Introduction

In recent years, there has come into existence a new branch of economics known as the *Economics of Development*. It refers to the problems of the economic development of underdeveloped or backward countries. In addition to the illuminating reports of the U.N.O. on the subject, some top-ranking economists like Nurkse, Dobb, Staley, Buchanan, Rostow and Ellis have made some original contributions to the Economics of Development. The main reason for the growing popularity of "Economics of Development" as a separate branch of economic theory is the increasing tendency on the part of the newly independent countries of Asia and Africa to resort to developmental planning as a means to eliminate their age-old poverty and raise living standards.

Meaning of Economic Development

Economic development is a process whereby an economy's real national income as well as per capita income increases over a long period of time. Here, the process implies the impact of certain forces which operate over a long period and embody changes in dynamic elements. It contains changes in resource supplies, in the rate of capital formation, in demographic composition, in technology, skills and efficiency, in institutional and organisational set-up. It also implies respective changes in the structure of demand for goods, in the level and pattern of income distribution, in size and composition of population, in consumption habits and living standards, and in the pattern of social relationships and religious dogmas, ideas and institutions. In short, economic development is a process consisting of a long chain of inter-related changes in fundamental factors of supply and in the structure of demand, leading to a rise in the net national product of a country in the long run.

Definitions of Economic Development

The term 'economic development' is generally used in many other synonymous terms such as economic growth, economic welfare, secular change,
social justice and economic progress. As such, it is not easy to give any precise
and clear definition of economic development. But in view of its scientific
study and its popularity, a working definition of the term seems to be quite
essential.

Economic development, as it is now generally understood, includes the
development of agriculture, industry, trade, transport, means of irrigation, power
resources, etc. It, thus, indicates a process of development. The sectoral
improvement is the part of the process of development which refers to the
economic development. Broadly speaking, economic development has been
defined in different ways and as such it is difficult to locate any single definition
which may be regarded entirely satisfactory.

1. **Prof. Meier and Baldwin**

   According to Prof. Meier and Baldwin; "Economic development is a
process whereby an economy's real national income increases over a long
period of time".

   This definition explains three ingredients of economic development. a) 
process, b) real national income, c) long period. The discussion of these three
factors would help in understanding the concept of economic development.

   **a) Process**

   The term 'process' here refers to the operation of certain forces which
bring about changes in certain variables. Various types of economic changes
take place during the development process. The most important of these changes
can be broadly divided into two categories;

   i) changes in the supply of fundamental factors, and
   ii) changes in the structure of demand for the products.

   Changes in factor supply take place due to discovery of additional
resources, capital accumulation, population growth, adoption of better techniques
of production and institutional changes. Again, changes in the structure of
demand for products take place due to changes in the size and composition of
the people, changes in the level and distribution of income, changes in tastes
etc. Hence economic development may be defined as development of factor,
supplies and product demand. These changes bring about an increase in real
national income over a long period.

   **b) Real National Income**

   Other things being equal, there is a positive correlation between the real
national income and economic development. Higher real national income of a
country is considered an index of higher economic development and vice versa.
In brief, we can say that the real national income is the measuring rod of
economic development. Though it may be an imperfect method for measuring
development, it is, however, used for global development comparisons. Here emphasis is on the word "real" which signifies that purchasing power of national income should be taken into account for quantifying development. In other words, the money national income is to be discounted by the price index, as shown by the formula below:

\[ Y_r = \frac{Y_m}{P} \]

Where, \( Y_r \) = Real national income
\( Y_m \) = Money national income
\( P \) = Price index

The formula signifies that development can be meaningful if an increase in money national income is not accompanied by increase in price level. It implies that price stability is an essential condition for promoting development. Thus, economic development signifies higher real national income.

c) Long Period

Economic development refers to an upward trend in real national output over a long period. "Although the upward trend means that each successive cyclical peak and trough is generally at a higher level of real national output than the preceding peak and trough respectively, it is the increase in real national income between cycles rather than the increase within a cycle that denotes development". Since a major business cycle covers normally 6 to 13 years, long term process here refers to a sustained increase in real output over a period of at least 25 years.

Thus, economic development is a process consisting of a long chain of interconnected changes in fundamental factor supplies and in the structure of demand for products leading to a rise in real national income over a long period.

2. Benard Okun and Richard W. Richardson

According to Benard Okun and Richard W. Richardson, "Economic development may be defined as a sustained secular improvement in well being, which may be considered to be reflected in an increasing flow of goods and services".

A close examination of this definition reveals that it is more or less similar to the concept of development as explained by G.M. Meier. According to this definition, economic development implies continuous secular increase in national output for promoting material welfare of the society. It stresses on three important aspects of development; a) Economic development is a dynamic and long term phenomenon; b) It implies improvement in material welfare and c) National output is the measuring rod of material welfare.
4 Development and Environmental Economics

This definition is not regarded satisfactory as it fails to explain the role of social, political, institutional and international forces. These forces are considered vital as they shape and direct the global economic development. So this definition leaves much to be desired.

3. Profs. Baran, Bachanan and Ellis

Some economists like Profs. Baran, Buchanan and Ellis interpret economic development as something more than merely an increase in total output; they believe that it should also denote a rising standard of living. They define economic development as a process whereby the total per capita income or output of a country increases over the long period.

a) **Prof. Baran** says, "Let economic growth or development be defined as an increase over time in per capital output of material goods."

b) In the words of **Profs. Bachanan and Ellis**: "Development means developing the real income potentialities of the under-developed areas by using investment to effect those changes and to argument those productive resources which promise to raise real income per person."

In board terms, it implies that in a developing economy.

\[ \Delta Y_r > \Delta P \]

resulting in an increase in per capita income.

Here,

\( \Delta \) = refers to increase,

\( Y_r \) = to real national income and

\( P \) = to size of population.

In other words, for economic development the rate of increase real income should be higher than the rate of population growth.

4. Prof. Colin Clark

Prof. Colin Clark defines economic development from the angle of economic welfare. In his own words, "Economic progress can be defined simply as an improvement in economic welfare." Economic welfare, following Pigou, can be defined in the first instance as an abundance of all those goods and services which are customarily exchanged for money. Leisure is an element in economic welfare and more precisely: "We can define economic progress as the attaining of an increasing output of those goods and services for a minimum expenditure of effort, and of other scarce resources, both natural and artificial."

5. United Nations Expert Committee

According to this Committee, "Development concerns not only man's material needs but also the improvement of the social condition of his life.
Development is, therefore, not only economic growth, but growth plus change—social, cultural and institutional as well as economic”. This definition encompasses economic and non-economic aspects of development. This definition stresses on the expansion of development variables, and also improving the quality of those variables. For example, capital is a development variable. Not only the increased quantity of capital is needed but the improvement in its productivity is also required for development. Similar instances can be given in respect of other development variables. The central point of this definition is that quantitative and qualitative changes in development variables are considered essential ingredients of economic development.

6. Comprehensive Definition

In the end we may give a simple but comprehensive definition of economic development which runs as, “Economic development is a continuous process which has to be extended over a long period of time so as to break the vicious circle of poverty and lead a country to a stage of self-sustaining growth or to self-generating economy”.

Thus, we can conclude that economic development is a process rather than the result of it which results in a rise in real national income, and the net national product must have a sustained increase i.e., it must be over a long period of time.

Characteristics of an Developed Economy

A developed economy is the characterised by increase in capital resources, improvement in efficiency of labour, better organisation of production in all spheres, development of means of transport and communication, growth of banks and other financial institutions, urbanisation and a rise in the level of living, improvement in the standards of education and expectation of life, greater leisure and more recreation facilities and the widening of the mental horizon of the people, and so on. In short, economic development must break the poverty barrier or the vicious circle and bring into being a self-generating economy so that economic growth becomes self-sustained.

The main characteristics of developed countries are as follows.

1. Significance of Industrial Sector.
2. High Rate of Capital Formation.
3. Use of High Production Techniques and Skills.

These are discussed in below.

1. Significance of Industrial Sector

Most of the developed countries in the world have given much importance of the development of industrial sector. They have large capacities to utilise all
resources of production, to maximise national income and to provide employment for the jobless people. As we are quite aware that these countries receive the major portion of their national income from the non-agriculture sectors which include industry, trade, transport, and communication. For instance, England generally receives nearly 50% of her national income from industrial sector, 21% from transport and commerce, 4% from agriculture and 25% from other sectors. The same case is with the U.S.A., Japan and other West European countries. But in India and other developing countries agriculture contributes, say, 35 to 40 percent, to their national income.

2. High Rate of Capital Formation

Developed countries are generally very rich, as they maintain a high level of savings and investment, with the result that they have huge amount of capital stocks. The rate of investment constitutes 20 to 25 percent of the total national income. The rate of capital formation in these countries is also very high. Besides this, well-developed capital market, high level of savings, broader business prospects and capable entrepreneurship have led to a high growth of capital formation in these economies.

3. Use of High Production Techniques and Skills

High production techniques and skills have become an essential part of economic development process in the developed countries. The new techniques have been used for the exploitation of the physical human resources. These countries have, therefore, been giving priority to the scientific research, so as to improve and evolve the new and technique of production. Consequently, these countries find themselves able to produce goods and services of a better equality comparatively at the lesser cost. It is because of the use of high production techniques and latest skills, that the countries like Japan, Germany and Israel could have developed their economies very rapidly, though they have limited natural resources.

4. Low Growth of Population

The developed countries, like the U.S.A., the U.K. and other Western European countries have low growth of population because they have low level of birth rate followed by low level of death rate. Good health conditions, high degree of education and high level of consumption of the people have led to maintain low growth of population followed by low level of birth and death rates. The life expectancy in these countries is also very high. The high rate of capital formation on the one hand and low growth of population have resulted in high level of per capita income and prosperity in these countries. Consequently, the people in these countries enjoy a higher standard of living and work together unitedly for more rapid economic and industrial development of the nations.

Besides this, the entire society, its structure and values are found to be
Economic Development and Growth

dedicated to the goal of rapid economic and industrial development. The position of individuals in the society is decided by the ability of the persons and not by their birth, caste or creed. Dignity of labour is maintained. The economic motive and strong desire to lead a better social life always inspire people to contribute to the process of development. The main objective of rapid economic development, particularly in the developed economies is to achieve the level of stagnant economic growth, so that they may maintain the existing economic status and exercise control over business cycle.

Distinction Between Developed and Underdeveloped Economies

We may now distinguish between the features of an underdeveloped economy from that of developed one as follows;

1. Underdeveloped economies are distinguished from developed economies on the basis of per capita income. In general, those countries which have real per capita incomes less than a quarter of the per capita income of the United States, or roughly less than 5000 dollars per year, are categorised as under-developed countries.

2. An underdeveloped economy, compared with an advanced economy, is underequipped with capital in relation to its population and natural resources. The rate of growth of employment and investment in such an economy lags behind the rate of growth of population. The resources are not only employed but also underemployed. In technical jargon, the production possibility frontier of a poor country is far ahead of the actual production curve, whereas the gap between the potentiality and actual utilisation of resources is narrow in a developed economy.

3. High rate of growth of population is an important characteristic of most of the underdeveloped economies. Population growth in underdeveloped countries neutralises economic growth. In advanced economies, the case is different. As Prof. Hansen points out, one of the empirical tests of secular stagnation in advanced economies is the declining rate of population growth. The stagnation problem in a developed economy is a problem of population, natural resources and technology failing to keep pace with capital accumulation.

4. The central problem of underdeveloped economies is the prevalence of mass poverty which is the cause as well as the consequence of their low level of development. Shortage and scarcity are the main economic problems in these economies, whereas the affluent societies of advanced countries have economic problems resulting from abundance.

5. In an underdeveloped economy, the fundamental problem is that of output, real income or the standard of living, as these economies are characterised by low productivity, low income and a poor standard of living. A vast majority of people in an underdeveloped country are ill-clothed,
undernourished and without adequate shelter. To use Rostow's terminology, economies of poor countries similar to those of a traditional society, where modern science and technology are either not available or not regularly and systematically applied. On the other hand, most of the developed countries at present enjoy a high rate of mass-consumption. In their economies, per capita real income has risen to a level at which a large number of people can afford consumption transcending food, shelter and clothing.

6. Capital deficiency is the main cause of poverty of a poor country, while affluent capital accumulation is the main cause of stagnation of an advanced country.

7. In an underdeveloped economy, the problem of under-employment is more important than that of unemployment, whereas a developed economy may have a cyclical unemployment problem. There is chronic unemployment in an underdeveloped economy. An advanced economy may have unemployment occasionally due to business fluctuations and a low marginal propensity to consume. Whereas an underdeveloped economy is confronted with the problem of disguised unemployment in the sense that even with unchanged techniques in agriculture could be removed without reducing agricultural output. Thus, in a developed economy, unemployment means waste of resources, while in an underdeveloped economy, it is of disguised type.

8. Poor countries are poor in technology, advanced countries are advanced in technology. In fact, the level of technology attained in production is a reliable indication of the level of economic development. Employment of advanced technology goes along with large capital resources, high attainments in the fields of scientific research, greater availability of entrepreneurial skill and a good supply of efficient skilled labour. Thus, development of technology is the basic objective of the backward economy whereas development of technology no longer remains the overriding objective of an affluent society.

**Economic Development and Economic Growth**

Normally in economic textbooks, growth and development are used synonymously, and this usage is widely acceptable. However, in particular, the two terms have been distinguished by different economists as follows;

1. To some economists, economic development refers to the process of expansion of backward economies, while economic growth relates to that of advanced economies.

2. Schumpeter, however, uses the term "economic development" as a spontaneous and discontinuous change in the stationary state which disturbs the equilibrium state previously existing. And the term "economic growth" is used to denote a steady and gradual change in the long run which comes through a general increase in the rate of saving and population in a dynamic economy.
3. Prof. Kindleberger has given the differences between growth and development as; "Growth may well imply not only more output and also more inputs and more efficiency, i.e., an increase in output per unit of input. Development goes beyond these to imply changes in the structure of outputs and in the allocation of inputs by sectors. By analogy with human beings to stress growth involves focusing on height and weight, while to emphasize development, draws attention to the change in functional capacity in physical coordination. For example, growth without development-more and more steel in the Soviet Union or more and more coffee in Brazil-leads nowhere. It is virtually impossible to contemplate development without growth because change in function requires a change in size. Until an economy can produce a margin above its food, through growth, it will be unable to allocate a portion of its resources to other types of activity".

4. To some, economic development is the outcome of conscious and deliberate efforts involved in planning. Economic growth, on the other hand, signifies the progress of an economy under the stimulus of certain favourable circumstances, e.g., the progress achieved by the United Kingdom during the Industrial Revolution.

5. In his simple words, A. Maddison says, "The raising of income levels is generally called economic growth in rich countries and in poor ones it is called economic development". Mrs. Hicks has also expressed almost the same views and said that economic development refers to the problems of underdeveloped countries and economic growth to those of advanced countries she points out that the problems of underdeveloped countries are concerned with development of unused resources, even though their uses are well-known; while those of advanced countries are related to growth, most of their resources being already known and developed to a considerable extent.

6. According to Prof. Mehta, however, the term "growth" has quantitative significance. Growth suggests an increase in the quantity or volume of something. An increase in a country’s population, national income; per capita income, consumption, saving, investment, foreign trade etc. over a period, all imply growth. In economics, however, growth strictly means an increase in real income, gross and per capita. On the other hand, development is a process of expansion, fulfilling the desire to have an increase in national income.

From the above will be clear, the distinction and interface of growth and development.

Factors Affecting Economic Growth

The process of economic growth is a highly complex phenomenon and is influenced by numerous and varied factors such as political, social and cultural factors. As such economic analysis can provide only a partial explanation of
Development and Environmental Economics

this process. To repeat here the remark of Prof. Ragnar Nurkse in this connection, "Economic development has much to do with human endowments, social attitudes, political conditions and historical accidents. Capital is a necessary but not a sufficient condition of progress". The supply of natural resources, the growth of scientific and technological knowledge—all these too have a strong bearing on the process of economic growth. We shall briefly notice some of these factors one by one.

A. Economic Factors

The following are the important factors which determine the economic growth of an economy.

1. Natural Resources

The principal factor affecting the development of an economy is the natural resources. Among the natural resources, we generally include the land area and the quality of the soil, forest wealth, good river system, minerals and oil-resources, good and bracing climate, etc. For economic growth, the existence of natural resources in abundance is essential. A country deficient in natural resources may not be in a position to develop rapidly. In fact natural resources are a necessary condition for economic growth but not a sufficient one. Japan and India are the two contradictory examples. As pointed out by Lewis, "other things being equal man can make better use of rich resources than they can of poor". In less developed countries, natural resources are unutilised, underutilised or misutilised. This is one of the reasons of their backwardness. There is little reason to expect natural resource development if people are indifferent to the products or service which such resources can contribute. This is due to economic backwardness and lack of technological factors. According to Professor Lewis, "A country which is considered to be poor in resources may be considered very rich in resources some later time, not merely because unknown resources are discovered, but equally because new methods are discovered for the known resources". Japan is one such country which is deficient in natural resources but it is one of the advanced countries of the world because it has been able to discover new use for limited resources.

2. Capital Formation

Among several economic factors, capital formation is another important factor for development of an economy. Capital may be defined as the stock of physical reproducible factors of production. Capital accumulation and capital formation, both of these terms carry the same meaning which may be understood simply by the stock of capital. As we know, capital formation is cumulative and self-feeding and includes three interrelated stages; a) the existence of real savings and rise in them; b) the existence of credit and financial institutions to
mobilise savings and to divert them in desired channels; and c) to use these savings for investment in capital goods.

Low propensity to save in underdeveloped countries is due to low per capita income of the people, which may not be raised merely by voluntary savings. Hence, the rate of per capita savings can be increased by emphasising forced savings which will reduce consumption and thereby release savings for capital formation. Forced savings can be possible through the implementation of a proper fiscal policy. In this regard, taxation, deficit financing and public borrowing are better instruments in the hands of the State to collect savings and accumulate capital. Nurkse’s suggestion to use unemployed or underemployed rural youths in construction works has importance for capital formation in backward economies. In addition to it, the external resources like foreign loans and grants, and larger exports can also help these economies in capital formation.

The capital formation possesses special significance, as it is key to economic growth, particularly in backward economies. It increases sectoral productivity in the economy on the one hand and enhances ultimately national output by raising effective demand, on the other. According to Kuznets’ estimates, during modern economic growth the gross capital formation and net capital formation was gradually between 11.13 to 20 percent and 6 to 12.14 percent in developed countries. According to Lewis, the rate in underdeveloped countries was 5 percent or less which should be raised to the level of 12 to 15 percent.

3. Technological Progress

The technological changes are most essential in the process of economic growth. Adam Smith, the father of political economy, pointed out the great importance of technological progress in economic development. Ricardo visualised the development of capitalist economies as a race between technological progress and growth of population. The great importance of technological progress in capitalist development was recognised by Karl Marx too.

There is no doubt that technological progress is a very important factor in determining the rate of economic growth. In fact, even capital accumulation is not possible without technical progress. A country may be adding to its means of transportation and communications, its power resources and its factories. According to modern technique, it is called widening of capital. The use of improved techniques in production and technological progress bring about a significant increase in per capita income. Technological progress has something to do with the research into the use of new and better methods of production or the improvement of the old methods. Sometimes technical progress results in the availability of natural resources. But generally technological progress
results in increase in productivity, e.g., green revolution. In other words, technological progress increases the ability to make a more effective and fruitful use of natural and other resources for increasing production. By the use of improved technology it is possible to have greater output from the use of given resources or a given output can be obtained by the use of a smaller quantity of resources.

It is a matter of common knowledge that technological progress adds greatly to our ability to make a fuller use of the natural resources, e.g., generation of hydro-electricity. With the aid of power-driven farm equipment a marked increase has been brought about in agricultural yields per acre and per worker. Technical progress also increases the ability to make a more effective use of capital equipment. Technological progress has very close connection with capital formation. In fact, both go hand in hand. Without capital formation technical progress is out of the question because heavy investment is required for making use of better and more efficient methods of production, although after they are well established, capital cost per unit of output may fall.

Thus, technological progress has a very important role to play in the economic development of a country. No backward country can hope to march ahead on the road of economic development without adopting a newer and newer techniques of production and unless it is assisted in its march by technological progress. We have already brought out the importance of capital accumulation in economic growth. But capital accumulation promotes economic growth because it facilitates technological improvements, which raise labour productivity and thus add to the national and per capita income.

4. Human Resources

A good quality of population is very important in determining the rate of economic progress. Instead of a large population a small but high quality of human race in a country is better for development. Thus, for economic growth, investment in human capital in the form of educational and medical and such other social schemes is very much desirable.

According to Peter Drucker: "The most important requirement of rapid industrial growth is people. People ready to welcome the challenge of economic change and opportunities in it. People, above all, who are dedicated to the economic development of their country, and to high standards of honesty, competency, knowledge and performance. What are needed beyond all else are leadership and example, and that, only the right kind of people can provide".

Prof. Drucker stressing the significance of human capital says further: "Capital without people is sterile, but people can move mountains without capital. Development, therefore, requires rapid growth of human talents and opportunities to employ them".
5. **Population Growth**

Labour supply comes from population growth. But the population growth should be normal. A galloping rise in population retards economic progress. Population growth is desirable only in a under-populated country. It is, however, unwarranted in an overpopulated country like India. In fact, a high population growth at the rate of 2.5 percent per annum is very much detrimental to the economic growth of our country.

6. **Social Overheads**

Another important determinant of economic growth is the provision of social overheads like schools, colleges, technical institutions, medical colleges, hospitals and public health facilities. Such facilities make the working population healthy, efficient and responsible. Such people can well take their country economically forward.

7. **Organisation**

In the process of growth, organisation is very important. It is organisation that emphasises maximum use of the means of production in production. Organisation is complementary to capital and labour and helps production to reach the maximum level. In the modern economic system, the entrepreneur performs the duty of an organiser and bears all risks and uncertainties. Hence, entrepreneurship is an indispensable part in the process of economic growth. For instance, the Industrial Revolution in England succeeded because of the entrepreneurship.

Most of the underdeveloped countries in the world are poor not because there is shortage of capital, weak infrastructure, unskilled labour and deficiency of natural resources, but because of acute deficiency of entrepreneurship. **Myrdal** rightly comments, "the Asian countries lack entrepreneurship not because they are deficient in capital or raw materials but because they are deficient in persons with right attitude for entrepreneurship". Behind Japan's rapid economic growth there is only one reason that it has entrepreneurship in abundance. It is, therefore, essential in LDCs to create climate for promoting entrepreneurship by emphasising education, new researches, and scientific and technological developments. Apart from it, the state should also give priority to necessary imports of machines, raw materials and equipments to provide facilities for wider markets, and to allow tax rebates, special grants and loans to the new entrepreneurs for starting business or industries particularly in the undeveloped areas of an economy.

8. **Transformation of Traditional Agricultural Society**

The transformation of traditional agricultural society into a modern industrial society, i.e., structural changes lead to enhancement of employment opportunities, higher labour productivity and the stock of capital, exploitation of the newly
developed resources and improved technology. Mostly, LDCs have a very large primary sector and very small secondary and tertiary sectors. In such economies the structural changes involve the transfer of population from the primary sector to the secondary and then to tertiary sectors. Agriculture being the main occupation of the 70-80 percent population in the LDCs passes through several structural changes. The number of dependents on agriculture sector progressively reduce with the expansion of industrial or nonagricultural sector. Similarly, the proportion of contribution of agriculture in the real national income also reduces gradually. But net output in agriculture sector progressively increases in absolute terms, as it is accompanied by a strong productivity movement, relating to the implementation of several programmes like land reforms, expansion of banks, improved agricultural techniques and other farm implements, availability of better marketing facilities, means of power and irrigation, and so on.

In LDCs the agriculture and industry become complementary to each other. The progressively increasing productivity in agriculture enhances the per capita real income of the people, engaged in agriculture sector. This, in turn, expands rural demand for consumer goods and agricultural inputs which stimulates the expansion of industrial sector, and further, it also develops agriculture sector by providing improved farm techniques along with machines, fertilisers and other inputs. The scope for increasing agricultural productivity and incomes, in other words, is heavily dependent upon the structural transformation of the economy as it affects the growth of commercial demand for goods produced, the growth of alternative employment opportunities, and the increased quantity of purchased inputs available to the agricultural sector”.

B. Non-Economic Factors

Both of the economic or noneconomic factors do play an important role in the process of economic growth. In this regard, socio-economic, cultural, psychological and political factors are also equally significant as are economic factors in economic development of the LDCs Cairncross rightly observes: "Development is not just a matter of having plenty of money, nor is it purely an economic phenomenon. It embraces all aspects of social behaviour; the establishment of law and order; scrupulousness in business dealings, including dealings with the revenue authorities; relationships between the family, literacy, familiarity with mechanical gadgets and so on”. We discuss here some of the essential noneconomic factors which determine the economic growth of an economy.

1. Political Factors

Political stability and strong administration are essential and helpful in modern economic growth. It is because of political stability and strong
administration that the countries like the U.K., the U.S.A., Germany, France, and Japan have reached the level of highest economic growth in the world. But in most of the poor countries there is political instability and weak administration which have largely influenced their economic development programmes. It is, therefore, essential for their faster economic development to have a strong, efficient and incorrupt administration. In conclusion, we can say that a clean, just and strong administration can put an economy on the way to rapid economic development. Lewis rightly comments that "no country has made progress without positive stimulus from intelligent governments".

2. Social and Psychological Factors

Modern economic growth process has been largely influenced by social and psychological factors. Social factors include social attitudes, social values and social institutions which change with the expansion of education and transformation of culture from one society to the other. The Industrial Revolution of England and other Western European countries in the 18th century was largely influenced by the spirit of adventure and the expansion of education which led to new discoveries and inventions and consequently to the rise of the new entrepreneurs. Social attitudes, values and institutions changed. Joint family system was replaced by the new single family system which further led to the rapid economic development in these countries.

But the society in LDCs has been badly enveloped and guided by traditional customs, outdated ideology, values, and obsolete attitudes which have not been conducive to their economic development. Thus, there is need to change or modify these social and psychological factors for the rapid economic development in these countries. But it is not an easy task, and moreover, any rapid change may bring discontentment and resistance in the society, with the result that it may adversely affect the economic growth in the economies. Only the selective social and psychological changes can lead to economic growth in LDCs. According to the UN Report on Economic Development of Underdeveloped Countries, it is hence impossible to speed up economic growth in these economies without painful adjustments. It, thus, advises to adopt an evolutionary change in social and cultural factors rather than revolutionary ones. Myrdal in his book Asian Drama also advocates the adoption of "modernisation values" or "modernisation ideals" for the rapid economic development of underdeveloped countries.

3. Education

It is now fairly recognised that education is the main vehicle of development. Greater progress has been achieved in those countries, where education is wide spread. J.K. Garlbraith in his book "Economic Development" has rightly stressed the role of education as an engine of economic growth.
4. **Urbanisation**

Another noneconomic factor promoting development is the process of urbanisation. In poor agrarian economies, the structural change must begin with the change in the size of population in rural and urban sectors.

5. **Religious Factors**

Religion plays a great role in economic growth. It may give rise to a peculiar sense of self-satisfaction. For example, the Hindu religion encourages faith in fate and prevents people from working hard. They are educated to remain satisfied with their lot and to hate risk and enterprise. Then our religion gives a higher place to spirit than matter.

In short economic growth is the result of concerted efforts of both economic and non economic factors. However, the mere presence of one or more or all of these factors may not ensure that the economy will be in a position to generate forces that bring about a fast economic growth. Some further factors may also be required that may work as a catalyst for growth. This function can well be performed by the state.

**Obstacles to Economic Development**

Broadly speaking, the features of an under developed economy create obstacles in the way of economic development, and hamper economic progress. These features emerge out of economic, social, political, religious and institutional factors. It would be wrong to conclude that only economic factors are responsible for poverty or economic backwardness of a country. Non-economic factors are equally responsible for the under development of an economy. The factors discouraging economic development may be classified into economic and non-economic factors which are as under.

<table>
<thead>
<tr>
<th>Obstacles to Economic Development</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Factors</td>
</tr>
<tr>
<td>1. Vicious Circle of Poverty</td>
</tr>
<tr>
<td>2. Deficiency of Capital</td>
</tr>
<tr>
<td>3. Market Imperfections</td>
</tr>
<tr>
<td>4. International Forces</td>
</tr>
<tr>
<td>5. Difficulty of Adoption Western Technology</td>
</tr>
<tr>
<td>6. Low Agricultural Productivity</td>
</tr>
<tr>
<td>7. Lack of Entrepreneurs</td>
</tr>
<tr>
<td>Non-Economic Factors</td>
</tr>
<tr>
<td>1. Undeveloped Human Resources</td>
</tr>
<tr>
<td>2. Political Instability.</td>
</tr>
<tr>
<td>3. Socio-cultural Constraints</td>
</tr>
<tr>
<td>4. Religious Factors</td>
</tr>
</tbody>
</table>
Now we discuss these factors in detail.

A. Economic Factors

The important economic factors which obstacles to economic development are:

1. Vicious Circles of Poverty

Most important feature of underdeveloped countries is their dependence on vicious circles of poverty which may be considered as the highest bottleneck in the process of their economic development. Poverty is not only distressing but it is also demoralising. A poor man is one who is regarded as a disgrace to the society and a cause of humiliation to himself, and who is unable to have proper food and a suitable house. Neither he helps himself, nor he is able to serve others. He is burden on society. A poor man always finds himself having been caught in a vicious circle of poverty. Since he lacks the means to prosper, he remains poor.

What is true to an individual, is also true to the country as a whole. Since an underdeveloped economy lacks the proper and modern means of economic development, its economic development becomes an uphill task. Since its rate of investment and growth potential is so little, it has to remain poor.

We find circular relationships, known as the "vicious circles of poverty" which reveal the low level of economic development in Less Developed Countries (LDCs). Prof. Nurkse defines the concept of "Vicious Circles of Poverty" in these words: "It implies a circular constellation of forces tending to act and react upon one another in such a way, as to keep a poor country in a state of poverty.... A country is poor because it is poor."

The vicious circles operate in an underdeveloped economy on the supply as well as on the demand side. On the supply side deficiency of capital and low volume of savings, create vicious circles whereas low purchasing power creates vicious circle on the demand side.

Now we discuss how does vicious circle of poverty operate on the supply side? Poverty is responsible for the low level of income which in turn leads to low volume of savings. It results in deficiency of capital and low productivity. Low productivity is the cause of low level of income. The circle starts with poverty and ends with the low level of income and in this way the vicious circle is complete. Diagrammatic representation of the circle is given below. (fig-01)
Just as vicious circle of poverty operates on the supply side, similarly it also operates on the demand side. Again, poverty or low income is the starting point. Low level of income results in low purchasing power and low level of demand. It limits the extent of market, which in turn leads to low investment resulting in low capital formation and low productivity, which is the cause of poverty and low income. In this way the circle completes its round and continues rotating along the fixed path. This phenomenon has explained with fig-02.

**Ragnar Nurkse** has explained the operation of vicious circles in the words. "The inducement to invest may be low because of the small purchasing power of the people, which is due to their small real income which again is due to low productivity. The low level of productivity is however, the result of the small amount of capital used in production, which in turn may be caused, at least partly, by small inducement to invest".