Developmental Economics and Poverty Reduction

What is Economic Development?

Economic development is the process by which emerging economies become advanced economies. In other words, the process by which countries with low living standards become nations with high living standards. Economic development also refers to the process by which the overall health, well-being, and academic level the general population improves.

Development means change and economic development refers to the desirable change taking place in economic life of people and we may also say that economic development is the process of improvement in living standard of people.

Definitions

Economic Development is an improvement in factors such as health, education, literacy rates, and a decline in poverty levels.

Watson defines economic development as

" Economic Development is the expansion of production and consumption faster than population growth because of steadily higher productivity of resources and combination of resources."

Meier and Baldwin have given the definition of economic development in these words:

" Economic Development is the process whereby an economy's real national income increases over a long period of time.

Economic Development Occurs When

- An increase in real per capita income.
- The increase in levels of literacy and education standards.
- Improvement in the quality and availability of housing.
- Improvement in levels of environmental standards.
- Increased life expectancy.

Factors Effecting Economic Growth and Development

Economic Development is complex and lengthy process. Many economic and non-economic factors influence the rate of development in a country.

A.Economic Factors

Samuelson calls the factors of development as four wheels. These are **Human Resources, Natural Resources, Capital Resources** and **Technology.**

1.Natural Resources: The basic factor affecting development is the quantity and quality of natural resources a country possesses. These includes land, forests, minerals, water and power resources, climate and geographical location etc. Abundance of natural resources means the country has more potential for development. An important factor in the prosperity of USA, Canada and Australia is that they possess vast agriculture land. Similarly the high rate of growth of Iran and Saudi Arabia is due to their mineral wealth. However just the existence of resources is not enough. The country must have the ability to utilize these resources. Many developing countries like Pakistan and India are rich in natural resources but yet they are not developed.

2. Capital Resources: Capital means the stock of materials, machines, equipment, buildings and social overheads like roads, canals, power houses, gas and telephone lines. Capital increases the productivity of human labour. Capital accumulation leads to the expansion in industry, agriculture, commerce, transport and energy. It is with the help of capital goods that a country's natural resources can properly be explored and utilized. England and Germany have fewer natural resources, yet they have huge capita, which is the secret of their higher incomes.

3. Human Resources: It is the human beings who are basic cause and source of all economic activity. Economic development is for human being and is undertaken by human beings. Material or physical resources of a country are helpful only if the population of the country has necessary will, skill and technical knowledge to use these. Many developing countries of the world have abundance of natural resources but because of poor quality of human resources, they produce a limited quantity of output.

4. Technology: Improvement in technology makes human labour and capital more productive. For example, invention of engine brought industrial revolution, tractor revolutionized agriculture and computer is multiplying the efficiency of human activities in all the spheres of life. Japan successfully used new technology to achieve high rate of human growth.

B. Non-Economic Factors

1. Social and Cultural Factors: Socio-cultural factors have deep influence on the rate of economic development. Material and capital are not the most important in the economic development. After all, these are lifeless things. Most important is the attitude of man. Every society has a certain social set up, a particular family system, occupational structure, social attitude, habits, customs and cultural patterns. These things determine their thinking about work, saving, consumption, working of women and family planning. If these factors are favourable in a country, it can develop rapidly. Caste system, nepotism, corruption, ignorance, superstitions and immobility of labour are the things which retard development.

2. Political Factor: Economic development can take place only in an atmosphere of peace and political stability. If political system is dominated by big landlords, development will be slow. Jagirdars, feudal lords, sardars and heredity peers have conservative social thinking. They do not like the prosperity of common people as it decrease their influence. Hardworking and efficient administration stimulates development. Corruption in political or official circles kills the incentive for hardworking.

Stages of Economic Growth

Prof. W.W. Rostow has divided the process of economic growth and development into five stages.

These five stages are:

(i) Traditional Society:

Rostow has described traditional society as one whose structure is developed within limited production functions based on pre-Newtonian science and technology. It means primitive and old methods are used for production. Production is meant for consumption. Consumption is very limited. There are no concepts of saving and investment in the economy. The civilization of Middle East is the best example of this type.

(ii) Pre-conditions to take off stage:

In this stage, people think for a higher standard of living. To achieve this good, structural and economic changes take place in the economy. Saving and investment in particular activities are encouraged. Education is also spread. This is the period when preconditions for take-off are developed. The emergence of new investors and entrepreneurs causes an upward trend in trade and commerce. Thus, all the efforts are made to fulfill the pre-conditions of economic growth.

(iii) Take-off Stage:

According to Rostow, take-off is the stage of industrial revolution with the use of improved technology. It is also called a great watershed in the life of modern societies. All types of socio-economic infrastructures have been laid. As a result growth process starts. There is a high rate of saving and investment and the rate of capital formation is very fast. There is development of both consumer and capital goods industries.

(iv) Drive to Maturity:

After attaining self-sustained growth, economy is ready for a drive to maturity. At this stage economy moves towards the goal of becoming a mature economy. In fact, this is the period when a society has effectively applied the range of modern technology.

Thus modern technology is adopted in all sectors of production. At this stage, working forces organize themselves in order to have greater economic and social security. Here international trade also occupies a significant place. The rate of investment and capital formation are extraordinarily increased.

(v) High Mass Consumption:

It is the final stage of production. This stage occurs after attaining the stage of drive to maturity. In this stage, leading sectors produce durable consumer goods and services. Per capita output or income of the country becomes very high. In fact, standard of the people can be guaranteed for all members of the society. This led to the foundation of welfare state. Many countries of Western and Northern Europe have attained this stage.

Types of Countries

Countries are divided into two major categories by the United Nations, which are developed countries and developing countries. The classification of countries is based on the economic status such as GDP, GNP, per capita income, industrialization, the standard of living, etc.

1.Developed Countries:

Developed Country refers to the state, whose economy has highly progressed and possesses great technological infrastructure, as compared to other nations.

Developed Countries are the countries which are developed in terms of economy and industrialization. The Developed countries are also known as Advanced countries or the first world countries, as they are self-sufficient nations. The country which is having a high standard of living, high GDP, high child welfare, health care, excellent medical, transportation, communication and educational facilities, better housing and living conditions, industrial, infrastructural and technological advancement, higher per capita income, increase in life expectancy etc. are known as Developed Country. The following are the names of some developed countries: Australia, Canada, France, Germany, Italy, Japan, Norway, Sweden, Switzerland, United States.

2. Developing Countries

The countries with low industrialization and low human development index are termed as developing countries**.** Developed Countries provide free, healthy and secured atmosphere to live whereas developing countries, lacks these things. The countries who are going through the initial levels of industrial development along with low per capita income are known as Developing Countries. These countries come under the category of third world countries. They are also known as lower developed countries.

According to Samuelson, “A developing country is one with real per capita income that is low relative to that in advanced countries like the USA, Japan and those in Western Europe.”

Pakistan, India, China, Iran, Turkey are some examples of developing countries.

Common Features of Developing Countries

Most of the developing countries have many features in common.

1.General Poverty and Low Level of Living: Poverty and low level of living is the common feature of most of developing countries. Most of the people do not get even the basic necessities of life. They spend large part of their incomes on food, yet they are under fed. They have poor health, inadequate housing and lack of education. Per capita income of Pakistan is very low and more than 1 billion people live in absolute poverty.

2. Rapidly Rising Population: In many developing countries, due to improve medical care, death rates have fallen whereas birth rates remain high. The proportion of dependent children in population is large and life expectancy is low. During past six decades, Pakistan experienced population explosion**.**

3. Under Utilization of Natural Resources: Many developing economies are deficient in natural resources. Only their resources remain either unutilized or underutilized. For example, the whole of Pakistan's cultivable is not under use, mineral wealth is not fully exploited and water resources are still underutilized.

4. Shortage of Capital: Shortage of capital limits productivity of labour and the ability of a country to produce goods. In developing countries no. of vehicles, buildings, roads and machinery per head of population is small. Consequently they cannot make use of modern techniques of production.

5. Poor Technology: Developing countries use old methods of production. Application of machinery and modern technology is limited. So labour productivity does not rise. The quality of industrial products is poor and unsatisfactory. Such goods cannot compete in international markets.

6. Unbalanced Industrial Growth: In most developing countries there is imbalance in various industries. More investment is done in consumer goods industries than in capital goods. This trend retards the pace of development.

7. Unemployment: High rate of population growth and low rate of economic development create unemployment and underemployment. Enough job opportunities are not available.

8. Unfavorable balance of payment and foreign debt: Most of developing countries have small amount of goods for export. Quality of their products is so poor which cannot compete in international markets. They export raw material or semi manufactured goods which have low prices, and import manufactured goods at high prices. To fill the gap in foreign exchange earnings, most developing countries accumulate huge foreign debt.

9: Inefficient and Corrupt Administration: People ignorance and poverty in developing countries provide opportunities for corruption. Selection of government officials is not on merit. Political pressure and nepotism do not allow clean administration. In such societies duties become subordinate to personal gain.

10: Shortage of Social Overhead Capital: Developing economies are short of social overhead capital and infrastructure in the form of railways, roads, drainage systems, electric supply, training institutions and researcher institutes.

11. Excessive Dependence on Agriculture and Primary Products: Excessive Dependence on Agriculture and Primary Products like oil and minerals. Due to fast increasing population, labour- land ratio is high. Small land holdings are not suitable for mechanized farming. Productivity per worker and per acre is low. Exports mainly consist of agricultural goods or minerals.

12. Illiteracy and Economic Backwardness of People: results in low labour efficiency, less mobility and lack of specialization in occupations. Due to caste system people stick to the occupations of their parents even though better opportunities may exist elsewhere. People are illiterate, ignorant, conservative, traditional bound and superstitious who resist new ideas. Child labour is wide spread. Status of women is inferior.

13. Social and Political Tensions: create general unrest in developing countries. Due to migration from rural to urban centers, improvement inn living patterns, shifting of occupations, increased use of money, commercialization of various economic activities, spread of education and scientific knowledge, increased competition in various fields, old moral values and social relation come under strain. The gap between the views between young and old generation widens. There is a tension in various regions of the country. As a whole, the things in developing countries are unsettled.