

**Course Name:-B.A.LLB-IIth Sem**

**Subject:-Economics-II**

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**Topic:- Characteristics of Underdeveloped Economies**

World Development Report categorizes economies on the basis of income in three categories viz. *high income, middle income* and *low income economies*. Usually, high income countries are known as developed / advanced economies while low income countries are known as underdeveloped economies. Developed or advanced economies are also characterised by high standard of living, universal and quality education, better health care facilities and high life expectancy.

However, all high income economies may not be developed economies. Some of the middle and low income economies are developing faster than high income economies.

Further, the *underdeveloped economies showing high potential of growth in terms of their natural, physical and human resources* are often referred to as *developing economies*. Economists also use the terms, first world, second world

and third world for the developed, socialist industrialist countries and underdeveloped economies respectively.

### **Criterion for Classifying Economies as Developed and Underdeveloped**

Economies cannot be classified as developed and underdeveloped economies based on their natural resources, population and sectoral dependency. However, there is a set of common characteristics of underdeveloped economies such as low per capita income, low levels of living, high rate of population growth, illiteracy, technical backwardness, capital deficiency, dependence on backward agriculture, high level of unemployment, unfavourable institutions and so on. It is on the basis of these characteristics that we draw a line of distinction between developed and underdeveloped economies.

### **Meaning and Definition of Underdevelopment**

Underdevelopment is low level of development characterized by low real per capita income, wide-spread poverty, lower level of literacy, low life expectancy and underutilisation of resources etc. The state in underdeveloped economy fails to provide acceptable levels of living to a large fraction of its population, thus resulting into misery and material deprivations. We need to note here that *underdevelopment is a relative concept but it sustains absolute poverty*.

### **Underdevelopment is a Relative Concept**

The concept of underdevelopment is a relative one because it is the comparison of quality of life between the economies that differentiates them in underdeveloped and developed.

### **Underdevelopment Sustains Absolute Poverty**

Although, concept of underdevelopment is a relative concept but it sustains absolute poverty. Absolute poverty refers to the state of poverty wherein the

people fail to fulfil even their basic needs in terms of food, clothing and shelter. In fact, they are a class of people who are always striving to survive. Thus, underdevelopment and absolute poverty go together or underdevelopment sustains absolute poverty.

### **Characteristics of Underdeveloped Economies**

It is difficult to find an underdeveloped economy representing all the representative characteristics of underdevelopment. While most of them are poor in nature, they have diverse physical and human resources, socio-political conditions and culture. Some of the common characteristics displayed by most of the underdeveloped countries in the world are as follows:

#### **Low Per Capita Income**

Almost all underdeveloped countries of the world show low per capita income in comparison to developed countries of the world.

#### **Slow Growth Rate of Per Capita Income**

Low per capita income and slow growth rate of per capita income are characteristics of these countries.

#### **Economic Inequalities**

High inequality of income and wealth is another common feature of underdeveloped countries. In these countries, large percentage of national income is shared by a small segment of the society while a large segment of the society gets barely enough to survive. Economic inequality exists even in developed countries but it is not as much as found in underdeveloped countries.

#### **Low Level of Living**

Level of living in the underdeveloped countries is low because of low per capita income. Low level of living of the people of underdeveloped countries is also

reflected in Human Development Index prepared by the United Nation Development Programme (UNDP). HDI of developed countries is very high whereas for underdeveloped countries it is very low.

### **Low Rate of Capital Formation**

Rate of capital formation is very low in underdeveloped economies due to low income levels and high incidence of poverty.

### **Backward Techniques of Production**

Underdeveloped economies use outdated technology for production. Lack of capital leads to less spending on research and development.

### **High Growth Rate of Population and Dependency Burden**

These countries are characterised by high growth rate of population and high dependency burden.

### **Low Productivity of Labour**

Underdeveloped economies are characterised by low labour productivity due to low level of skill set.

### **Underutilisation of Natural Resources**

Natural resources are underutilised in underdeveloped economies. Their capability to exploit them is very low.

### **Large Scale Unemployment**

Large scale unemployment is another characteristic feature of underdeveloped countries.

### **Dominance of Agriculture**

Large section of people in underdeveloped economies depends on primary sector for employment. But the primary sector is not well-developed in those countries.

### **High Incidence of Poverty**

Low per capita income results in high incidence of poverty in underdeveloped economies.

### **Infrastructural Backwardness**

Economic infrastructure and social infrastructure are almost at their bottom level in underdeveloped countries.

### **Low Volume of Foreign Trade**

Underdeveloped countries export primary products like, agricultural goods, minerals, petroleum oil, etc., and import finished products, especially consumer goods. Terms of trade are grossly unfavourable to underdeveloped countries.

### **Difference between Developed and Underdeveloped Economies**

The differentiating points between a developed and underdeveloped economy are summarised in the following table:

<b>Basis of Difference</b>	<b>Developed Economy</b>	<b>Underdeveloped Economy</b>
Per Capita Income	Per capita income is high.	Per capita income is low.
Standard of Living	Standard of living is high.	Standard of living is low.
Economic Inequality	Distribution of income is less skewed (unequal).	Distribution of income is highly skewed.

<b>Basis Difference</b>	<b>of Developed Economy</b>	<b>Underdeveloped Economy</b>
Capital Formation	Rate of capital formation is high.	Rate of capital formation is low. It is between 10 percent and 20 percent barring a few exceptions.
Agriculture	Dependence on agriculture is very low. Yet, agriculture is developed and advanced.	Dependence on agriculture is very high. Yet, agriculture is backward and undeveloped.
Foreign Trade and International Stability	Terms of trade are generally favourable. Finished products are exported and agricultural products or raw materials are imported. High degree of international stability.	Terms of trade are generally unfavourable. Agricultural products or raw materials are exported and finished products are imported. High degree of international vulnerability.
Growth Rate of Population	Growth rate of population is generally	Growth rate of population is generally

Basis of Difference	Developed Economy	Underdeveloped Economy
	low. Overall size of population is small.	high. Overall size of population is very large.
Human Capital	High rate of human capital formation. Good health of the people. 90 percent of people are literate. Trained and skilled labour constitutes a high percentage of the total labour force. High productivity is the obvious consequence.	Low rate of human capital formation. Most of the people are unhealthy and unskilled. Skilled labour is a low percentage of the total labour force. Low productivity is the obvious consequence.
Unemployment	Less unemployment. It is by and large frictional and structural in nature. Accordingly, it is cyclical, not chronic.	Large-scale unemployment. Disguised unemployment is widely prevalent. It is chronic in nature.
Production Technique	Production technique is developed and advanced. More possibilities of	Production technique is backward. Little

<b>Basis of Difference</b>	<b>Developed Economy</b>	<b>Underdeveloped Economy</b>
	research and innovations.	possibilities of research and innovations.
Capital Markets	Capital markets are developed, conducive to savings, and therefore industrial expansion.	Capital markets are underdeveloped or undeveloped, hindering productive use of savings and therefore industrial expansion.
Cultural Environment	Cultural environment is materialistic. Dignity of labour is high. Outlook is progressive.	Cultural environment is largely spiritualistic. Dignity of labour is low. Outlook is traditional and backward.

### **India as a Developing Economy**

Though the Indian economy is growing, it is still lagging behind in terms of reducing poverty, unemployment, backwardness and hunger and in terms of low technological development. Some other culprits for low development include low per capita income, excessive dependency on primary sector and high pressure on natural resources.

The key reasons for low development in India include exploitation during colonial era, pressure of population, infrastructure bottlenecks, brain-drain,



corruption in public offices, low farm productivity, unfriendly business environment, inefficiency of public sector, high ratio of non-development expenditure etc.