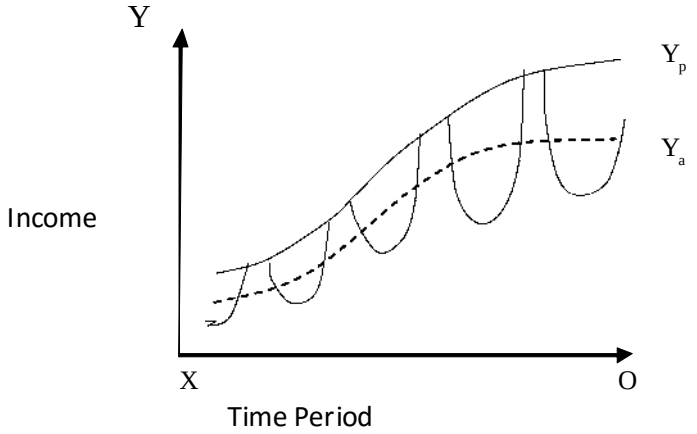

Fig. 3.1: Marxian Model

The classical economists were not concerned with the gap between potential and actual income. For them, the potential income would stagnate due to population growth. But, according to Marx, the picture of capitalist growth would be as shown in Fig. 2.1. There is growth in income until the downfall of capitalism through a revolution of the working classes. The figure shows that Y_p is the upper limit of the growth process. It is stable, but Y_a is unstable. The gap appears between the trend of potential GNP and the trend in actual GNP. But, this gap is the product solely of increasing amplitude of cycles. Since the national income, in real terms, cannot rise above full employment levels, the increasing amplitude of fluctuations in real terms means increasingly severe downswings, which brings the trend of actual income further and further below the trend of potential income. In the short term, they produce economic fluctuations. In the long term, they lead to the breakdown of the capitalist system. Marx asserts that the capitalist system will ultimately collapse because of the following reasons,

the falling rate of profit

over production (market glut) due to high technology

under consumption (low purchasing power) due to the immiserization process

capital-intensive (labour-displacing) automations

class struggle (conflict) due to rising income inequality

The economic crises, according to Marx, will have the secular effect of producing deeper and deeper depressions, and shorter and weaker booms. Despite the best efforts made by the capitalists, the rate of profit will continue to decline. During a boom, capital accumulations temporarily create full employment conditions and bring a temporary increase in wages. An increase

in wages causes the rate of profit to fall, which leads to reduced investment and to depression. Everything that the entrepreneurs do to maintain profits, increases the misery of the working class. Eventually, Marx predicts, the workers will not bear it, and, by sheer strength of their number, they will overthrow the capitalist system through revolution.

Marx, however, refers to a number of offsetting factors which arrest the general law of the falling rate of profit. These factors are

i) technological progress may reduce the cost of constant capital

ii) the capitalist keeps constant profit by increasing the rate of exploitation

iii) intensified activities where weaker capitalists are expropriated

But, Marx firmly believed that these counteracting forces are temporary in nature and do not nullify the general tendency towards economic collapse. Ultimately, the expropriators are expropriated. The internal contradictions in the capitalist system bring about its own collapse. Eventually, the success of capitalism is not sustainable.

Having read the Marxian model of economic development in detail, now try and answer the following questions in *Check Your Progress-3*.

Check Your Progress 3

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) How has Marx contributed to the theory of economic development?

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2) What is the essence of Marxian Development Model?

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3.5 A CRITICAL APPRAISAL OF MARXIAN THEORY

Marx's theory of economic development has been criticized on both theoretical and empirical grounds, as follows

1) Marxian theory makes a static analysis. Capitalist countries face different types of problems, which are not discussed by Marx. His analysis of crisis is outdated.

2) The theory of the falling tendency of profit is not correct. Competition raises capital productivity and improves efficiency which thwarts the tendency of declining profit.

3) The empirical evidence does not support Marx's predictions.

Contrary to Marx's prediction, industrial concentration has increased very little since the turn of the 20th century.

Undoubtedly, the capital intensity of production has increased, but, at the same time, the rate of capital accumulation has been very rapid. Technology does not create unemployment.

In the industrial capitalist world, the average real per capita income of the worker has increased, and the working conditions have greatly improved.

The cyclical fluctuations have not become severe and have not increased secularly.

4) Marx's analysis is more indicative rather than definitive. It is correct to say that technological change results in industrial concentration. However, we cannot say much, with certainty, about the generation of other tendencies.

It is uncertain that technical progress will increase the organic composition of capital.

It is uncertain that technological change will lead to growth in the industrial reserve army, or, to a fall in the rate of profit.

It is uncertain that both the growth of an industrial reserve army and the falling rate of profit will prevail at the same period of time.

5) Marx's theory of technological changes is not complete. He did not explain the response mechanism of the innovation process properly.

6) On the demand side, the excessive demand for capital during the capital accumulation process will make capital a relatively scarce factor. So, the producers seek every opportunity to save capital. Marx did not analyze capital saving technology.

7) It is wrong to assume a constant rate of surplus value along with a rising organic composition of capital (k). A rise in k means an increase in labour productivity, which results in a higher rate of surplus value.

8) It is wrong to conclude that a rise in the organic composition of capital (k) leads to a fall in profit. Any rise in k leads to an increase in productivity, and improvement in technology. Both these results tend to arrest the declining trend of profit.

3.6 LET US SUM UP

In this unit we have analyzed Marxian philosophy and the characteristics of the capitalistic economic system. We explained the Labour Theory of Value, the Theory of Surplus Value, and the Theory of Capital Accumulation. Finally, we studied the Marxian Model of Economic Development, and examined its validity today.

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3.8 CHECK YOUR PROGRESS – POSSIBLE ANSWERS

Check Your Progress 1

1) Answer: According to Marxian dialectical materialism, it is matter and not spirit which is the driving force of historical development. Marx wrote his materialistic interpretation of history on the the basis of dialectical materialism.

2) Answer: Society develops in accordance with the dialectical principle inherent in its structure. This means that the mode of production has a logic of its own. The mode of production changes because of inherent necessity, and is not due to any external force. The working of the mode of production is governed by three laws:

   i) The law of unity

   ii) The law of correspondence

   iii) The law of conflict.

   Based on these laws it states that the mode of production changes because of inherent necessity, and not due to any external force.

Check Your Progress 2

1. According to Marx, capitalism is an economic system which has the following characteristics

   a capitalistic society is divided into two classes: the capitalists and the workers

   the growth of capitalism is based on the exploitation of labour

   the motive force behind capitalism is profit for reinvestment

   capitalists adopt capital intensive technology which creates the 'reserve army'

   capitalism results in class struggle due to immiserization of the working class.

2. Surplus value is the excess of value produced by labour power over its own value. It refers to the extra labour of the worker for which he receives nothing from the producer. It is appropriated by the capitalist. The theory of surplus value says that the rate of labour exploitation is

   $(s)= S/V$, and the rate of profit $(\pi)= S/(C+V)=s(1 - k)$

   where: C = constant capital, V= variable capital, S = surplus value, k = organic composition of capital.

   This equation implies that the profit of the producer directly depends on his capacity to exploit labour, and indirectly on the organic composition of capital.

Check Your Progress 3

1. Marx has contributed to the theory of economic development in three ways

   i) by giving a materialistic interpretation of history

   ii) by specifying the motivating forces of economic development

   iii) by suggesting an alternative path of planned economic development.

2. Marx's model says that capitalism grows on the profit motive. It leads to the concentration of economic power. In the short run, this tendency produces economic fluctuations. In the long run, it leads to the breakdown of the capitalist system. The capitalistic system collapses because of

   a) the falling rate of profit

   b) overproduction (market glut), due to advanced technology

   c) under-consumption (low purchasing power), due to the immiserization process

   d) capital intensive (labour displacing) automations

   e) class struggle (conflict), due to rising income inequality.

UNIT 4 SCHUMPETER THEORY

Structure

4.1 Introduction

4.2 Features of Schumpeter Theory of Development

4.3 Critical Appraisal of Schumpeter Theory

4.4 Let Us Sum Up

4.5 References and Suggested Readings

4.6 Check your Progress Possible Answers

4.1 INTRODUCTION

Schumpeter is an illustrious votary of capitalism and his book "The Theory of Economic Development" is still one of the most famous and influential books in the entire field of economics. He is very well known as the "Prophet of Innovations". As Richard Swedberg wrote that from "all the theories of entrepreneurship that exists, Schumpeter's theory is still, to my mind, the most fascinating as well as the most promising theory of entrepreneurship that we have". The Schumpeter theory of economic development presents a holistic symbiosis between economic, historical, political, social and all other elements of the process of the functioning and development of the capitalist world. In essence, Schumpeter theory gives an in depth account of dynamics of capitalist system.

After reading this unit, you will be able to:

Explain the features of Schumpeter theory of development

Describe the various criticisms of Schumpeter theory of development.

4.2 FEATURES OF SCHUMPETER THEORY OF DEVELOPMENT

The two important contributions to theory of economics development by Schumpeter are "entrepreneur" the actors of development and "innovation" the actions of development. The three key features of Schumpeter theory of economic development are: (i) Circular Flow; (ii) Innovation; (iii) Role of Entrepreneur; (iv) Role of Profit; (v) Cyclical Development Process and; (vi) Decay of Capitalism.

(i) Circular Flow – Schumpeter triggered off his analysis of economic development process by introducing the concept of circular flow. The circular flow is based on the premises that economic development is a continuous process, where economic activities produce continuously at constant rate through time. According to Schumpeter "development in our sense…… is change in the channels of the flow as opposed to that movement. It is displacement of the equilibrium state as opposed to the movement towards an equilibrium state". While supporting the role of circular flow in development, Schumpeter told "development in our sense is a discrete phenomenon, entirely foreign to what may be observed in the circular flow or in the tendency towards equilibrium. It is spontaneous and discontinuous change in the channels of the flow disturbance of equilibrium, which forever alters and displaces the

equilibrium state previously existing". The economic activities are essentially repetitive and subject to charge in a routine manner. The firms working in the economic system are in a state of competitive equilibrium. All the producers know the aggregate demand for goods and adjust the supply of output accordingly. The equilibrium state circular flow occurs in a static setting. According to Schumpeter, development beings with the breaking up of circular flow by the innovative entrepreneurs with an innovation in the form of a new product.

(ii) Innovations – Innovation is the kingpin of Schumpeter theory of economic development. The development process remains dynamic and vibrant because of innovations. Innovation is defined as a change in existing production system to be introduced by the entrepreneur with a view to make profits and reduce costs. According to Schumpeter innovation covers five aspects:

(i) The introduction of new good-that is one with which consumers are not yet familiar;

(ii) The introduction of new method of production – that is one not yet tested by experience in the branch of manufacture;

(iii) The opening of a new market – that is a market into which the particular branch of manufacture of the country in question has not previously entered;

(iv) The conquest of a new source of supply of raw materials or half-manufactured goods;

(v) The carrying out of the new organization of any industry like the creation of a monopoly.

The combination of these factors are essential for facilitating development. To Schumpeter, "innovation" means "doing things differently in the realm of economic life". Innovators are the actors of development who are different from capitalists. In order to perform innovations, the innovators have to overcome socio-psychological barriers, besides economic barriers of financing the innovation. Therefore, these group of development actors have to posses the quality of leadership. Sweezy has remarked that "Schumpeter's analysis is designated to show that without entrepreneurs we have a stationary economy."

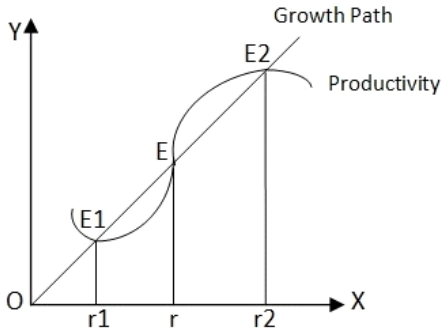
(iii) Role of Entrepreneurs – Entrepreneur is the star of Schumpeterian drama of economic development. He/she is the central figure in Schumpeter's theory of economic development. He/she is the innovator who does innovation and initiates process of development in an economy and carries it forward. Entrepreneurs are not the capitalists; rather they work under the capitalists. The capitalists furnish the funds, while the entrepreneurs direct the use of these funds.

The two things which are critical to functioning of an entrepreneur to bring economic development are technical know-how and capital resources. Entrepreneurs need technical know-how for introducing new products and new combinations of production factors. Schumpeter considers that these production and production factors are always present in an economy. What an entrepreneur does is only streamline

these things. To Schumpeter "it is not part of his function to find or to create new possibilities. They are always present abundantly accumulated by all sorts of people." The second essential thing which an entrepreneur needs is the capital resource which can enable him/her to have command over factors of production. He/she acquires capital in the form of credit from banks and other financial institutions. Thus credit and bank plays vital role in economic development. Schumpeter is of the opinion that the entrepreneur needs credit because credit promotes industrial development which in turn delivers new goods.

(iv) Role of Profit - Profit is the main motivation factor for entrepreneur to go for innovation. Entrepreneurs innovate because they want to increase profit. According to Schumpeter "under competitive equilibrium, the price of each product just equals to its cost of production and there are no profits. Profits arise due to dynamic changes resulting from an innovation. They continue to exist till the innovation becomes general". Entrepreneurial innovation is the major sources of all profits. However, as economic development progresses through innovations, the competition to progress among the entrepreneurs rises causing entrepreneurial profit to decline as the economy asymptotically heads towards a stable state.

(v) Cyclical Process of Development – Schumpeter regards economic development as a dynamic, discontinuous and cyclical process. His concept of "creative destruction" where old economic structures of the society are being continually destroyed and new structures are being continually created reveals the cyclical nature of development. Schumpeter famously claimed that to discuss capitalism without mentioning the process of creative destruction would be like discussing the play Hamlet, without mentioning the Danish prince (Schumpeter, 1950). According to Diamond (2004) Schumpeter's central message is that the process of creative destruction describes the form of competition in capitalism that is capable of dramatic improvements in the quantity and quality of our lives. To him the swarm like appearance of entrepreneurs is responsible for cyclical nature of economic growth. In this situation one entrepreneur follows the other and innovation in one field may induce other innovations in related fields. For example, the emergence of motor industry, may in turn, stimulate a wave of new investments in motor parts industries, tyre industries and petroleum product industries. Schumpeter believes that new units of production enjoy advantages over old units of production when new plants starts turning out production.



Entrepreneurs play key role in the Schumpeterian theory of economic development. They bring economic development in a spontaneous and discontinuous manner and "Cyclical saving are the cost of economic development under capitalism", a permanent feature of its dynamic path.

(vi) Decay of Capitalism – Schumpeter had a pessimistic view about the survival of capitalism. The capitalism will flourish as long as capitalists earn profit and innovations continue and the entrepreneurs are agile and continue innovation. Schumpeter has sighted three reasons for the downfall of capitalism: (i) the obsolescence of entrepreneurial function; (ii) destruction of institutional framework of capitalist and (iii) destruction of protecting the political strata. Schumpeter believed that the innovation carried out by the entrepreneurs will not continue for long and will be turned into routing activity through highly trained managers. This would reduce the position of entrepreneur in a society and undermine their functions and turn them into "warrior knight". Another factor responsible for the downfall of capitalism is the weakening of its institutional framework. The tendency towards concentration and increase in the size of the production unit destroy capitalistic institutions like private property and freedom of conflict. Finally, the destruction of the protecting political strata will give a big blow to capitalist system. With the rise of capitalism not only the institutional frame work will crumble but also the political strata who would have protected capitalism at it's early stage gets destroyed. The very success of capitalism is destroyed by the royal power. With the progress of capitalism the industrial units and merchants becomes more powerful and pose big threat to political class and virtually dominate them.

It can be well said that it is the rise of capitalism which brings its own death. The entire process of decomposition and disintegration in the capitalist system shows that capitalist process does not only destroy its own institutional frame work but also creates conditions for another system i.e. socialism which may assume various forms. To end, it is pertinent to quote Higgins who wrote "According to Schumpeter, not the failures of capitalism but its very success, eventually leads to the slaughter of the goose that lays the golden eggs". Therefore, Schumpeter is regarded as a prophet of doom of capitalism.

In this section you read about the features of Schumpeter theory of development and now answer the questions given in *Check Your Progress-1*.

Check Your Progress 1

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1. What is circular flow?

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2. Give three important reasons of downfall of capitalism.

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4.3 CRITICAL APPRAISAL OF SCHUMPETER THEORY

Some of the criticism leveled against Schumpeter theory of economic development is as follows:

(i) The Schumpeter theory of economic development is being criticized on the ground that is has placed too much of emphasis of entrepreneurs and their role in innovations. They placed their argument that innovation is one of the factors of development like all other factors i.e. labour, capital and organizational efficiency. However, over a period of time innovation becomes a regular activity and entrepreneurs glorified role is cut into size in the process of development.

(ii) In Schumpeter theory of development, credit in general and bank credit in particular play important role. The entrepreneurs undertake innovation activities with the help of bank credit. In the long run bank credit is not sustainable to promote investment unless and until it is backed by real saving, deficit financing and public borrowings. Thus it is commented that Schumpeter undermined the role of savings in the process of economic development. In present time, the sources of savings play a vital role in financing the development projects and innovations particularly in developing countries.

(iii) Schumpeter's analysis has not taken into consideration the effect of population growth on economic development. In the developing countries population growth creates hurdle in the process of development.

(iv) Schumpeter's argument of downfall of capitalism and advent of socialism is not based on sound reasoning.

He has argued that it is the success of capitalism that brings its downfall. The Success of capitalism does not depend only on the role of entrepreneur and innovations but on many other economic factors. It is therefore not convincing that capitalist process always works on the basis of rationality and disproportionate ideas (Leki, 1990).

In this section you read about the criticisms of Schumpeter theory of development and now answer the question given in *Check Your Progress-2.*

Check Your Progress 2

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1. Give two criticisms of Schumpeter theory of economic development

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4.4 LET US SUM UP

The Schumpeter theory of economic development presents a holistic symbiosis between economic, historical, political, social and all others elements of the process of the functioning and development of the capitalist world. In essence, Schumpeter theory gives an in depth account of dynamics of capitalist system. The key components of Schumpeter theory of development are entrepreneur, circular flow, rate of profit and innovations. Schumpeter theory still holds a lot of relevance in the contemporary world of globalization and development.

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4.6 CHECK YOUR PROGRESS - POSSIBLE ANSWERS

Check Your Progress 1

1. The circular flow is based on the premises that economic development is a continuous process, where economic activities produce continuously at constant rate through time. According to Schumpeter "development in our sense is change in the channels of the flow as opposed to that movement. It is displacement of the equilibrium state as opposed to the movement towards an equilibrium state".

2. Schumpeter has sighted three reasons for the downfall of capitalism: (i) the obsolescence of entrepreneurial function; (ii) destruction of institutional framework of capitalist and (iii) destruction of protecting the political strata. Schumpeter believed that the innovation carried

out by the entrepreneurs will not continue for long and turned into routing activity through highly trained managers.

Check Your Progress 2

1. Firstly, the Schumpeter theory of economic development is being criticized on the ground that is has placed too much of emphasis on entrepreneurs and their role in innovations. However, over a period of time innovation becomes a regular activity and entrepreneurs glorified role cut into size in the process of development. Secondly, Schumpeter analysis has not taken into consideration the effect of population growth on economic development. In the developing countries population growth creates hurdle in the process of development.

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PROGRAMME DESIGN COMMITTEE

Prof. Amita Shah
Gujarat Institute of Development Research, Ahmedabad

Prof. S. K. Bhati
Jamia Millia Islamia, New Delhi

Prof. J. S. Gandhi (Rtd)
Jawaharlal Nehru University, New Delhi

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Prof. B. K. Pattanaik
IGNOU, New Delhi

Dr. Nehal A. Farooquee
IGNOU, New Delhi

Dr. P.V.K.Sasidhar
IGNOU, New Delhi

PROGRAMME DESIGN COMMITTEE (REVISED)

Prof. T.S. Papola
Institute for Studies in Industrial Development, New Delhi

Prof. S. Janakrajan
Madras Institute of Development Studies, Chennai.

Prof. S. K. Bhati
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IGNOU, New Delhi

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IGNOU, New Delhi

Dr. Pradeep Kumar
IGNOU, New Delhi

Dr. Nisha Varghese
IGNOU, New Delhi

Dr. Grace Don Nemching
IGNOU, New Delhi

COURSE PREPARATION TEAM

Unit Writer:

Prof. B. K. Pattanaik
SOEDS, IGNOU (1 Unit & 4)

Dr. Nisha Varghese
SOEDS, IGNOU (Unit 2 & 3)

Editors:

Dr. Nisha Varghese, IGNOU

Prof. B. K. Pattanaik, IGNOU

Prof. Nehal A. Farooquee, IGNOU

Prof. P. V. K. Sasidhar, IGNOU

Course Coordinator : Dr. Nisha Varghese, E-mail : nishavarghese@ignou.ac.in

Programme Coordinators : Prof. P.V.K. Sasidhar, Prof. B.K. Pattanaik, Prof. Nehal A. Farooquee,

PRINT PRODUCTION

Mr. S. Burman
Deputy Registrar (Publication)
MPDD, IGNOU, New Delhi

Mr. KN Mohanan
Asst. Registrar (Publication)
MPDD, IGNOU, New Delhi

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BLOCK 3 DEVELOPMENTALIST THEORIES

Block-3 of Course MDV-101 consists of four units namely Balanced Development Theories, Unbalanced Development Theories, Rostow's Stages of Economic Growth and Development and Developmental State Theory.

Unit-1 on **'Balanced Development Theories'** deals with Rosenstein Rodan's Theory of Balanced Growth, W A Lewis' Theory of Unlimited Supply of Labour and Rangar Nurkse's Theory of Balanced Growth. It also discusses the merits and criticisms of the theory of Balanced Growth.

Unit-2 on **'Unbalanced Development Theories',** discusses in detail the Hirschman's Strategy of Unbalance and Leibenstein's Critical Minimum Efforts Theory. The merits and demerits of these theories are also discussed.

Unit-3 on **'Rostow's Stages of Economic Growth and Development',** discusses Rostow's stages of growth, its criticisms and appreciation.

Unit-4 on **'Developmental State Theory'**, discusses the development state theories of Chalmers Johnson, Peter Evans and Gunnar Myrdal.

UNIT 1 BALANCED DEVELOPMENT THEORIES

Structure

1.1 Introduction

1.2 Balanced Growth: Concept and Meaning

1.3 Rosenstein Rodan's Theory of Balanced Growth

1.4 W A Lewis' Theory of Unlimited Supply of Labour

1.5 Rangar Nurkse's Theory of Balanced Growth

1.6 Merits and Criticisms of Balanced Growth Theory

1.7 Let Us Sum Up

1.8 References and Suggested Readings

1.9 Check Your Progress - Possible Answers

1.1 INTRODUCTION

The two important categories of theories of development propounded by the developmental economists are: (i) The theory of balanced growth; and (ii) The theory of unbalanced growth. In this unit, we will be discussing about the theory of balanced growth. The basic proposition of balanced growth theory is that there must be harmonious or simultaneous development of all the sectors, so that a holistic development in the economy can take place. Therefore, the propounders of the balanced growth theories suggested that the investment must take place simultaneously in all the sectors of development i.e. agriculture and industry; between domestic and export sector; and between social and economic overhead in order to facilitate balanced development.

After reading this unit, you will be able to:

define balanced growth;

describe Rosenstein Rodan's theory of balanced growth;

discuss W A Lewis' theory of unlimited supplies of labour; and

explain Rangar Nurkse's theory of balanced growth.

1.2 BALANCED GROWTH: CONCEPT AND MEANING

Just as a war cannot be won without a suitable strategy, similarly the objective of rapid economic development cannot be achieved without resorting to appropriate strategies. The development strategies help the nation to search for resources, have appropriate planning and implement them in a most appropriate way. The two important strategies advocated by the developmentalist theorists are balanced and unbalanced growth strategies. The advocates of the balanced growth strategy suggest that no single strategy will take us to towards the attainment of the goal of economic development. Therefore, not only has the strategy to be changed from time to time as the situation may require, but it may be necessary sometimes to strike a balance

between the alternative strategies. This gave birth to the idea of balanced growth theory. The balanced growth theory emphasizes on the investment in a proportionate manner in all the sectors of development, so that goal of holistic development is achieved.

Some of the definitions of balanced growth given by different protagonists are follows:

According to P L Samuelson, "Balanced Growth implies growth in every wind of capital stock at constant rates."

In the words of Benjamin Higgins "a wave of capital investment in a number of industries is called Balanced Growth."

To W.A. Lewis "in development programmes, all sectors of economy should grow simultaneously so as to keep a proper balance between industry and agriculture and between production for home consumption and production for exports."

According to C.P. Kindleberger "balanced growth implies that the investment takes place simultaneously in all sectors or industries at once, more or less along the lines of the slogan. You cannot do anything until you can do everything."

Alak Ghosh said "planning with balanced growth indicates that all sectors of the economy will expand in same proportions, so that consumption, investment and income will grow at the same rates."

R F Harrod viewed "balanced growth aims at equality between growth rate of income, growth rate of output and growth rate of natural resources."

The three illustrious propounders of the balanced growth theory are Rosanstein Rodan, W A Lewis and Ranger Nurkse.

Broadly different types of balanced development strategies to be adopted in an economy are as follows:

(i) Balance between agriculture and industry

The balanced growth approach advocates that the industry and agriculture or primary and secondary sector are not competitive but they are complementary to each other. The growth of one sector depends on the development of the other. For example for the growth of agro-based industries, industries require rising productivity in the agriculture sector and similarly, for raising agricultural productivity, agriculture also requires implements which are supplied by the industries. Therefore, the development of complementarities promotes the development of both the sector. Lewis has remarked that "if agriculture stagnates, the capitalist sector cannot grow, capitalist profit remains a small part of the national income and savings and investments are correspondingly small. Smooth economic development requires that industry and agriculture should grow together."

(ii) Balance between Domestic and Foreign Trade

Another important aspect of balanced growth is the balance between domestic and foreign trade. The domestic and foreign trades are interconnected. The expansion of domestic trade creates marketable surplus that leads to the expansion of foreign trade. More import and less export create imbalances in foreign trade, which favour mostly

developed countries as against the developing countries. Meir and Baldwin have remarked that the domestic sector must grow in balance with foreign sector.

(iii) Balance between Demand and Supply of Factors

One of the drawbacks of underdeveloped countries is factor disproportion in underdeveloped countries. In some cases abundant labour is pitched against the little capital and less resources are exploited, while in the contrary, too little of labour is pitched against plenty of resources. This type of allocation upsets the entire system which greatly hampers the balanced development. For example the primary sector has abundance of labour and the supply of skilled labour in the industrial sector is less as compared to the primary sector. This excess availability of labour in the primary sector create imbalance in supply of factors of production. This also applies to other factors of production as capital and land etc. Hence, it requires balance between demand for and supply of factors of production.

1.3 ROSENSTEIN RODAN'S THEORY OF BALANCED GROWTH

Rosenstein Rodan advocated "big push" theory which emphasizes that a "big push" or a large comprehensive investment is needed in order to overcome the obstacle to development in an underdeveloped economy. The theory states that investing in "bit by bit" or in piecemeal will not enable an economy to successfully be on the development path. Rather preferably a minimum amount of investment is necessary for enabling an economy to successfully be in the development and growth path.

The key factor in Rosenstein Rodan's theory of development is "indivisibility". According to him, indivisibility of inputs, outputs or processes lead to increasing returns. He considered social overhead capitals such as power, transport and communication have greater indivisibility feature and are indirectly productive and have a long gestation period. They cannot be imported rather internally generated. Their installations require a 'sizable initial lump' of investment. The social overhead capital is characterized by four indivisibilities: (i) it is irreversible in time; (ii) it has minimum durability; (iii) it has long gestation period and (iv) it has an irreducible minimum industry mix of different kinds of public utilities. These indivisibility characteristics of social overhead capital are key to production process.

Not only indivisibility of production function or process, Rosenstein-Rodan also advocated for indivisibility in demand and supply of saving in order to keep the market dynamic and vibrant. Big-push investment in various types of industries will create multiple cross-cutting demands for each other industries product. According to Rodan unless there is assurance that the necessary complementary investment will occur, any single investment project may be considered too risky to be undertaken at all. The indivisibility of demand requires setting up of interdependent industries.

The other indivisibility which Rodan stressed is the supply of saving. A high quantum of investment requires a high volume of savings. However, in the underdeveloped economies savings are low because of low income. To reduce the gap between income and expenditure, the rate of saving should be created.

In the words of Rosenstein Rodan, a high minimum quantum of investment requires a high volume of saving, which is difficult of achieve in low income underdeveloped countries. The way out of the vicious circle is to have first an increase in income and to provide mechanisms which assure that savings are higher.

The application of Rosenstein Rodan's big push theory in under developed countries requires balance in three major sector-balance between social overheads (SOCs) and directly productive activities (DPAs); balance between consumers' goods industries and producers' goods industries and oriental and vertical balance within consumer goods sector.

Criticisms of Rosenstein Rodan's Theory

Some of the criticisms of Rosenstein Rodan's theory are as follows:

(i) The 'big push' theory cannot be effectively adopted in developing countries because of lack of capital, skilled labour and dynamic entrepreneurial abilities

(ii) Maintaining the coordination between different sectors is a big challenge. According to H. Myint, it is very difficult to coordinate the various plans of development in Big Push theory.

(iii) The developing economies are basically agricultural economies. However, the Big Push theory lays emphasis on huge investment in industrial sector, which in a way neglects the agricultural sector.

(iv) The theory gives too much importance to 'indivisibility'. Too much indivisibility will pose practical problems in the process of globalization which lays stress on flexibility and reforms.

(v) Rosenstein Rodan has given limited importance to role of international trade in development. Jacob Viner pointed out that underdeveloped economies realize greater economies from world trade independently to home investment.

In these sessions you read about the meaning of balanced growth and Rosenstein Rodan's theory of balanced growth and now answer the questions given in *Check Your Progress-1*.

Check Your Progress 1

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1. Briefly describe meaning and concept of balanced growth.

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2. Give two criticisms of Rosenstein Rodan's theory of balanced growth.

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1.4 W. A. LEWIS' THEORY OF UNLIMITED SUPPLY OF LABOUR

W. Arthur Lewis' theory is based on his proposition of unlimited supply of labour. Like the classical economists, he believed that in underdeveloped economies supply of labour is unlimited at a subsistence wage rate. The economic development takes place when these surplus labour are withdrawn from the "subsistence sector" and are placed in "capitalist sector" through capital accumulation. In other words, transfer of labour from the labour surplus agriculture sector to the industry sector will promote the balanced development of both the sectors.

Lewis model divides the economy into two sectors i.e. the Capitalist sector and the Subsistence Sector. The capitalist sector is defined as "the part of the economy which uses reproducible capital, and pays capitalists for the use there of". In the capitalist sector, the use of capital is controlled by capitalist, who hire the services of the labour. On the other hand, the subsistence sector, does not use reproducible capital. In subsistence sectors the total productivity is lower as compared to capitalist sector. The labourers employed in the subsistence sector are generally backward, illiterate and unskilled. On the other hand, the labourers in the advanced capitalist sector are literate, sophisticated and skilled. In other words, marginal productivity of labour deployed in subsistence sector is negligible, zero or even negative. Whereas those labourers employed in the capitalist sector have high marginal productivity of labour and are more productive. In this dualistic situation, for the development of the economy, new industries can be established or existing industries can be expanded by transferring labour from the subsistence sector. However, the industries require skilled labour, according to Lewis, skilled labour is only a 'quasi bottleneck or a temporary bottleneck' which can be removed by providing training facilities to the unskilled labour. Lewis proposed that gainful employment of the unlimited labour force requires that rate of savings and investments should be at least 15 percent of national income. This is a central problem for the developing countries having low capital formation. The development of the developing countries therefore requires high capital accumulation. On the basis of above analysis, it can be concluded that unskilled labour is not a bottleneck to economic development in majority of under developed countries but the capital formation is a sine-qua-non..

The key to economic development in Lewis' model is capital formation and this is possible when the capitalist use a part of its surplus in reinvestment for creation of new capital. They lead to increase in employment and productivity. In the process, the capitalist draws labour from the subsistence sector and this reinvestment of profit continues till entire surplus is absorbed. Thus, profits and their reinvestment have great importance in economic growth.

The three important components of Lewis theory are: (i) role of technology in development; (ii) role of private capitalist in development process, (iii) role of government and (iv) role of bank credit. Lewis describes that the relationship between capital, technological progress and productivity is critical determinant of development. Capital and technological knowledge are critical factors for higher economic growth and development. Lewis is of the opinion

that the growth of technological knowledge outside the capitalist sector is important, as it raises the level of wage and reduces capitalist surplus. Secondly, according to Lewis, neither the salaried class nor the petty businessmen were to add to capital formation. He therefore opined that the state capitalists and indigenous private capitalists create capital out of profits and therefore, the earned profit should be promoted for the purpose of capital formation and subsequently economic growth. Thirdly, saving plays a crucial role in the development of an economy. Lewis observes that savings are to be done by people who receive profit or rent. Higher the saving higher will be investment and finally the capital formation which will promote economic development. It is because of increased savings, the capitalist sector of the economy expands leading to expansion in national output and level of employment. Lastly, bank also plays a critical role in the economic development of a nation. Capital is not only created out of profits earned, it can also be created as a result of net increase in money supply, especially bank credit. Creation of banks acts as a stimulator of growth in national income. It raises both output and employment.

According to Lewis, this growth process will not continue forever, but will come to a halt for the following reasons i.e. growth of capitalist sector will reduce the surplus labour in subsistence sector, resulting in rise in wage of labour in capitalist sector. This will further result in fall in the capitalist surplus. It will reduce capital formation and reverse the expansionary process.

1.4.1 Criticisms of Lewis' Unlimited Supplies of Labour Theory

Some of the criticisms leveled against Lewis' theory are as follows:

(i) The theory assumes that in the capitalist sector wage rate will remain constant till surplus labour in the capitalist sector is exhausted which is unrealistic.

(ii) The assumption of unlimited supplies of labour in developing countries is also unrealistic.

(iii) This is a one sided theory, reason being that it considers expansion of capitalist sector and does not talk about the role of agriculture or subsistence sector in development. However, agriculture plays an important role in development.

(iv) The Lewis' theory assumes that the marginal productivity of labour in over-populated underdeveloped countries is zero or negligible. However, Schultz was of the opinion that the marginal productivity of labour in over populated underdeveloped countries would not be zero.

(v) It is also very difficult to find out the exact number of surplus labour who would move from the subsistence to the capitalist sector. Furthermore, the mobility of labour is also not easy.

(vi) Lewis assumes that withdrawal of labour from the subsistence agriculture sector to capitalist sector will not affect the productivity in the subsistence sector. However, in actual, it will affect the productivity.

1.5 RAGNAR NURKSE'S THEORY OF BALANCED GROWTH

R. Nurkse's theory of balanced growth believes that the underdeveloped countries are suffering from the vicious circle of poverty, which is detrimental to economic development in these countries. According to him "a circular constellation of forces, tending to act and react upon one another in such a way as to keep a country in a state of poverty". This vicious circle of poverty adversely affects the accumulation of capital in economically underdeveloped countries. If this vicious circle of poverty is broken then development will follow. According to Nurkse "the expansion of market can be realized only through a process of balanced growth, where people in different countries, working with new and better tools, become each other's consumer."

The vicious circle works on both demand and supply side. On the supply side, there is small capacity to save due to low level of income, the low level of income result in low productivity which is again due to deficiency of capital which is the effect of low capacity to save. On the contrary, on the demand side, the inducement to invest is low due to low demand in the economy, which is because of low income. This is how the vicious circle works on both supply and demand side. Operation of vicious circle of poverty limits the size of the market in underdevelopment countries.

Nurkse believes that the vicious circle of poverty can be broken through balanced growth. He was of the view that vicious circle can be broken by enlarging the size of the market which cannot be done by individual investor. It would be possible with the help of a group of investors in the market. Therefore, enlargement of market is possible with the help of development of complementary industries. This can break the vicious circle of poverty and release the forces of growth and expansion. He also suggested that market size can be expanded by salesmanship and advertisement and infrastructure development.

Nurkse was of the view that the principle of balanced growth needs a balance between different sectors of the economy during the process of economic growth and development. These are: (i) balance between agriculture and industry; (ii) balance between domestic and foreign trade; and (iii) balanced between demand and supply factors. While talking of the balance between agriculture and industry, Lewis viewed that if agriculture stagnates, the capitalist sector cannot grow, capitalist profit remains a small part of the national income and saving and investments are correspondingly small. Smooth economic development requires that industry and agriculture should grow together. Secondly, the balanced growth must promote trade within and across the countries. In other words, there should be rise in trade within the country and also enhancement of foreign trade. Nurkse suggested that balanced growth is a good foundation for international trade as well as a way of filling the vacuum at the periphery. Thirdly, the balanced growth implies that different parts of the economy should grow in a smooth and harmonious manner so that no part is ahead of the other. It requires balance between the demand and the supply of factors of production.

Some of the benefits of balance growth are as follows: (i) balanced growth can better promote equitable and balanced regional development: (ii) balanced growth can pare the way for division of labour and thus can raise the

specialization and productivity of labour force; (iii) when there is balanced growth of both agriculture and industrial sector, it will lead to creation of social over head capital for the effective growth of all these sectoral activities; (iv) it will boost foreign trade as expansion of both internal and external markets of the product of an economy will to a great extent promote foreign trade; (v) it will lead to better utilization of both natural and human resources of an economy.

1.5.1 Criticisms of Nurkse's Theory of Balanced Growth

Following are some of the criticisms of Nurkse's theory of balanced growth:

(i) Nurkse's type of growth is difficult to achieve. Hirschman and Paul Streeten and others have argued that due to the lack of capital in developing countries, it is difficult to achieve balanced growth.

(ii) One of the most important question remains that for balanced growth in the underdeveloped countries they require a huge investment for which the underdeveloped countries have to depend on the developed countries which is a difficult proposition.

1.6 MERITS AND CRITICISMS OF BALANCED GROWTH THEORY

1.6.1 Merits of the Balanced Growth theory

Some of the benefits of balanced growth theories are as follows:

(i) The balanced growth theory emphasized that all the sectors should develop simultaneously and no sector will be discriminated. In a way, it will promote balanced regional development.

(ii) The balanced development will create external economies. The benefits created in one sector will push investment in the other sector and will provide boost to the new industries from the existing industries.

(iii) The balanced growth approach will create social overhead capital. When different industries develop simultaneously, the investment is called for in social overhead capital for the promotion of various sectors.

(iv) The balanced development will reduce the dependence of underdeveloped countries on the foreign countries. The principle of balanced growth leads to enlarge the extent of the market and external economies. This process will lead to self-generating economies and as a result, there is less dependence on foreign countries.

1.6.2 Criticisms of Balanced Growth Theory

The balanced growth has also been criticized. According to Singer "balanced growth can neither solve the problem of underdeveloped countries, not do they have sufficient resources to achieve balanced growth". Some of the criticisms of balanced growth theory are as follows:

(i) The balanced growth theory is more suitable to developed countries than developing countries. The developed countries can effectively implement balanced growth process as they possess sufficient resources, technology and entrepreneurs.

(ii) One of the drawbacks of the balanced growth theory is disproportionality

in the factors of production due to deficiency of capital and surplus manpower. In many of the developing countries too much of labour is employed against too little capital. This disproportionality will create many hurdles in the path of development.

In these sections you read about the Lewis' and Nurkse's theories of balanced growth and now answer the question given in *Check Your Progress-2*.

Check Your Progress 2

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1. Briefly describe Nurkse's Vicious Circle of Poverty.

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2. What are important merits of Balanced Growth Theory?

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1.7 LET US SUM UP

This unit comprises of three important balanced growth theories such as "big push" theory of Rosenstein Rodan, Theory of Unlimited supply of labour by A. Lewis and balanced growth theory by R. Nurkse. The "big push" theory emphasizes on the large comprehensive investment in order to drag the underdeveloped economy from underdevelopment. The Lewis' unlimited supply of labour theory emphasizes on transfer of labour from the subsistence sector to the capitalist sector for development. Finally, Nurkse's balanced growth theory lays emphasis on balanced development of all the sectors in order facilitate development of underdeveloped economies.

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1.9 CHECK YOUR PROGRESS - POSSIBLE ANSWERS

Check Your Progress 1

1. The balanced growth is that type of growth where there must be harmonious or simultaneous development of all the sectors, so that a holistic development in the economy can take place. The propounders of the balanced growth theories suggested that the investment must take place simultaneously in all the sectors of development i.e. agriculture and industry; between domestic and export sector; and between social and economic overhead in order to facilitate balanced development. According to W.A. Lewis "In development programmes, all sectors of economy should grow simultaneously so as to keep a proper balance between industry and agriculture and between production for home consumption and production for exports."

2. The two important criticisms of Rosenstein Rodan theory of balanced growth are as follows:

   (i) The 'big push' theory cannot be effectively adopted in developing countries because of lack of capital skilled labour and dynamic entrepreneurial abilities.

   (ii) Maintaining the coordination between different sectors is a big challenge. According to H. Myint, it is very difficult to coordinate the various plans of development in Big Push theory.

Check your Progress 2

1. The operation of vicious circle of poverty is one of the main reasons of backwardness of underdeveloped countries. The vicious circle works on both demand and supply side. On the supply side, there is small capacity to save due to low level of income, the low level of income result in low productivity which is again due to deficiency of capital which is the effect of low capacity to save. On the contrary, on the demand side, the inducement to invest is low due to low demand in the economy, which is because of low income. This is how the vicious circle works on both supply and demand side.

2. The two important merits of balanced growth theory are: (i) Firstly, the balanced growth theory emphasized that all the sectors should develop simultaneously and no sector will be discriminated. In a way, it will promote balanced regional development; and (ii) the balanced development will create external economies. The benefits created in one sector will push investment in the other sector and will provide boost to the new industries from the existing industries.

UNIT 2 UNBALANCED DEVELOPMENT THEORIES

Structure

2.1 Introduction

2.2 Hirschman's Strategy of Unbalance

2.3 Leibenstein's Critical Minimum Efforts Theory

2.4 Let Us Sum Up

2.5 References and Suggested Readings

2.6 Check Your Progress – Possible Answers

2.1 INTRODUCTION

Unbalanced growth as a strategy for development of the underdeveloped nations was propounded by Hirschman, Fleming, Leibenstein and Singer. Owing to scarcity of resources in less developed countries, the theory lays emphasis on investment in strategic sectors of the economy rather than in all the sectors simultaneously. The theory further states that the other sectors would automatically benefit through linkage effects. According to Hirschman, if the economy is to be kept moving ahead, the task of development policy is to maintain tensions, disproportions and disequilibrium. In this unit we will discuss in brief, the theories of the two most famous propounders of unbalanced growth viz. Hirschman and Leibenstein.

After reading this unit you will be able to:

discuss Hirschman's strategy of unbalanced growth; and

describe Leibenstein's Critical Minimum Effort Theory.

2.2 HIRSCHMAN'S STRATEGY OF UNBALANCE

The doctrine of unbalanced growth was propounded by Hirschman in a systematic manner. The economists like Singer, Kindleberger, Streeten etc have also expressed views in favour of this theory. Considering the limited capital and other resources possessed by a country, investment should be made in a few selected sectors. The returns accruing from them should then be ploughed-in to develop the other sectors. Hirschman opined that the theory of balanced growth can be pursued only by developed countries and if a country were willing to apply the doctrine of balanced growth, it would not be underdeveloped in the first place. He advocated unbalanced growth on the grounds of shortages of capital, capital goods, skilled persons and essential raw materials. Hirschman regards balanced growth unattainable and undesirable.

Some theorists have advocated a strategy of selective investment as the engine of growth in developing countries. Hirschman promulgated the idea of making unbalanced investments in economic sectors to complement the imbalances that already exist within the economy of a nation. Hirschman argued that LDCs do not have access to build a balanced big-push investment strategy. Investments should be made instead in strategically selected economic areas in order to provide growth in other sectors through backward

and forward linkages. Backward linkages spur new linkages in input industries while forward linkages do so in those sectors that buy the output of the selected industry. Thus in Hirschman's scheme, careful analysis must be made of the situation in each country as to what investment constitutes the best means to reach an ultimate balance among all investment sectors.

2.2.1 Forward and Backward Linkages

Creating imbalances is the prerequisite of economic growth. However, the main question is to identify the activities in which to create imbalances. This necessitates the knowledge of inter-linkages across different sectors of the economy. Hirschman classifies these linkages as forward and backward linkages.

Backward Linkages: The growth of a set of industries stimulates the growth of those industries which supply raw materials Eg. Setting up a steel plant would increase demand for steel scrap and coal thus increasing the production of these commodities.

Forward Linkages: refer to growth of certain industries which utilize the output of the proposed activity. For example, expansion of steel industries would encourage industries making machine tools etc. which use steel as their basic input.

2.2.2 Features of the Theory of Unbalanced Growth

1. To accelerate the process of growth, investments should be made in key sectors of the economy.
2. It is the inducement or pressure generated by the initial investment that calls for subsequent investment in other activities.
3. The theory corroborates the hypothesis of 'Big Push'.
4. The theory is based on real life observations.
5. The theory recognizes the importance of public sector.

Hirschman bases his theory on the argument that the ability to invest is one serious bottleneck in underdeveloped countries and also that the ability to invest depends mainly on the investment that has already been made. Therefore, he contends that deliberate unbalancing the economy according to a pre-designed strategy is the best way to achieve economic growth in an underdeveloped country. However, the investments have to be in strategically selected industries or sectors of the economy which will lead to new investment opportunities and hence further economic development. He regards development as a chain of disequilibria that must keep alive rather than eliminate the disequilibria. When investments are made in selected sectors, they appropriate external economies created by previous investments and also create external economies that can be exploited by new sectors. There are certain sectors that appropriate more external economies than they create. Such investments/ sectors are called convergent series of investments. There are other sectors which create more external economies than they appropriate. These are called divergent series of investments. A good development policy should aim at prevention of convergent series of investment and promotion of divergent series of investment. Development can take place only by balancing the economy which can be done by

1. Investing in social overhead capital (SOC)
2. Investing in directly productive activities (DPA)

SOC as a Means of Unbalancing the Economy

Social overhead capitals are those services which are essential for the functioning of primary, secondary and tertiary productive activities eg. Investments in education, public health, communications, transportation, light, water, power, irrigation, drainage etc. Investments in these sectors today will encourage private investments in DPA later. For instance cheap supply of electric power may encourage establishment of new industries. Green revolution in agriculture happened when government subsidized power and chemical fertilizers and plant protection chemicals. Thus the SOC approach to unbalance the economy stimulates investments in DPA.

DPA as a Means of Unbalancing the Economy

Another way of creating unbalance in the economy is through DPA. If DPA investments are undertaken first, the shortage of SOC facilities is likely to raise the production cost. With the production prices going high, in course of time, political pressures might stimulate investment in SOC also. Thus profit expectations generate the sequence of investment from SOC to DPA and political pressures from DPA to SOC.

Linkages: The problem with Hirschman's theory lies in identifying the kind of imbalance that is likely to be most effective. Any investment may have forward or backward linkage effects. Forward linkage effects encourage investment in subsequent stages of production and backward linkages affects in earlier stages of production. Development should aim at discovering projects with the largest total linkages. According to Hirschman, iron and steel industry has the highest combined linkage score but industrial development cannot start in every country with an iron and steel industry due to lack of linkages in developing countries.

Last Industry First: Hirschman advocates the setting up of last stage industries first. He suggests that a developing country can begin with the manufacture of durable consumer goods at the final stages of production. The country can import converting, assembling or mixing plants and can produce finished consumer goods that it was earlier importing. The country may further move on to intermediate goods and machines through backward linkage effects. Hence, when the demand for import replacing commodities increases, it justifies some domestic last stage production. Thus when demand of a product reaches a certain threshold it is advantageous to manufacture the product at home. So long as the threshold is being reached, it pays to import the product. When the threshold is reached, Hirschman suggests subsidies or protection to import replacing industries. Hirschman calls last stage industries as import enclave industries. There are also export enclave industries which produce products only for exports and in LDCs the export enclave industries are generally those engaged in minerals. The exports of LDCs do not expand and fail to create forward linkage effects. Hrischman suggests export promotion via import substitution which is the only way of achieving industrialization.

2.2.3 Limitations of Hirschman's Theory

There are certain limitations to the doctrine of unbalanced growth which are listed as follows:

1. Lack of clarity on the composition, direction and timing of unbalanced growth: Paul Streeten criticized the theory of unbalanced growth stating that in this theory, the crucial question is not whether or not to create imbalance but what is the optimum degree of imbalance, where and how much to imbalance so as to accelerate the growth.
2. Neglects resistance: Streeten also criticizes the theory stating that Hrishman neglects the resistance created due to imbalances. When there is an imbalance in the economy, the business attitudes change due to shortages and tensions, and there is lot of hostility and opposition from the existing institutions where the imbalance has not favoured.
3. Beyond the capabilities of underdeveloped countries: It is also argued that the pressures and tensions caused due to induced imbalances may actually hamper the process of development.
4. Lack of basic facilities: Even if the imbalance is to favour a certain sector of the economy, the developing countries may lack in basic facilities like power and transport and even an adequate domestic or foreign market for the products produced by these sectors.
5. Lack of factor mobility: Imbalanced growth is possible only where there is internal flexibility to move the resources from one sector to another which is not a possibility in undeveloped countries.
6. Emergence of inflationary pressures: When large amount of investments are being done in certain sectors of the economy, it raises the income and thus demand for consumer goods in relation to their supply. This inflationary rise in prices becomes difficult to control in underdeveloped countries.
7. Linkage effects not based on data: Hrishman's analysis of the linkage effects is not backed by data pertaining to an underdeveloped country where social overhead facilities are not fully developed.
8. Too much emphasis on investment decisions: Hrishman in his theory lays too much emphasis on investment decisions as compared to other equally important decisions needed for development like administrative, managerial and policy decisions.

In these sections you read about Hirschman's Theory of Unbalanced Growth. Now try and answer the questions given in *Check Your Progress-1*.

Check Your Progress 1

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1. What are the main features of the Hirschman's theory of unbalanced growth?

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2. Give two limitations of Hirschman's theory.

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2.3 LEIBENSTEIN'S CRITICAL MINIMUM EFFORTS THEORY

This theory evolved as a result of a PhD thesis submitted by Leibenstein. The essence of this theory is that if the development efforts are of size less than the 'critical minimum size', they will come to nothing. There are always some factors that pull down development and some factors that push up development. There are positive sum factors, negative sum factors and zero sum factors of economic development. The economy can move forward only when the first set is greater than the last two sets. The first set of factors should be at least of critical minimum size.

The theory is based on the relationship between the three factors, viz. (i) per capita income, (ii) population growth, and (iii) investment. Leibenstein identified population also as an income-depressing factor, whereas investment is an income-generating factor. Growth in an economy is possible when the income- generating factors turnout to be more powerful than the income-depressing factors. A small additional investment may generate a small income. The additional income would be eaten up by the additions to the population which may come in the wake of the additional income, and hence the effort may fail to generalise a cumulative process of growth. What is required is an initial substantially large volume of investment that may create conditions which should outweigh the growth of population, i.e., if necessary it is necessary that the initial effort or the initial series of efforts must be above a certain minimum magnitude.

The critical minimum efforts thesis suggests some conditions that are required to push development. These conditions are as follows:

1. **Development requires that economic variables of positive sum set be greater than the sum total of negative sum set and zero sum set**

   The positive sum activities include all production activities. The first task of development planning is to see that the positive sum activities are much more than the sum total of zero sum and negative sum activities. The negative sum activities are population pressure, inflation, balance of payment problems, corruption etc. Zero sum activities include opportunities for exploitation. Distribution activities are zero sum activities because they just transfer the income from 'haves' to 'have nots'. Distribution activities involve individual gains but not social gains.

2. **Development will require that positive sum incentives persist and do not degenerate and disappear as also they do not stimulate zero sum activities**

   One of the problems of development is the degeneration of positive sum activities into zero sum activities. Some such examples are the

reduction of mortality due to development which again leads to increase in population (here the positive sum activity of reduced mortality is leading to increased population which he considers as an income depressing factor), inflation brought about by massive development expenditure and technological improvement rendering many unemployed. It should be seen that these degenerated zero sum and negative sum effects become positive sum effects as soon as possible.

3. **Development will require growth and development of growth agents**

   Factors of production have to be made effective growth agents. The same population can become doubly effective if its training, motivation and efficiency go up. Capacities are more important than mere size or number. Entrepreneurs and technical organizers are very important growth agents. Entrepreneurs discover investment opportunities, invest resources of production, promote new ventures and most efficiently engage other agents of production. Entrepreneurial function is promoted only when government provides facilities for entrepreneurs to flourish. They should be allowed to earn their legitimate profits.

4. **Positive sum activities to be of critical minimum size**

   The vicious circle of poverty can be broken only if the initial thrust given to the economy is of a critical minimum size. For example, if agriculture develops at a rate lower than the critical minimum size, whatever is produced will be consumed and there will be no reinvestibe surplus. Critical minimum efforts are necessary to overcome production, technical and psychological indivisibilities to get out of the vicious circle trap.

5. **Critical Minimum Effort most relevant in the stage of demographic transition or explosion**

   Leibenstein says that a large population is a big drag on development but one cannot wait for reduction in birth rate to bring down population to such level that it is no longer a burden. Leibenstein was of the opinion that if development efforts are of critical minimum size, the decline in birth rate itself will surely take place whereas if the efforts are not of critical minimum size, demographic transition will always be a depressing factor for growth.

   In an economically poor nation, the efforts to bring down birth rate will not show quick results because the fertility decline in such nations lags behind the mortality decline. Leibenstein's thesis is "the less the fertility lag, the less the critical minimum effort necessary for growth. The point at which fertility decline sets in will determine the height of critical minimum level."

Leibenstein discusses four critical points of population growth:

(a) When income levels are low

When the levels of income are low, fertility rates are high and mortality rates are also high. There exits an antagonism between individual survival and fertility. Fertility has to be kept high because mortality is high and hence more children are needed for possible losses. Then because of high fertility mortality is high because child care is poor. The costs of rearing children are low and utilities from them are high.

(b) When income levels rise above 'very low levels'

Mortality declines due to some development efforts. However, there is a lag in decline in fertility. This lag is due to late realization by the families that they are saddled with children. The utilities are declining, though not low and hence there is no motivation for reducing fertility.

(c) When income levels go still further

The security and production utilities go down substantially and the direct and indirect costs go up and hence the number of children desired by the parents will be low.

(d) When per capita income is very high

Birth rates come down and the gap between mortality and fertility closes gradually and the country starts on the stage of self-sustaining growth. The critical minimum effort becomes necessary when the country is passing through the second stage of the demographic transition. The critical minimum effort will shorten the period of transition or will reduce the fertility lag period.

Inter-relation between Per Capita Income Level and the Rate of Population Growth

Leibenstein states that for every level of per capita income above the subsistence level, the rate of national income growth will always be larger than the rate of population growth. In this type of progressive economy, the critical minimum efforts thesis will not apply.

Rising income may lead to a rising population but only to a maximum point. Upto subsistence levels of income; neither population nor national income grows. Beyond this level, population grows at a faster rate than income till the critical minimum income is attained. It is only at and beyond the critical minimum point that we reach a level of per capita income that generates rates of national growth that are equal to or greater than the induced rates of population growth. In developed countries however, the growth rate of per capita income is higher than population growth and hence critical minimum thesis does not apply.

6. Investment in Physical and Human Capital Formation on Critical Minimum Effort Criterion

Leibenstein says that investment in terms of both physical and human capital should be made in such a manner that it brings adequate gains to the investors to enable them to reinvest. He argues that for a given tempo of change, a certain minimum per capita income level has to be achieved in order to generate sustained per capita income growth in the economy. If the per capita income is below the critical minimum level, it can be raised to a necessary minimum level by a sufficiently large investment from outside the economy.

7. Higher Productivity key to Development, as Incremental-Capital-Output Ratio will Decline

Leibenstein rejects the hypothesis that Incremental-Capital-Output Ratio (ICOR) will rise during the process of development. He argues that ICORs will go down and gives the following arguments:

(i) As investment in education, training and public health measures is made, the quality of labour goes up and output rate shall also go up.

(ii) Increasing national income and investment will help in extension of the division of labour, and when all sectors develop in a complementary manner, external economies are generated on a wider scale which will enable the firms to avail greater internal economies.

(iii) In a developing society, new resources are discovered and the use of old resources in a new way is found. ICORs will go down.

Critical Appraisal of Leibenstein's theory:

Some economists do not agree with Leibenstein's assumption that if initial investment is less than the critical minimum size, population will increase. In a low income country also, population decline can set in, provided the government action is rigorous as in China in recent years.

It is not necessary that the economy shall slide back to the low level equilibrium level if the effort is of less than critical minimum size. Things cannot be exactly the same as before. One cannot come back to the same level or standard, or structure and volume of the income. Alternatively, it is also not necessary that once the critical minimum effort has been made, there will follow a period of uninterrupted and sustained take off and growth.

Leibenstein is also not on sure grounds that the fertility decline will be the consequence of growth. It is now increasingly being found that first the fertility increase is to be checked and then only anything like critical minimum is possible. If substantial fertility decline sets in, even less than critical minimum effort may suffice.

Appreciation:

Leibenstein has given us new terms like positive sum, negative sum and zero sum activities and they are very relevant.

He has very correctly analyzed that the bane of the development problems in less developed countries is that there are more distributors than actual producers.

The critical minimum effort thesis is novel and important as well. Leibenstein solved the problem by conceding that the critical minimum injection can be optimized into smaller doses.

In these sections you read about Leibenstein's Critical Minimum Efforts Theory. Now try and answer the question given in *Check Your Progress-2*.

Check Your Progress 2

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1. Why is it necessary that positive sum activities be of critical minimum size to push development?

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2. Discuss the appreciations of Critical Minimum Effort Theory.

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2.4 LET US SUM UP

The theory of unbalanced growth, in contrast to the theory of balanced growth emphasizes on investment being made on selected sectors of the economy instead of the economy as a whole. The other sectors will develop by utilizing the economies accruing from them. In this unit you have read about the theories of two important propounders of the theory of unbalanced growth viz. Hirschman and Leibenstein. According to Hirschman, deliberate unbalancing the economy according to a pre-designed strategy is the best way to achieve economic growth in an underdeveloped country. According to Harvey Leibenstein, the vicious circle of poverty keeps the underdeveloped countries at a low per capita income equilibrium state. According to him, it would require a certain critical minimum effort to raise the per capita income to a level at which sustained development can be maintained.

2.5 REFERENCES AND SUGGESTED READINGS

Jhingan, M.L. (2011), The Economics of Development and Planning. Vrinda Publications (P) Ltd, Delhi

Richard Peet and Elaine Hartwick (2015), Theories of Development – Contentions, Arguments, Alternatives. The Guilford Press, New York

2.6 CHECK YOUR PROGRESS – POSSIBLE ANSWERS

Check Your Progress 1

1. The main features of Hirschman's theory of unbalanced growth are
   1. To accelerate the process of growth, investments should be made in key sectors of the economy.
   2. It is the inducement or pressure generated by the initial investment that calls for subsequent investment in other activities.
   3. The theory corroborates the hypothesis of 'Big Push'.
   4. The theory is based on real life observations.
   5. The theory recognizes the importance of public sector.
2. Two limitations of Hirschamn's theory are:
   1. Lack of clarity on the composition, direction and timing of unbalanced growth: Paul Streeten criticized the theory of imbalanced growth stating that in this theory, the crutital question is not whether or not to create imbalance but what is the optimum degree of imbalance, where and how much to imbalance and so as to accelerate the growth.

2. Neglects Resistance: Streeten also criticizes the theory stating that Hrishman neglects the resistance created due to imbalances. When there is an imbalance in the economy, the business attitudes change due to shortages and tensions, and there is lot of hostility and opposition from the existing institutions where the imbalance has not favoured.

Check Your Progress 2

1. It necessary that positive sum activities be of critical minimum size to push development because the vicious circle of poverty can be broken only if the initial thrust given to the economy is of a critical minimum size. For example, if agriculture develops at a rate lower than the critical minimum size, whatever is produced will be consumed and there will be no reinvestibe surplus. Critical minimum efforts are necessary to overcome production, technical and psychological indivisibilities to get out of the vicious circle trap.

2. The positive points about Critical Minimum Effort Theory are:

   Leibenstein has given us new terms like positive sum, negative sum and zero sum activities and they are very relevant.

   He has very correctly analysed that the bane of the development problems in less developed countries is that there are more distributors than actual producers.

   The critical minimum effort thesis is novel and important as well. Once Leibenstein concedes that the critical minimum injection can be optimized into smaller doses, he has solved a big problem.

UNIT 3 ROSTOW'S STAGES OF ECONOMIC GROWTH AND DEVELOPMENT

Structure

3.1 Introduction

3.2 Rostow's Stages of Development

3.3 Criticisms and Appreciation of Rostow's Theory

3.4 Let Us Sum Up

3.5 References and Suggested Readings

3.6 Check Your Progress – Possible Answers

3.1 INTRODUCTION

Many development economists were of the view that in their process of development, the countries pass through several stages. According to Adam Smith, an underdeveloped country passes through the stages of hunting, pastorals, agricultural and manufacturing stages before reaching the high level of economic growth. Similarly, the stages of development as perceived by Karl Marx are primitive society, ancient slave stage, Feudalism, capitalism and socialism. W.W. Rostow was one of the most profound protagonist of the stages if economic growth. In his book *The Stages of Eocnomic Growth: A Non-Communist Manifesto*, published in 1960, he says that before achieving high economic growth, a country would pass through five stages of development. In this unit we discuss in detail about Rostow's Stages of Economic Growth.

After reading this unit, you will be able to

Discuss the various stages of economic growth as propounded by Rostow

Analyze Rostow's theory in terms of its criticisms and appreciations

3.2 ROSTOW'S STAGES OF DEVELOPMENT

Rostow conceived economic development as a process. According to him development passes through certain stages. The stages of development as conceived by Rostow are:

1. Traditional Society or Pre-industrial Stage
2. Pre-conditioning phase
3. The 'Take-off' Stage
4. Stage of 'Drive to Maturity'
5. Stage of Self-sustained Growth of Mass Consumption

Let us discuss each of these stages in detail.

1. Traditional Society or Pre-industrial Stage

According to Rostow, all the stages of development from primitive agricultural development, animal husbandry and feudalism are covered under this stage. This stage existed world over before the 19th century

'Industrial Revolution'. This was a period of stagnation, when society remained 'traditional'. Technical conditions and economies of scale were static and birth and death rates used to be very high. Whatever changes that used to happen during this stage did not qualify to be called as the symptoms of development.

2. Pre-conditioning phase

To move forward, away from the traditional society, there was a need for 'the urge to development'. This urge came from the elite class and an entrepreneurial class emerged which mobilized savings and invested them. They provided for the infrastructural facilities like transport, education and medical facilities. Some development took place in the communication system also. Agriculture started developing; death rates started falling but not the birth rates. Few small scale industries developed during this stage and the investment hovered around 5 percent of the GNP in this stage.

3. The 'Take-off' Stage

This was a stage that was discussed in detail by Rostow. In this unit it is being discussed under the following heads:

i. Meaning and Characteristics

ii. Change in the rate of investment

iii. Take-off as a function of entrepreneurial and elite class

iv. Leading sectors will lead

v. Time period

Let us discuss each of these heads in detail

i. Meaning and Characteristics

In this stage rate of investment increases from around 5% to 10% of GNP. The real output per capita increases and both rate of investment and real output per capita maintain an increasing trend. This stage is also characterized by the emergence of a group in the society which has the will and the authority to take the economy up. Entrepreneurs, corporations and the government become capable of mobilizing the financial and real resources for further development. A leading sector, also known as the 'growth pole' emerges and it is because of this leading sector the development takes place.

ii. Change in the rate of investment

In economies attempting to take off, the rate of investment becomes around 5 to 10 percent. Rostow opined that if the population growth is above 1.5 percent per year or the capital output ratio is more than 3:1 then upto 12.2 percent of GNP should be invested.

iii. Take-off as a function of entrepreneurial and elite class

Take off is a function of entrepreneurial and elite class. They are traditional savers and form capital which is invested. Urge to earn profit makes them invest in new industries and innovations. This class is instrumental in getting the credit structure expanded, and in bringing about a change in the exports-imports pattern. Natural resources and labour are put to use by them.

iv. Leading sectors will lead

Rostow defines leading sectors as those sectors which have new production functions of high productivity that generate a maximum of re-investible surplus which can be ploughed back into productive investment. This will turn industrialization into an automatic process and a spiral of effective demand for other products will be started. A rapid growth of one or more new manufacturing sectors is a powerful and essential engine for economic transformation. More income is placed in the hands of those whose propensity to save is high and reinvest their profits into highly productive investments. As a result, new urban areas develop and their population and market organization help to make industrialization an ongoing process. External economies are generated to such an extent that they help to produce new leading sectors when the initial impulse of the take-off-leading sectors begins to wane. Thus while the old sectors decelerate, the acceleration in the growth of new sectors keeps the process of growth sustained.

v. Time Period

A country can be in a take-off period for two or three decades. Certain signs of take-off are:

a. Less than 40 percent of the population is left in agriculture and the rest migrates to urban and non-agricultural sectors.

b. The rate of growth in national income outstrips the rate of growth in population.

c. The rate of accumulation goes up.

d. The relative contribution of agriculture to GNP goes down and that of the manufacturing sector goes up.

Take-off is a function of certain crucial things like greater emphasis to manufacture in the leading sectors, shifts from agriculture to industrial sector, high rate of savings going up to at least 10 percent of GNP, definite policies regarding fiscal, monetary, education and income pattern.

4. Stage of 'Drive to Maturity"

In this stage, the rate of investment increases from 10 percent of GNP to higher limits up to 20 percent. Important industries come up including many imports-replacement and exports-replacement industries. Technical knowledge spreads to other sectors. Real income per head starts rising as GNP growth rate becomes substantially higher that the growth rate of population. A country may remain in this stage between four to six decades. Specialization and division of labour become complex. Production of most things becomes possible.

5. Stage of Self-sustained Growth and of Mass Consumption

In this stage the per capita real income becomes so high that the consumption pattern rises beyond mere food, clothing and shelter to goods of comforts and luxuries on a large scale. Leading sectors change the basic structure of the society and new types of durable consumer goods industries become the new leading sectors.

Kindleberger illustrates these stages with Gompertz or 'S' curve. A typical growth follows Gompertz 'S' or leaning curve in which growth starts off

slowly, picks up gradually and then proceeds very rapidly before slowing down at some later stage to become asymptotic at some limit or ceiling. In this stage the society becomes affluent society, free of hunger and extreme poverty.

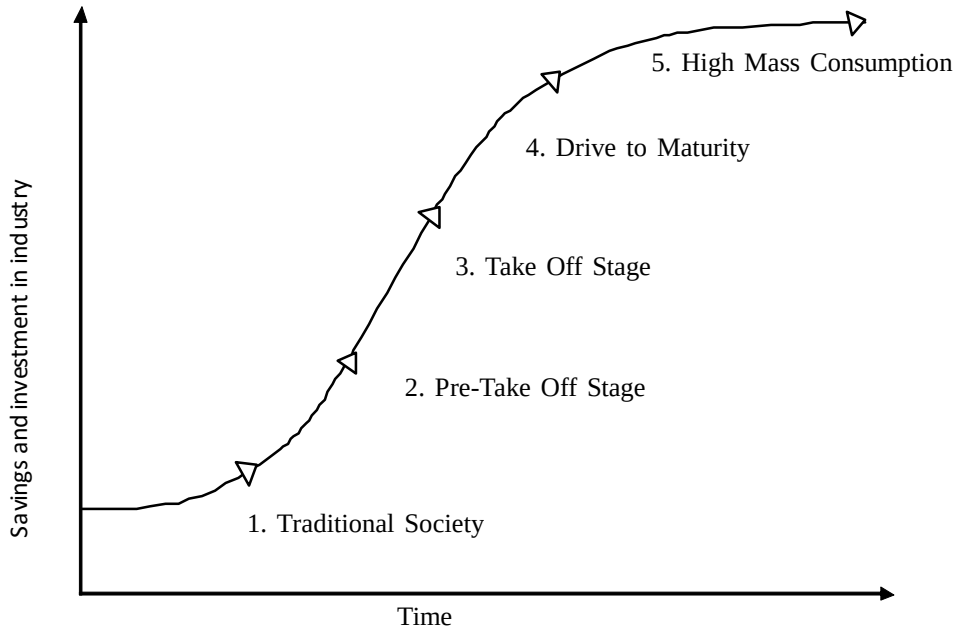

Fig. 3.1: Rostow's Stages of Development

3.3 CRITICISMS AND APPRECIATION OF ROSTOW'S THEORY

Some important points against Rostow's theory are:

1. The teleological approach to development is incorrect

Myrdal is against the teleological approach to development. In this approach, policies are not chosen and adopted but they are functions of certain situations or in the nature of things. Myrdal argues that according to Rostow's model, development is not the result of policies but policies are the result of development. This approach leads to logical confusion. Policies are chosen and should be chosen.

2. History does not repeat itself

Some economists state that every country will have the same history of economic development and shall pass through the same experiences or times. There is nothing like linear conception of history. Every country cannot have a common past and a common future,

3. Leading sectors may not lead

If we examine the development linkages of industries, we can find that the cotton textile of Manchester and the automobile industry of USA did not bring about all the development there. A leading industry is one where productivity is high and profitability is also high.

4. Stage overlap and work spill over to the next stages

Kuznet opines that the things that are supposed to happen in a particular stage may spill over to other stages also. The characteristics of the past

stage and the traces of future stage can be found in present stage also. The pre-condition things may continue in take-off and beyond take-off stage also.

5. **The take-off stage is not empirically justified in the same manner in which Rostow presented it**

   Kuzets and Myrdal, after having examined the economic history of various nations, came to the conclusion that all that is elaborated in Rostow's stages is not realized in the same fluid manner. Rostow's approach is criticized for being conceptually vague, empirically superficial and theoretically non-vigorous. Rostow could not give estimates of the duration of take-off stage under different conditions.

6. **An Economy need not pass through these stages before reaching self sustenance**

   A country with low population burden and abundant natural resources may reach the self-sustaining stage of mass consumption early by bypassing one stage. Canada and Australia entered the stage of mass consumption even before reaching maturity. In recent years this is seen happening in oil rich countries.

7. **The take-off may be extremely delayed**

   Even when the economy starts having 10 percent to 12.5 percent investment, take off may not be realized specially when the population growth cannot be brought under control.

8. **The last stage of Mass Consumption may not be reached at all**

   Rostow presumes the stage of mass consumption to be an irreversible stage. Kuznets have raised doubts as to whether the last stage of mass consumption can continue eternally.

9. **There are limits to growth**

   Natural resources, manpower and capital set upper limit to growth. A time comes when a country should be regarded as fully developed even if it has not reached the standards of countries like USA.

Appreciations for Rostow's theory

Rostow's term "the take –off" has caught the imagination of planners and they do try to do what is supposed to be done for the take-off. In fact all less developed countries try to create conditions of take-off.

Some of the criticisms seem uncalled for especially because Rostow himself wrote that he could not emphasize too strongly that the stages of growth are an arbitrary and limited way of looking at the sequence of modern history. The stages of growth analysis does not pretend to explain history. He further states that the stages are not merely a way of generalizing certain factual observations about sequence of development of modern societies but have an inner logic and continuity.

Till now you have read about Rostow's stages of growth, its criticisms and appreciations. Now try and answer the questions given in *Check Your Progress – 1*.

Check Your Progress 1

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1. What are the characteristics of the stage of 'Drive to Maturity'?

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2. List out the criticisms of Rostow's theory.

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3.4 LET US SUM UP

W.W. Rostow was one of the most ardent advocates of the stages of growth model of development. According to him, the transition of a country from underdevelopment to development can be viewed in terms of a series of steps or stages through which all countries must proceed. In this unit you have read in detail about the various stages of economic growth as propounded by Rostow. You have also read about the criticisms and appreciations of his theory.

3.5 REFERENCES AND SUGGESTED READINGS

Richard Peet and Elaine Hartwick (2015), Theories of Development – Contentions, Arguments, Alternatives. The Guilford Press, New York

Todaro M.P. and Stephen C. Smith (2014), Economic Development. Dorling Kindersley (India) Pvt. Ltd., New Delhi

3.6 CHECK YOUR PROGRESS – POSSIBLE ANSWERS

Check Your Progress 1

1. In this stage, the rate of investment increases from 10 percent of GNP to higher limits up to 20 percent. Important industries come up including many imports-replacement and exports-replacement industries. Technical knowledge spreads to other sectors. Real income per head starts rising as GNP growth rate becomes substantially higher that the growth rate of population. A country may remain in this stage between four to six decades. Specialization and division of labour become complex. Production of most things becomes possible.

2. Some important points against Rostow's theory are:

   1. The teleological approach to development is incorrect
   2. History does not repeat itself

3. Leading sectors may not lead
4. Stage overlap and work spill over to the next stages
5. The take-off stage is not empirically vindicated in the same manner in which Rostow presented it
6. An Economy can reach self sustenance without passing through these stages
7. The take-off may be inordinately delayed
8. The last stage of Mass Consumption may not be reached at all
9. There are limits to growth

UNIT 4 DEVELOPMENTAL STATE THEORY

Structure

4.1 Introduction

4.2 Chalmers Johnson's Development State Theory

4.3 Peter Evans' Development State Theory

4.4 Gunnar Myrdal's Development State Theory

4.5 Let Us Sum Up

4.6 References and Suggested Readings

4.7 Check Your Progress – Possible Answers

4.1 INTRODUCTION

The developmental state approach has been and was popular during nineties mostly in Asian, African and Latin American countries, where State played a pro-active role in the development of the underdeveloped economies. State is defined as developmental, if the economy is developing, economic success is equated to state strength and the latter is measured by the presumed outcomes (UNCTAD, 2009). The key proponents of the development state theory are Chalmers Johnson, Peter Evans and Gunnar Myrdal. The development state approach follows a mixed approach falling between the capitalist and planned economy. Basically the development state theory emphasizes on the proactive role of state in the process of development.

After reading this unit, the learner will be able to:

Narrate Chalmers Johnson's development state theory

describe the features of Peter Evans' development state theory

discuss the Gunnar Myrdal's development state theory

4.2 CHALMERS JOHNSON'S DEVELOPMENT STATE THEORY

The two illustrious propounders who initiated work on the concept of "developmental state approach" are Chalmers Johnson and Peter Evans. Chalmers Johnson's pioneering work on 'developmental state' is based on his study on Japan. To define the developmental state, Johnson juxtaposes Japan's plan rational system on the one hand and the market rational system on the other. Johnson advocated three arguments with regard to developmental state in Japan. According to Johnson, the markets do not exist and act in isolation but that they are being created by the state and political system of a country. Secondly, before fixing any developmental priorities and initiating any development actions the creation of a developmental state first came to being. Finally, the most crucial element of the developmental state is not its economic policy, but its ability to mobilize the nation around economic development, even within a capitalist system.

The three distinctive features of Johnson's developmental state model are: (i) developmental state has a small number of bureaucrats who are less expensive to initiate the activities of development policies and programmes; (ii) the political atmosphere provides sufficient grounds to foster a high degree of prestige, legitimacy and authority in establishment of effective ties between the government agency and the private sector; (iii) finally state ensures policy instruments which give necessary authority to the bureaucrats to carry forwards state intervention in the economy without undermining market principles. Basing on all these arguments, Johnson was of the view that the development state has to directly interfere in the development affairs of the economy rather than depending on the market forces to allocate resources for development. He was of the opinion that the state must first of all be a development state and only then a regulatory state, a welfare state, an equality state or whatever kind of functional state, a society may wish to adopt.

4.3 PETER EVANS' DEVELOPMENT STATE THEORY

Peter Evans 'developmental state' is based on a pertinent question that is "What kinds of State structure facilitate industrial transformation?" In order to find an answer to this question he conduced studies in four countries i.e. Zaire, South Korea, India and Brazil. Peter Evan's contribution in the form of development state is an important contribution to development economics. His development model talks of three archetypes of states. This is an illustrious work in the field of economic development. The three types of state as conceptualized by Evans are: (i) The predatory state; (ii) The intermediate state and (iii) The developmental state. Evans (1995) viewed that states are the result of complex historical forces and relationships, but they are also actors of agents potentially capable of shaping and influencing the ongoing process of historical evaluation.

Some of the important characteristics of predatory state are: (i) The predatory state is very selfish in nature and the government employees try to maximize their wealth in minimum shortest possible time, by resorting to corruption mode; (ii) The political system is also corrupt who are interested to amass wealth for their own and family benefits and hardly interested to serve society; (iii) corruption is quite common in the predatory state where both the bureaucracy as well as political system indulge in corruption; (iv) some dominant and privileged class are found to be positioned in the political as well as bureaucratic system and therefore characteristics of pre-capitalist societies are largely seen; and (v) there are scarcity of trained bureaucrats and educated political leaders ; in other words, bureaucracy lacks capability.

The second category of archetypes states is called intermediate state. The intermediate states are largely managed by the bureaucrats. It shows a mixed result, it performs better in those sectors where the bureaucracy is efficient and discharge their duties and responsibilities effectively and efficiently. The sectors which lack efficient bureaucracy, their performance is low as compared to their counterpart having efficient bureaucrats. Corruption and inefficiency are observed in many places of the economic functioning. There is also scarcity of efficient bureaucrats. It is also seen that the public sector in a few

developmental sector work in tandem with the private sector in order to perform its assigned duties and responsibilities. In some sectors development projects and programmes are efficiently implemented while in others it is being observed there is corruption leading to the ineffective implementation of developmental projects and programmes.

The third type of Evans archetype state is development state. One of the important characteristics of the development state is "embedded autonomy". According to Evan the development outcome of any country are largely conditioned by the various forms of state organization, the bureaucratic elements executing the developmental projects and programmes as well as the nature of its relationship with the society and social groups. The state along with the bureaucracy and with the private and social groups in continuous interactions performs various developmental projects and programmes. Evan argued that development outcome of any country are largely condition by the form of state organization, the bureaucratic elements as well as the nature of its ties with dominant societal interest (Evans, 1989). Evan has outlined four roles for developmental state i.e. (i) The Custodian role- to formulate and enforce rules and regulations; (ii) The Demiurge role- directly compete with the private investors, rather than simply playing a complementary role; (iii) The Midwife role- acts as a facilitator by steering, assisting and inducing challenges in areas which are of higher priority; and (iv) The Husbandry role- creating necessary environment for the successful emergence of new industries (Evan, 1989).

According to Evans the developmental state will continue to play an important role in the socio-economic development as well as in promoting economic growth of the developing countries in the coming centuries. It is remarked that the developmental state steams from the amalgam "embedded autonomy" in which the government, private sector and social society organization work together to achieve various developmental goals of the developing countries. The Key actors in the development state are the government, the private sector, and the bureaucracy and synergy of action between these three are crucial for economic growth and development in a developmental state. According to Evans (1989) the efficiency of developmental state depends on a meritocratic bureaucracy with a strong sense of corporate identity and a dense set of institutionalized link to private élites. Further, in the developmental state, the state capacity in respect of the relationship between the state and private enterprise is critical in determining the developmental role of state (Evans,1995).

The developmental state models as developed by Johnson and Evan are vital approaches to development of underdeveloped countries. The description of developmental state as given by these two exponents is based on the empirical analysis; therefore, it holds sufficient ground of reliability in its applicability to the Third World countries. In developmental state, State plays an important role in directing and associating the role of other actors such as private sector, NGOs and local self government institutions in the process of development through policies.

In these sections you read about the Johnson and Evans development state theories and now answer the questions given in *Check Your Progress-1*.

Check Your Progress 1

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1. What are the different features of Johnson development theory?

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2. Describe the role of development state in development according to Peter Evans.

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4.4 GUNNAR MYRDAL'S DEVELOPMENT STATE THEORY

Gunnar Myrdal is an outstanding contemporary development theorist. His illustrious book "The Asian Drama" and another book, "Economic Theory and Undeveloped Regions" give an understanding about his argument on the caves of underdevelopment in underdeveloped countries and how the role of state is instrumental to promote institutional reforms for raising development.

The two key terms Myrdal used in his development analysis are "Cumulative Causation" and "Backwash Effects". According to Myrdal, it is the Cumulative Causation that enables an economy to progressively move a society from the specter of underdevelopment towards development. Myrdal was of the view that most of the underdeveloped nations suffer from "dualism" of developed. Because of this dualism in the underdeveloped regions of the underdeveloped countries, when these nations receive stimulus to growth, it is largely enjoyed and goes to the more prosperous regions of the economy. As a result, the advanced regions surge further ahead leaving the more economically deprived regions of the country lagging behind. This is what is called the "Cumulative Causation". Another cause of the cumulative causation in the underdeveloped countries is the migration of population and movement of capital from less developed regions towards more developed regions. When more youthful and better trained people migrate from less developed regions for better employment opportunity to more developed regions, then the less developed regions again are left with unskilled and dependent population. This further adds to their agony and underdevelopment of the regions. Besides, high fertility in the underdeveloped regions of the underdeveloped countries also reduces per capita income, enhances poverty and sustains the low level of development in the underdeveloped regions of the underdeveloped countries. Like population, the capital also moves from the poorer regions to the prosperous regions, because capital investments in the developed regions as compared to the underdeveloped regions are more secure and the rate of

return is high. In other words, the scope for better investment is more in advanced regions than those of backward regions of the underdeveloped countries; this attraction towards developed region creates capital shortage in backward regions. Myrdal(1957) observes that 'studies in many countries have shown how the banking system, if not regulated to act differently, tends to become an instrument for siphoning off the savings from the poorer regions to richer and more progressive ones where returns to capital are high and secure".

The cumulative movement of trained people and capital investments, which tend to economically weaken a region, were termed as "backwash effects". Contrary to "backwash effects", Myrdal advocated "spread effects". Myrdal perceived that with the help of "spread effects", industrial expansion in more developed regions of the underdeveloped countries will have positive repercussion in its less developed regions in terms of demand, market avenues and technology through the transfer of surplus capital from the more developed regions to the less developed regions. These favorable effects, which the more developed regions would produce on the socio-economic development of the less developed regions, are termed as "spread effects". The main task before the underdeveloped countries is to ensure that the positive impact of "spread effects" will help to neutralize the negative impact of "backwash effects" to a great extent. However, according to Myrdal, the "spread effects" in the underdeveloped countries is weak and therefore would not be capable enough to balance the "backwash effects" as a result of regional imbalances in the underdeveloped countries. Myrdal was of the opinion that it is not possible to attain equilibrium between "backwash effects" and "spread effects" in the underdeveloped countries. As a result regional inequalities are much wider within various regions of the poorer countries than those of the richer countries. For which the regional inequalities are increasing in poor countries and diminishing in the rich countries. Thus according to the Myrdal development state theory, regional disparities and imbalances in terms of socio-economic development in underdeveloped countries are the outcome of 'cumulative causation'.

According to Myrdal, a crucial difference found between the advanced countries and the poor countries, is the existence of strong state in the former and the weak (or soft) in the latter (Myrdal, 1970). With the help of strong state, advanced nations formulate and implement a coherent national policy which helps economic growth and development across the regions of the country. On the other hand, in the poor countries, the State lacks effective policies to either ensure that there is a movement toward national economic integration or to address the impact of backwash effects (Cypher and Dietz, 2006). Myrdal observed that political power is largely concentrated in the hands of top social strata in the underdeveloped countries. These elite groups through their money and muscle power accumulate all power and do not fear and even violate state power through muscle, money and political maneuvering. These people escape punishment by adopting means of political pressure on the bureaucracy and other executive functionaries.

Myrdal advocated institutional reforms in the underdeveloped countries in order to usher economic growth and development in these countries. According to Myrdal (1984), "the institutional approach meant enlarging the study to include what in a summary way I referred to as "attitudes and

institutions'." Therefore, Myrdal emphasized that the institutional reforms are important for the development of the underdeveloped countries. Examples of some of these reforms as advocated by Myrdal are fight against corruption, land reforms, and displacement of elite from the commanding heights of state policy. He advocated that the less corrupt institution/arrangements are needed for the underdeveloped countries in order to augment their economic growth and development.

In this section you read about the Gunnar Myrdal's development state theory and now answer the questions given in *Check Your Progress-2*.

Check Your Progress 2

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1. Distinguish between "spread effects" and "backwash effects".

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2. Briefly explain the meaning of 'cumulative causation'.

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4.5 LET US SUM UP

The development state theory is one of the important theories of development as propounded by the developmentalists. The main propounders of the development state theory are Johnson, Evans and Myrdal. Both Johnson and Evans theory are based on the premises of three categories of states such as predatory state, intermediate state and development state. While Myrdal theory is based on his important concepts of cumulative causation, spread effects, backwash effects. He suggested for a strong state for the effective development of the underdeveloped countries.

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4.7 CHECK YOUR PROGRESS: POSSIBLE ANSWERS

Check your Progress 1

1. The three distinctive features of Johnson's developmental state theory are: (i) developmental state has a small number of bureaucrats who are less expensive to initiate the activities of development policies and programmes; (ii) the political atmosphere provides sufficient grounds to foster a high degree of prestige, legitimacy and authority in establishment of effective ties between the government agency and the private sector; (iii) finally state ensures policy instruments which give necessary authority to the bureaucrats to carry forwards state intervention in the economy without undermining market principles.

2. According to Peter Evan the developmental state play four important roles those are as follows:(i) The Custodian role- to formulate and enforce rules and regulations; (ii) The Demiurge role- directly compete with the private investors, rather than simply playing a complementary role; (iii) The Midwife role- act as a facilitator by steering, assisting and inducing challenges in areas which are of higher priority; and (iv) The Husbandry role- creating necessary environment for the successful emergence of new industries.

Check Your Progress 2

1. The cumulative movements of trained people and capital investments, which tend to economically weaken a region, were termed as "backwash effects". Contrary to "backwash effects", Myrdal advocated "spread effects". Myrdal perceived that with the help of "spread effects", industrial expansion in more developed region of the underdeveloped countries will have positive repercussion in its less developed region in terms of demand, market avenues and technology through the transfer of surplus capital from the more developed region to the less developed region.

2. According to Myrdal, it is the Cumulative Causation enables an economy to progressively move a society from the specter of underdevelopment

towards development. Myrdal was of the view that most of the underdeveloped nations suffer from “dualism” of developed. Because of this dualism in the underdeveloped regions of the underdeveloped countries, when these nations receive stimulus to growth, it is largely enjoyed and goes to the more prosperous region of the economy. As a result, the advanced regions surge further ahead leaving the more economically deprived regions of the country lagging behind. This is what is called the “Cumulative Causation”.

MDV-101: INTRODUCTION TO DEVELOPMENT AND DEVELOPMENT THEORIES (6 CREDITS)		
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4

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PROGRAMME DESIGN COMMITTEE

Prof. Amita Shah
Gujarat Institute of Development Research, Ahmedabad

Prof. S. K. Bhati
Jamia Millia Islamia, New Delhi

Prof. J. S. Gandhi (Rtd)
Jawaharlal Nehru University, New Delhi

Prof. Gopal Krishnan (Rtd)
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Prof. S. Janakrajan
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Utkal University, Bhubaneswar

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A.N.Sinha Institute of Social Sciences, Patna

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Madras Institute of Development Studies, Chennai

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IGNOU, New Delhi

Prof. B. K. Pattanaik
IGNOU, New Delhi

Dr. Nehal A. Farooquee
IGNOU, New Delhi

Dr. P.V.K.Sasidhar
IGNOU, New Delhi

PROGRAMME DESIGN COMMITTEE (REVISED)

Prof. T.S. Papola
Institute for Studies in Industrial Development, New Delhi

Prof. S. Janakrajan
Madras Institute of Development Studies, Chennai.

Prof. S. K. Bhati
Jamia Millia Islamia, New Delhi

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A.N.Sinha Institute of Social Sciences, Patna

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University of Delhi, New Delhi

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IGNOU, New Delhi

Prof. Nehal A. Farooquee
IGNOU, New Delhi

Prof. P.V.K. Sasidhar
IGNOU, New Delhi

Dr. Pradeep Kumar
IGNOU, New Delhi

Dr. Nisha Varghese
IGNOU, New Delhi

Dr. Grace Don Nemching
IGNOU, New Delhi

COURSE PREPARATION TEAM

Unit Writer:

Dr. Nisha Varghese
SOEDS, IGNOU (Unit 1 & 3)

Prof. Kumar B. Das
Utkal University, Bhubaneswar (Unit 2 & 4)

Editors:

Prof. S. K. Bhati (Content Editor)
NCERT, New Delhi

Mr. Praveer Shukla (Language Editor) New Delhi

Dr. Nisha Varghese, IGNOU

Prof. B. K. Pattanaik, IGNOU

Prof. Nehal A. Farooquee, IGNOU

Prof. P. V. K. Sasidhar, IGNOU

Course Coordinator : Dr. Nisha Varghese, E-mail : nishavarghese@ignou.ac.in

Programme Coordinators : Prof. P.V.K. Sasidhar, Prof. B.K. Pattanaik, Prof. Nehal A. Farooquee,

PRINT PRODUCTION

Mr. S. Burman	Mr. KN Mohanan	Mr. Babu Lal Rewadia
Deputy Registrar (Publication)	Asst. Registrar (Publication)	Section Officer (Publication)
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BLOCK 4 HETEROGENEOUS THEORIES

Block-4 of Course MDV-101 consists of four units namely Neo-liberal Theories, Dependency Theory, Human Capabilities Theory and Gandhian Theory.

Unit-1 on **'Neo-liberal Theories'** discusses the history of Neoliberalism, its basic principles, its relevance in the new millennium and a critique of the theory.

Unit-2 on **'Dependency Theory',** discusses the origin of the theory, its main features and propositions. It also discusses the policy implications and a critical appraisal of the theory.

Unit-3 on **'Human Capabilities Theory',** discusses the basic concepts of the Capabilities Approach, its philosophical background and the theories of two pioneers of this theory: Professor Amartya Sen and Martha Nussbaum.

Unit-4 on **'Gandhian Theory'** gives a detailed account of the Gandhian theory of development. It discusses the ideologies behind the Gandhian theory of development, its broad features, and other edifices of Gandhian perspectives on development.

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UNIT 1 NEO-LIBERAL THEORIES

Structure

1.1 Introduction

1.2 History of Neo-liberalism

1.3 Liberalism Vs Neo-liberalism

1.4 Basic Principles of Neo-liberalism

1.5 Neo-liberalism and International Financial Institutions

1.6 Neo-liberalism in the New Millennium

1.7 A Critique of Neoliberal Development

1.8 Let Us Sum Up

1.9 References and Suggested Readings

1.10 Check Your Progress – Possible Answers

1.1 INTRODUCTION

Adam Smith, a British Economist, in his book The Wealth of Nations in 1776 suggested that for a nation to develop, there should be removal of government interventions in economic issues in the form of restrictions or tariffs on manufacturing and commerce. Until the Great Depression of 1930s, free trade was the primary economic policy followed by the United States and Britain. However, this free trade practiced by them had strong foundation of imperialism and colonialism so as to have access to raw materials to produce value added finished goods. The Great Depression of the 1930s led to the promulgation of Keynesian model of development in which John Maynard Keynes suggested government intervention in order to provide more equity in development. The Marshall plan in Europe and President Roosevelt's New Deal in the US helped these nations to see the benefit of social provisions such as health, education etc. In the 1940s and 1950s, most of the western countries believed in Keynesian policies. Even the World Bank and the International Monetary Fund were designed keeping the Keynesian principles in mind. The equalizing effect of Keynesian policies led to the diminishing of profits of the corporations and economic liberalism was revived and hence the term Neo-liberalism was coined. It is important that as a student of Development Studies you are updated with this theory and its evolution.

After reading this unit you will be able to:

- describe the evolution of Neo-liberalism in the West and in other parts of the world;
- differentiate between classical liberalism and neo liberalism;
- describe the basic instruments of Neo-liberalism; and
- critically analyze Neoliberal development.

1.2 HISTORY OF NEO-LIBERALISM

Neo-liberalism in the West

The genesis of neo-liberalism dates back to the 1930s when the west experienced the great depression as a consequence of overproduction. During that period, capitalism was expanding by means of increased productivity and decreased wages and this curtailed people's ability to purchase, thus creating a glut of goods in the market. Economists like John Maynard Keyes came forward with the idea of involvement of state on regulating capitalism in order to solve this crisis of overproduction. He suggested lowering of unemployment and raising the wages in order to increase consumer demand for goods. This economic model as suggested by Keynes was known as embedded liberalism which sought to strengthen the middle class workforce with the means to consume the overproduced basic commodities. This principle was widely accepted in US and Europe post World War II so as to ensure economic stability and social welfare around the world. The Bretton Wood Institutions (IMF and World Bank) were also developed in order to take care of the balance of payment problems that arose after the war. Embedded liberalism led to high growth rates in the 1950s 1960s. However, by early 1970s, the industrialized west faced the crisis of stagflation (high inflation and economic stagnation). Economists point towards two factors that led to stagflation: (1) the Vietnam War and (2) the oil crisis of 1973 which led to increased prices and slowing down of production. The conservatives however sight the high taxation of the wealthy and excessive economic regulation as the reasons for stagflation.

Following the recommendation of Milton Friedman, the then Chairman of the US Federal Reserve (1979), Paul Volcker argued in favour of increasing the interest rates in order to curb inflation. The interest rates went as high as 20% in 1981. The Volker shock led to massive recession, high unemployment thus having devastating effect on the working class, however, it cured inflation. The target of lowering down inflation through tight monetary policy was the first component of monetary policy which was put in place in 1980s. The then US president Reagan also believed in supply side economics giving more money to the rich with the assumption that they would invest in productive activities and create windfall gains which would eventually trickle down. Another neoliberal policy during his period was the deregulation of financial sector which eventually precipitated in the global financial crisis of 2008. Similar policies along with rampant privatization was also adopted around the same time by Margaret Thatcher in Britain. These policies however led to an unprecedented growth in social inequality in United States.

Neo-liberalism in the rest of the World

The history of Neo-liberalism in the international arena dates back to 1973 when under US pressure, the Arab states started circulating their extra petrodollars through Wall Street investment banks who in turn invested this extra flow of cash by spending it in the form of high interest loans to developing countries. As the Volcker shock hit in the early 1980s, the interest rates skyrocketed thus pushing many of the developing countries on the verge of default. This was popularly known as the Third World Debt Crisis. In order to resolve this crisis, the IMF stepped in and offered to roll over the

debts of developing countries on the condition that they would agree to a series of structural adjustment programmes. The structural adjustment programs aimed at market deregulation on the assumption that it would lead to economic efficiency and economic growth and thus help the developing countries to come out of the debt crisis. This was to be achieved by cutting government subsidies, trade tariffs, curbing the non-tariff barriers like regulations on labour, resource use and pollution. Similar Neoliberal principles are also promoted by organizations like World Bank and the World Trade Organization.

1.3 LIBERALISM Vs NEO-LIBERALISM

The classical liberalism sees the role of state as a night watchman, upholding only the most fundamental aspects of public order like the armed forces and law enforcement. Classical liberalism has a lot in common with the economic aspect of liberalism. Neo liberals on the other hand have shown greater willingness in allowing state to be an active participant in the economy. In Neo liberalism, the state tends to regulate the market and also to supply essential goods and services to everyone.

The classical liberals favour laissez-faire economic policies claiming that they lead to more freedom and democracy. Neo-liberals on the other hand refute this analysis and believe in active role of state in the economy in order to meet the most basic liberal goals. Classical Liberalism is based on constitutional democracy, limited involvement of government, individual liberty and basic human and civil rights needed for a descent human existence.

1.4 BASIC PRINCIPLES OF NEO-LIBERALISM

In this section you will read about the basic principles of Neo-Liberalism and also some thoughts of Neoliberal thinkers.

1.4.1 Basic Principles of Neo-Liberalism

Neo-liberalism revolves around two central principles: (1) that the factors of production get paid what they are worth and (2) that free markets will not let factors go waste. The Neo-liberal economics emphasizes on the neoclassical assumption that all economic agents are rational beings who act upon their own rational expectations. They argue that excessive unemployment is the result of government intervention into an otherwise perfectly self-adjusting system and hence the state should restrain itself from intervening.

Washington Consensus

The Phrase Washington Consensus was originally coined by John Williamson, Senior Fellow at the Washington based Institute for Economic Development. The policy instruments which were the principles of operation of the Washington Consensus and which applied mainly to the third world (mainly the borrowing countries) was described by John Williamson(1990:18) as including:

1. Fiscal Discipline: Large and sustained fiscal deficits by central and provincial governments are a main source of macroeconomic dislocation in the forms of inflation, balance of payments deficits and capital flight. These deficits result from lack of political courage in matching public expenditures to the resources available.

2. Reducing public expenditures: When the government expenditures have to be reduced, the view is that spending on defense, public administration and subsidies, particularly for state enterprises, should be cut rather than primary education, primary healthcare and public infrastructure investment.
3. Tax Reform: The tax base should be broadened, tax administration improved, and marginal tax rates should be cut to improve incentives.
4. Interest Rates: Financial deregulation should make interest rates market determined rather than state-determined, and real interest rates should be positive to discourage capital flight and increase savings.
5. Competitive Exchange Rates: Exchange rates should be sufficiently competitive to nurture rapid growth in nontraditional exports but should not be inflationary-the conviction behind this is that the economies should be outward oriented.
6. Trade liberalization: Quantitative restrictions on imports should be eliminated, followed by tariff reductions, until levels of 10-20% are reached – the free trade ideal, however, can be temporarily contradicted by the need for protecting infant industries.
7. Encouraging Foreign Direct Investment: Foreign investment brings needed capital, skills and knowhow. Barriers impeding the entry of foreign firms should be abolished. Foreign and domestic companies should be allowed to compete on equal terms.
8. Privatization: State enterprises should be privatized. Private industry is more efficient.
9. Deregulation: All enterprises should be subject to the discipline of competition- this means deregulating economic activity in the sense of reducing state controls over private enterprise.
10. Securing Property Rights: Making secure and well defined property rights available to all at reasonable cost.

The Washington Consensus aimed at removing government intervention and promotion of market competition such that the individuals had the choice to invest their productive resources to various alternatives. It aimed at removal of restrictions in the movement of commodity and capital in and out of a country, making exports cheaper and free conversion of currencies into dollars. This model of development which promoted unrestricted globalization was first implemented in Latin American Countries in 1970s followed by Africa and Asia and was spread to almost all the developing countries by mid 1990s. Neo-liberalism was also the development model followed to reshape the Eastern European Regions in the Post Communist Period since 1990.

1.4.2 Some Thoughts on Neo-liberalism

1. Neo-liberalism by Deepak Lal

Deepak Lal, professor of political economy at the University College, London was critical of the development economists' skepticism of the efficiency of markets in less developed countries and their advocacy of supplanting (replacing) the price and market system with various forms of direct government control. Secondly, Lal was also critical of the emphasis of development economists on macro economic considerations like growth,

industrialization, investment and employment rather than micro-efficiency. However, Lal's mirco-economic perspective has been refuted by several economists and also the World Bank which has cited the example of Korea and Taiwan who owe their success to right strategies at macro level rather than micro-efficiency.Studies show that in some less developed countries, government intervention has slowed economic growth while in other countries like Japan and East Asia, government intervention has accelerated it. This proves that it is not the presence or absence of government intervention but the nature of intervention that determines the direction of growth. Thirdly, Lal also advocated the idea of promoting exports while maintaining a *laissez-faire* regime on domestic producers. However, economists consider this idea of promoting exports and forcing *laissez-faire* on domestic producers as flawed. Countries whose domestic production and employment is affected by such export promotion policies may retaliate to such policies.

2. Neo-liberalism by Anne Krueger

Anne Krueger was the chief economist of the World Bank from 1982-1987 and she was the First Deputy Director of the International Monetary Fund in 2001. According to Professor Krueger, when the state uses its capacity to redistribute income to select elements of the society, it may lead to economic waste, social distrust and instability. For example, import licenses benefit those traders who receive the license. If the economic benefit of owning the license is more than the price of the license, the importer ends up receiving the benefits which he/she has not earned. Such gains which constitute the unearned sources of income are called rents. In less developed countries, the opportunities of such rents are widespread and it may result in the formation of a rent seeking society. According to Krueger, the state is a ready source of such rents through subsidies, tax exemptions, tariffs and similar government policies. Once such rents capture the interest of certain groups, these groups exert pressure on the state to maintain such policies. Such policies drain the economy of its dynamism and the costs of production become too high and consumers end up paying high prices. Therefore, Krueger and other neoliberal thinkers advocate minimizing the role of state through privatization programmes, removal of tariff and non-tariff barriers to trade, ending of subsidies and removal of any such policy that may create gains for special interest groups.

In this section you have read about the history of Neo-Liberalism in the western world and in the rest of the world. You have also read about the basic principles of Neo-Liberalism. Now try and answer the questions given in *Check Your Progress-1*.

Check Your Progress 1

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1. Write any four basic principles of Neo-liberalism?

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2. What is the difference between Liberalism and Neo-liberalism?

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1.5 NEO-LIBERALSM AND INTERNATIONAL FINANCIAL INSTITUTIONS

The two important international financial institutions viz. the World Bank and the International Monetary Fund came into existence in 1944 at an international conference held at Breton Woods, New Hampshire. The IMF was formed in order to extend short term loans to countries facing balance of payment problems. The World Bank (which was then known as the International Bank for Reconstruction and Development) was formed to provide long term private bank loans for investments in productive activities. In 1950s the World Bank considered development akin to economic growth which depended on public investment on infrastructure and hence provided loans for construction of infrastructure like roads, railways, power facilities etc. The Banks' emphasis shifted to education and third world agriculture in 1960s. In the 1970s, the World Bank adopted the 'basic needs' approach to development assistance and its focus shifted to promoting descent living conditions by providing food, clothing and housing services. The basic idea was to raise the productivity of the poor and to bring them into the economic system. During the 1970s most of the third world countries had borrowed huge sums to finance development projects. However, due to the increase in oil prices in 1973, most of the non-oil producing third world slipped into serious debt. This situation was seen as an opportunity by the commercial banks of London and New York to recycle the petrodollars as loans to the third world countries. The situation worsened with the third world countries and these loans were being used by them to merely repay the interest on the old debt. Realizing the intensity of the financial crisis, the banks refused to lend more and most of these countries ended up in major balance of payment deficits. Mexico was the first country to experience this debt crisis, followed by Argentina, Brazil and many other countries. The World Bank and the IMF then intervened and imposed structural adjustment conditions on the borrowing countries. During this crisis, the World Bank's emphasis changed in favour of changing economic policies of developing countries by avoiding overvalued exchange rates, reducing public spending commitments and having and open trade regime. The Bank then emphasized more on efficient industrialization and open trade by supporting policy reforms and structural changes in a neoliberal direction. The Bank reports that state protection of industries had rendered them inefficient and led to inefficient and inferior quality of production. The World Bank suggested policy reforms in three main areas: trade reforms, macroeconomic policies to reduce government deficits, lower inflation and ensure competitive exchange rates and an environment favouring domestic competition by removing price controls, reforming labor market regulations and rationalizing investment regulations. In 1990s, the World Bank's emphasized on market friendly state intervention and good governance. The World Development Report of 1990 addressed the issue of dealing with poverty for the first time by focusing on policies

promoting the use of labour and providing basic services like healthcare, education and nutrition.

1.6 NEO-LIBERALISM IN THE NEW MILLENNIUM

The key institutional actors of Neo-liberalism widened in the new millennium including besides US and International Financial Institutions a broader group of wealthy countries like the G7 and G8, the United Nations (UNDP). The key terms in the direction of Neo-liberalism in the new millennium include the Millennium Development Goals (MDGs), Debt Relief and the most recent Sustainable Development Goals (SDGs). The UN Millennium Declaration was adopted by the largest gathering of world leaders in the history of UN at the Millennium Summit held at the UN in September 2000 committing to a global partnership to reduce extreme poverty and also set out a series of time bound targets to be achieved by 2015. In June 2005 the Finance Ministers of G8 countries agreed to provide additional financial resources so as to increase the financing capacity of IMF, World Bank and Africa Development Bank for 100% debt cancellation of the outstanding loans of 18 of the poorest countries in the world. This initiative came to be known as 'debt relief' which meant writing off $40 billion owed by very poor countries to foreign lenders by refinancing IMF and World Bank. The SDGs came into effect in January 2016.

1.7 A CRITIQUE OF NEOLIBERAL DEVELOPMENT

There are several critique of Neo-liberalism which state that the term itself is in need of some explanation and critical challenge. Some of the critiques of Neo-liberalismare as under:

1. Polanyi (1944:57): There was nothing natural about laissez-faire; free markets could never have come into being merely allowing things to take their course…… laissez-faire itself was enforced by state.

2. One of the claims made by Neoliberal theory is that the price systems in the market are in line with the individual knowledge leading to a price competitive economic order and thus promoting development. However, it is argued that prices do not take into account social and environmental costs which makes them socially irresponsible and environmentally destructive.

3. Neoliberals are also criticized for the context in which they use the term 'freedom' and 'free individuals'. It is criticized for using 'free individuals' as a synonym for the entrepreneur or the capitalist and 'freedom' as a synonym for their freedom to earn money. It is criticized for being a policy that favours the rich. In US, the income figures of highest earning 1% of the population varied from 20% immediately prior to the Great Depression, down to 10% during the Keynesian 1950s, 1960s and 1970s and then going up again to 15-20% during 1990s and 2000s under the neoliberal policy regime (Alvaredo, Atkinson, Pikettyy and Saez, 2014).

4. Neo-liberalism is also criticized for favouring a capitalist system which promotes economic growth. The natural consequences of this profit

making endeavor is depleted resources, excessive energy usage and increased levels of pollution. These relations between economic growth and environment necessitate human and societal change.

In the above sections you have read about neo-liberalism and its relation to international financial institutions, the critique of neo-liberalism and neo-liberalism in the new millennium. Now try and answer the questions given in *Check Your Progress-2.*

Check Your Progress 2

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1. How were the international financial institutions instrumental in promoting structural reforms in the third world countries?

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2. Write any two critiques of neoliberalism?

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1.8 LET US SUM UP

In this unit you have read about the history of evolution of Neo-liberalism. The basic principles of Neo-liberalism as outlined in the Washington Consensus have also been discussed. The role of international financial institutions like the World Bank, International Monetary Fund and the World Trade Organization in promoting Neo-liberalism in the developing countries has also been discussed in detail. Finally the unit deals with the critiques of neoliberal development.

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1.10 CHECK YOUR PROGRESS – POSSIBLE ANSWERS

Check Your Progress 1

1. Four basic principles of Neo-liberalism are

   1. Tax Reform: The tax base should be broadened, tax administration improved, and marginal tax rates should be cut t improve incentives.
   2. Interest Rates: Financial deregulation should make interest rates market determined rather than state-determined, and real interest rates should be positive to discourage capital flight and increase savings.
   3. Competitive Exchange Rates: Exchange rates should be sufficiently competitive to nurture rapid growth in nontraditional exports but should not be inflationary-the conviction behind this is that the economies should be outward oriented.
   4. Trade liberalization: Quantitative restrictions on imports should be eliminated, followed by tariff reductions, until levels of 10-20% are reached – the free trade ideal, however, can be temporarily contradicted by the need for protecting infant industries.

2. The difference between liberalism and Neo-liberalism are as follows

The classical liberalism sees the role of state as a night watchman, upholding only the most fundamental aspects of public order like the armed forces and law enforcement. Neo liberals on the other hand have shown greater willingness in allowing state to be an active participant in the economy. In Neo liberalism, the state tends to regulate the market and also to supply essential goods and services to everyone.

The classical liberals favour laissez-faire economic policies claiming that they lead to more freedom and democracy. Neo-liberals on the other hand refute this analysis and believe in active role of state in the economy in order to meet the most basic liberal goals.

Classical Liberalism is based on constitutional democracy, limited involvement of government, individual liberty and basic human and civil rights needed for a descent human existence.

Check Your Progress 2

1. After 1973 when the oil prices shot up, the non oil producing countries slipped in serious debt. After a certain point, the banks refused to lend further to these countries and they faced major balance of payment crisis. The World Bank and the IMF then intervened and imposed structural adjustment conditions on the borrowing countries. During this crisis, the World Bank's emphasis changed in favour of changing economic policies of developing countries by avoiding overvalued exchange rates, reducing public spending commitments and having and open trade regime. The Bank then emphasized more on efficient industrialization and open trade by supporting policy reforms and structural changes in a neoliberal direction. The Bank's reports that state protection of industries had rendered them inefficient and led to inefficient and inferior quality of production.

2. Two critiques of Neo-liberalism include:
    1. Polanyi (1944:57): There was nothing natural about laissez-faire; free markets could never have come into being merely allowing things to take their course…… laissez-faire itself was enforced by state.
    2. One of the claims made by Neoliberal theory is that the price systems in the market synchronizes individual knowledge leading to a price competitive economic order and thus promoting development. However, it is argued that prices do not take into account social and environmental costs which makes them socially irresponsible and environmentally destructive.

UNIT 2 DEPENDENCY THEORY

Structure

2.1 Introduction

2.2 The Dependency Theory of Development

2.3 Approaches to Dependency

2.4 Criticisms of Dependency Theory

2.5 Let Us Sum Up

2.6 References and Suggested Readings

2.7 Check Your Progress - Possible Answers

2.1 INTRODUCTION

In the earlier two units, you read classical and Marxian theories of development. In this unit, you will study the dependency theory of development. Dependency theory is a body of social science theories. It contends that resources flow from a periphery of poor and underdeveloped states to a core of wealthy states, enriching the latter at the expense of the former. It is a central contention of dependency theory that poor states are impoverished and rich states are enriched, by the way poor states are integrated into the world system. In the next unit, you will be reading the Gandhian theory of development, which is based on Gandhian thoughts.

After studying this unit, you should be able to:

- explain the dependency theory of development, and the basic characteristics of a dependent economy;
- distinguish between the Marxian and non Marxian approaches of dependency theory; and
- narrate criticisms of dependency theory.

2.2 THE DEPENDENCY THEORY OF DEVELOPMENT

Our discussion on the dependency theory of development is comprised of the characteristics of a dependent economy, approaches to dependency, and criticisms of dependency theory. Dependency theory evolved around 1950 as a reaction to some earlier theories of development. Dependency theory was popular in the 1960s and 1970s as a criticism of modernization theory. The main propounders of dependency theory are: Prebisch, Singer, Paul Baran, Paul Sweezy, C. Furtado, F H Cardoso, Gunnar Myrdal, A Gunder Frank, Girvan, and Bill Warren. Many of these scholars focused their attention on Latin America. The leading dependency theorist in the Islamic world is the Egyptian economist, Samir Amin.

Earlier theories held that all societies progress through similar stages of development. They say that at some time in the past, today's developed were in a situation that is similar to that faced by today's underdeveloped areas. Therefore, the task of helping the underdeveloped areas out of poverty is to accelerate them along the supposed common path of development by various means, such as investment, technology transfers, and closer integration

into the world market. Dependency theory rejected this idea, arguing that underdeveloped countries are not merely primitive versions of developed countries; rather they have unique features and structures of their own. They are weaker members in a world market economy and the developed nations were never in an analogous position. They never had to exist under the patronage of more powerful countries than themselves. Dependency theorists argued, in opposition to free market economists, that underdeveloped countries needed to reduce their connectedness with the world market so that they might pursue their own path, more in keeping with their own needs, and less dictated by external pressures.

Hans Singer and Raúl Prebisch, the prominent dependency theorists, observed that the terms of trade for underdeveloped countries, relative to the developed countries, had deteriorated over time. The underdeveloped countries were able to purchase fewer and fewer manufactured goods from the developed countries in exchange for a given quantity of their raw materials exports. This idea is known as the Singer-Prebisch thesis. Prebisch, an Argentinian economist at the United Nations Commission for Latin America (UNCLA), went on to conclude that the underdeveloped nations must employ some degree of protectionism in trade if they were to enter a self-sustaining development path. He argued that import substitution industrialization (ISI), but not a trade-and-export orientation, is the best strategy for underdeveloped countries.

The advocates of dependency theory believe that the theories of Smith, Ricardo, and the other European classical economists are not suitable to an analysis of the dualistic dependent structure of many nations such as Brazil, Mexico, and India. According to the dependency theorists, the less developed countries are to be understood as part of the global process. Their fate is merely to provide inputs for advanced nations. They provide low wage manufacturing under adverse terms of trade. Dependency analysis was built on the ideas of structuralists, more specifically, on the distinction between centre and the periphery made by Prebisch. The centre is viewed as the cause, and the periphery as the effect. Dependency theory found the causes for the lack of development to be external to the socioeconomic formations of the LDCs (Less Developed Countries). It does not treat dysfunctional institutions of the LDCs as the cause of backwardness. Internal institutional structures such as corruption levels, unproductive land holdings, concentration of wealth, and unresponsive political systems are never considered the causes of underdevelopment. Many dependency theorists advocate social revolution as an effective means to reduce economic disparities in the world system.

The basic premises of dependency theory are

i. Poor nations provide natural resources and cheap labor. They are export destinations for obsolete technology and for markets for the wealthy nations, without which, the latter could not have the standard of living they enjoy. Poor nations are at a disadvantage in their market interactions with wealthy nations.

ii. Wealthy nations actively perpetuate a state of dependence by various means. This influence may be multifaceted, involving economics, media control, politics, banking and finance, education, culture, sport,

and all aspects of human resource development, including the recruitment and training of workers.

iii. Wealthy nations actively counter all attempts made by dependent nations to resist their influences by means of economic sanctions, and, possibly, by the use of military force. The poverty of the countries in the periphery is not because they are not integrated into the world system, or not fully integrated as is often argued by free market economists, but because of how they are integrated into the system.

The Characteristics of Dependent Economy

After knowing the fundamentals of dependency theory, let us now discuss the characteristics of a dependent economy. Dependency is said to have been created with the industrial revolution, with the expansion of European empires around the world, and due to the superior military power and accumulated wealth of these empires. Some argued that before this expansion, the exploitation was internal, with the major economic centers dominating the rest of the country. The establishment of global trade patterns in the nineteenth century, allowed capitalism to spread globally. The wealthy became more isolated from the poor, because they gained disproportionately from imperialistic practices. This control ensures that all profits in less developed countries are remitted to the developed nations. It prevents domestic reinvestment, causing capital flight and, thus, it hinders economic growth.

The underlying conditions for dependency of any country are as follows:

i) exporting firms are primarily owned by foreigners

ii) exports are dominated by one, or a few commodities

iii) the export sector dominates the economy, and imports are larger in relation to GDP

iv) mineral and petroleum products are produced under conditions of vertical integration.

The characteristics of a dependent economy are as follows:

i) economic growth is not self activating

ii) profits are normally repatriated, but not reinvested

iii) the production of export industries is dependent on imported inputs

iv) income, employment, and growth are determined by

   a) the prices and the demand conditions of international market

   b) the willingness of transnational corporation to invest

v) income, employment and growth are conditioned by

   a) changes in the prices and types of imports

   b) economic fluctuation abroad

   c) changes in taste and fashion

   d) changes in technologically created substitutes

vi) backward and forward linkages of export activities are very rare

vii) foreign capital, foreign technology, and management are dominant economic actors.

According to Vernengo (2004), the *sine qua non* of the dependency relationship is not the difference in technological sophistication as traditional dependency theorists believe. It is the difference in financial strengths between core and peripheral countries. In fact, the peripheral countries are incapable of borrowing in their own currencies.

So far, you have read about the dependency theory of development and the characteristics of dependent economy. Now, answer the following questions given in *Check Your Progress-1*.

Check Your Progress 1

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) What are the characteristics of a dependent economy?

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2) Explain the basic premise of dependency theory.

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2.3 APPROACHES TO DEPENDENCY

There are two main streams in dependency theory: The Structuralist stream, typified by the works of Prebisch, and Furtado; and the Marxist stream, developed by Baran, Sweezy, and Frank. Thus, two approaches are developed by two classes of economists.

They are

i) the Marxian theory of dependency

ii) the Structuralist theory of dependency

The Marxian Theory of Dependency

This theory was developed from a Marxian perspective by Paul Baran in 1957 and is detailed in his book, ***The Political Economy of Growth***. Dependency theory shares many points with earlier Marxist theories of imperialism. It continues to attract interest from Marxists. Celso Furtado of Brazil was one of the first economists to use the term ‘dependency’ and to argue that development and underdevelopment are two aspects of one economic structure. Both Keynes and Myrdal greatly influenced his thinking concerning the link between the economy and power, the crucial role of the state, and the ways in which the international economy influenced, or constrained, the development process of national economies. After a political coup in 1964, Brazil strictly followed the development strategy of industrialization which generated a social exclusion process in the country.

According to Furtado, however, development should be a social process. So, he argued for the necessity of incorporating Brazil's vast population of poor workers, farmers, and marginalized people into a process of inclusive social development. In his view, industrialization can unleash new social forces and pressures which bring about a process of inclusive social development.

Being the head of National Bank of Brazil, Furtado focused on the northeast region and observed that the income gap between poor farmers and those residing in Sao Paul was greater than the income gap between the average income in Sao Paul and Europe in the 1950s. He created SUDENE (Superintendency for the Development of the Northeast), a Brazilian government agency created in 1959, which was designed to promote industrial development and land reform in the northeast region to counteract 'internal colonialism', as manifested in the exclusion of the northeast from Brazil's economic growth. According to Furtado, the northeast faced falling terms of trade for its commodity exports, and falling terms of trade in relation to its income earnings on the industrial goods bought from Sao Paul and Rio. Development and underdevelopment are one totality constantly produced within the structure of the economy. He maintained that there was a necessary link between FDI-led growth and rising internal inequality. To overcome dependence, the underdeveloped nations would have to create their own economic plans.

Marx believed that capitalism is characterized by creative destruction. It has two effects: destruction, and regeneration. Paul Baran emphasized the destruction side of capitalism in underdeveloped countries. He did not find evidence of regeneration. Rather, the monopoly capitalism of the twentieth century, unlike the competitive capitalism of the nineteenth century, had a vested interest in maintaining backwardness and dependence in the periphery. Baran's analytical contribution led to the flowering of the pessimistic and stagnationist school of dependency in Latin America and Africa. Baran's favourite example of the destructive effects of capitalism was that of India. He found that Indian social scientists, having experienced British imperialism, had developed concepts very similar to the dependency theorists of the late nineteenth century.

Baran's theoretical point of departure was an analysis of economic surplus. He defined economic surplus as the mass of resources (actual and potential) which a society could have at its disposal, in order to facilitate economic growth. It is the amount that might be reinvested in productive ways to increase the future level of social output. This surplus is the residual from total income after society's basic needs for food, clothing, shelter, and human companionship have been met. But, this surplus may be grossly misused. It may be utilized to erect sumptuous and multiple residences for the rich, or it may be wasted through a variety of ways of conspicuous consumption. The military, or the church may make tremendous demands on the surplus, or it may be drained away by foreign power *via* plunder, or, by simple profit repatriation as a result of foreign control over less developed countries. The historical analysis made by Baran makes it clear that the sources of poverty of less developed countries are found in the extraction of this surplus under colonialism. Thus, colonialism blocked the potential for change. Backwardness and poverty is perpetuated in these regions. According to him, the oppression of the feudal lords was ruthless,

but tempered by tradition. It was further worsened by the domination of both foreign and domestic capitalists.

According to dependency theory, the exploitation of the people is multiplied because the oppression and violence inherited from the feudal past is combined with the rationality and intelligent rapacity of the capitalists. The fruits of capitalism were not to raise productive wealth in many countries such as India. These fruits went abroad and served to support a parasitic bourgeoisie at home. People lived in abysmal misery, and they had no prospect of a better future. Poverty and underdevelopment continued. They lost their time honoured means of livelihoods, their arts and crafts. There was no modern industry to provide new ones in their place. They were thrust into extensive contact with the advanced science of the west, yet they remained in a state of darkest backwardness.

By reviewing the history of colonialism, Baran made the following conclusions

i) profit margins fall due to the workers demand for higher wages

ii) foreign capital becomes the targeted source of increasing state revenue (by imposing higher taxes and higher royalty payments, for example)

iii) foreign exchange control is imposed to curb the funds flowing out of the country as repatriated profits

iv) tariffs on imported wage goods are imposed to protect domestic manufacturing.

Theoretically speaking, the state could break this deadlock by opting for new programmes that would make import substitution industrialization (ISI) more successful and dynamic. But the state, in the backward regions, is incapable of making the decisions needed to move forward on any front of development ladder. Baran argued that political revolution is necessary to break this pattern. He argued that by following the capitalistic route, these countries are not expected to achieve Rostow's stage of 'high mass consumption'. Instead, these countries would head towards their economic and social graveyards. Thus, by following the socialistic route, the less developed countries could reasonably expect some relief from poverty.

The Structuralist Theory of Dependency

There is a group of structuralist dependency theorists who are not Marxians. They reject the perspective of stagnation. Amongst them, the most reputed writer was Fernando Henerique Cardoso, an active Brazilian sociologist and economist of international repute. He argued that nations on the periphery suffer from a type of 'peripheral capitalism'. One of the important features of these economies is economic stagnation, or, in the words of Andre Gunder Frank, an eminent dependency writer, 'development of underdevelopment'. Cardoso says that the dependent countries are not stagnant. The societies and economies of the periphery are continuously evolving. There are three major stages in the economic history of LDCs.

The first is the agro-export stage of the colonial period, when economic dualism was prevalent. During this stage, pre-capitalist sectors of artisans, petty producers, and peasant producers accounted for the bulk of economic activity. At this stage, some sectors, such as precious metals, minerals, and

tropical products are integrated with the world market. The production of these exportables takes place in modern and semi-capitalist enclaves.

The second is the stage of developmentalist alliances. After the Second World War, some LDCs experienced major transformation through import substitution industrialization (ISI). In this stage, a new social structure of accumulation is created which is based on the collective interest of industrial workers, peasants, and capitalists.

The third is a corporatist regime stage, where there are drastic curbs on democracy, unions, universities, and other areas of society where dissent might be encountered. The populist orientation of the second stage (in which social security, minimum wage legislation, public health care, and public education are expanded) is broken. There are drastic cuts in the state's budget for public services. Above all the TNCs (transnational corporations) are welcomed. They become pivotal in the new process of accumulation, and are central to the growth process.

According to the structuralists, one should not be surprised at some economic progress, nor should one think LDCs are powerless to shape their destiny. The third stage is not immutable either. There is no continuous stagnation. Under this new regime in which the authoritarian state and TNCs cooperate, some economic growth and development does occur. The TNCs keep costs down in the era of global competition. GDP rises, and even the standards of living of the masses may improve. There is a new process of capital accumulation which Cardoso terms 'associated dependent development'. Cardoso rejects the possibility of a political shift towards a revolution in these countries, during this stage. As the economic growth created by the new alliance between domestic capital and TNCs progress, some new possibilities for the working class, the techno-bureaucracy and the state open up.

The paradox is that the actual dependence of Caribbean countries became much more acute in the 1980s and 1990s. The heightened foreign indebtedness increased the economic vulnerability of these LDCs. It exposed them to pervasive external intrusions into domestic policy making in the form of conditionalities imposed by the Washington based international financial institutions, and bilateral donors. The establishment of WTO, in 1994, significantly constricted the policy space previously available to developing countries. National development, which was an accepted objective in the era of decolonization, was been replaced by the *mantra* of global integration. The new dependency associated with globalization is presented as interdependence in an effort to conceal the asymmetries. Thus, the wheel has come full circle from the 1960s. According to Girvan, this new orthodoxy calls for renewed critical analysis from an updated dependency perspective.

These non industrialized countries are caught in a post colonial torpor. They continue to specialize in one, or a few raw material exports. These nations are described as dependent economies stuck on the periphery of progress. The centre- periphery relationship results in a dependent development pattern. They seemed incapable of autonomously altering their economic structures. This is characterized by the alliance of international and local capital. The state also joins this alliance as an active partner. The

resulting triple alliance is a fundamental factor in the emergence of "updated dependent development".

According to the non Marxist version of dependency theory, a dependent system

i) fosters financial /technological penetration by developed capitalist countries

ii) produces an unbalanced economic structure, both, within the peripheral societies, and between them, and the centers

iii) leads to limitations on self sustained growth in the periphery

iv) favours structural imbalance and specific patterns of class relations

v) requires modifications in the state's role.

Thus, the main characteristics of a dependent economic system are

i) the regression in both, agriculture and small scale industry

ii) the concentration of activities in export oriented agriculture and/ or mining.

iii) a rapidly growing tertiary sector, with hidden unemployment iv) chronic current account balance deficits

v) structural imbalances in political and social relationships

vi) the comprador element and rising importance of state capitalism and indebtedness

vii) strong and self-repeating ups and downs, called business cycles

Many economists argue that political independence is sufficient to thwart all the impediments to social and economic progress. It gradually removes all barriers to development. The spread of capitalist methods of production sweeps away outmoded institutions and structures. Both, the advanced nations and the LDCs will grow. So a dependency relationship is not a zero sum game. Warren argues that capitalism sweeping into LDCs at a rapid rate brings an incomparably higher standard of living to the masses than any previous socioeconomic system. Warren's brash analysis has been overtaken by the facts of LDCs. The durability of retarding factors disturbed dependency economists. Therefore, many dependency theorists argue that becoming developed requires right decisions and proper policies. It does not just happen to a country, like *manna* from heaven, or, just as a consequence of the spread of capitalism. Thus, the economic growth of these LDCs is only possible by adopting appropriate economic policies.

2.4 CRITICISMS OF DEPENDENCY THEORY

Some free market economists, such as Peter Bauer and Martin Wolf, write primarily for non economists. They argue against the path of dependency theorists. Autonomous path of periphery countries leads to higher corruption, domestic opportunity costs, lack of competition and sustainability in these countries. By late 1970s, a chorus of voice dissented against dependence theory.

The arguments of dependency theorists are criticized as follows

i) The countries on the periphery of development are not destined to stagnation. So, dependency theory is an incomplete and inaccurate description of the socioeconomic conditions of LDCs.

ii) There are many dependent countries on the periphery. They do change their economic structure. According to Prof Warren, they have achieved very rapid economic growth.

iii) This theory does not highlight how the countries that follow a dependent development pattern suffer from a variety of economic ills, such as regressive income distribution, an emphasis on luxury goods, underutilization and exploitation of human resources, over reliance of foreign firms for capital intensive technology, and the perennial problems of poverty and unemployment.

iv) This theory has no relevance to many nations which are neither in the periphery, nor in the centre. They are called semi periphery countries.

v) One need not accept dependency as a necessarily zero sum game in which the periphery loses, and the centre gains. The dependency condition provides opportunities for a win-win game, in which both developed countries and LDCs gain from each other.

vi) With the economic growth of India and East Asian economies, dependency theory has lost its validity. It is more widely accepted in disciplines such as history and anthropology.

So far, you have read about the various approaches to dependency and the criticisms of dependency theory. Now, answer the following questions given in *Check Your Progress-2*.

Check Your Progress 2

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) What are the main stages in economic history of LDC?

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2) Write two important criticisms of dependency theory.

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2.5 LET US SUM UP

At the outset, you studied the dependency theory of development. It covers the meaning and characteristics of a dependent economy. We studied the Marxian and the Structuralist theory of dependency in detail. Finally, we discussed the criticisms of dependency theory of development.

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2.7 CHECK YOUR PROGRESS - POSSIBLE ANSWERS

Check Your Progress 1

1. The dependent economy has the following characteristics
   - i) the economic growth is not self activating
   - ii) profits are normally repatriated, but not reinvested
   - iii) the production of export industries is dependent on imported inputs
   - iv) income, employment, and growth are determined by
     - a) the prices and demand conditions of international market
     - b) the willingness of transnational corporation to invest
   - v) income, employment, and growth are conditioned by
     - a) changes in the prices and types of imports
     - b) economic fluctuation abroad
     - c) changes in taste and fashion
     - d) changes in technologically created substitutes

vi) backward and forward linkages of export activities are very rare.

vii) foreign capital, foreign technology, and management are dominant economic actors.

2. The basic premises of dependency theory are

   i) Poor nations provide natural resources and cheap labor. They are an export destination for obsolete technology, and for markets for the wealthy nations without which the latter could not have the standard of living they enjoy. Poor nations are at a disadvantage in their market interactions with wealthy nations.

   ii) Wealthy nations actively perpetuate a state of dependence by various means. This influence may be multifaceted, involving economics, media control, politics, banking and finance, education, culture, sport, and all aspects of human resource development, including recruitment and training of workers.

   iii) Wealthy nations actively counter all attempts made by dependent nations to resist their influences by means of economic sanctions and, possibly, the use of military force. The poverty of the countries in the periphery is not because they are not integrated into the world system, or not 'fully' integrated as is often argued by free market economists, but because of how they are integrated into the system.

Check Your Progress 2

1. There are three major stages in the economic history of LDCs. The first is the agro-export stage of the colonial period, when economic dualism was prevalent. During this stage, pre-capitalist sectors of artisans, petty producers, and peasant producers accounted for the bulk of economic activity. The second is the stage of developmentalist alliances. In this stage, a new social structure of accumulation is created which is based on the collective interest of industrial workers, peasants, and capitalists. The third is a corporatist regime stage, where there are drastic curbs on democracy, unions, universities, and other areas of society where dissent might be encountered.

2. Two important criticisms of dependency theory are:

   i) The countries on the periphery of development are not destined to stagnation. So, dependency theory is an incomplete and inaccurate description of the socioeconomic conditions of LDCs.

   ii) There are many dependent countries on the periphery. They do change their economic structure. According to Prof Warren, they have achieved very rapid economic growth.

UNIT 3 HUMAN CAPABILITIES THEORY

Structure

3.1 Introduction

3.2 Philosophical Background of Capability Approach

3.3 The Basic Concepts of Capability Approach

3.4 Sen's Capability Approach

3.5 Martha Nussbaum's Capability Theory of Justice

3.6 Let Us Sum Up

3.7 References and Suggested Readings

3.8 Check Your Progress – Possible Answers

3.1 INTRODUCTION

There is a paradigm shift in the concerns for process of development from those related to economic growth to those of inclusion and equitable distribution. Haq in 1990 wrote in the Human Development Report that the basic objective of development is to create an enabling environment in which people can enjoy long, healthy and creative lives. Though the material welfare of the people is an important indicator of development, it is not a sufficient indicator for the same. There have been several attempts to address the issue of inclusion. The Capability Approach is one such attempt and has been employed extensively in the context of human development. United Nations Development Programme has also used this approach as a broader and deeper alternative to narrowly economic indicators such as growth in GDP per capita. The capability approach considers poverty as a deprivation in the capability towards living a good life and development or getting a sustainable source of income is understood as capability expansion. The capability approach was articulated by Professor Amartya Sen in 1980s. This approach is different from the approaches to ethical evaluation which focus on availability of means to lead a good life. Capability approach focuses on the capability of individuals in achieving the life they have reason to value. Another version of capability approach was provided by philosopher Martha Nussbaum in her capability theory of justice. Nussbaum has come out with a list of central capabilities deriving from the requirements of human dignity and which she urges to be incorporated into national constitutions and guaranteed to all up to a certain threshold.

After Reading this unit you will be able to:

- explain philosophical background of Capability Approach;
- discuss about the basic concepts of Capability Approach;
- discuss Sen's Capability Approach Theory; and
- critically discuss Martha Nussbaum's Capability Theory of Justice.

3.2 PHILOSOPHICAL BACKGROUND OF CAPABILITY APPROACH

Before discussing the basic concepts and important theories given by eminent proponents like Amartya Sen and Martha Naussbaum, it is pertinent to discuss

a few important approaches advocated by classical philosophers. Important among them were Aristotle, Adam Smith and Karl Marx.

(i) Aristotle and Capabilities Approach

He defines capabilities as the freedom to achieve different combinations of functionings or different lifestyles. Aristotle's concept of Eudaimonia is living or doing well. There are certain goods that are needed to reach Eudaimonia. He equates eudaimonia to perfect happiness which is acquired when people live well. It may be referred to a set up in which the state helps in enabling a person to be capable of functions and eventually lead a good life. This assessment of individuals cannot be based on a single scale for example the scale of wealth. The assessment will necessarily be an assessment of plurality or a set of capabilities an individual ought to have.

According to Crespo (2013) "Aristotle viewed the economy primarily as a human action intended to use things to live the "good life" –a life of virtues leading to eudaimonia or human fulfillment. Amartya Sen agrees with Aristotle on a number of issues, including 1) the relation among Economics, Ethics and Politics, 2) the role of wealth in a "good life", 3) the conception of eudaimonia, and 4) the process of choosing the activities leading to eudaimonia. Sen perceives a connection between his concepts of 'functionings' and 'capabilities' and the Aristotelian concepts of ergon and dynamis, respectively. He also agrees with Aristotle in maintaining the non-commensurability of goods and on focusing on ends rather than means". According to Prof. Sen, Aristotle's view of human good is the closest conceptual connection to the capabilities approach. However, Sen's approach differs from the Aristotle's approach in the way they tackle functionings and capabilities. While Aristotle believes in the possibility of defining a list of functioning that constitute human good living, Sen's approach does not require defining such a list. For example, Sen derives the approach of seeing wealth as not the ultimate good but as a recourse that is used for acquiring more freedom to lead the kind of lives we have reason to value. Thus the concept of function in Sen's approach has Aristotlalian roots. However, Sen differs from Aristotle in defining capability.

In the same way, Frey (2013) opined that "The distinction between capability and function closely parallels the Aristotlian distinction between potentiality (dynamis) and actuality (energia); capabilities capture what humans are potentially and functionings capture the specific and unique way capabilities are realized by specific individuals in unique situations. Using a list of capabilities to outline human nature in its potentiality helps to set the minimal thresholds that must be met in order for humans to live lives of dignity without overly specifying or determining how individual turn these capabilities into functionings. In this way, capabilities represent different realms of freedom or choice."

(ii) Adam Smith and capabilities approach:

Adam Smith in his book titled "The Nature and Causes of Wealth of the Nations" talks about social necessities. Here, Adam Smith refers as 'necessities' not just to the commodities which are very essential to support life but also to those commodities which the customs of the country renders it indecent for creditable people, even of the lowest order, to be without. According to Eiffe (2008), "The prototype capability "*to appear in public*

without shame" first forwarded by Smith and often cited in Sen's work, demands different commodities in different times and places". For example, though a linen shirt may not be seen as a necessity, in most parts of Europe, even a daily wage labourer would be ashamed to appear in public without a linen shirt. Thus the concept of necessities varies from place to place. This has great similarity to the concept of basic capabilities in 'capabilities approach' which refers to the set of capabilities needed to achieve the threshold level of well being.

Also Sen argues that markets generate freedom and hence should be valued for it. The challenges the markets have to face is judicious distribution of substantial freedom. "Both Smith and Sen advocate the view that free competition will have positive effects under special institutional and social arrangements. In such a system government is in charge of balancing economic progress and social needs in society. According to this view, the state has to enable its citizens and to promote their development potential. The freedom related approach admits a change of perspective and turns back to Smith. From technical economic analysis we can now turn again to an integrated approach of specific ethical and political elements. The concept of capability owes much to this holistic view. Well-being is not determined by the possession of economic resources, but by the capabilities into which these resources can be converted. Markets, therefore, have to be valued in terms of the capabilities they are able to generate" (Eiffe, 2008).

The Smithian philosophy in capabilities approach is its connection with real life and life's needs and conditions.

(iii) Karl Marx and Capabilities Approach

The Justice component of the capabilities approach which is emphasized in Nussbaum's theory has its roots in Karl Marx's philosophy of distribution of goods according to needs as one of the essentials for justice. "Marx, through his conception of the alienation of a human individual from his or her labor, updates Aristotle's notion that practical reason transforms those characteristics that humans share with other living beings." (Frey, 2013). According to Marx, enhancement of development through reduction of worktime of people, positively affects development of human capabilities."Nussbaum offers the following quote from Marx as evidence: "It is obvious that the human eye gratifies itself in a way different from the crude, non-human eye; the human ear different from the crude ear, etc…The sense caught up in crude practical need has only a restricted sense. For the starving man, it is not the human form of food that exists, but only its abstract being as food; it could just as well be there in its crudest form, and it would be impossible to say wherein this feeding activity differs from that of animals." (Frey, 2013).

3.3 THE BASIC CONCEPTS OF CAPABILITY APPROACH

Capabilities approach has emerged as a new theoretical framework about wellbeing, development and justice. The evolution of this framework dates back to Aristotle, Adam Smith and Karl Marx. However, Prof. Amartya Sen pioneered this approach and it was further developed by Martha Nussbaum and a several other scholars. The capability approach states that freedom to achieve wellbeing is a matter of what people are capable to do and to be and hence the kind of life they are effectively able to lead.

The capability approach can be considered as a framework which involves the following exercises:

1. Assessing the individual well being
2. Evaluating and Assessing the social arrangements
3. Designing policies for social change in the society

The capabilities approach prioritizes some of the beings and doings of people and their opportunities to realize those beings and doings. In simpler words, capabilities approach tells us what information to look at if we are to judge how well someone's life is going. To apply this approach one needs to decide on the beings and doings that matter and one also should know how to aggregate each person's functionings and capabilities for overall assessment of wellbeing. The capability approach is a theory that helps us to conceptualize the notions of poverty, inequality and wellbeing rather than an explanatory theory which explain these concepts.

A few basic concepts constituting the important components of Capability Approach are discussed below (Wells):

1. Functionings and Capabilities

a. Functionings: Functioning means the various states that humans can be, also termed as 'beings' and various activities that humans can undertake, also known as the 'doings'. Some examples of 'beings' are being well nourished or undernourished, being housed in a comfortable setup, being educated or illiterate, being included in a supportive social system or being a part of a criminal network, being happy or being depressed etc. Different kinds of 'doings' include travelling, studying, nurturing a child, voting, debating, killing animals, stealing, donating money for charity etc.

b. Capabilities: Capabilities include the opportunities or freedom a person has to achieve the functionings. Eg. If we take travelling as a functioning then the opportunity one gets to travel is the corresponding capability. Functionings and capabilities can be differentiated as the realized and the effectively possible. It is the same as the difference between the achievements and the valuable opportunities from which a person can choose.

2. A measure for interpersonal comparisons

The capability approach identifies 'functionings' and 'capabilities' as the best measures for most interpersonal evaluations. The interpersonal evaluations should be based on people's 'functionings or their beings and doings and their 'capabilities' or the opportunities they have to achieve those functionings. The beings and doings together make life valuable. In interpersonal comparisons, functionings are considered as achieved well being and capabilities are considered as the freedom to pursue wellbeing. Sen calls it "well-being freedom" (Sen 1992: 40).

Functionings can vary from the very basic things needed for human existence like being adequately nourished, being in good health, escaping morbidity and premature mortality to more complex things like being decently employed, having self-respect and an active social and community life.

Similarly in interpersonal evaluation, the ends of personal well-being ie. Freedom, justice and development should be conceptualized in terms of people's capabilities. Capability analysis demands that in interpersonal evaluation, we adopt a holistic approach and ask which sets of capabilities are open to that person. Is a person forced to choose between two major functionings which both reflect the person's basic needs. For example to a low skilled single person, holding a job to generate income sufficient to feed the family and to care for children at home and provide them with care and supervision are both basic needs and basic moral duties and the person should not be forced to make a hard choice between the two functionings.

3. Distinction between means and ends

While valuing something, the capability approach emphasized that we should be clear whether we value it as an end or a means to achieve a valuable end. The capability approach evaluates policies and the changes brought about in the society in terms of their impact on people's capabilities and functionings. For Example:

(i) Capability approach questions whether people are able to have good health and if the resources needed for this capability like access to health care, knowledge and awareness about health issues, proper sanitation, access to clean drinking water etc are present.

(ii) It asks if people have the resources to achieve the capability of being well nourished such as having access to sufficient amounts of nutritious food.

(iii) It concerns itself with the questions like if people have access to quality education, supportive community activities, political participation etc.

Because of the difference of people's ability in converting the means into ends, capability approach holds that it is more important to focus on the ends than the means. Means cannot be taken as reliable proxies of ends unless all people have the same capacity to convert those means to ends. Hence capability approach focuses on people's ends which are expressed in terms of 'beings' like being literate, being employed, being mobile etc. However, the capability approach does not undermine the importance of means in achieving the ends. The material or financial resources like availability of commodities and legal entitlements to them are equally important but they should not be seen as the ends of well-being. Abundance of food in a locality means nothing to a starving person who has nothing to exchange for it.

4. Conversion factors

In modern days, there are several goods available at our disposal. There are also several functionings to be achieved. These goods facilitate in achieving the funcionings. For example, the functioning of mobility at a faster pace can be achieved by a motorbike or a car. These goods (motorbike/car) help us in achieving the functioning of mobility. The relation between a good and the achievement of related functioning is known as 'conversion factor'. It is the degree to which a person can convert a resource into a being or doing. Conversion factor differs from person to person. For example a person who has learned cycling in

childhood will have a better conversion factor in terms of riding a bike as compared to someone who does not know cycling.

The conversion factor can be classified as Personal, Social and Environmental Conversion Factors. Personal Conversion Factor refers to physical condition of a person like health, education, skills etc. Social Conversion Factor refers to the social conditions like social norms and practices, power relations in gender, class, race etc. The Environmental Conversion Factor refers to the environment conditions like pollution levels, climate, vicinity to seismic zones, seas etc. Thus the capability approach takes a holistic approach in assessing the well being of a person.

5. Basic capabilities

Capabilities refer to a wide range of opportunities needed for well-being. However, basic capabilities refer to the list of capabilities absolutely necessary for a person to escape poverty and deprivation. These are those capabilities essential to meet a threshold level of well-being. This threshold level of capabilities will vary from country to country depending upon their stage of development. The set of basic capabilities in a developed country will include those capabilities which are not absolutely necessary for survival whereas those in less developed countries will include only those capabilities as basic which are absolutely necessary for survival. Thus other than being a measure to analyse poverty, the capabilities approach also helps in analyzing inequality in developed countries.

6. Capabilities as freedoms

Capabilities as freedom refers to availability and access to various opportunities in front of a person to choose from. The person should be free to choose from the available opportunities. For example, a person who wants to commute from one place to another should have different options available and the person should be free to choose from the available options.

Till now you have read about the basic concepts of capability approach and the philosophical background of the capability approach. Now try and answer the questions given in *Check Your Progress-1*.

Check Your Progress 1

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1. What do you understand by basic capabilities?

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2. How does the distinction between capability and function parallel with Aristotalean philosophy?

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3.4 SEN'S CAPABILITY APPROACH

Amartya Sen, in 1980, in his Tanner Lectures on human values titled 'Equality of What' in Stanford University, questioned the adequacy of using marginal or total utility and primary goods for measuring equality. The social systems should aim to expand people's capabilities or their freedom to achieve beings and doings which they value. A test of freedom is whether they have more freedom than they had in the past and a test of inequality is whether people's capabilities are equal or unequal. (Alkire and Deneulin, 2009).

Various concepts by Amartya Sen in his Capability Approach are discussed below:

(i) Functionings

Functionings are *doing* activities or *being* in a state that contributes to a person's wellbeing e.g. having a good job, being healthy, being educated, being well nourished etc. Functionings need not be always focused on survival but may also be focused on relationships, empowerment etc. Functionings should be distinguished from the commodities employed to achieve them. For example, the basic purpose of a bicycle is to provide transportation. However, the ability of a bicycle to provide transportation will depend on the characteristics of those who try to use it. Even if a person without legs finds bicycle to be a valuable possession, our evaluative system should be cognizant of the fact that he/she still lacks transportation.

(ii) Capability

Capabilities refers to a set of various functionings that a person is able to achieve. It is the freedom that a person enjoys to choose to lead a kind of life that he/she has reason to value. Resources are considered as inputs but their value depends on an individuals' ability to convert it into a valuable functioning. For example, bicycle is an input and its value depends on whether or not a person can use it for transportation which again depends on a person's physiology (such as health), social norms, and physical environment (such as road quality). An individual's capability set is the set of valuable functionings that an individual has real access to. Achieved functionings are those they actually select. For example, an individual's capability set may include access to different functionings relating to mobility, such as walking, bicycling, taking a public bus or a private car and so on. The functioning they actually select to get to work may be a private car. Capabilities are like a person having many coins with which he/she can buy many things, similarly, a person with different capabilities can enjoy many different activities. Sen's view is that well-being achievements should be measured in functionings and well-being freedom is reflected by a person's capabilities set.

(iii) Agency

Agency is the third important concept of Sen's capability approach. Agency refers to an individual's ability to pursue his/her goals that he/she values. A person who possesses this ability or agency is the agent. According to Sen, an agent is the one who acts and brings about change. Agency also stresses on other important characteristics of an individual like self determination, self reliance, self direction, empowerment etc.

"In Sen's view:

> Agency is exercised with respect to goals the person values and has reason to value.
>
> Agency includes effective power as well as direct control, that is, it includes not just individual agency but what one can do as a member of a group, collectively or political community.
>
> Agency may advance well being or may address other goals – for example relating to the good of one's family or community, of other people and of art and the environment.
>
> To identify agency entails an assessment of whether the agent's goal are in some way reasonable – a person who harms or humiliates others would not, in this view, be exerting agency.
>
> The agent's responsible for a state of affairs should be incorporated into his or her evaluation of it."(Alkire and Deneulin, 2009).

(iv) Choosing the most important functionings for a good life

Sen's evaluation of a person's well-being is based on his/her capability to live a life that he/she has reason to value. Well-being according to Sen cannot be evaluated in terms of the resource wealth possessed by a person or by the subjective well-being of a person. For evaluating the capability of a person to lead a life she values, we need to first determine the functionings that matter the most for a person to lead that kind of a life. One of the ways is to list out the constituents of a flourishing life as done by Martha Nussbaum in her "Capability Theory of Justice". However, Sen does not approve of this approach arguing that the most legitimate source of decision about the type of life one has reason to value must be the people themselves and any social scientist or philosopher can only provide useful ideas and arguments. Sen emphasizes on a social choice exercise requiring both public reasoning and democratic procedures of decision-making.

Sen suggests identification of crucially important capabilities (like education, health, nutrition, shelter etc.) associated with basic needs which can be helpful in setting up moral and political priorities. This kind of an exercise can be helpful in assessing the extent and nature of poverty in developing countries. However, this kind of approach has its own limitations in terms of evaluating individual's capabilities as this approach is helpful only in assessing how well the people's lives are going in terms of the basics.

(v) Evaluation of Capabilities to Live a Good Life

Once the set of valuable functionings have been defined, the next step is to map the set of those functionings that people have real access to.

Evaluating capabilities also concerns with assessing the freedom that people have to choose high quality options. Though the eradication of malaria from an area may not increase the options of people living in that area, but it does enhance their capabilities. The capability approach allows a very wide range of dimensions of advantage to be positively evaluated. Capability Approach can be used to examine the determinants of the relationship between people and commodities. Some of the determinants are:

(1) *Individual physiology*: People differ in individual physiology such as the variations associated with illnesses, disability, age, and gender. In order to achieve the same functionings, some people may have special needs for non-standard commodities – such as prosthetics for a disability. Some of these disadvantages, such as blindness, may not be fully 'correctable' even with tailored assistance.

(2) *Local environment diversities*: These include diversities such as climate, epidemiology, and pollution which can impose particular costs such as more or less expensive heating or clothing requirements.

(3) *Variations in social conditions*: Social conditions include provision of public services like education and security, and the nature of community relationships, across class or ethnic divisions.

(4) *Differences in relational perspectives*: Customs and conventions determine the commodity requirements and expected standards of behaviour and consumption. For example, local requirements in terms of acceptable clothing may vary widely from place to place.

(5) *Distribution within the family*: distributional rules practiced within a family for example, the allocation of food and health-care between children and adults, males and females.

3.5 MARTHA NUSSBAUM'S CAPABILITY THEORY OF JUSTICE

Martha Nussbaum has worked extensively on Capability Approach. In this section you will read about the structure and criticisms of Nussbaum's Capability Approach and its relationship to Amartya Sen's work.

3.5.1 Structure and Development of Nussbaum's Capability Theory

Martha Nussbaum developed a very systematic, extensive, and influential capability theory of justice and her theory is based on *dignity*, a *list of fundamental capabilities*, and a *threshold*.

Nussbaum's list of The Central Human Capabilities (Reproduced from Nussbaum's book titled Creating Capabilities 2011)

"1. *Life.* Being able to live to the end of a human life of normal length; not dying prematurely, or before one's life is so reduced as to be not worth living.

2. *Bodily Health.* Being able to have good health, including reproductive health; to be adequately nourished; to have adequate shelter.

3. *Bodily Integrity.* Being able to move freely from place to place; to be secure against violent assault, including sexual assault and domestic violence; having opportunities for sexual satisfaction and for choice in matters of reproduction.

4. *Senses, Imagination, and Thought.* Being able to use the senses, to imagine, think, and reason – and to do these things in a ''truly human'' way, a way informed and cultivated by an adequate education, including, but by no means limited to, literacy and basic mathematical and scientific training. Being able to use imagination and thought in connection with experiencing and producing works and events of one's own choice, religious, literary, musical, and so forth. Being able to use one's mind in ways protected by guarantees of freedom of expression with respect to both political and artistic speech, and freedom of religious exercise. Being able to have pleasurable experiences and to avoid non-beneficial pain.

5. *Emotions.* Being able to have attachments to things and people outside ourselves; to love those who love and care for us, to grieve at their absence; in general, to love, to grieve, to experience longing, gratitude, and justified anger. Not having one's emotional development blighted by fear and anxiety. (Supporting this capability means supporting forms of human association that can be shown to be crucial in their development.)

6. *Practical Reason.* Being able to form a conception of the good and to engage in critical reflection about the planning of one's life. (This entails protection for the liberty of conscience and religious observance.)

7. *Affiliation.*

   Some of the important aspects related to affiliation are:

   A. Being able to live with and toward others, to recognize and show concern for other human beings, to engage in various forms of social interaction; to be able to imagine the situation of another. (Protecting this capability means protecting institutions that constitute and nourish such forms of affiliation, and also protecting the freedom of assembly and political speech.)

   B. Having the social bases of self-respect and nonhumiliation; being able to be treated as a dignified being whose worth is equal to that of others. This entails provisions of nondiscrimination on the basis of race, sex, sexual orientation, ethnicity, caste, religion, national origin.

8. Other Species. Being able to live with concern for and in relation to animals, plants, and the world of nature.

9. *Play.* Being able to laugh, to play, to enjoy recreational activities.

10. *Control Over One's Environment.*

    A. Political. Being able to participate effectively in political choices that govern one's life; having the right of political participation, protections of free speech and association.

    B. Material. Being able to hold property (both land and movable goods), and having property rights on an equal basis with others; having

the right to seek employment on an equal basis with others; having the freedom from unwarranted search and seizure. In work, being able to work as a human being, exercising practical reason, and entering into meaningful relationships of mutual recognition with other workers."

Nussbaum's theory is concerned with the concept of human dignity in contrast to Sen's emphasis on freedom. Her list of 10 fundamental capabilities have been tested and adapted over the course of an extensive cross-cultural dialogue carried out by her, particularly in India. The threshold specifies the minimum requirements of justice and every individual should have capabilities at least to this degree must be entitled to each capability which must be ensured by their governments and relevant international institutions. Human dignity requires access to these capabilities, but a life lacking in any of these whether from external deprivation or individual choice, does not imply to be any less than human life. However, choice and deprivation are different. Any person lacking access to these capabilities reflects the societies neglect and its failure to respect human dignity. Respecting a person's choice of not taking up her opportunities to certain capabilities is also an aspect of respecting that person's dignity.

3.5.2 Criticisms of Nussbaum's Theory

Nussbaum's capability theory of justice received quite intense criticism. Her theory has been criticized on the following accounts taken from :

Some have criticized her list of Central Human Capabilities which they say are 'intellectualized Aristotelian list. (Okin 2003);

Her list is also said to reflect the values of a typical 21st century american liberal than a set of universal values or a contemporary global overlapping consensus (Stewart 2001);

Her theory has been described as over-specified and paternalistic and her list of capabilities is said to have missed out some of the important capabilities. They theory cannot be used of measurement of quality of life. (Alkire 2005, 35-45).

Till now you have read about criticism of Sen's capability approach and Martha Nussbaum's capability theory of justice. Now try and answer the questions given in *Check Your Progress-2*.

Check Your Progress 2

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1. What are functionings?

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2. What is Nussbaum's list of The Central Human Capabilities?

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3.6 LET US SUM UP

A country's progress cannot be measured by mere economic indicators. For example, if a country's Gross Domestic Product shows an increasing trend, but so does the percentage of its people deprived of basic education, health care, and other opportunities, is that country really making progress? Conventional economic indicators cannot grasp how the world's billions of individuals are really managing. The capability approach offers a better alternative to judge the progress and development of a nation. In this unit you read about the basic concepts of capability approach, the philosophies from which this approach takes its roots and also about the theories of two of the most renowned pioneers of this approach ie. Professor Amartya Sen and Martha Nussbaum. This unit would have inspired you to think beyond economics while talking of well being of the people.

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3.8 CHECK YOUR PROGRESS – POSSIBLE ANSWERS

Check Your Progress 1

1. Basic capabilities refers to a list of capabilities necessary for a person to escape poverty and deprivation. While capabilities in itself refers to a wide range of opportunities, the term basic capabilities restricts itself

to some basic and essential opportunities or capabilities needed to meet a threshold level of well-being. This threshold of well being will be different for countries under different stages of development.

2. The distinction between capability and function closely parallels the Aristotlian distinction between potentiality (dynamis) and actuality (energia); capabilities capture what humans are potentially and functionings capture the specific and unique way capabilities are realized by specific individuals in unique situations. Using a list of capabilities to outline human nature in its potentiality helps to set the minimal thresholds that must be met in order for humans to live lives of dignity without overly specifying or determining how individual turn these capabilities into functionings. In this way, capabilities represent different realms of freedom or choice.

Check Your Progress 2

1. Functionings are *doing* activities or *being* in a state that contributes to a person's wellbeing e.g. having a good job, being healthy, being educated, being well nourished etc. Functionings need not be always focused on survival but may also be focused on relationships, empowerment etc. Functionings should be distinguished from the commodities employed to achieve them. For example, the basic purpose of a bicycle is to provide transportation. However, the ability of a bicycle to provide transportation will depend on the characteristics of those who try to use it. Even if a person without legs finds bicycle to be a valuable possession, we should nevertheless be able to note within our evaluative system that he/she still lacks transportation.

2. Nussbaum's list of The Central Human Capabilities include:

    1. *Life*
    2. *Bodily Health*
    3. *Bodily Integrity*
    4. *Senses, Imagination, and Thought*
    5. *Emotions*
    6. *Practical Reason*
    7. *Affiliation.*
    8. Other Species
    9. *Play*
    10. *Control Over One's Environment.*

UNIT 4 GANDHIAN THEORY

Structure

4.1 Introduction

4.2 Gandhian Economic Philosophy

4.3 The Main Features of Gandhian Development Theory

4.4 The Rural Development Model Based on Gandhism

4.5 A Critical Appraisal of Gandhian Development Theory

4.6 Let Us Sum Up

4.7 References and Suggested Readings

4.8 Check Your Progress - Possible Answers

4.1 INTRODUCTION

In the previous three units we discussed the most advocated theories of development. In this unit you will study the Gandhian theory of development. Although, Mahatma Gandhi was not a development economist, yet his theory is important to development. The Gandhian theory of development is based on the ideologies of Mahatma Gandhi, who is regarded in India as the Father of the Nation. At the outset, Gandhian economics rejects the precepts and assumptions of mainstream economics. It represents an alternative to mainstream economic theories as a way to promote economic progress without emphasizing material pursuits, or compromising human development.

After studying this unit you should be able to:

discuss Gandhian economic philosophy;

analyze the main features of Gandhian development theory;

explain the rural development model based on Gandhism; and

spell out the criticisms of Gandhian theory.

4.2 GANDHIAN ECONOMIC PHILOSOPHY

Gandhi's economic philosophy was greatly influenced by Ruskin's *Unto This Last*. From this book: he learnt: (a) that the good of the individual is contained in the good of all; (b) that a lawyer's work has the same value as the barber's, in as much as all have the same right to earn from their work; and, (c) that a life of labour, i.e., the life of the tiller of the soil and the handicraftsman is the life worth living. Further, Gandhi was also inspired by the ideas of Thoreau, Tolstoy, and Kropotkin. Tolstoy's principles of simplicity, asceticism, and equalitarianism became a part of Gandhi's philosophy. Besides, the Indian scriptures (the Bhagavad Gita, and the Upanishads) and Indian saints such as Kabir, Mira, and Guru Nanak, also left a deep impression on Gandhi.

Gandhi's ideas on economics are embedded in his philosophy of life. Gandhian economics differs from mainstream economics in the following manner

1) It replaces the assumption of the perfect mobility of labour with the assumption that community and family stability should have priority.

2) It rejects the more-is-always-better principle. It replaces the axiom of non-satiation with a principle of limits, the recognition that there is such a thing as 'enough' material wealth.

3) It recognizes that consuming more than 'enough' creates more problems than it solves, and causes consumer satisfaction or utility to decline, rather than increase.

4) It aims at a better quality of life, rather than higher standards of living as propagated by other economists.

Let us have a clear idea of Gandhi's philosophy of life to understand Gandhian economics. Gandhi viewed life as a whole, and not in its isolated compartments. According to the Indian scriptures, there are four aspects of an individual's life: *Artha* (money), *Kama* (desire), *Dharma*(righteousness), and *Moksha* (liberation). These aspects are interrelated, and, therefore all of them should be harmoniously developed. Money is required to satisfy the basic requirements of life, however, it is not the end in itself. Man's aim is not to multiply worldly desires and engage his whole life in acquiring wealth to satisfy all his desires. The goal of life is to control desire and transform it, through righteousness, into liberation. He argues for the liberation of man from the cyclical order marked by artha, kama, dharma and moksha. According to him, true happiness lies in the all round development of a human being's personality, and in living a full life. Gandhi's ideas on economics are a part of his general philosophy of life. In these ideas, he outlined principles on which he wanted to build the ideal socialist society. The principles are as follows:

1) Humanism: Man is both the means, and the end of all activity. He is also the measure of performance. Everything functions with a human face. All ideas, institutions, and actions are to be judged in terms of whether they help in building a better man.

2) Simple Living: Gandhi had faith in materialism without lust and passion. Material progress must be subservient to moral growth. The ultimate aim of man is not to accumulate wealth and enjoy luxuries of life, but to attain the higher values of life, and to lead a simple and full life. Simple living and high thinking should be the motto of life.

3) Social Justice: Society is divided between rich and poor, between the strong and the weak, between the privileged and unprivileged, and between the elite and the masses. The principle of social justice requires that the former must help the latter in fulfilling their basic requirements. The ideal functioning of the society must aim at providing social justice and reducing inequalities.

4) Non Violence: Social change is to be brought about through non violent methods. Ends and means are inseparable in life, and only good means yield good results. An ideal society can only be established by adopting peaceful and non violent means, and not through hatred and war. In Gandhian economics, the principle of non violence means the following things: (*a*) the absence of capitalistic exploitation; (*b*) the decentralization of production units; (*c*) cheaper defence organization; (*d*) less inequality of income; and (*e*) self sufficiency of communities.

5) Love and Co-operation: An ideal society should be established on the principles of love and cooperation. In such a society, the love of others

and not self love; co-operation and not egocentric acts, pre-dominate. Relation between humans should be based on truth, love, and cooperation, and not on money and matter.

6) **Harmony:** The ideal economic condition according to Gandhi is self sufficiency of the economy. For this, the following harmonies should be maintained: (*a*) the requirements of the people must be in harmony with the resources of the economy and,; (*b*) production technology should match the country's requirements.

In this section you studied about Gandhi's economic philosophy, and now you should be able to answer the questions given in *Check Your Progress-1*.

Check Your Progress 1

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) How does Gandhian economics differ from mainstream economics?

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2) Briefly explain Gandhi's concept of social justice.

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4.3 THE MAIN FEATURES OF GANDHIAN DEVELOPMENT THEORY

The body of Gandhian thought on development is as follows

i) The Gandhian philosophy of economic concepts that are related to development

ii) Gandhian principles of self-sufficiency

iii) The Gandhian theory of balanced growth

iv) The Gandhian doctrine of trusteeship

v) Gandhian model of sustainable development

vi) The Gandhian sarvodaya plan

vii) Gandhian concepts of austerity and abstinence

4.3.1 The Gandhian Philosophy of Economic Concepts Related to Development

Gandhi developed the following economic ideas and concepts which are consistent with his economic philosophy.

1. **Capital:** According to Gandhi, capital is the source of all wealth. It is required for producing commodities and paying wages to the workers. Capital is of two types: money capital and labour capital. A labourer's skill is his capital. Both money capital and labour capital are necessary for production. Gandhi observed, 'Just as the capitalist cannot make his capital fructify without the cooperation of labour, similarly the working man cannot make his labour fructify without the cooperation of capital.' For better industrial relations, both capital and labour need to be organized. It is easy to organize capital but not labour. This weakens the workers' bargaining position and increases the possibility of exploitation of labour. An entrepreneur's power to exploit labour depends upon the extent of concentration of capital in the hands of capitalists. Gandhi suggested two methods to reduce the evil effects of the concentration of capital. According to him:

   The ownership of capital should be decentralized; and

   If the concentration of capital is considered essential, the state should have the full control over the use of capital.

2. **Labour:** The exploitation of labour is an evil of the capitalist system. It causes unrest among the workers, and, if it persists for a long time, it provokes them to revolt against the system. According to Gandhi, the exploitation of labour is measured as a difference between what the worker gets, and what he deserves. Whenever a worker is paid less than the basic wage rate, or the minimum living wage rate, he is said to be exploited. The exploitation of labour is a normal feature of capitalism. The capitalists, in their effort to increase profits, tend to reduce wages. The extent of exploitation can be minimized by stabilizing the wage rate at a reasonable level. The ultimate solution lies in bridging the gap between the capitalists and the workers. Gandhi was totally against making a man a cog in the giant wheel of industry. His view was that people should not lose their independence, identity, and, thus, their creativity.

3. **Profits:** In the Gandhian view, the term profit is used in the residuary sense. Profit is equal to total receipt minus production costs. Capital depreciation and distribution costs are negligible in this scheme of production. Thus, the main costs of production are expenditure on raw materials, and payments to the workers. Profit is the excess of total receipts over these costs. Technological improvements are beneficial to the entrepreneurs and harmful to the workers. With the introduction of machinery, the entrepreneur's profit increases, while the workers face unemployment, and reductions in wages. Gandhi did not consider profit to be essential for the survival of a firm.

4. **Employment:** Gandhi emphasized employment. The full employment of human resources is the primary need of a country. By full employment, Gandhi meant the employment of each and every individual. Full employment cannot be attained through the development of large scale industries. These industries generally use capital intensive and labour saving technologies, and do not provide sufficient employment opportunities. Moreover, most unemployed people live in rural areas. The cause of rural underemployment is the seasonal nature of agriculture. The agricultural workers work on land for six months and for the other

six months they remain idle. It will be disadvantageous for the mechanized industries to employ such underemployed casual labour. Again, the underemployed agricultural workers have religious, cultural and social attachments with rural life, and, therefore, cannot be expected to leave their homes easily for employment in the urban industries. Thus, mechanization and large scale production provides no solution to the problem of unemployment in the agriculture-based, over-populated economies. As Gandhi pointed out: "Mechanization is good when the hands are too few for the work intended to be accomplished. It is an evil when there are more hands than required for the work, as is the case in India." The problem of unemployment, according to Gandhi, can be tackled only by developing village and cottage industries. These industries are capital-saving and labour-using. They take employment opportunities to the doors of the unemployed and ideally fit in with the rural conditions.

5. **Production:** Gandhi advocated production by the masses. He preferred the decentralization of small units of production to the concentration of large scale units in a few places. He wanted to carry the production units to the homes of the masses, particularly in villages. One advantage of the village and cottage industries is that they increase employment. Another advantage is related to the consideration of efficiency. There are many reasons to believe that it is cheaper to produce any commodity in small and cottage industries because: (*a*) no separate establishment charges are required (b) integration of cottage industries with agriculture (*c*) very few tools are needed; (*d*) no problems of storage; (*e*) negligible cost of transporting goods to the consumers (*f*) no waste - duplication - due to competition, and (*g*) no problem of over production. All these factors make the production by the small units economical. Small is beautiful. This is the logic behind the Gandhian scheme of decentralization of village and cottage industries.

6. **Technology:** It is erroneous to think that Gandhi was against technology. The essence of science is acquiring knowledge through experimentation. Gandhi offered, on behalf of the Spinners' Association, a prize of a lakh of rupees for the invention of a *charkha*, a spinning wheel, which could be made and repaired in the villages, and would produce four times the yarn spun on the traditional *charkha*. He had no objection to the use of machinery to increase production and improve the condition of the workers. But he did not approve of machinery that, in his view, produced goods along with starvation. He was against the indiscriminate multiplication of machinery. Gandhi said, ''What I object to is the *craze* for machinery, not machinery as such. The craze is for what they call labour saving machinery. Men go on 'saving labour' till thousands are without work, and thrown on the open streets to die of starvation." For Gandhi, human consideration was supreme, and that of science and technology was secondary.

7. **Poverty and Inequality:** Gandhi was not an economist. But he had a clear understanding of the issues of poverty and income inequality. Poverty is not created by the poor man himself. According to him, poverty and inequality are inextricably connected. Poverty is the manifestation of affluence itself. The anatomy of affluence appears to be fair. But means to gather this status is unfair and illegitimate. Thus,

the poverty of many is caused by the richness of some. Man's greed has resulted in poverty, and it is the cause of persistence of poverty in the economy. Gandhi said, "I suggest that we are thieves in a way. If I take anything that I do not need for my own immediate use, and keep it, I steal it from somebody else. I venture to suggest that it is the fundamental law of Nature, without exception, that Nature produces enough for our wants from day to day, and if only everybody took enough for himself and nothing more, there would be no pauperism in this world, there would be no man dying of starvation in this world."

According to Gandhi, economics which disregards moral values is untrue. He introduced moral values as a factor in regulating all economic transactions and international commerce. He was not advocating socialism *per se* but humanistic values. He contended, "My ideal is equal distribution, but so far as I can see, it is not to be realized. I, therefore, work for equitable distribution."

8. **The Principle of Satyagraha:** Gandhi adopted the principle of Satyagraha as a movement of civil disobedience and tax resistance. Gandhi laid down preconditions as absolutely necessary for the practice of Satyagraha. These are as follow:

First, there can be no Satyagraha for an unjust cause. Otherwise the principle of truth will be flouted.

Second, Satyagraha excludes the use of violence in any form, in thought or action.

Third, Satyagraha presupposes a clear distinction between a willing obedience to the laws which are good, and opposition to those which are immoral. The superiority of the law of conscience has to assert itself over other laws.

Fourth, Satyagraha is an instrument available only to those who have no hatred towards their opponents.

Fifth, a Satyagrahi must have the capacity and willingness to sacrifice. That is why Gandhi insisted more on a small revolutionary minority rather than a whole majority.

Sixth, Satyagraha means constant engagement in constructive social work so that Satyagraha as a struggle does not become negative.

Seventh, Satyagraha calls for total humility on the part of those who practice it.

And, Last, Satyagraha is the expression of discipline and sincerity. It challenges the honesty and capacity for national work, and willingness to submit to discipline.

4.3.2 The Gandhian Principle of Self-Sufficiency

The goal of Gandhian development is to build a self-sufficient society. Each community should be self-reliant. Gandhi regarded an area covered by a radius of five miles as the basic unit of self-containment. The production of each basic unit should be linked with the natural consumption requirements of those living in it. The natural consumption requirements of a basic unit depends on

a) the geological situation of the unit

b) the physiological and temperamental condition of people

c) the traditions and customs of the community

d) the occupational pattern and cultural attainments of people.

As physical, psychological, and temperamental conditions in regions vary, the consumption requirements also differ from region to region, and the production plans of each region must take into account these differences. The production plan should not only be linked with the consumption requirements of the people, but also be synchronized with the availability of natural resources, and human potentialities, combined with climatic conditions. Gandhi's thinking on socioeconomic issues was greatly influenced by the American writer, Henry David Thoreau. Throughout his life, Gandhi sought to develop ways to fight India's extreme poverty, backwardness and socioeconomic challenges, as a part of his wider involvement in the Indian independence movement. Gandhi's championing of Swadeshi and non-cooperation was centered on the principles of economic self-sufficiency. Gandhi sought to target European-made clothing and other foreign products, as not only a symbol of British colonialism, but as the source of mass unemployment and poverty in India. European industrial goods had left many millions of India's workers, craftsmen and women without a means of livelihood. By championing homespun khadi clothing and Indian-made goods, Gandhi sought to incorporate peaceful civil resistance as a means of promoting national self-sufficiency. Gandhi led the farmers of Champaran and Kheda in a satyagraha against the mill owners and landlords who were supported by the British government. He wanted to end oppressive taxation, and other policies that forced the farmers and workers and defend their economic rights. A major part of this rebellion was a commitment from the farmers to end caste discrimination and oppressive social practices against women. With that objective, he launched a cooperative effort to promote education, health care, and self-sufficiency by producing clothes and food that were made locally.

Gandhi and his followers also founded numerous *ashrams* in India and South Africa. He was of the opinion that the *ashram* promotes a lifestyle of self-sufficiency, personal, and spiritual development, and works for wider social development. The *ashram* included small farms and houses constructed by the inhabitants themselves. All inhabitants were expected to help in any task necessary for promoting the values of equality. Gandhi also espoused the notion of trusteeship, which centered on denying material pursuits and coveting wealth. *Ashram* residents act as trustees of other individuals and the community and manage economic resources and property, accordingly.

During India's freedom struggle as well as after independence in 1947, Gandhi's advocacy of homespun *khadi* clothing, the *khadi* attire, which included the Gandhi cap, developed into popular symbols of nationalism and patriotism. India's first prime minister, Jawaharlal Nehru was a socialist as well as a close supporter of Gandhi. While Nehru was influenced by Gandhi's aversion to the brand of socialism practiced in the Soviet Union, he was also an exponent of industrialization, and critical of Gandhi's focus on rural economics.

Gandhi made a trenchant critique of machinery, saying that it was a grand, yet awful, invention. Modernization is, in both theory and practice, more

exclusive and less inclusive process. In *Hind Swaraj* he observes, "It is machinery that has impoverished India". Further, he says: "Machinery is the chief symbol of modern civilization; it represents a great sin". Gandhi's concern was not trivial. One needs to address the question of the appropriate choice of technique when looking at a real economy.

Despite the emphasis on self-sufficiency, as suggested by the Doctrine of Swadeshi, the Gandhian perspective has a theory of international trade. It emerged out of the mixture of Gandhian idealism and Gandhian pragmatism. The distinctive features of this trade theory may be noted as follows.

a) It accepts the logic of the principle of comparative advantage, but rejects it as the sole basis for trade among nations.

b) It accepts reciprocal need, rather than reciprocal demand, as the determinant of terms of trade among nations.

c) It postulates an international economic order based on international cooperation and understanding of mutual need, rather than on market forces and competition.

d) It is guided by a purpose higher than the purpose of pure economic gain. That is the moral purpose embodied in the notion of service to govern the flow of trade among nations. It suggests an international economic policy which is the antithesis of "beggar-my-neighbour" policy, well-known in modern international economics.

e) It is an economic doctrine into which is infused the philosophical principle of *Ahimsa*, of non-violence and non-exploitation.

f) It offers the maximum protection against unequal distribution of gains from trade among nations, in sharp contrast with the conventional doctrine of international trade.

Foreign trade does not play a significant role in the Gandhian type of self-contained community. The consumption needs of the community are such that they can be satisfied by the commodities available with the community. Similarly, the production technology is also based on the availability of different factors of production. Thus, aggregate supply is equal to the aggregate demand, and there is no over production or under production. Imports in such a system, are allowed only if there is surplus output of equal value to be exported in exchange. In this way, only bi-lateral trade is permitted with areas outside the self-contained region.

4.3.3 The Gandhian Theory of Balanced Growth

According to Gandhi, the right choice is not to plunge into capitalist development, but to develop a 'communaucratic' social economy, based on decentralized rural life. "The end to be sought", he wrote, "is human happiness, combined with full mental and moral growth". Thus, the Gandhian doctrine of economic growth, being a part of his general theory of growth, cannot meaningfully be formulated purely in economic terms. He visualized balanced growth which manifests in the manner described below.

a) Philosophical Balance: a balance between economic progress and moral progress. To achieve such a balance, one must shift the emphasis from maximization to optimization of production, from abundance to adequacy of the production of material goods and services.

b) **Structural Balance:** a balance between the rural and urban sectors of the economy. To achieve such a balance, the growth of the urban sector must not take place at the expense of the rural sector. Here, one must shift the emphasis from centralization to decentralization of economic activities.

c) **Ecological Balance:** a balance in the relationship between man and his environment. Long before social concern grew over the environmental crisis in the Western industrial societies, Gandhi showed his awareness of this crisis as a natural byproduct of uncontrolled economic progress, and autonomous development of modern large scale technology. He stressed the need for making a deliberate choice of technology, and for restraints on the level of production, in order to maintain a proper balance between man and his environment.

(d) **Technological Balance:** a balance between small scale and large scale technologies. Gandhi's views on technology have often been misinterpreted. Gandhi was not opposed to the use of modern technology, as such. He was opposed to indiscriminate, non-selective adoption of imported technology, based purely on its effect on productive capacity. In the context of the Indian economy, he saw a tremendous need for the development of small scale technology that would increase the efficiency of rural production without creating any technological displacement of labour. At the same time, he saw the need for large scale technology for which the ideal location would be large urban centres. The point that he strongly emphasized was that the adoption of Western technology to economize on labour, and to expand production at the cost of rural de-industrialization and mass unemployment was not the proper choice of technology, under the prevailing economic conditions in India. He endorsed a proper mix of technology in order to optimize the social benefits of science and technology.

e) **Distributional Balance:** a balance in income distribution. Given the existence of gross inequality, to achieve greater balance would require strategies to redistribute income. In the context of a growing economy, Gandhi's doctrine may be interpreted as a doctrine of dynamic equilibrium in the pattern of income distribution so that exploitation is reduced to the minimum. In modern growth theories, the problem of income distribution is generally assumed away. Gandhi was fully aware that a high rate of growth does not necessarily guarantee an equitable distribution of income. The latter issue is tied up, not so much with the rate of growth, as with the pattern of growth. This is the reason why Gandhi opposed Western style economic progress through urban oriented, large scale industrialization. He would settle for a slower rate of growth for the sake of a greater diffusion of technology and productive capacity to revitalize the rural economy, as well as for the sake of a greater regional balance in the distribution of income.

4.3.4 The Gandhian Doctrine of Trusteeship

Gandhian philosophy always aims at bringing economic equality through non-violent social change. Gandhi propounded the doctrine of trusteeship as a way to realize such change. The peaceful removal of economic inequalities is possible if the rich, after meeting their reasonable needs, hold the surplus wealth in trust for society. In this way, the rich man is not dispossessed of

his surplus wealth, but he is required to use this wealth in the broader interest of the community, and not in his personal interest. The doctrine of trusteeship is based on the idea that everything is from God, and belongs to God. Therefore, it is for God's people as a whole, and not for a particular individual. Thus, if an individual possesses more than his proportionate share, he becomes a trustee of that surplus amount for God's people. As to the question of the determination of the successor of the trustee, Gandhi replied that the original trustee is to be allowed to make his choice, but that choice is to be finalized by the state. Thus, a check is put on the state as well as on the individual. A summary of Gandhi's doctrine of trusteeship follows.

a) Trusteeship provides a means of transforming the present capitalist order of society into an egalitarian one; it gives no quarter to capitalism, but gives the present owning class a chance of reforming itself. It is based on the faith that human nature is never beyond redemption.

b) It does not recognize any right of private ownership of property except in as much as it may be permitted by society for its own welfare.

c) It does not exclude legislative regulation of the ownership and use of wealth.

d) Thus, under state regulated trusteeship, an individual will not be free to hold or use his wealth for selfish satisfaction or in disregard of the interest of society.

e) Just as it is proposed to fix a decent minimum living wage, even so a limit should be fixed for the maximum income that could be allowed to any person in the society. The difference between such minimum and maximum incomes should be reasonable and equitable and variable from time to time, so much so that the tendency would be towards obliteration of the difference.

f) Under the Gandhian economic order, the character of production will be determined by social necessity and not by personal whim or greed (Pyarelal, 1965).

A non-exploitative technology must not create hierarchy and privilege. It must not encourage centralism. For these reasons, technology must satisfy four basic conditions: (i) the operators must have full control of the technology; (ii) the technology must not replace the worker; (iii) the technology must increase the productivity of the workers; and (iv) it must produce goods and services needed by the worker.

4.3.5 The Gandhian Model of Sustainable Development

We are living part of Earth's life, owned and operated by the Earth. Our attitude towards the earth is defective and dangerous. Our deepest folly is the notion that we own it and can exploit it to our advantage. Gandhi's ideas are relevant for protecting the environment and to preserve the carrying capacity of Mother Earth. Gandhi emphasizes three aspects: economy, society and environment. He says, the present materialistic lifestyle has to be changed for sustainable development. Gandhian economics guides us towards a sustainable lifestyle.

The Gandhian model suggests the following steps to attaining a sustainable lifestyle.

1) **Sustainable agriculture:** We should give up chemical fertilizers and pesticides and substitute them with bio-manures and bio-pesticides. Vermi culture and vermi compost is a must for restoring the health of the soil.

2) ***Khadi* and village industries** are eco friendly. They create employment and alleviate poverty. So we should promote *khadi* and products of *village* industries.

3) **Appropriate technologies:** We should adopt technologies which are simple, and which our villagers are able to comprehend and operate themselves. The use of electricity should be avoided, or kept to the minimum.

4) **Renewable energy sources:** Coal and petroleum are nonrenewable energy sources and are getting exhausted very fast. Solar energy is limitless and inexhaustible. We can harness solar energy for heating and lighting. Water and wind energies can also be harnessed for producing electricity.

5) **Sylviculture (or tree plantation):** Cutting trees for fuel and for the construction of houses is inevitable. Our policy should be to plant two trees for every tree we cut. Trees as a source of energy are non-renewable if we only cut them and do not grow them.

Gandhi's advocacy of democratic trusteeship was supported by Schumacher's concept, 'Small is Beautiful'. According to Gandhi, Democratic Trusteeship should have the "responsibility for a bundle of assets instead of ownership of them". This is a neat description of how we all have to learn to live in this planet. The trustees should be responsible for the bundle of assets – the air, sea, and land – through which nature and our life evolved, and is sustained. These assets should not to be selfishly fought over, bought, sold, and pillaged. There is life beyond acquisitive capitalist motivation. We have to hold the earth and its resources in trust for all of its peoples. We must encourage and educate people to reduce their acquisitive spirit. No change of machinery or no amount of modernization can solve our social malaise, which consists in the egotism and greed of human nature. According to Gandhian thought, under democratic common ownership, "man's spirit can be freer so that he can become more creative, productive and responsible". The Gandhian focus is on the simplicity of life based on minimum human needs. According to Gandhi, "the earth has enough resources for our needs – not for our greed". If we follow Gandhi's advice – especially following the economy of cooperation of the honey bees and birds, keeping Gandhiji's ideals in mind we can surely achieve a sustainable lifestyle. A sustainable life style automatically ensures sustainable development.

4.3.6 Gandhian *Sarvodaya* Plan

Gandhi was a practical idealist. He said that true economics stands for social justice and moral values. He never spoke in terms of economics logic or jargon. He advocated the dignity of man and the dignity of labour to redress the sufferings of the people. He advocated moral growth, not material development. He said we must replace apathy with sympathy, exploitation with benevolence, profit with welfare, and materialistic development with human development. He demonstrated the bankruptcy of modern civilization based on materialistic parameters as a solution for social problems. He said

that cities are plague spots. He said that previously, the British were ruling, but now their philosophy, their technology, and lifestyle rule us.

Gandhi was convinced that the salvation of the Indian economy depends on rural development. Rural development depends on agricultural development, which is the integration of both, the farm and nonfarm activities of the village economy. He never accepted the inherent contradiction between economic development and human development. So he thought of integrating and establishing harmony between both the two, through *sarvodaya*. Having set the goal, he also worked out schemes for achieving it. For achieving the goal of non violent socialism, Gandhi presented the *sarvodaya* plan. The *sarvodaya* plan provides the foundations, on which the economic organization of a nation striving for the ideals of socialism is to be built. *Sarvodaya* means all round wellbeing of all. He argues for the combination of purity of ends and nobility of means. The objective of the *sarvodaya* plan is the establishment of *sarvodaya* social order on the principles of non violence, truth, love, and cooperation. The *sarvodaya* plan includes:

a) Economic equality and communal harmony

b) Full attention to the cultivators and the labourers

c) All cultivators organizing their own committees

d) All labourers forming their own unions

e) Education for all (technical or basic)

f) Hand-spinning in every family

Gandhi's *sarvodaya* is essentially a programme for the regeneration of the Indian village. Gandhi suggested a number of products that cottage industries in villages could make i.e. gur, baskets, ropes, brooms, oil, etc. *Khadi* is the sun of the village system. *Khadi*, according to Gandhi, is the central industry on which all other village industries revolve. The employment of carpenters and blacksmiths engaged in the production of the *charkha*, or spinning wheels, and of weavers, dyers, and printers of cloth, depend upon the demand for *Khadi*. Moreover, Gandhi related many religious and moral values to the *charkha*. In his *Khadi* scheme, Gandhi proposed the following measures to develop the khadi industry:

Compulsory introduction of spinning in all primary and secondary schools;

The cultivation of cotton in areas where it is not grown;

The organization of weaving by multipurpose cooperative societies;

All employees in the education and co-operative departments, municipal, district boards, and gram *panchayats* would be required to pass a test in spinning, in order to qualify;

Control of prices of handloom cloth woven of mill yarn;

The imposition of a ban on the use of mill cloth in areas where the hand woven cloth was in abundance;

The use of hand spun cloth in all government, and textile and weaving departments; the old cloth mills would not be allowed to expand, and new ones would not be opened; and

The import of foreign yarn, or cloth to be banned.

The revitalization of the village economy, among other things, includes measures such as the development of village and cottage industries, the improvement of village sanitation, protection from robbers and wild animals, the development of agriculture, conducting all activities on co-operative basis, the constitution of village *panchayats*, self-sufficiency in basic requirements, the removal of illiteracy, and the abolition of the caste system. Special attention would be provided to the development of village industries, sanitation, and hygiene. In short, the basic objective would be to develop the village into a complete, self-sufficient republic.

This is a long range programme. The immediate task is to establish *sarvodaya* at the village level. To start with, social order should change according to *sarvodaya* principles in each village. Therefore, Gandhi evolved schemes for the regeneration of villages and revitalization of village economy. Gandhi's struggle against poverty and unemployment, and his work of national reconstruction starts from the village. The purpose is to bring all-round development of the village and make it a self-sufficient economic unit. Gandhian activists such as Vinoba Bhave and Jayaprakash Narayan were involved in the Sarvodaya Movement, which sought to promote self-sufficiency amidst India's rural population by encouraging land redistribution, socioeconomic reforms, and promoting cottage industries. The movement sought to combat the problems of class conflict, unemployment, and poverty while attempting to preserve the lifestyle and values of rural Indians, which were eroding with industrialization and modernization. Sarvodaya also included bhoodan, or the gifting of land and agricultural resources by the landlords (called zamindars) to their tenant farmers in a bid to end the medieval system of zamindari. Bhave and others promoted bhoodan as a just and peaceful method of land redistribution in order to create economic equality, land ownership, and opportunity without creating class based conflicts. Bhoodan and sarvodaya enjoyed notable successes in many parts of India, including Maharashtra, Gujarat, Karnataka, and Uttar Pradesh.

4.3.7 Gandhian Concepts of Austerity and Abstinence

Mahatma Gandhi stated that "there is enough for everyone's need and but not for everyone's greed." He was of the opinion that the nature has managed it in such a way that there will be a balance in the eco-system, and that everybody gets enough of what they need, in order to have good life. Unfortunately, man being greedy, violates nature's rule and exploits others in order to fulfill his greed. He appealed to human beings to be austere and follow the principle of abstinence for the welfare of all.

You are now familiar with the main features of Gandhian development theory after reading this section. Now, answer the questions given in *Check Your Progress-2*.

Check Your Progress 2

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) What is a self-reliant village economy?

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2) What was Gandhi's idea on poverty and inequality?

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4.4 THE RURAL DEVELOPMENT MODEL BASED ON GANDHISM

India has achieved impressive growth in production and income. However, India's efforts to remove poverty and inequality in rural areas have failed. The reason for this is that strategies for rural development have been aimed primarily at raising production, without any understanding of social and class structure and their relation to production and its distribution. According to Gandhi, the salvation of the Indian economy depends on rural development and rural transformation. The prevailing agrarian situation indicates that this cannot be brought about in the context of India's present obsession with economic growth, and the trend of economic development in the world, in general. In the present state of socio-politico-economic affairs, the current growth model benefits the dominant class of the population at the cost of the rural poor. Some aspects of the Gandhian model, e.g., the expansion of village and cottage industries, the decentralization of production and wealth, and the institution of trusteeship by the state, and confiscation of excess wealth, may be implemented to build the social base for economic prosperity.

Gandhi emphasized decentralization to ensure the dignity of labour. He said, "A human state will be a decentralized society of equal partners". According to Gandhi, labour has four components: (a) bread labour, a kind of minimum physical labour which must be performed by everybody, from philosophers to ordinary labourers; (b) earning labour for living, as is normally understood in economics; (c) labour as an instrument for self actualization; and (d) as a method of service to others. Once this four-fold view of labour is accepted, no degree of division of labour can really dehumanize man.

The Gandhian concept of Man is one of an integral man, and the Gandhian concept of society is that of an integral society. The Gandhian model is based on an integral transformation of Man and society. In the Gandhian conception, the processes of individual transformation and political transformation are inevitably interconnected. The Gandhian concept basically pursues the unity of the individual and the social order. Gandhi stresses the unity of private and public life. In the Gandhian view, private life must be transparent, and in that transparency, we can see the public life, too. In Gandhian thought, the stress is on the unity of the individual and social praxis. The Gandhian view may be seen as the 'Unity of Existence'.

The social, economic, and political subsystems are closely interwoven as an organic whole, and the poor man remains outside that enclosure. His voice, his priorities, and his problems remain unheard. So, Gandhi argued against the central planning. Gandhian paradigm has the following features

i) The cause of all contradictions is centralism. It may be described as a situation in which a few control the means and the power to make decisions which affect many that are left out. The elective representative system of the present type is centralist.

ii) Centralism, as the source of social contradiction, has two major loci: (a) the sphere of production (economy); and (b) power (state).

iii) Centralism in production leads to exploitation. Centralism in power leads to oppression. The two centralisms reinforce each other.

iv) The victims of centralism, who are exploited and oppressed, alone will initiate change. No meaningful process of change can be generated by the centralist.

v) The process of change started by the victim will only reproduce the system if it copies the centralist system. So, the praxis of change should fulfil the following conditions:

a) The praxis must be broadly based, that is, it should be a mass movement.

b) The mass movement should not be characterized by centralism in its ideology, or in its organization.

c) If the movement becomes centralist in its organization, then it will acquire the characteristics of the state.

d) The movement should be free of violence. It should be firmly rooted in the ideology of non-violence. This characteristic of the movement to expose exploitation and oppression gives it the moral force of truth against non-truth.

e) Individuals have a central role in this praxis. The individuals can be a moral force by incarnating the values of trust and nonviolence.

Therefore, the Gandhian model advocated the idea of decentralization, which ensures the people's participation. The Gandhian decentralized approach strengthens the feedback system which ensures self-correction and self-direction. It emphasizes *gram swaraj* (village autonomy) and human values. It emphasizes production by the masses, but not mass production. It emphasizes labour intensive technology, small scale village and cottage industries, handicrafts, charkha and the use of renewable energy, and ecological balance. The decentralized model removes all kinds of constraints, and ensures three types of balance

Spatial balance

Sectoral balance

Operation balance

According to Gandhian thought, rural development is not a tailor made programme, or a process which can be triggered by outside agencies and authorities. The advantages of decentralization are:

i) It allows better political and administrative penetration;

ii) It raises efficiency and better implementation of development plans;

iii) It facilitates better coordination between central, state, and local agencies;

iv) It raises sensitivity and flexibility, and institutionalizes peoples' participation;

v) It reduces red-tapism and the diseconomies of scale, inherent in centralization; and

vi) It ensures greater equity in resource allocation and income distribution.

4.5 A CRITICAL APPRAISAL OF GANDHIAN DEVELOPMENT THEORY

Gandhian economic thought appears to be very logical and impressive. However, it suffers from following deficiencies:

1) Gandhi was not an economist in any professional sense. His economic ideas lack systematization, and lay scattered here and there in his writings. He attempted no economic analysis and presented no theoretical model.

2) In fact, Gandhi has not studied the writings of the western economists. He only studied Marx and that, too, late in his life during his detention in 1942. Whatever he wrote or said about economics was the natural outburst of his ethical and philosophical thought, and was not adopted from any book.

3) His thinking on economics does not contain any technical knowledge that has analytical value. He was a practical idealist and was immediately interested in solving the problems of poverty and inequality in his country.

4) The solutions he suggested called for a socioeconomic revolution through non-violent means. According to him, to achieve this objective, the country must act according to *sarvodaya* principles. This is a most unpractical solution. It is a great fantasy to expect that the rich would shed their acquisitive tendencies and would help their poor brethren to ameliorate their poverty.

5) With the acceptance of *sarvodaya* principles, the rich are unable to free themselves from the lust for profit. And production does not expand due to obsolete methods of production. It leads to perennial stagnation.

6) Universalizing the idea of non-violence, he hoped, would bring about a change of heart. However, to think that all countries would follow the path of non-violence is mere wishful thinking.

Despite the generally inoperative nature of Gandhian philosophy, Gandhi must be credited for emphasizing the role of small scale industries and agriculture in the development of the Indian economy. Almost all the economists recognize the importance of small scale industries, and the need for their decentralization in an overpopulated and rural based underdeveloped country. Gandhi also correctly realized that in such an economy, reorganization and revitalization of agriculture is a pre-condition to economic development. Development has to evolve from the people.

Now that you have a fairly good understanding of the rural development model based on Gandhian theory, and also various criticisms against Gandhian theory, answer the following questions given in *Check Your Progress-3*.

Check Your Progress 3

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) Describe the main aspects of the Gandhian model of rural development.

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2) What are the main criticisms of Gandhian Theory?

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4.6 LET US SUM UP

In this unit we dealt with Gandhi's philosophy, and his economic ideas and concepts. We explained how Gandhian economics differs from mainstream economics. The Gandhian doctrine of Trusteeship and self-sufficiency have been analyzed. We also explained the Gandhian model of rural development and balanced growth. The sustainable development based on Gandhian ideas was described. The criticism against the Gandhian theory of economic development has also been narrated.

4.7 REFERENCES AND SUGGESTED READINGS

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4.8 CHECK YOUR PROGRESS-POSSIBLE ANSWERS

Check Your Progress 1

1. Gandhian economics differs from mainstream economics in the following ways:

   i) It replaces the assumption of the perfect mobility of labour with the assumption that community and family stability should have priority;

   ii) It rejects more-is-always-better principle. It replaces the axiom of non-satiation with a principle of limits, the recognition that there is such a thing as 'enough' material wealth;

   iii) It recognizes that consuming more than 'enough' creates more problems than it solves, and causes consumer satisfaction, or utility to decline, rather than increase; and

   iv) It aims at providing a better quality of life rather than higher standards of living, as propagated by other economists.

2. Society is divided between the rich and the poor, between the strong and the weak, between the privileged and unprivileged, and between the elite and the masses. The principle of social justice requires that the former must help the latter in fulfilling their basic requirements. The ideal functioning of society aims at providing social justice, and reducing inequalities.

Check Your Progress 2

1. The self-contained village is the goal of the Gandhian production scheme. Each community should be able to satisfy the needs of its people. The production of each community should be linked with the natural consumption requirements of the community. The natural consumption requirements depend on: (*a*) geological situation (*b*) physiological condition (*c*) traditions and customs (*d*) occupational pattern and cultural attainments of the people.

2. According to Gandhi, poverty and inequality are two sides of the same coin. Both are inextricably connected. Poverty is the manifestation of affluence itself. The anatomy of affluence appears to be fair. But, the means to obtain this status is unfair and illegitimate. Thus, the poverty of many is caused by the richness of some. The greed of Man has resulted in poverty, and it is the cause of the persistence of poverty in the economy.

Check Your Progress 3

1. Some aspects of the Gandhian model of rural development are: the expansion of village and cottage industries, decentralization of production and wealth, the institution of trusteeship by state, confiscation of excess wealth which may be implemented to build the social base for economic prosperity.

2. Some of the criticisms of the Gandhian theory are

   1) His economic ideas lack systematization and lay scattered here and there in his writings. He attempted no economic analysis and presented no theoretical model.

   2) The solutions that he suggested call for a socio-economic revolution through non-violent means. To achieve this objective, the country must act according to *sarvodaya* principles. It is a most unpractical solution. It is a great fantasy to expect that the rich would shed their acquisitive tendencies, and would help their poor brethren to ameliorate their poverty

   3) With the acceptance of *sarvodaya* principles, the rich are unable to free themselves from the lust for profit. And, production does not expand due to obsolete methods of production. It leads to perennial stagnation only.

MDV-101: INTRODUCTION TO DEVELOPMENT AND DEVELOPMENT THEORIES (6 CREDITS)		
Block	**Unit Nos**	**Unit Titles**
1	**Development: An Overview**	
	1	Development – Concept and Paradigms
	2	Economic Development
	3	Human Development
	4	Political Development
2	**Classical and Neo-Classical Theories**	
	1	Classical Theories
	2	Neo-Classical Theories
	3	Marxian Theory
	4	Schumpeter Theory
3	**Developmentalist Theories**	
	1	Balanced Development Theories
	2	Unbalanced Development Theories
	3	Rostow's Stages of Economic Growth and Development
	4	Developmental State Theory
4	**Heterogeneous Theories**	
	1	Neo-Liberal Theories
	2	Dependency Theory
	3	Human Capabilities Theory
	4	Gandhian Theory