UNIT 1: INTRODUCTION

UNIT STRUCTURE

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1.1 LEARNING OBJECTIVES

After going through this unit, you will be able to-

- understand the concept of development
- comprehend the meanings of development
- know the different theories of development
- understand the difference between growth and development.

1.2 INTRODUCTION

This unit lays out a detailed understanding of the concept of development. In development, all the advances in science and technology (reason and logic based) as a result of enlightenment, democratic elements, social elements (values, ethics) fuse into the single humanitarian project of producing a far better world. In its broader sense, development means using the productive resources of society to improve the living conditions of the poorest people.

Development differs from economic growth in that it pays attention to the conditions of production. For example, development is concerned with

the adverse effects of economic activity on the environment. Development entails in it the ideas of freedom, freedom from the vicissitudes of nature through advanced technology and self- emancipation, i.e. conscious control over the conditions under which human nature is formed. In both senses, development implies economic, social, and cultural progress as well as improvement in their conditions.

According to Björn Hettne, 'Development in the modern sense implies intentional social change in accordance with societal objectives'. Since not all societal objectives are developmental (some are simply concerned with establishing authority etc.) he inserts the criterion of improvement and defines development as the organized intervention in collective affairs according to a standard of improvement.

1.3 MEANINGS OF 'DEVELOPMENT' OVER TIME

The term 'development' has not retained the same meaning today as was earlier. It has changed a lot over time. The term 'development' in its present sense dates from the postwar era of modern development thinking. The term 'development' was not necessarily used at the time but development policies have roots in their practices. Thus Kurt Martin (1991) regards the classic political economists, from Ricardo to Marx, as development thinkers for they addressed similar problems of economic development. In this general context, the core meaning of development was catching up with the advanced industrialized countries.

Cowen and Shenton uncovered yet another meaning of development. In nineteenth-century England, 'development', they argued, referred to remedies for the shortcomings and maladies of progress. This involves questions such as population (according to Malthus), job loss (for the Luddites), the social question (according to Marx and others) and urban squalor. For Hegel, progress is linear and development is curvilinear. Accordingly, twentieth-century development thinking in Europe and the colonies had already traversed many terrains and positions and was a

reaction to nineteenth-century progress and policy failures, where industrialization left people uprooted and out of work, and social relations dislocated.

Colonial economics was the predecessor of modern development economics. Colonies did not promote industrialization as they were more interested in the export of raw materials to the metropolitan countries. This is evident from the fact that many manufacturers were destroyed by the colonies. For example, textile manufacturing in India or the counteract efforts in the periphery like Egypt, Turkey and Persia.This is a significant difference between the colonial economies and the latecomers in central and eastern Europe.

In modern development thinking and economics, the core meaning of development was economic growth. Economic growth means achieving a more massive economy, producing more goods and services on the one side of the national account (gross domestic product- GDP) and a larger total income on the other (gross national income-GNI). Hobhouse, for instance defined development in terms of increase in the scale and efficiency of social organization which implies the metaphor of growth. Development was thus understood as directional, cumulative and irreversible. In the course of time mechanization and industrialization became part of this, as in Rostow's Stages of Economic growth. When development thinking broadened to encompass modernization, economic growth was combined with political modernization, that is, nation building, and social modernization such as fostering entrepreneurship and 'achievement orientation'. In dependency theory, the core meaning of development likewise was economic growth or capital accumulation. Its distorted form was dependent accumulation which led to the 'development of underdevelopment'. Development as economic growth was not justifiable for defining development in broader terms without paying much attention to the opportunities, choices available to the people in general. Therefore the focus changes from development to human development. Human

Development is about expanding the richness of human life, rather than simply the richness of the economy in which human beings live. It is an approach that is focused on creating fair opportunities and choices for all people. An alternative measure that takes into account social and cultural variables more attuned to development than just economic growth alone is the "Human Development Index" (HDI) measured by the United Nations Development Program (UNDP). The core definition of development in the Human Development Reports of UNDP is 'the enlargement of people's choices'.



CHECK YOUR PROGRESS

Q1. What is the meaning of Development?

Q2. Does the term development have some specific definition?

Q3. What is Progress for Hegel?

Q4. Who tried sabotaging the manufacturers?

Q5. What was modern development thinking and economics?

Q6.What do GDP and GNI stand for?

Q7. What does HDI stand for?

Q8. Who gave the idea of HDI?

1.4 ECONOMIC THEORIES OF GROWTH AND DEVELOPMENT

Basically, development has been defined as improving the conditions of life. Conditions here refer to the necessities of life along with certain standard of living (material base). These needs seem to be the domain of Economics i.e. Economics deals with the production of commodities using the available resources. Therefore, development is fundamentally an economic process.

Economics has been a highly specialized field of knowledge for its greater emphasis on the mathematical calculations and logics. Economics theorists make use of scientific laws. Economics theories of development have not been stagnant, and have changed and developed with time i.e. from pre-classical to classical to marginalist to Keynesian and to the post-Keynesian theories.

- **Pre-classical Beginnings**

The idea of God was close to the medieval period. Medieval theorists always combined religion with economics. For them God is everything and God is behind each and every phenomenon occurring on the earth. Medieval Christianity (Catholics) emphasized duty to God rather than the rights of the individual. This duty entailed moral limitation on the economic actor.

Furthermore, there existed the idea of 'Just Price' for each commodity. According to Aristotle (Greek philosopher), Albertus Magnus (1200-1280) and Thomas Aquinas (1225-1274), there should be just and equitable price for commodities and anyone exceeding the just price must be punished by law. The belief of 'Just Price' began to erode with the urbanization, secularization or more appropriately Protestant Reformation (modernity). Now due emphasis is given to human being i.e. there is firm belief that an individual creates his own destiny. It was Max Weber, who in his book *"The Protestant Ethics and the Spirit of Capitalism",* stressed on how differences in the attitude of Protestants from Catholics towards work boosted the economy in Europe. The idea of glorifying God with labour or hard work advances capitalism. Similarly, Martin Luther(1483-1546) was of the belief that God might grant gifts to people but people had to lend a working hand.

Classical Economics developed in a conflictual relation with mercantilism. The mercantile ideology emphasizes the favourable balance of trade with an increased flow of gold and silver. The mercantilist policy aimed at increased national power which is the result of increased production

by exploiting the natural resources using labour. The mercantilist Philipp Von Hornick said:

"Gold and silver once in the country… are under no circumstances to be taken out…but must always remain in circulation…under these conditions it will be impossible for a country that has once acquired a considerable supply of cash…ever to sink in poverty; indeed it is impossible that it should not continually increase in wealth and property." (1961).

The idea of Mercantilism was opposed by the idea of 'free market economy'. It was believed that increased in production should not compromise the potential harmony between individual self-interest and public interest, the idea of state intervention which was the core idea in Mercantilist system was opposed here, the higher productions were to be achieved with increased specialization and Division of Labour (DOL) and most importantly, the ability of the market to yield natural or even just prices.

The political philosophers of 17th and 18th century Britain, especially Thomas Hobbes, John Locke and David Hume, three leading thinkers, were important in forming the philosophical basis of classical economic theory.



CHECK YOUR PROGRESS

Q9. Name few pre classical thinkers.

Q10. What is the idea of 'Just Price'?

Q11. What is the idea behind mercantilist policy?

- **Classical Economic Theory**

Adam Smith in his Theory of Moral Sentiments (1759), tried to reconcile the conflict between the pursuit of material gains and the maintenance of public morality. He found that people show empathy towards others. They perceive each other by putting themselves in the shoe of others. According

to him, economic growth depends on capital accumulation which further depends on the specialization in work or more appropriately division of labour. On the basis of this he tried to explain the disparity between capital accumulations of various nations. Classical economic theory promotes laissez-faire policy. It says the free market allows the laws of supply and demand to self-regulate the business cycle.

David Ricardo derived the notion that supply created its own demand from J.B. Say, as production generated consumption. But he followed Malthus in saying that overpopulation reduced the worker's advantages from economic growth. Ricardo further argued that with the increase in population and demand for food, the production would increase even on the less fertile land. The increase in production earns the capitalist enough money to sustain the workers.

- **The Neoclassical Interlude**

In the last third of the 19th century, 'Marginal Utility' became the central theme for the economists like Hermann Heinrich Gossen who published this concept in his book. In this phase of development the focus changed from national wealth to maximized enjoyment i.e. consumption was favoured rather than production. Neoclassical economics is an approach to economics focusing on the determination of goods, outputs, and income distribution in markets through supply and demand.

The idea of Marginal Utility was developed by Jevons, Menger and Walras independently and simultaneously. According to Menger, individuals exchange things not because of their natural tendency to change as suggested by Smith but to satisfy their wants to the maximum with available scarce means. Also, they exchange goods until their marginal utilities were equal.

Three central assumptions

It was expressed by E. Roy Weintraub that neoclassical economics rests on three following assumptions, although certain branches of neoclassical theory may have different approaches:

1. People have rational preferences between outcomes that can be identified and associated with values.

2. Individuals maximize utility and firms maximize profits.

3. People act independently on the basis of full and relevant information.

Neoclassical economics harmony was disturbed by the critical institutional economist Thorstein Veblen with his "Theory of the Leisure Class". It presents the evolutionary development of human institutions (social and economic) that shape society, such as how the citizens earn their livelihoods, wherein technology and the industrial arts are the creative forces of economic production. That such production of goods and services was not merely the means of meeting the material needs of society, but of earning profits for the owners of the means of production.

Veblen argued that economists should take account of how people behave, socially and culturally in a society. Whereas neoclassical economics define people as rational agents who seek utility and maximal pleasure from their economic activities, Veblen perceived people as irrational, economic agents who pursue social status and the prestige inherent to a place in society (class and economic stratum) with little regard to their own happiness.



CHECK YOUR PROGRESS

Q12. Name any two classical theorists.

Q13. Name a book written by Adam Smith.

Q14. Who is known for the idea of "Supply creates its own demand"?

Q15. What is central to the idea of neo classical theorists?

Q16. Who criticized the Neo classical economists?

Dynamic Analysis

The historical school was critical of the neoclassical consensus of Ricardian and marginalist economics. This school of thought was originally formulated by Wilhelm Roscher, Bruno Hildebrand and Karl Knies and developed further by a second generation led by Gustav Schmoller. The unity of social and economic life, the plurality of human motives and the relativity of history i.e. holistic view (view that stressed the natural web of interconnections between things) were the main themes of the historical school. Roscher and other economists disregard the idea of equilibrium or the demand supply balance when there is under consumption or decreased demand and found crises as an inevitable occurrence. Schmoller criticized classical and neoclassical economics for hold ing the notion that people were motivated entirely by self-interest.

Joseph Schumpeter combined theories and approaches and framed the idea of "creative destruction". He was not much interested in small changes but fascinated by the developments of economic system that resulted within the economy(endogenously) disrupting the existing system or precisely displacing the equilibrium. This change accoding to Schumpeter is not due to consumption but from production, specifically from new combinations of productive materials and forces.

According to him, it is entrepreneurs who are very few in any society but innovative, dynamic, energetic with a will to fight and conquer. They tried to change the existing practices and introduce the new things. He saw the development initiated by innovation as uneven,, discontinuous, and taking the form of business cycles.

Keynesian Growth Theory

Keynesian economics or theory came forward with the opposing views to that of classical theorist. It represented a new way of looking at spending, output and inflation. The classical theorists believed that during the period of decreased demand which means reduced production and jobs, there would be decline of prices and wages. So the investors would take benefit of low wages and employ the workers so as to stabilize economic growth.

John Maynard Keynes(1883-1946), a Cambridge economist, discarded the notion of wage earners as maximizers of the voluntary unemployment. According to him the level of employment is determined by the aggregate demands of goods and services with no government role. Keynesian economics is a theory that bring in the important role of the government by saying that the government should increase demand to boost growth through activist stabilization and economic intervention policies. According to Keynes, an increase in spending would increase demand. Similarly, he argued that government spending was necessary to maintain full employment. For him, real investment was the crucial variable which affects growth as a whole.

Cambridge economist Roy Harrod and the U.S. economist Evsey Domar investigated if the economy can grow at a steady rate with full employment. In order to maintain a steady growth rate, the national saving rate(income saved) had to be equal to the product of capital-output ratio and the rate of growth of labour force according to the Harrod Domar model.

On the basis of this model, development policies were used in the First Five Year Plan(1951-1956)



CHECK YOUR PROGRESS

Q17. Who formulated the historical school of thought originally?

Q18. Who presented the idea of creative destruction?

Q19. Who are adherents of Keynesian Growth Theory?

1.5 SOCIOLOGICAL THEORIES OF DEVELOPMENT

Sociological theorists began their idea of development by criticizing the neo-classical economists. They too accepted the idea of copying the west as part of development similar to what neo-liberalists believed. Constant interaction between Naturalism and Rationalism was central to the sociological theories of development. Naturalism is the "idea or belief that only natural (as opposed to supernatural or spiritual) laws and forces operate in the world." Naturalists assert that natural laws control everything around and that humans have instincts on the basis of which they act Rationalism on the other hand deals with the idea of subjecting everything to the science done on the basis of reasons, logics etc.

Naturalism

August Comte, the founding father of Sociology adherent of the idea of naturalism, stressed that social laws and natural laws are very much similar. Therefore, human progress according to him is the result of variations in the operations of social laws.

On the similar line, Herbert Spencer, an evolutionary Philosopher and Sociologist tried to combine nature with society. He brought forward the concept of 'Social Evolution' which is considered to be an important contribution of Spencer to Sociology. He presented an analogy between the physical organism (a biological entity) and the society. According to him, organism and societies adapt to or fit themselves to the natural

environment in a similar manner to derive maximum benefit. Spencer believed that social interaction was the source of creativity and progress.

Rationalism

The idea of Rationalism was derived from Max Weber's theory of Religions. Weber discussed the progress in thinking of man from belief in magic, ritual, taboos etc. to worship, sin, conscience etc. He compared Protestants with Catholics which were contrary to each other in terms of ethical values.

Catholics believed in glorifying God by assuring a regular touch or visit whereas for Protestants, the world they live in is different from the God and thus is not controlled by God. So instead of blind faith in fate, they work hard, make money and look for maximal returns on assets without enjoying the fruits of the work which ultimately boost Capitalism in the west.

Weber concluded that it was the West only where the sciences reach. And since Science and technology intersected with profit motive, economic development was the result in West which was unique.

Rationalism and Naturalism

In Structural Functionalism, the notion of rationalism was integrated with that of naturalism. Talcott Parsons in particular integrated naturalistic, structuralistic, functionalist thought with that of Weber's notion of rationalism in his work *"The Structure of Social Action"*(1948) where he discussed the AGIL model.

Attempts were made by economics theorists to reconsider the economic aspect of development. Bert Hoselitz became more interested in the impact of growth and development on living standards of people or more appropriately the cultural life of individual instead of GDP growth.

Similarly Psychologists like Everett Hagen, David Mc Clelland, and Daniel Lerner etc emphasize on the human personality, psychological

characteristic which according to them orient a man towards economic development.



CHECK YOUR PROGRESS

Q20. What is the main idea behind sociological theories of development?

Q21. Name the theorists whose theories were nature oriented.

Q22. Who is linked with the theory of social evolution?

Q23. What was the source of progress according to Herbert Spencer?

Q24. Name any theorist whose theory was oriented towards the idea of Rationalism.

Q25. Name any theorist who made an attempt to combine the ideas of naturalism and rationalism.

1.6 MEANING OF GROWTH

Growth is simply the process of 'increasing in size'. Various classical economists, mainly Adam Smith, Ricardo and Malthus, have studied the concept of growth differently from time to time. The term 'economic growth' refers to the generation of income. Generation of income is the natural outcome of the free play of economic forces. This is because every individual has the natural instinct of raising his personal welfare through increased savings and investment. It may be noted that the terms "Economic Development" and "Economic Growth" are used interchangeably. But economists make a distinction between them. According to them, economic development means growth with change. Schumpeter, in his book *"The theory of Economic Development"* (1911) clarified the distinction between economic development and economic growth. Robert Clower, in his book about Liberian Economy titled *"Growth without Development",* has proved that despite growth of an economy it is possible that it may not have any development.

1.7 DIFFERENCE BETWEEN GROWTH AND DEVELOPMENT

The terms Growth and Development are often used in our daily lives. They are often used interchangeably. Growth simply means 'getting bigger' or 'increase' whereas development is 'growth with change' or 'improvement'.

Growth can be explained as becoming bigger or larger or having more importance. Growth is termed as a physical change whereas development is said to be physical as well as social or psychological change. For example, we only say that the tumour has grown and not that the tumour has developed. On the other hand, we generally say that 'he has developed into a better man' etc.

In terms of economy, we say there was a steady growth in the country's economy over the last few years. We also say that there was a tremendous growth in the case of hospitals in the region. Further, we also refer to countries as developed and developing, which means that the country has made great strides in all spheres.

A good example might be Amartya Sen's Development as Freedom(2000), concerned with how society grants to individuals the capacity for taking part in creating their own livelihoods, governing their own affairs, and participating in self-government. In brief, development is quite different from growth. Development springs from the most optimistic moment of the modern rational belief, whereas mere growth is practical, technological.

Main differences between growth and development

1. **Single Dimensional and Multi-Dimensional:** Growth is single dimensional. It is concerned with 'increase' or 'getting bigger'. On the other hand, development is multi dimensional which is concerned with growth with structural changes i.e. change in economic, social and political structure of the country. In fact, development is a broad term.

2. **Qualitative and Quantitative Change:** The term 'growth' is quantitative whereas the term 'development' is qualitative. According to Meier, there are many important qualitative changes in the development process which take it beyond growth. For e.g. Growth is defined as an increase in GDP of a country which can be measured quantitatively. But the improvement in living standard, food habits etc. is qualitative in nature which is none other than development.

3. **Continuous and discontinuous Changes:** Growth is a gradual and steady change in the long run which comes about by general increase. Development on the other hand, is characterised by discontinuous and spontaneous changes in the stationary state which forever alters and displaces the equilibrium state.

4. **Measurement:** Growth being quantitative in nature, it can be measured using different scales easily. However when it comes to development, although different indexes have been made but they lack in accurate measurement.

5. **Development implies Growth:** According to some economists the term development is used to describe the determinants of growth such as changes in techniques of production, in institutions etc.

6. **Related to the problem of developed and under-developed countries:** Growth is a solution of the problem of developed countries where most of the resources are already known and developed. Development is a solution of the problem of under-developed countries where there is possibility of developing and using hitherto unused resources.



CHECK YOUR PROGRESS

Q26. Do Economic growth and Economic development have similar meanings?

Q27. Is development single-dimensional or multi-dimensional?

Q28. Why is growth considered to be a quantitative change?



1.8 LET US SUM UP

- Development means making a better life for everyone.
- Earlier development was defined as increase in the scale and efficiency of social organization (Economic growth).
- Economic aspect of development defined development in terms of GDP and GNP.
- The conception of GNP growth was criticized for the lack of concern for distribution as could be seen in the widened gap between rich and poor.
- The term 'development' has changed in its meaning over time.
- The idea of 'Just Price' for each commodity was promoted by the pre classical thinkers.
- The belief of 'Just Price' began to erode with urbanization, secularization or more appropriately Protestant Reformation (modernity).
- The merchantile ideology emphasizes the favourable balance of trade with an increased flow of gold and silver.
- According to Menger, individuals exchange goods until their marginal utilities were equal.

- Neoclassical economics harmony was disturbed by the critical institutional economist Thorstein Veblen with his "Theory of the Leisure Class".
- Roscher and other economists disregard the idea of equilibrium or the demand supply balance when there is under consumption or decreased demand and found crises as an inevitable occurrence.
- Schmoller criticized classical and neoclassical economics for holding the notion that people were motivated entirely by self-interest.
- According to Keynes, the level of employment is determined by the aggregate demands of goods and services.
- Naturalists assert that natural laws control everything around and that humans have instincts on the basis of which they act.
- Rationalism deals with the idea of subjecting everything to the science done on the basis of reasons, logics etc.
- Herbert Spencer, an evolutionary philosopher and Sociologist tried to combine nature with the society.
- Max Weber compared Protestants with Catholics which were contrary to each other in terms of ethical values.
- Talcott Parsons integrated naturalistic, structuralistic, functionalist thought with that of Weber's notion of rationalism.
- The assumption of trickledown effect to improve lives of masses was criticized by Pakistani economist Mahbub-ul-haq and Indian economists Amartya Sen who could see no such automatic link between income and human lives.
- The Human Development Index (HDI) calculated by United Nation Development Program (UNDP) measures development in terms of longevity, knowledge and income sufficiency.

- Amartya Sen, the noble Laureate, defined development as expansion of human capabilities,opportunities and freedoms.
- The goals of development cannot be explained as mere economic growth and improvement of human condition but also to aim at generating social harmony, respect cultural diversity and gender equity.
- Growth simply means 'getting bigger' or 'increase' whereas development is 'growth with change' or 'improvement'.
- Economic growth does not necessarily result in economic development.



1.9 FURTHER READING

1) Jain T.R. and Bajaj Balbir Kaur (2007), *Development Economics,* V.K. Publications.

2) Peet Richard and Hartwick Elaine (2010), *Theories of Development,* Rawat Publications.

3) Sen Amartya (1999), *Development as Freedom,* oxford University Press.

4) Escobar Arturo(1995), *Encountering Development: The Making and Unmaking of the Third World,* Princeton University Press.



1.10 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: Development implies economic, social, and cultural progress as well as improvement in the conditions of people's lives.

Ans to Q No 2: No, it is a dynamic and broad concept.

Ans to Q No 3: Progress is a linear process for Hegel.

Ans to Q No 4: Colonial economics

Ans to Q No 5: Development was comprehended as the increase in country's GDP.

Ans to Q No 6: GDP- Gross Domestic Product,

GNI- Gross National Income

Ans to Q No 7: Human Development Index

Ans to Q No 8: Mahboob-ul-Haq (Pakistani Economist) and Amartya Sen (Indian Economist)

Ans to Q No 9: Albertus Magnus, Aristotle, Thoman Aquinas etc

Ans to Q No 10: It means the price for commodities should be just and equitable.

Ans to Q No 11: The mercantilist policy aimed at increased national power by exploiting the natural resources using labour.

Ans to Q No 12: Adam Smith and David Ricardo

Ans to Q No 13: Theory of Moral Sentiments(1759)

Ans to Q No 14: J.B. Say

Ans to Q No 15: Marginal Utility

Ans to Q No 16: Thorstein Veblen

Ans to Q No 17: Wilhelm Roscher, Bruno Hildebrand and Karl Knies

Ans to Q No 18: Joseph Schumpeter

Ans to Q No 19: J.M. Keynes, Roy Harrod and Evsey Domar

Ans to Q No 20: Constant interaction between Naturalism and Rationalism

Ans to Q No 21: August Comte, Herbert Spencer, Emile Durkheim etc

Ans to Q No 22: Herbert Spencer

Ans to Q No 23: Social Interaction

Ans to Q No 24: Max Weber

Ans to Q No 25: Talcott Parsons

Ans to Q No 26: No

Ans to Q No 27: Multi-dimensional

Ans to Q No 28: Because it can be measured with different scales.



1.11 MODEL QUESTIONS

A) Short Questions (Answer each question in about 150 words)

Q 1. What do you understand by the term Development?

Q 2. How is development different pan growth?

Q 3. Do you think the meaning of the term Development has changed over time?

B) Long Questions (Answer each question in about 300-500 words)

Q 1. Briefly explain the different theories of development.

Q 2. Discuss sociological aspects of development.

Q 3. Trace the evolution of the concept of development.

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