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# UNIT 1 DEVELOPMENT — AN OVERVIEW

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## 1.0 OBJECTIVES

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After studying this unit, you should be able to:

- Identify the components of development;
- List the indicators by which it is possible to evaluate development;
- Describe some of the leading issues in development theories;
- Critically comment on the importance of planning for development; and
- Describe the Indian development experience since Independence.

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## 1.1 INTRODUCTION

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The primary purpose of this unit is to help you understand the *concept of development*, which is a multi-faceted and includes a variety of economic as well as non-economic dimensions. We will describe the leading issues in development as well as specify some indicators of development by which you can differentiate areas/regions/countries that are less developed from those that are relatively more developed. The process of development itself is a complex one, with multiple trajectories, and we have a range of theories, according primacy to different sets of economic and social factors in facilitating development. To illustrate these, this unit will introduce you to some of the important theories of development and some of the critical issues in the trajectories of development. The last substantive section which is a brief account of India's

development experience since Independence will also give you a feel of the theoretical issues covered in this unit.

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## 1.2 CONCEPT OF DEVELOPMENT

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You know that some countries are considered to be more developed than others. It is not uncommon to come across references to the Less Developed Countries (LDCs) as compared to the Developed Countries (DCs). Similarly, within our own country, some states are said to be more developed than others. Clearly, development therefore involves making relative comparisons.

Development implies an overall positive change in the physical quality of life. This positive change for the better encompasses economic as well as social aspects. Therefore, development not only calls for economic growth but also the equitable distribution of the gains made from economic growth. In other words, development implies growth with justice. It means an improvement in the quality of life through better health, education, housing and overall material and social welfare. The basic elements of development are the following:

- i) Removal of inequality and poverty;
- ii) Increase in material welfare of the people;
- iii) Increase in social well-being (education, health, housing, etc.);
- iv) An equitable distribution of the gains of development among different groups of people in a region or country;
- v) An enhancement in technology and the capacity to produce a wider range of goods and services in the economy leading to a better quality of life;
- vi) Building institutional structures which permit participation in decision-making at all levels, equalization of opportunities for development and removal of disparities.

For a long time, it was assumed that development depends primarily on economic growth and would automatically occur if economic growth took place. This view of development has, however, been criticized on the ground that it ignores the distribution of the gains from growth; and also, how the growth has been achieved and at what costs. An increase in production in a country does not automatically mean that there has been better distribution of what has been produced. For instance, though the production of food-grains has grown almost four-fold since Independence, this does not imply that every Indian gets enough to eat. This has meant that the question of *distributive justice* has assumed greater importance. Also, the composition of the set of goods produced is important.

It is necessary to understand the difference between *the concepts of economic growth and development*. Economic growth means an increase in the value of all goods and services produced in an economy. The sum total of all goods and services in an economy is termed as the Gross Domestic Product (GDP). ***Growth is, therefore, a sustained expansion in the productive capacity of an economy leading to sustained rise in its GDP. Development, on the other hand, is a sustained improvement in material welfare, particularly for those who are poor and afflicted by poverty, illiteracy and poor health conditions.*** Development is, therefore, a qualitative concept involving a qualitative improvement in the general standard of living in a country or economy.

Table 1.1: Some Social Indicators in Selected Developed and Developing Countries

	Unemployment Rate	Annual Population Growth Rate		Life Expectancy			GDP Per Capita 1995 US Dollars		Adult Literacy Rate			Infant Mortality Rate per 1000		
		1975-2000	2000-2015	1960	1980	2000	1980	2000	1985	1992	2000	1970	1980	2000
<b>Developed Countries</b>														
United States of America	6.7	1.00	0.8	70.6	74	77.7	21529	29870	99	99	20	13	7	
United Kingdom	2.5	0.2	0.1	69.9	74	77.0	14205	20337	99	99	18	12	6	
Japan	10.2	0.5	0.2	67.9	76	81	27672	42381	99	99	14	8	4	
<b>Developing Countries</b>														
Morocco	15.4	2.2	1.5	68	58	67.6	1114	1400	33.5	40.6	119	99	41	
Kenya	28.0	3.3	1.8	65	55	51	337	330	63.8	74.5	96	75	71	
Bangladesh	-	2.4	1.9	51	59.4	63	220	350	32.0	36.4	140	132	60	
Malaysia	2.5	2.4	1.5	57	67	73	2348	4552	76.4	81.5	45	30	8	
Sri Lanka	11.3	1.3	0.8	63	67	73	452	830	87.1	89.3	53	34	17	
Peru	8.2	2.1	1.5	55.4	-	69.4	2777	2700	-	85.5	115	-	30	

Source: a) Human Development Report, 1997, 1995, 1992, 2002, 2002.

b) World Development Report, 2003, 1980

c) World Development Indicators, 2000.

### Check Your Progress I

**Note:** a) Use the space provided for your answers.

b) Check your answers with the possible answers provided at the end of this unit.

1) What are the basic elements of development?

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2) Distinguish between the concepts of economic growth and development.

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## 1.3 INDICATORS OF DEVELOPMENT

As mentioned earlier, development is a relative concept. Thus, Region A may be more developed than Region B, but less developed than Region C. What are the yardsticks by which comparisons between one region and another can be made?

**Table 1.2: Income Distribution in Selected Developed and Developing Countries**

Country	Survey year	Poorest 10%	Poorest 20%	Richest 20%	Richest 10%	Gini Index
<b>Developed Countries</b>						
USA	1997	1.8	5.2	46.4	30.5	40.8
UK	1995	2.2	6.1	43.2	27.7	36.8
Japan	1993	4.8	10.6	35.6	21.7	24.8
<b>Developing Countries</b>						
Morocco	1999	2.6	6.5	46.6	30.9	39.5
Kenya	1997	2.4	5.6	51.2	36.1	44.9
Bangladesh	1996	3.9	8.7	42.8	28.6	33.6
Malaysia	1997	1.7	4.4	54.3	38.4	49.2
Sri Lanka	1995	3.5	8.0	42.8	28.0	34.4
Peru	1996	1.6	4.4	52.3	36.6	46.2

*Source: Human Development Report, 2002.*

*Note: Gini Index measures the extent to which the distribution of income among individuals or households within an economy deviates from a perfectly equal distribution. The value of a Gini index that is close to zero denotes closeness to perfect equality in income distribution while a value close to 100 denotes closeness to perfect inequality.*

The above two tables give you a set of commonly used indicators of development for a selected group of countries and you will notice that in some respects the contrast is quite telling.

### 1.3.1 Characteristics of Underdevelopment

Most developing countries are characterized by the following conditions:

- i) Mass poverty;
- ii) Low levels of income and concentration of incomes in a few hands;
- iii) High levels of unemployment and under-employment;
- iv) Poor nutrition, health, housing, literacy and welfare status;
- v) Preponderance of primary sector and low levels of industrialization; and
- vi) Lower status of women and that of a variety of social groups such as scheduled castes in India.

These characteristics of underdeveloped countries will help in generalizing some of the problems that one finds common to most of them. This will enable us to also grasp the key issues that affect the developing societies.

- i) **The poverty levels** are very striking in the developing countries. In India, over 26 per cent of people are below the poverty line as per the recent official count conducted in 1999-2000. However, many experts have questioned the official figure, mainly on the ground that the methodology used to collect the relevant data in 1999-2000 was different from that of the earlier surveys, and have argued that the incidence of poverty could be substantially higher than the official estimates. The single biggest section affected by poverty are the landless agricultural workers in rural areas. Close to half the number of such households in India were below the poverty line. Poverty alleviation continues to be the single biggest problem facing Indian planners.
- ii) **Low levels of income** for large sections of the masses and high inequalities in the distribution of income are very apparent in India. Most developing countries have this problem because assets are unequally distributed. This perpetuates the problem of low incomes for the poor. The existence of mass poverty amidst glaring inequalities is among the most important symptoms of inadequate development in the low-income countries.
- iii) **Low levels of productivity and backward technology** are the other major problems of the developing countries. Increased productivity is an indication of greater efficiency. Improvements in technology and better management and organization are necessary for this purpose. For instance, in the agricultural sector greater use of fertilizers, improved varieties of seeds, better ploughs, etc. can lead to increase in output from the same unit of land. Generally, crop yields per hectare in the developed world are far higher than those in developing countries. The need to improve technology and the overall input package in agriculture is obvious.
- iv) **High levels of unemployment and underemployment** are characteristic of developing countries. Since the level of industrialization is low and the agricultural sector cannot absorb the entire work force, the problem of unemployment and underemployment continues to grow. As per the **Report of the S.P. Gupta Committee** (2002), which was set up by the Planning Commission, there are more than 27 million people unemployed in India currently. At the present rate of labour absorption, this number is likely to increase to a whopping 70 million by 2012. Obviously, the problem is much greater if one takes into account the problem of pervasive underemployment particularly in rural areas. Rapid industrialization and modernization of the agricultural sector will obviously go a long way in creating more employment. The pressure of unemployment also

perpetuates the problem of low wages as employers take advantage of surplus labour and pay low wages; workers are not able to bargain because there are thousands willing to do the same work at the prevailing rates.

- v) **Poor health, nutrition, illiteracy and poor housing** are also characteristic features of developing countries. The low levels of income obviously play a central role in perpetuating these problems. As earnings are low, people are not able to consume a balanced diet providing the requisite number of calories and nutrients. The most vulnerable are the children in the developing countries. Compared to standards prevailing in the developed countries, the death rates are still very high in the developing countries. The problem of nutrition will have to be tackled if developing countries are to make advances in the field of health. Similarly, there are huge gaps between the developed and developing countries in the field of education. It is particularly striking that the major problem is with respect to female illiteracy. As mentioned earlier, inadequate growth and low levels of income are obviously the reasons that perpetuate such deprivations. It must be stressed, however, that public policy has to play a critical role in addressing these problems. In fact, the history of development experience shows without any ambiguity that in the early and middle stages of modern economic growth process there is no substitute for government intervention in areas such as health, education, etc., and that growth in itself is no answer to these problems. Moreover, even in the countries that are advanced in terms of standard economic growth parameters, inadequate public policy can lead to situations of serious deprivation for particular groups. For instance, in the United States, African Americans as a group have lower life expectancy than people born in the immensely poorer economies of Sri Lanka, Jamaica, Costa Rica or Kerala in India, amongst several others. Within United States, according to a recent study, African American men and women in the age groups 35 and 54 years had almost twice and thrice the mortality rates, as compared to white men and women respectively. Similarly, in India the gaps between different social groups with reference to the standard socio-economic indicators are disturbingly huge. To redress these gaps, carefully designed public interventions are of utmost importance.

**Table 1.3: Sectoral Employment in Selected Developed and Developing Countries**

	Agriculture				Industry				Services			
	1965	80	90	2000	65	80	90	2000	65	80	90	2000
<b>Developed Countries</b>												
USA	-	3.5	3.0	2.0	-	31.1	25	27	-	65.5	72	81
UK	-	-	2.0	2.0	-	-	28	31	-	-	68	69
Japan	-	11.0	7.0	5.0	-	34.0	34	33	-	54.4	59	62
<b>Developing Countries</b>												
Morocco	61	56	46	42	15	20.2	25	27	24	23.8	29	33
Kenya	86	82.2	81	75	5	6.3	7	9	9	11.5	12	16
Bangladesh	84	72.6	59	55	5	8.7	13	16	11	18.7	28	29
Malaysia	58	40.8	26	22	13	18.8	28	30	29	40.5	46	48
Sri Lanka	56	51.9	49	43	14	17.8	21	22	30	30.3	30	35

**Source:** a) Human Development Report, 1995, 2000, 2002.

b) World Employment Report, 1998.

- vi) Classical development paradigms had stressed the importance of a shift from primary to secondary and then towards the tertiary sector as the countries develop and mature. The developing countries are in a situation where most people are involved in agriculture and allied activities. In India, close to 60 per cent of the labour force is still engaged in agriculture and about 24 per cent

of the Gross Domestic Product (GDP) emanates from this sector. In sharp contrast to this, only about 2 per cent of the labour force is engaged in agricultural activity in the USA. More importantly, after mechanization and technological changes in the developed countries, industry has been able to absorb those released from employment in the agricultural sector. The two tables (1.3 and 1.4) given below are very instructive in this regard. You will notice that particularly on the employment front the structural transformation is very sluggish.

**Table 1.4: Sectoral Contribution to GDP in Selected Developed and Developing Countries**

	Agriculture			Industry			Services		
	1977	92	2000	77	92	2000	77	92	2000
<b>Developed Countries</b>									
USA	3	-	-	34	-	-	63	-	-
UK	3	-	1	37	-	25	60	-	74
Japan	5	2	2	41	42	36	54	56	62
<b>Developing Countries</b>									
Morocco	21	15	13	31	33	33	48	52	54
Kenya	35	27	23	20	19	16	45	54	60
Bangladesh	55	34	26	13	17	25	32	49	49
Malaysia	26	-	12	29	-	40	45	-	48
Srilanka	39	26	21	21	25	27	40	49	52

**Source:** a) Human Development Report, 1995.

b) World Development Report, 1997, 2000.

- vii) In underdeveloped countries, the women are much more vulnerable than their counterparts in the developed countries. On most development indicators, they rank lower than males in their own country. Their health and nutrition status is not at satisfactory levels for large numbers. Female illiteracy is fairly widespread. They also have to put up with both covert and overt forms of discrimination and the barriers regarding their roles in the society. Women are often paid lower wages even though they perform the same work, and therefore work participation rates of women in census data are shown much lower than one would expect. Improving the status of women is, therefore, an important development objective. The social pressures on women are also a major impediment to development in large parts of the third world. The crudest and the most gruesome form of discrimination against women in many parts of the world is reflected in the terrible phenomenon of what has come to be known as '*missing women*' caused by practices such as female feticide, infanticide, etc. resulting in excessive mortality among them. It is medically well acknowledged that if there is symmetrical care for both the genders, women would outnumber men, as is indeed the case in most advanced countries. For instance, in countries such as USA and UK, the ratio of women to men exceeds as 1.05, whereas in India and Pakistan it is as low as 0.93 and 0.90 respectively.

These are some of the more important characteristics of development. Using these, you should be able to roughly differentiate between developed and developing countries.

### **1.3.2 Dissatisfaction with the Conventional Indicators of Development**

You may note here that traditionally growth was taken as the single most, if not the only, indicator of development. The use of Gross National Product (GNP) or the Gross Domestic Product (GDP) as the indicator of development has been criticized on several counts. One of the chief arguments against its use is the contention that

GNP as an average level of income (per capita) ignores the inequality in the distribution of national income. It also ignores the availability and utilization of goods and services and has nothing to say on availability or otherwise of a whole range of basic needs such as health, education, water, shelter, etc. It tends to conceal the lower than average condition of the deprived.

Given these deficiencies of GNP/GDP as an indicator, several alternative contending indicators of development have been suggested at different junctures by social scientists. In the recent literature, the Human Development Index (HDI), which goes well beyond the income criterion and includes other indicators of well being, has acquired a prominent place. United Nations Development Programme (UNDP) has been publishing Human Development Reports for almost a decade-and-a-half now and these reports rank countries in terms of a composite indicator by aggregating heterogeneous components such as life expectancy, infant mortality, literacy, etc., by assigning weights to each one of them. Each indicator is on a scale between 0 to 1, the latter being indicative of “best performance” and the former that of “worst performance”. Given that such an operational measure requires some prior judgement about what weights to assign to each of the heterogeneous criteria while aggregating them, as well as what criteria to have in the first place, there is bound to be a multiplicity of perspectives and operational measures. Thus no one composite measure can be said to be perfect, but generally speaking these can be considered a significant advance over the conventional measure of development. For this reason, UNDP’s human development rankings are obviously a welcome development.

As one may expect, in the case of advanced countries, there is a high, although not perfect, correlation between per capita income ranking and HDI 2003. The second richest country in the world, namely the USA, loses just five places in terms of human development ranking. When it comes to developing countries, however, the association between the two becomes quite topsy-turvy and there are countries that lose heavily in terms of human development ranking as compared to the ranking in terms of per capita income only. For example, Botswana loses by 65 places and Equatorial Guinea by 78 places, and there are countries that gain heavily, such as Tajikistan by 41 places. The explanations behind such a scenario are complex, but the centrality of public policy, and its pre-eminence over other causal variables, in promoting human development is beyond doubt.

**Activity I**

Using some of the indicators of development outlined in the preceding section, compare your village/town with another to illustrate how developed or under-developed your village/town is in comparison with the other. Write your observations below:

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**1.4 THEORIES OF DEVELOPMENT**

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Development, as we have seen, is a multi-faceted process involving reorganization of the economic and social system. There are different theories of development and they advocate and stress different sets of economic and social factors that lead to

development. In this section we will highlight some of the important theories of development.

### **1.4.1 Rostow's Stages of Growth**

The transition from underdevelopment to development must proceed along a series of steps according to Rostow, an American development theorist. The four stages of growth are:

- i) Traditional society
- ii) Pre-conditions for take-off
- iii) Take-off
- iv) Age of mass consumption

The developing countries, it was argued, were still at a stage in which the “pre-conditions” for “take-off” were not present. The industrialized countries developed because they had fulfilled the conditions necessary for the “take-off” towards self-sustaining economic growth. Rostow implied that the developing countries had only to replicate similar conditions to attain development. They had only to mobilize enough domestic and foreign savings to finance investment in order to attain the objectives of development. Rostow even went as far as to suggest that once a country was able to save 15-20 per cent of its Gross National Product (GNP), it would automatically reach the “take-off” stage. Events, since the theory was first presented, have clearly proved its inadequacies. For instance, India has consistently managed a high rate of saving without being able to solve many of its developmental objectives. Clearly, this mechanical approach towards development has proved to be insufficient.

### **1.4.2 The Lewis Theory of Development**

During the 1950s Arthur Lewis put forward a different theory of development. According to Lewis, underdeveloped countries are characterized by the presence of two sectors:

- i) The traditional rural sector, which is of the nature of a subsistence economy, providing for self-consumption within this sector. This sector also has a surplus of labour.
- ii) The modern urban industrial sector where productivity is higher.

Arthur Lewis argued that labour can be transferred from the rural to the urban sector without adversely affecting productivity in the rural sector. He thus envisioned a dynamic role for the industrial sector, which would lead to sustained economic development. This theory, though correct in its description of situations prevailing in large parts of the developing world, is found lacking in terms of its ability to suggest measures leading to development. It, for instance, ignores the fact that unemployment is also fairly rampant in urban areas as well as rural areas. This means that surplus rural labour cannot be meaningfully absorbed by the urban industrial sector.

### **1.4.3 International Dependence Theories**

International Dependence Theories gained ground during the 1970s, particularly among the economists in the developing countries. Essentially, these theories view the problem of underdevelopment as one arising out of the domination of the poorer countries by the richer ones. They argue that in an unequal power structure, poor countries lose out to the richer and more powerful countries. They also note that large multinational companies are involved in the process by which wealth is transferred from developing countries to developed ones. Further, it is argued that institutions such as the World Bank and the International Monetary Fund (IMF) have aligned with the rich countries.

This, according to them, has accentuated the problem of inequality, poverty and other aspects of underdevelopment in these countries. For instance, long-term trends in the distribution of income in the global economy show that the income gap distance between the richest and the poorest country in 1820 was 1 : 3; in 1950 it stood at 1: 35 and by 2003 it had zoomed to 1: 82. To take another indicator, at the beginning of the 20<sup>th</sup> century, world's population was approximately 1.5 billion, which quadrupled by the end of the century and the absolute number of population trapped in a narrowly defined notion of poverty was about 1.2 billion, and almost all of them were in developing countries. Sure enough, such numbers lend credence to the unsavoury outcomes suggested by the dependency theorists. These theories, however, are too simplistic and often the mechanisms and processes underlying are either not fleshed out with adequate care or are not quite robust.

#### **1.4.4 Gandhian View of Development**

Unlike the western concept of development, the Gandhian concept of development attaches more importance to the question of relationships between individuals and economic micro-groups. According to this theory of development, micro-groups such as village communities in turn interact with the society at large. The Gandhian view of development also visualizes a smaller role for the state in the development process. The village at the local level would be the focal point of economic development in the Gandhian scheme. In this situation, it was visualized that the role of the individual would be brought into play thereby leading to overall development of the individual as well as the society at large. Decision making at the local level through institutions such as *panchayats* also plays a key role in the Gandhian scheme.

#### **1.4.5 Marxian Concept of Development**

The Marxist view of development, on the other hand, emphasizes the role of classes and class antagonisms in society. In this system, vested class interests can inhibit overall development of society. The question of poverty in society is seen as a result of exploitation of the poor. Property relations in the society create and accentuate the problem of poverty and development. Since land and other productive assets are privately owned and concentrated in the hands of a few, the problem of inequalities remains unsolved. The Marxist view of development is a complex one, allowing for the possibility of progress, or otherwise, depending on the class structure and conflicts, the nature and activity of the state, etc. any society, divided into class, is necessarily an exploitative one as the dominant classes appropriate the surplus produced by the working class.

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### **1.5 MAJOR ISSUES IN DEVELOPMENT**

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It must be emphasized that there cannot be a single well defined path towards development. Different countries and regions will have to take their own specificities into account in order to develop their societies. This is one reason why development has been a much debated subject. In this section we will highlight some of the major issues, which have featured in this debate.

#### **1.5.1 Growth vs Distribution**

For a long time it was assumed that economic growth would be an engine that will lead naturally towards development. Consequently, little or no attention was paid to the question of *distributive justice*. One of the major outcomes of this situation was the “*trickle down*” theory, which stated that if there was sufficient growth everybody would benefit from it. India, during the first three plans, made heavy investments of capital and sought to take the country on to a new growth path. During the early

1970s, however, it was realized that the living conditions had not changed significantly for the better. It was then that the question of distributive justice assumed greater importance. The problem, however, continues to affect the developing countries as assets such as land and capital are concentrated in a few hands. This perpetuates the problem further and the question of distributive justice remains unsolved. The major result of this debate has been the realization that economic growth alone is not enough to lead a country towards rapid development. Growth by itself does not guarantee an improvement in the quality of life for the vast numbers of people. Therefore the state has to formulate policies and design instruments to ensure that development benefits flow to those categories of people who need them most.

### 1.5.2 Agricultural vs Industrial Development

This has been one of the most important issues at stake in the debate on development. In India's own case, it was thought that rapid industrialization would lead the country to self-sufficiency. In the 1960s, however, the country experienced severe food shortages that led to the realization that the agricultural sector could not be ignored. This led to increasing attention to this sector. New varieties of seeds and the use of fertilizers on a larger scale have led to an increase in agricultural production. However, it has now become clear that a balance between agricultural development and industrial growth will have to be maintained for genuine economic development. If the agricultural sector does not grow there may be sharp increase in the prices of food-grains that will affect the poor. On the other hand, industrial stagnation will mean that surplus labour from the agricultural sector cannot be usefully employed. Therefore, both agriculture and industry will have to grow so that the pace of development is fast enough to improve the living conditions of the people.

### 1.5.3 Capital vs Labour Intensive Technologies and Development

You may have heard the term 'technology' being used quite often in debates pertaining to development. What is technology and what is its role in the development of a country and its people? Technology is the means by which goods are manufactured in an economy. Any goods, however crude or sophisticated, can actually be manufactured by several means. The development in technology is the process by which the manufacture of goods is made cheaper, faster and more efficient. What is the role of technology in development?

You may be aware of the fact that tractors, harvesters, etc. are being used on a wider scale now than a couple of decades ago. They are now used to perform many of the agricultural operations, which were thitherto performed manually using ploughs and other equipment; this change may be termed a technological change.

Now that you are familiar with this concept you must be able to appreciate that at any given point of time, we may have a number of technologies to choose from in order to produce the same goods. Cloth can be woven on traditional looms in your village or town, or it can be manufactured in the factories located in bigger cities. The end product is more or less the same, but the process of making it is different. What are the implications of these facts for the process of development?

An improvement in technology calls for investment to make this change feasible. Sophisticated technology, when it uses less labour, is termed "labour displacing technology". On the other hand, an improvement in technology can also be made without displacing labour and also less expensively. This is called "labour intensive technology". *Capital intensive* and *labour displacing* technologies are often expensive and call for large investments. Labour intensive technologies, on the other hand, have the advantage of being able to absorb the surplus labour in a developing country.

During the late 60s and the early 70s, a new trend of thinking on technology suitable to developing societies became popular. The question raised was that of “Appropriate Technology”. It was said that developing countries should adopt technologies that were suitable for their own specific needs, situations and socio-cultural framework rather than copy the western technologies blindly. Thus, it was suggested that countries like India should use technologies that have evolved over many decades and adapt them to make the best use of their cost-effectiveness.

The choice between these types of technology, however, is not easy for a developing country. On the one hand, rapid increase in output is necessary to solve the problems of the people and, on the other, the problem of unemployment (thus created) accentuates the problem of poverty. A balance is, therefore, required so that both technology and living conditions of the people improve.

#### **1.5.4 Centralization vs Decentralization**

This has been another major issue in the debate on development. Generally, it is agreed that development is a long-term phenomenon and, therefore, needs to be planned. While a certain degree of centralization is necessary to coordinate the efforts towards development, too much of centralization in the case of decision making powers can weaken the process of popular participation. It also leads to the formulation of programmes and projects, which have limited local relevance. In recent times, the need to devolve decision making powers to the *panchayats* has caught the attention of policy makers in India. Important steps, including constitutional amendments, have been taken since the late 1980s to empower local level institutions. It is hoped that decentralization of the development process would also lead to greater accountability of those who are actually involved in the decision making process. Devolution of powers is very vital for development. This ensures that the administration is brought closer to the people. Consequently, there is greater accountability of planners towards those whom programmes and policies are meant to reach.

#### **1.5.5 Urban vs Rural Development**

The vast majority of the population in India and other developing countries live in rural areas. There is a continuing influx of people into the cities looking for jobs as the rural economy is not been able to provide employment to them. It needs to be pointed out, however, that the problem of poverty, poor health and illiteracy is widespread in both rural as well as urban areas. The problem of rural poverty and unemployment is the crux of the problem. Without solving it, there cannot be genuine development. Hence, rural development has come to acquire critical importance. Sustained improvement in the quality of life in rural areas is likely to slacken the pace of large-scale migration of villagers to cities in search of jobs.

#### **1.5.6 Respective Roles for the State and the Market**

One of the most contentions issues in Economics has been the scope and extent of government intervention in the economy of the country. During the immediate post-World War II era, there was a near consensus among economists, for a variety of reasons, such as important developments in economic theory around the idea of ‘market failure’ (which had several dimensions), that governments have to play major roles in the economic sphere. Thus around the time India gained independence from the British, the need for planning had come to have wide acceptance in the developing countries for them to break free from stagnation and backwardness. The debate in our country at that time was not about the need for planning but about what kind of planning and quite a few alternative suggestions and frameworks were widely discussed. In the recent years, however, government intervention in economic spheres has come

under much fire, particularly during the last couple of decades, and a sort of neo-liberal market orthodoxy – which insists that ‘the market knows and does the best’ – has become dominant. We cannot go into a detailed discussion of the reasons for such an extreme swing here, but it may be stressed right away that to a large extent such a swing is based on shaky theoretical foundations and faulty empirical associations. This will be briefly discussed, in the next section, with reference to Indian economic development.

### Check Your Progress II

**Note:** a) Use the space provided for your answers.

b) Check your answers with the possible answers provided at the end of this unit.

1) Explain briefly in your own words the role that technology plays in the process of development.

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## 1.6 PLANNED DEVELOPMENT AND SHIFTS IN STRATEGIES IN INDIA

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Development is a long-term phenomenon. In order to achieve something in the long run, it is essential to plan keeping in mind the goals that we wish to attain. We have already seen that there is no single path towards development. Any country will have several objectives that it may wish to achieve in a given time-frame. Among these various objectives, it will be necessary to establish priorities. This is what a plan essentially does. It is a conscious attempt to achieve the set of objective that it has set for itself. Taking into account the particular set of priorities that it seeks to attain, a country may have to adopt a particular planning strategy.

India, after Independence, decided to opt for a planned course towards development and coordinate the process of planning. The Planning Commission was set up in 1950.

It may be useful to view the past half-a-century of Indian economic story as a chronological sequence of the following phases:

- i) the preparatory phase in planning for development (from independence to the mid-1950s);
- ii) the phase of industrialization led by heavy industry (from the mid- 1950s to the mid-1960s);
- iii) the phase of pulling up agriculture (the late 1960s and 1970s);
- iv) the phase of pump-priming of aggregate demand (the decade of the 1980s); and
- v) the phase of economic liberalization (from July 1991 to the present).

The logic of distinguishing one phase from the other in the above sequence, as hopefully will become evident from the subsequent discussion, is based mainly on the shifts in official perceptions regarding the overriding economic issues and problems

the country was confronted with at different occasions and the associated policy thrusts and changes.

Let us come to the salient features of the first plan (1951-56). This plan, in terms of a simple model, emphasized the importance of raising the level of savings in the economy to accelerate the rate of growth; however, as has been noted often enough, beyond this simple model, it was a sort of a loose affair to put together a set of important projects, and not an analytically rigorous formulation in terms of coordinating investment decisions in different sectors. Projects pertaining to infrastructure and agriculture, in particular public irrigation, received emphasis. The fact that the increase in national income during this plan actually surpassed the modest target that the planners had set must have been a very pleasing and encouraging experience for them, particularly in the light of the pre-independence long-term record of near stagnation (for aggregate as well as sectoral pre- and post-independence growth rates).

According to most commentators, intellectually the most exciting moment in India's planning strategy comes with the second five-year plan (i.e. at the beginning of the second phase in terms of the classification suggested at the outset). This plan (1956-61) has also been called the Nehru-Mahalanobis strategy of development, as it articulated Nehru's vision and P.C. Mahalanobis happened to be its chief architect. The central idea underlying this strategy is well conveyed by recalling the following statement from the relevant plan document. *'If industrialization is to be rapid enough, the country must aim at developing basic industries and industries which make machines to make the machines needed for further development'*. The Mahalanobis model showed that, given certain assumptions, the higher the allocation of investment into the investment goods sector, the higher would be the investment rate at the margin which would lead to a higher rate of growth of output. In other words, the emphasis was on expanding the productive ability or power of the system, through forging strong industrial linkages, as rapidly as possible. It is worth repeating again that such an emphasis enjoyed tremendous theoretical/intellectual legitimacy at that time, although there were a few dissenting voices. The third five-year plan (1961-66) was essentially a continuation of the second plan in terms of the broad thrust and emphasis on industries such as machinery and steel. In terms of the core objective of stepping up the rate of growth of industrial production, the strategy started showing quick and impressive results. For instance, the machinery index increased from 192 in 1955-56 to 503 in 1960-61, and the rate of growth of overall industrial production during this period was also very impressive. To put it simply, the strategy during these two plans laid the foundation for a well-diversified industrial structure within a reasonably short period and this was a major achievement.

As the strategy was unfolding, however, some of its key shortcomings were also becoming evident. The disproportion between the growth of the heavy industry sector and other industries, and the shortfalls in achievements compared to the target growth rates for industrial output, both during the second and the third plan, were among the most obvious indicators of the problems underlying the strategy in operation. Consequently, as could be expected, the Nehru-Mahalanobis strategy was subjected to increasing criticism around this time (and of course thereafter). A variety of diagnoses relating to the factors that were ailing the Indian economy, and consequently a plethora of prescriptions were offered. Here one needs to stress the point, however, that the performance prospects of the development strategy in operation had suffered during the 1960s not only because of its internal weaknesses, but also because of the major exogenous shocks that the economy was subjected to. The two military engagements in quick succession (in 1962 and 1965) had led to severe cut backs in public investment, contributing to the emergence of significant excess capacities in the heavy industry sector.

The other major exogenous shock came in the form of two successive monsoon failures in 1965 and 1966, leading to drastic reductions in the production food and its availability, which also had obvious negative consequences for the overall growth prospects. The widespread distress due to decline in the availability of food led to a few starvation deaths and food-riots in some states, and were thus rude reminders of India's vulnerability in the area of the most basic need. In fact, even before these droughts, India had already come to depend partly on ship-to-mouth policy, mainly in the form of wheat imports from the USA under PL-480, and the droughts were catastrophic jolts that highlighted the failure in this critical area.

The immediate impact of these exogenous shocks was so powerful that the government temporarily abandoned the five-year plan in favour of annual plans for the next three years. These annual plans were too limited in their scope, essentially being budgetary exercises, and this period (from 1966-1969) is also known as that of a "*plan holiday*". One must note, however, that this period continued to witness sharp cut backs in public investment with obvious adverse consequences for industrial and overall growth prospects.

It was mentioned earlier that the Nehru-Mahalanobis strategy came under increasing criticism during the 1960s and the early 1970s from several quarters. These ranged from a rejection of the planning process itself to pointing out specific shortcomings, such as underestimation of the import-intensity of the indigenous industrialization drive, unnecessary export-pessimism, over-extended regulatory structures, over optimism as regards the potential performance of the agricultural sector, if not its neglect, etc.

Without going into the merits of the various criticisms here, we may note that the inadequacy on the agricultural front came to be viewed as one of the most significant gaps in the past effort. Consequently, formulation of a new strategy of agricultural development became the overriding objective. The fourth five-year plan, launched in 1969, adopted such a strategy, which in the popular parlance is known as the launching of the '*Green Revolution*'. Thus, with the fourth plan (1969-74), there is a marked shift in development strategy from an emphasis on heavy industry to pulling up agriculture.

This, as per the chronological classification suggested at the outset, is the beginning of the third phase. It may be recalled that the leftist opinion in India had been quite critical of the earlier strategy for not taking up thoroughgoing land reforms. As it happened, the 'agriculture-first' strategy, which came into being with the fourth plan and was also the hall-mark of the fifth plan (1974-79), continued to neglect the issue of land reforms and focused on technological modernization and 'betting on the strong'. A variety of support-mechanisms, including credit and price support, were devised to this effect. Sure enough, in terms of propping up the agricultural growth rate, the new strategy, in spite of its distributional limitations, delivered good results; so much so that the dependence on frequent imports of food became a thing of the past after the mid-1970s, and the government could claim that finally India had become 'self-sufficient' in this regard.

There are a couple of other important features of our third phase that need to be taken note of. First, while a degree of export pessimism may have been a feature of early post-independence thinking, things surely started changing during the 1960s itself as a number of export subsidies came into being, and this process continued in our third phase as well. Secondly, at the beginning of this phase itself, the dismal failure of the earlier development strategy on the unemployment and poverty fronts had started dawning on the planners and policy-makers. Such a realization had certainly been sharpened by the growing restiveness among the masses expressing itself in radical movements of different kinds in various parts of the country and threatening to go out of control.

Consequently, an important response from the policy-makers was to start thinking about the strategies of *direct attack* on poverty and unemployment, in particular from the fifth plan (1974-79) onwards, and gradually a variety of programmes got devised and put in place to this end. Such programmes gained substantial significance during the sixth (1980-85) and the seventh (1985-90) five year plans and have continued to remain an important feature subsequently as well.

Going back to the growth process itself, we have already noted that the strategy of 'pulling up' agriculture resulted in an improved performance of this sector. This also had a positive effect on the industrial and overall growth rates, as these picked up during the second half of the 1970s, (1979-1980) being an exception as it was a drought year. The turnaround in the industrial and overall economic performance, however, was certainly not spectacular. There was a widespread feeling that in terms of the long-term rate of growth, which stood at around 3.5 per cent per annum between 1951 to 1983, the performance of the economy was far from impressive.

There are a number of explanations for why the economy was unable to move on to much higher growth levels than it actually achieved. We may only note that there are at least two basic causes that must be acknowledged in this story. We have already referred to one of these earlier, namely limited attention to the agricultural sector, particularly the institutional issues such as land reforms. Second, economic growth in the post-independence Indian economy has depended to a large extent on public investment, and thus the state's ability to maintain growing productive expenditures becomes crucial in this regard. As has been pointed out by some analysts, it is precisely this ability that was getting constrained over time. The attempt to push up the growth rate in the 1980s, in particular in the second half of the decade, was based on seeking a way of coming around this problem; in terms of the classification suggested at the outset, this constitutes the fourth phase.

Essentially the major change in economic policy at this point in time hinged on substantial increases in government expenditure, in particular revenue expenditure, to increase the overall level of demand or what is also known as pump-priming the aggregate demand in the economy. This was done by means of a very irresponsible borrowing spree by the government, both internally and externally, and much of the external borrowing was from commercial sources.

Thus the gross fiscal deficit of the government increased dramatically during this period, as did the external debt and debt-service payments. The increases in government spending obviously increased the industrial and overall growth rates, and the latter at well over five per cent per annum for the decade of the 1980s was a distinct improvement over the continued poor growth rate for the preceding three decades.

The solution, however, was worse than the problem, as the enormous increase in external debt, a growing portion of it consisting of short-term borrowings, exposed the economy to the caprice of international lenders and investors, and in particular to the danger of sudden capital flight due to 'confidence crisis'. This is precisely what hit the Indian economy in 1991 when its foreign reserves were depleted to abysmally low levels and the economic managers of the country turned to the Bretton Woods Institutions, i.e. the International Monetary Fund (IMF) and the World Bank, for help. These institutions were too happy to bail out the country from the crisis, but on the terms that it accepted their conditions, which were what the package of liberalization or reforms is all about. As is well known, India accepted the conditions and thus, compared to the preceding four decades, embarked on quite a different policy route in its economic journey since July 1991. The period since then, that of *economic reforms/liberalization*, has been designated as the fifth phase in this narration.

The key phrases in the package of reforms disseminated by the Bretton Woods Institutions happen to be '*stabilization*' and '*structural adjustment programme*'

(SAP). To put it simply, the first says that the budget deficits are bad and a government should minimize them, whereas the second aims at changing the structure of the economy through major changes in the functioning of different markets as well as through a drastic overhauling of the role of the state. Essentially, *the SAP advocates the case for a free play of market forces in the different product and factor markets, including the financial markets, and a reduced role of the state, particularly as a producer and promoter but also as a regulator, in the economy.*

Without going into the details here, we may note that in case of the Indian economy, the policy changes since July 1991 are enough to view it as a case of transition from the state-led or dirigiste development paradigm, that characterized the earlier four decades, to a liberalization paradigm.

Let me hasten to add here that the balance of payments crisis of 1991 was an important input, but certainly by no means the only one, in effecting a sharp break with the earlier policy regime. We noted earlier that some of the critics of the Nehru-Mahalanobis strategy, around the late 1960s and the early 1970s, had started questioning the wisdom of a state-led development paradigm itself. Over time such voices only grew louder and each one of the basic premises of the said paradigm came under attack, in particular from the neo-liberal economists.

For instance, it was argued that the idea of autonomous development is a recipe for backwardness; the public sector, instead of being the flagship of rapid growth, is a drag on society's resources, and so on. Such criticisms started to find sympathetic hearing among India's policy-makers during the 1980s itself, and also elicited some responses from them.

Leaving aside the specific points of criticisms, whether from the Neo-liberal, Liberal or Left perspectives, which constitute subjects of intense debate among economists working on India, there is little doubt that the neo-liberal wholesale condemnation of the earlier strategy has little merit. The achievements of the earlier strategy, with respect to any appropriate benchmark, cannot be dismissed lightly, although they certainly fell short of expectations. Growth rates of major sectors, and that of the economy as a whole, achieved during 1950-90 may not have been impressive but were certainly respectable. Moreover, if one takes into account the size of the unaccounted economy (the black economy), which according to available estimates, grew from a negligible proportion of national income in the early 1950s to almost half of it by the late 1980s, then we have a growth rate that is quite impressive! There are other notable achievements, such as a great deal of diversification of the economy, in particular within the industrial structure in a reasonably short period, among others. It is inconceivable that such successes would have been achieved in India soon after independence without planning. *One of the fundamental problems with the neo-liberal account is its ahistoricity, as it almost completely ignores the issue of linkage between the stage of development that an economy is at and the realistic choices and constraints it faces.*

This is of course not to endorse uncritically the dirigiste development paradigm of the first four decades, as it was flawed in important ways and missed on several promises, in particular to the large section of economically vulnerable segments of the population. The most glaring failure of India's development strategy is with respect to poverty-alleviation; as per the standard estimates, the absolute number of poor people in the country towards the end of the 1980s was not very much behind the total size of the population in 1947!

Apart from the raw deal received by the disadvantaged segments, several other problems of the dirigiste development paradigm, as it unfolded in India, have been catalogued and analyzed by researchers in great detail. This has been followed by a range of suggestions for policy reforms, covering a wide spectrum of analytical and ideological persuasions. However, as already mentioned in the foregoing, policy

prescriptions emanating largely from a neo-liberal perspective have been ascendant for well over a decade now. Without entering into a discussion of the alternative policy perspectives, all of which emphasize ‘reforms’ of one kind or the other, we may note that the neo-liberal paradigm may be on a weak turf, in particular when it comes to the provision of adequate and sustainable livelihood options for large sections of the population. In other words, there is a real danger that those neglected by the dirigiste development regime may get further marginalized by the ascendant neo-liberal policy regime, and there is increasing evidence to substantiate such a view.

The performance of the Indian economy during the liberalization era continues to be a subject of intense debate. As it happens, the period of economic reforms since 1991 does not seem to be doing better, in terms of standard macroeconomic indicators, compared to the preceding decade, and in some respects, such as employment generation, the reform period has been a disaster. Moreover, as stated earlier, in terms of prospects for the poor and other economically vulnerable groups, the liberalization era seems to be doing much worse.

**Check Your Progress III**

**Note:** a) Use the space provided for your answers.

b) Check your answers with the possible answers provided at the end of this unit.

1) Why is planning important for achieving the objectives of development?

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**1.7 LET US SUM UP**

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Development is a relative concept and involves a systematic and positive change in the physical quality of life of the people in an area or country. Development, as distinguished from growth, means a better distribution of the gains from progress. It encompasses material and social welfare as well as an equitable distribution of income and opportunities. Development means a qualitative improvement in living conditions particularly of those affected by poverty, illiteracy and poor health conditions.

The traditional concept of development places more emphasis on economic growth.

Economic growth alone, however, is not sufficient to solve the problems. Better distribution of the gains of progress is necessary for genuine development to take place. The problem of inequality continues to be a major problem. Both agricultural and industrial sectors have to grow so that the problem of low incomes and unemployment may be solved.

The developing countries have a surplus of labour and scarcity of capital. Therefore it is essential that large-scale displacement of labour does not take place so that it does not create further unemployment. These countries have to strike a balance between these two issues in their solutions.

The necessity to decentralize the process of development also has certain advantages. This will lead to greater participation of the people and also to increased accountability on the part of the authorities. Sustained rural development alone will lead to the control of migration of people towards cities seeking employment. The problems of poverty, illiteracy and poor health are common to both urban and rural life. It is important to solve the problem of rural development as this will in turn put an end to the large-scale migration to the cities and towns.

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## 1.8 KEY WORDS

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<b>Ahistoricity</b>	:	Lacking sense of history
<b>Dirigiste</b>	:	State-led development paradigm.
<b>Gross Domestic Product (GDP)</b>	:	Value of all goods and services produced within a country in a year.
<b>Gross National Product (GNP)</b>	:	GDP plus net factor income from abroad.
<b>Pump-priming</b>	:	When State injects demand into economy through its increased expenditure.

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## 1.10 CHECK YOUR PROGRESS – POSSIBLE ANSWERS

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### Check Your Progress I

- 1)
  - i) Removal of inequality and poverty;
  - ii) Increase in material welfare;
  - iii) Equitable distribution among different groups in a country;
  - iv) Improvement in technology;
  - v) Growth of institutional structures that ensure greater popular participation.
- 2) Economic growth means an increase in the rate of growth of the goods and services produced in an economy. Development, on the other hand, means a qualitative improvement in the lives of the people in a country. It also means a reduction in poverty and an increase in material welfare. Increased growth may not necessarily lead to development.

### Check Your Progress II

- 1) Technology can have a positive or negative influence on development. When technology causes large-scale displacement of labour it can retard development. On the other hand, if met judiciously it can lead to increased productivity levels in developing countries.

### Check Your Progress III

- 1) Development is a long-term process. Therefore, strategies have to be followed to achieve the objectives of development. Among the different objectives it may be necessary to lay priorities for each one of them. A plan in effect does this. It makes a deliberate attempt to achieve the objectives of development.