

Underdeveloped Economies



Introduction

As people throughout the world awake each morning to face new day, they do it under some circumstances. Some leads a comfortable life while other live from hand to mouth. And poor people constitute the **three-fourth of earth's 6 billion** people, are much less fortunate. Thus here generates the gap and we call it **UNDERDEVELOPED COUNTRIES.**

The underdeveloped economy is one which has low per capita income, high rate of population growth, dependence on backward agriculture, etc as when compared to developed economy.

PROF.SAMUELSON, "Every country is an underdeveloped country, because a country never achieves perfection of development, There is always scope for further development."

Classification of economies of world

ON THE BASIS OF PER CAPITA INCOME

- (a) High income economies : with income more than \$9265
- (b) Middle income economies : with income more than \$755 but less than \$9265
- (c) Low income economies : with income less than \$755

ON THE BASIS OF DEVELOPMENT

- (a) Underdeveloped countries
- (b) Developing countries
- (c) Developed countries

ON THE BASIS OF BROADNESS OF COUNTRIES

- (a) Advanced countries
- (b) Communist countries
- (c) Underdeveloped countries

Meaning and Definition of underdeveloped economies

An underdeveloped economy is that economy which is characterized by the widespread poverty, the low economic performances of the economy as compared to advanced economies and under utilization of production potential. The low per capita income is only a symbol.

PROF.SINGER, "An underdeveloped country is like a giraffe, difficult to describe but you know one when you see one."

NURKSE, "Underdeveloped countries are those which compared with advanced countries are underdeveloped with capital in relation to their population and natural resources."

It is characterized by the co-existence in greater or less degree of under utilization human and natural resources on account of low rate of capital formation and technological backwardness.

UNDERDEVELOPED ECONOMY

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graph LR; A[UNDERDEVELOPED ECONOMY] --- B[Low per capita income]; A --- C[Low standard of living]; A --- D[Low economic performance]; A --- E[Unutilised human and natural resources]; A --- F[Inefficient and conventional techniques of production]; A --- G[Good potential prospects]; A --- H[Enthusiasm in its people for growth];
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Low per capita income

Low standard of living

Low economic performance

Unutilised human and natural resources

Inefficient and conventional techniques
of production

Good potential prospects

Enthusiasm in its people for growth

Objective of an underdeveloped economy

To increase the availability and widen the distribution of basic life-sustaining goods such as food, shelter, health, and protection.

To raise levels of living, including, in addition to higher incomes, the provision of more jobs, better education, and greater attention to cultural and human values, all of which will serve not only to enhance material well-being but also to generate greater individual and national self-esteem.

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 and nation-states but also to the forces of ignorance and human misery.

Main features of an underdeveloped economy

- ❖ Low Per capita income
- ❖ Economic inequalities
- ❖ Low levels of living
- ❖ Dependence on agriculture
- ❖ Low growth rate of per capita income
- ❖ High rate of population growth
- ❖ Features concerning foreign trade
- ❖ Vicious circle of poverty
- ❖ Unemployment and underemployment
- ❖ Deficiency of capital
- ❖ Backward techniques of production
- ❖ Backward industrial structure

1.Low Per Capita Income

- Per capita income= $\text{Total income} / \text{Total population}$

Nearly 77% of the world lives in underdeveloped countries. The average per capita income of underdeveloped economies is about \$2 per day while of developed economies is \$30 per day.

PROF.KURIHARA, "Low per capita income is the chief feature of less developed countries."

In the under developed countries the size of national income is low but the size of population is very high. So per capita income remains low which is the main obstacle in the way of economic development.

Per capita income of selected countries (source World Development Report).

2.Economic Inequalities

TODARO," *The gap between rich and poor is generally greater in less developed nations than in developed nations."*

A large chunk of the national income is pocketed by a small segment of the society. However, the richer people in less developed countries dissipate much of their wealth in conspicuous consumption, contributing little to the process of capital formation.

3.Low level of living

CAIRNCROSS," Underdeveloped countries are the slums of the world."

Level of literacy, per capita calorie, housing conditions, HDI is very low. HDI is readily between 0.3 and 0.4. Human development index is a collective index prepared by united nations development programme (UNDP). It is calculated on the basis of **longevity, knowledge, and level of income**. It is measured on 0.1 to 1 scale.

4. Dependence on agriculture

Developed country like USA, Japan, Germany engage less population in agriculture i.e. 3%, 7%, 4% respectively. While underdeveloped country like India, Pakistan, Bangladesh engage more population in agriculture i.e. 70%, 66%, 77% respectively and produce less production per hectare. They follow the traditional and subsistence farming.

	Labour force in agriculture %	Share of agriculture in G.N.P. %
Underdeveloped economies	66	27
Developed economies	5	2

5.Low growth rate of per capita income

Growth rate of low income economies was 1.5% between 2001-2002 while in developed economies was 2.1%. Even though some underdeveloped countries like India, China grew at faster rate then also their per capita income was very low.

In 2004-2005 high income economies had growth rate 2.1% while low income economies had 5.6%.

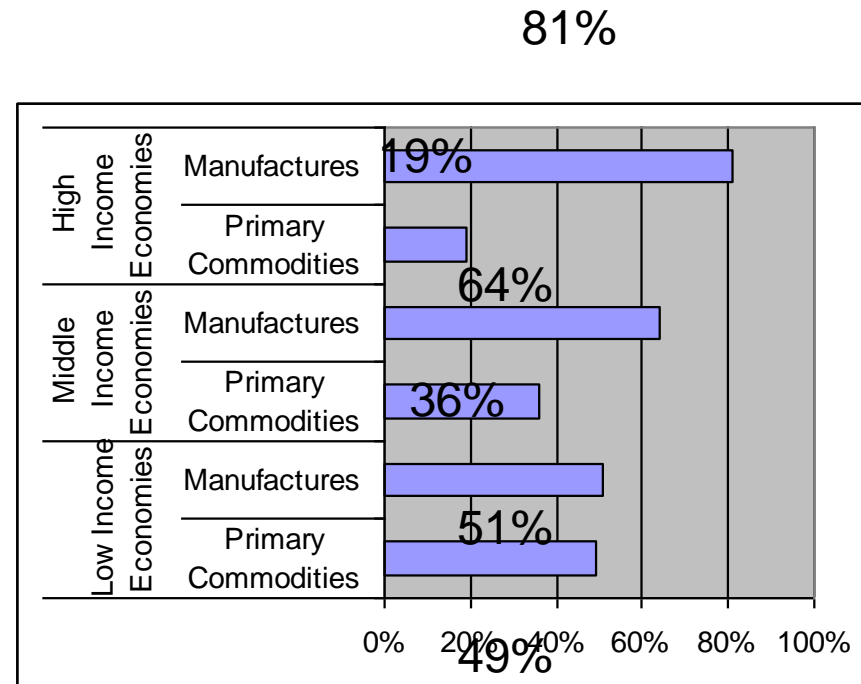
6.High rate of population growth

The average growth rate of population in underdeveloped countries is **2.1%** as against **0.6%** in developed countries. This is because birth rate and death rate are high in underdeveloped countries compared to developed countries. Birth rate ranges between **30-40 per thousand** and death rate between **10-15 per thousand**. In developed countries birth rate ranges between **10-13 per thousand** and death rate between **9-10 per thousand**. Thus the level of consumption in underdeveloped countries goes up and savings comes down. This leads to fall in capital formation. They are illiterate and have poor health, low quality life, low life expectancy.

7.Features concerning foreign trade

Underdeveloped countries mainly **export primary products** like agricultural goods, minerals, etc. and **import finished products** especially consumer goods.

The share of primary exports in the total exports of Ethiopia is 89%, Nigeria 98%, Ghana 86%, Egypt 69%, Algeria 98%, while the share of finished products in total imports of Ethiopia is 82%, Nigeria 86%, Ghana 69%, Egypt 64%, and Algeria 65%.



8. Vicious circle of poverty

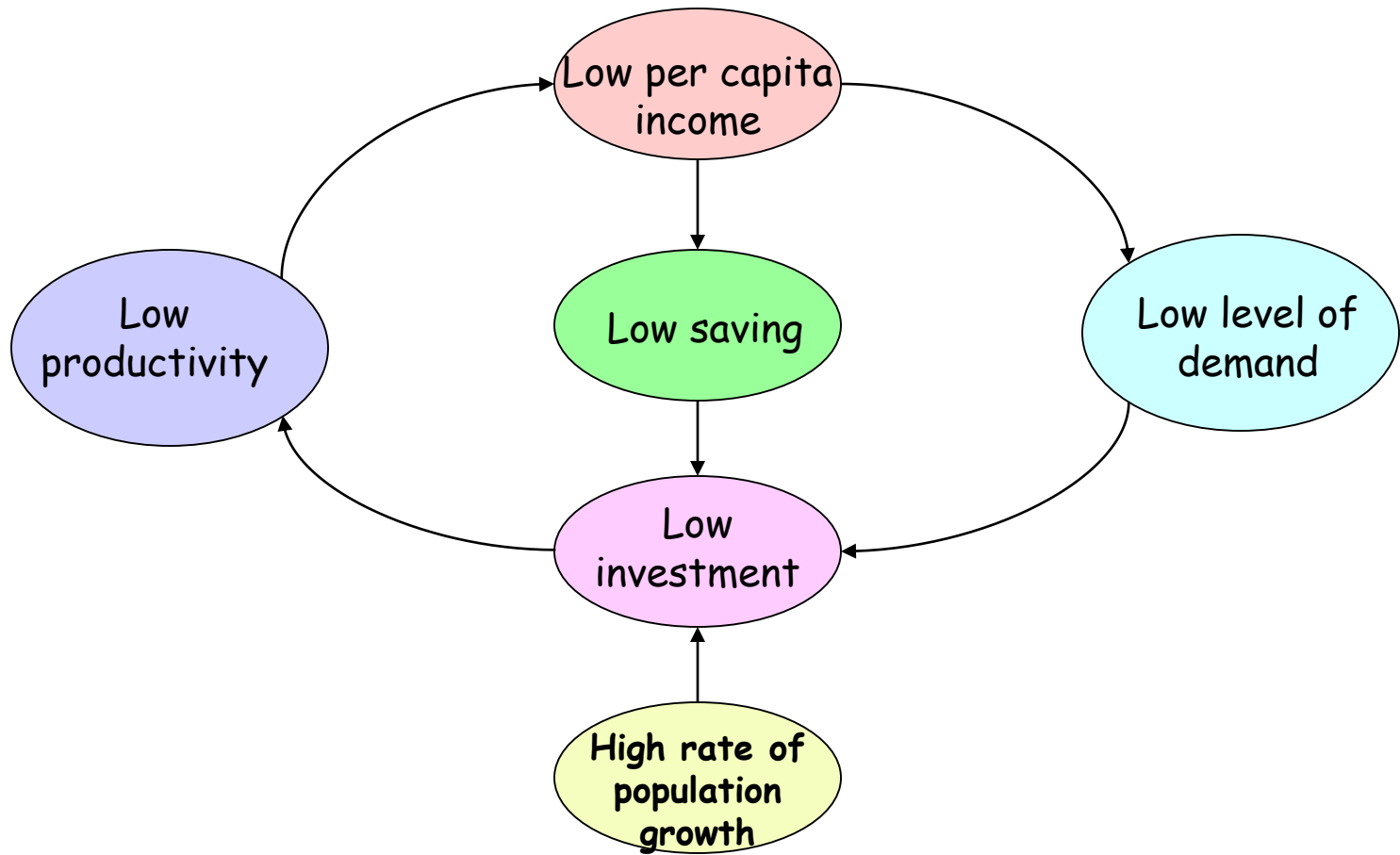
NURKSE, "A country is poor because it is poor."

(i) SUPPLY SIDE

Low Income → Low Saving → Low Investment → Low Productivity → Low Income

(ii) DEMAND SIDE

Low Income → Low Demand → Low Inducement to Invest → Low Investment →
Low Productivity → Low Income



9.Unemployment and underemployment

Disguised unemployment, open unemployment and underemployment are basic characteristics of underdeveloped economy. Disguised unemployment is largely found in agricultural sector. According to a report by UNO, disguised unemployment is found among 20 to 25% of the population in India and Pakistan.

M.P. Todaro, "If the unemployed are added to the openly unemployed almost 30% of the combined urban and rural labour forces in the third world nations is unutilized."

10. Deficiency of capital

Shortage of capital is both a cause and effect of low productivity in underdeveloped countries. This also results in vicious circle of poverty. It results into low rate of capital formation, low savings, and investment obstacle. NURKSE has called this tendency as DEMONSTRATION EFFECT. Because of low rate of capital formation, less developed countries have to depend upon labour intensive techniques of production, which are generally less productive.

The average rate of domestic capital formation is 17% of gross domestic product in underdeveloped countries whereas it is 23% in developed countries.

11. Backward technique of production

The backwardness of technique of production in underdeveloped countries is reflected by high cost of production and high labour capital ratio along with high capital output ratio. These are called **high cost areas despite low rate of wages** while **developed countries are called low cost areas**.

Nearly 95% of the scientific research in the world is concentrated only in 20 advanced nations of the world. The rest 5% is spread across 100 other nations, causing high cost of production there.

12.Backward industrial structure

In underdeveloped economy, contribution of industrial sector to national income is very small. The only **industries that exist are those of consumer goods**. Most of these are cottage industries and small scale industries. Heavy industries like iron and steel are negligible while developed economy is just reverse of underdeveloped economy.

Indian Economy as an underdeveloped economy

Low grade human resources

Lack of capital

Political Instability

Deficit Balance of Payment

Burden of Debt

International Forces

Unproductive Expenditure

Frequent Changes in Fiscal Policy

Vicious Circle of Poverty

Imperfection of Market

Inflation

Stagnant per capita income

Low level of per capita income

Low standard of living

Unequal distribution of income and wealth

Backward agriculture

Lack of proper industrialisation

Lack of proper banking facilities

Pressure of population

No proper means of transport

Outdated social institutions



THANK YOU