



[Academic Script]

Development Economics

Subject:	Business Economics
Course:	B. A. (Hons.), 6 th Semester, Undergraduate
Paper No. & Title:	Paper – 641 Elective Paper E2 Economic Growth and Policy
Unit No. & Title:	Unit – 1 Economic Development – Definitions and Concepts
Lecture No. & Title:	Lecture – 3 Development Economics

Academic Script

1. Introduction

We grasped the concepts of growth and development in the previous lectures.

Let us now proceed to check the importance of development economics and characteristics which indicate lower or higher levels of economic development.

Objectives

1. Understand the meaning of less developed and more developed countries.
2. See how the concepts of less developed and developing countries evolved.
3. Give a thought to the difference between macroeconomics and development economics.
4. Check the nature and scope of development economics.
5. Check the important characteristics of less developed economies.

Four Worlds

After World War II the world split into two large geopolitical blocs and spheres of influence with contrary views on government, politics and society:

- 1 - The bloc of democratic-industrial countries within the American influence sphere, the "First World".
- 2 - The Eastern bloc of the communist-socialist states, the "Second World".
- 3 - The remaining three-quarters of the world's population, states not aligned with either bloc were regarded as the "Third World." These were mainly countries with a colonial past.
- 4 - The term "Fourth World", coined in 1974 by George Manuel, refers to widely unknown nations (cultural entities) of indigenous

peoples, ("First Nations") living within or across national state boundaries.

Initially there was the three worlds' model only. Fourth world was identified later.

The third world countries actually drew the debate of development. The origin of the terminology 'the third world' is unclear. In 1952 Alfred Sauvy, a French demographer, wrote an article in the French magazine L'Observateur which ended by comparing the Third World with the Third Estate.

Third estate was a term used in France for the common people. Other sources claim that Charles de Gaulle coined the term Third World, maybe de Gaulle only has quoted Sauvy.

Definitions

- The term "**First World**" refers to the developed, capitalist, industrial countries, roughly, a bloc of countries aligned with the United States after World War II, with more or less common political and economic interests: North America, Western Europe, Japan and Australia.
- "**Second World**" refers to the former communist-socialist, industrial states, (formerly the Eastern bloc, the territory and sphere of influence of the Union of Soviet Socialist Republic (today's Russia), Eastern Europe (e.g., Poland) and some of the Turk States (e.g., Kazakhstan) as well as China.
- "**Third World**" countries are all the other countries, described as the developing countries of Africa, Asia and Latin America.

Countries in the third world group can be countries with different economic systems, can be from different regions of the world and can also be rich countries. e.g., Venezuela which is a capitalist country, North Korea well known as a communist

country, Saudi Arabia which is rich and Mali, all belong to the list of poor countries.

What makes a nation third world?

Despite ever evolving definitions, the concept of the third world includes countries that suffer from high infant mortality, low economic development, high levels of poverty, low utilization of natural resources, and heavy dependence on industrialized nations. These are the developing and technologically less advanced nations of Asia, Africa, Oceania, and Latin America.

Third world nations tend to have economies dependent on the developed countries and are generally characterized as poor with unstable governments and having high rates of population growth, illiteracy, and disease.

In earlier times these were countries with many poor, few elites and a lack of middle class.

However now these are countries with an emerging middle class, with impoverished millions in a big lower economic class and a very small elite upper class controlling the country's wealth and resources. Most third world nations also have a very large foreign debt.

These countries were termed as the 'Newly Industrializing Nations' by the seventies and by the nineties some of these countries came to be known as the 'Emerging Economies'.

The term "**Fourth World**" first came into use in 1974 with the publication of George Manuel's, "The fourth world: an Indian reality". The term refers to nations (cultural entities, ethnic groups) of indigenous peoples living within or across state boundaries (nation states).

2. Differences in growth and development issues

Hence development economics gained importance after the Second World War when economists started studying the differences in growth and development issues of the four different worlds.

Until 1979, there were erroneous views pertaining to whether development economics is a separate branch of economics or not as it drew its conclusions heavily from macroeconomics. However, when a Nobel Prize was awarded to Arthur Lewis of Princeton University and Theodore Schultz of University of Chicago in 1979, development economics got a confirmed place as a separate field in the discipline of economics.

The World Development Report classifies countries as,

- Low-income countries
- Lower-middle income countries
- Upper-middle income countries
- Upper-income countries

(For the current 2017 fiscal year, low-income economies are defined as those with an annual per capita gross national income (calculated using the World Bank Atlas method), of \$1,025 or less in 2015; lower middle-income economies are those with a GNI per capita between \$1,026 and \$4,035; upper middle-income economies are those with a GNI per capita between \$4,036 and \$12,475; high-income economies are those with a GNI per capita of \$12,476 or more.

Scope of development economics:

According to **Todaro**, Development economics extends beyond the traditional economic theory (classical and neo classical economics taught in the American and British textbooks).

Development economics comprises of studies pertaining to society behaviour and psychology, political strategies, state policies, institutional mechanisms, structural transformation, cultural implications, international relations, regional groupings international institutions, laws and treaties, diplomacy, etc.

3. Nature of development economics

Development economics is,

- Dynamic
- ever-evolving
- Inclusive
- Scientific
- Suggestive and prescriptive
- Normative and value-based.
- Development economics is dynamic as development is not a static concept. It involves increasing welfare and bettering lives of some sections without making other sections worse off. The idea of development changes with time, place and circumstances. Besides, development is a function of multiple changes which must occur simultaneously.
- Development economics is ever evolving. The concept of development and the theories of development economics have evolved continuously. Principles which hold true during one time period may not hold true at another time period. For example, expanding urban areas was necessary for developing countries to shift the surplus labour from agriculture to industries, to create job opportunities, to expand economic interaction, to promote scientific way of living, to provide modern education and so on. Thus

urbanization was a method of increasing development. However, in these countries as the urban areas started getting congested and congestion started hindering further growth, development economics promoted the idea of providing urban facilities in rural areas to prevent further migration from rural to urban areas.

- Development economics is inclusive in the sense that it touches upon development issues pertaining to all areas of social, economic and political life.
- Development economics is scientific as it provides concrete theories and models of growth and development and uses techniques of statistics and mathematics to arrive at conclusions.
- Development economics makes suggestions and gives prescription about how countries must grow.
- Development economics is normative in the sense that it provides norms of welfare. It tries to discuss whether certain type of growth may be good or bad for an economy. It makes value judgements regarding pollution, migration, poverty and so on.

Subject matter of development economics

Development economics studies,

- Differences in the growth rates of various economic parameters (like, National incomes, trade, capital formation,

infrastructural provisions employment generation, investment, trade etc.) between countries of the world.

- Differences in socio-economic parameters (like, size of population and demographic profile, poverty, inequalities of income and assets etc.) between countries.
- Cultural differences and the scope of various economic policies on the various segments of the populations.
- Theories of growth
- Models of development
- Role of the state, policies, international organizations, regional groupings and social leaders in creating awareness and in influencing attitudes, distribution of goods, transforming institutions and shaping ideologies
- Economic planning
- Human welfare

4. Economists who made contributions in the understanding of growth and development economics

Though economics is a science of growth and development, some economists who made special contributions in understanding growth and development are,

Rosenstein Rodan, Hirschman, Gunnar Myrdal, Fleming, Ragnar Nurkse, Harrod and Domar, Arthur Lewis, Theodore Schultz, Robert Solow, A. K. Sen, Nassbaum, Paul Krugman, Simon Kuznets, A. Maddison, Kindleberger, Colin Clark, Schumpeter, Cairncross and others.

Measures of Development:

There cannot be one set of tools to measure development.

I. Income measures:

The most elementary measures are income measures. A higher national output means more goods for the citizens to consume. A higher real income of a nation increases a nation's capability to make greater welfare provisions for its people.

Higher real per capita income means that people have greater monetary power with them.

II. Measures of inequality:

Measures like Gini coefficient and Lorenz curve provide measures of inequalities existing in an economy.

(These measures will be discussed separately in another section)

III. Measures of Human development:

Economists gave various measures of human development like,

- PQLI-Physical Quality of Life Index. (not used now)
- HDI-Human Development Index.
- HPI-1-Human Poverty Index-1.
- HPI-2- Human Poverty Index-2.
- MPI-Multidimensional Poverty Index
- GDI-Gender related Development Index.
- GEM-Gender Empowerment Measure.

(These measures will be discussed separately in another section)

IV. Measures of Human Capabilities and Freedom (Human Development Reports)

Human Development Reports of various years from 1990 have defined Human Development over a wide range of perspectives as, process of enlarging peoples' choices, creating an environment in which all people can expand their capabilities, expanding peoples' choices to lead a life which they value, to improve peoples' lives by expanding their choices and freedom

and increasing their dignity, to improve human capabilities in terms of what they can do and what they can be, expanding peoples real choices and increasing their substantive freedoms.

The indicators of choices, capabilities and freedom are:

- Long and healthy life
- Knowledge
- Resources for decent standard of life
- Political freedom
- Guaranteed human rights
- Self respect
- Good physical environment
- Freedom of action and expression
- Human security
- Political, social and economic freedoms
- Being creative
- Being productive
- Democracy
- Dignity and respect towards others
- Empowerment
- A sense of belongingness to a community
- Security
- Sustainability
- Political and civic freedom
- Cultural Liberty
- Social and political participation
- Civil and political rights

v. Policies/programmes of the state which enable and empower people:

Some policies which can enable citizens can be stated as,

- Social security, pensions, health insurance for all

- Provision of all basic human rights like, right to food, right to medical facilities, right to education, right to employment
- Adequate drinking water supply to all
- Adoption of green technologies
- Credit facilities for the poor people and small farmers, small businesses etc.

Some Human Development Indicators for India

Life Expectancy at Birth in Years

Time Period	Female	Male	Total
2001-05	65.6	63.1	64.3
2009-13	69.3	65.8	67.5

Source: Economic Survey, 2015-16

Infant Mortality Rate (Per 1000 Live Births)

Year	Female	Male	Total
2005	61	56	58
2013	42	39	40

Source: Economic Survey, 2015-16

Birth Rate Per 1000 Population

Year	Rate
2005	23.8
2013	21.4

Source: Economic Survey, 2015-16

Death Rate Per 1000 Population

Year	Rate
------	------

2005	7.6
2013	7.0

Source: Economic Survey, 2015-16

Total Fertility Rate

Year	Rate
2005	2.9
2013	2.3

Source: Economic Survey, 2015-16

Provisional Gross Enrolment Ratio for Classes I to VIII for 2014-15 (in Per Cent)

Girls	Boys	total
99.2	94.8	96.9

Source: Economic Survey, 2015-16

Does a high enrolment ratio mean good education?

Can we find out the dropout rates in schooling in India?

Literacy Rate in Per Cent

Year	Rate
1951	18.3
1961	28.3
1971	34.5
1981	43.6
1991	52.2
2001	64.8
2011	73.0

Source: Economic Survey, 2015-16

From which census have the literacy rates improved significantly according to you?

Child Gender Ratio-Number of girls per 1000 boys (0-6 Years)

Year	Ratio
2001	927
2011	918

Source: Economic Survey, 2015-16

What does this gender ratio reveal?

Households with Access to Safe Drinking Water in Per Cent

Year	Total	Rural	Urban
1991	62.3	55.5	81.4
2001	77.9	73.2	90.0
2011	85.5	82.7	91.4

Source: Economic Survey, 2015-16

If we consider the percentage of population without safe drinking water is it significant according to you? Do you have any suggestions to provide safe drinking water to all?

5. Summary

To summarize, we have understood that countries of the world are classified based upon the level of their economic development. The scope of development economics is vast. It encompasses economic, social, cultural, political, policy and administrative areas. Development economics is dynamic, evolving, suggestive and normative. There are income and non-income measures of development.