Lecture 2

CHARACTERISTICS OF UNDERDEVELOPED COUNTRIES

i. General poverty
Under-developed countries are poverty ridden. Poverty is multidimensional. Six dimensions feature prominently in poor people’s definition of poverty. First, poverty is always hunger – the lack of food. Second, poverty has important psychological dimensions, such as powerlessness, voicelessness, dependency, shame, and humiliation. The maintenance of cultural identity and social norms of solidarity helps poor people to continue to believe in their own humanity, despite inhumane conditions. Third, poor people lack access to basic infrastructure – roads (particularly in rural areas), transportation, and clean water. Fourth, while there is a widespread thirst for literacy, schooling receives little mention or mixed reviews. Poor people realize that education offers an escape from poverty – but only if the economic environment in the society at large and the quality of education improves. Fifth, poor health and illness are dreaded almost everywhere as a source of destitution. This is related to the costs of health care as well as to income lost due to illness. Finally, the poor rarely speak of income, but focus instead on managing assets – physical, human, social, and environmental – as a way to cope with their vulnerability. In many areas, this vulnerability has a gender dimension. Poor people live without fundamental freedoms of action and choice that the better off take for granted. They suffer deprivations that keep them from leading the kind of life that everyone values. They also face extreme vulnerability to ill health, economic dislocation, and natural disasters. And they are often exposed to ill treatment by the state and society.

Almost half the world (over 3 billion people) lives on less than $2.50 a day. The GDP (Gross Domestic Product) of the 41 Heavily Indebted Poor
Countries (567 million people) is less than the wealth of the world’s 7 richest people combined. Nearly a billion people entered the 21st century unable to read a book or sign their names. Less than one per cent of what the world spent every year on weapons was needed to put every child into school by the year 2000 and yet it didn’t happen. 1 billion children live in poverty (1 in 2 children in the world). 640 million live without adequate shelter, 400 million have no access to safe water, 270 million have no access to health services. 10.6 million died in 2003 before they reached the age of 5 (or roughly 29,000 children per day).

**ii. High dependence on agriculture and other primary sectors**

Most low-income countries are predominantly peasant agricultural societies. Peasants are rural cultivators. They do not run a business enterprise as do farmers in most developed but, rather, a household whose main concern is survival. Although patterns of land ownership, tenure, and concentration vary considerably among the poor countries, most of the land in these societies is worked by landless laborers, sharecroppers, renters, or smallholders rather than large commercial farmers. The secondary sector is small with tertiary sectors like commerce, banking and insurance still underdeveloped.

Agriculture in poor countries in characterized by:-

**Low Labor Productivity.** This is perhaps the most important and defining characteristic of developing country agriculture. Labor productivity (output per worker or output per hour of labor) is quite low in most developing countries. Total factor productivity (output divided by an index of all inputs into production) also tends to be low.

**Small Family Farms.** The general tendency the world over, except where government policy has dramatically interfered is to organize most agricultural
production in small-scale, family units. "Small" here means the amount of land that can be farmed by a family without relying much on hired. In Afro-Asia, the average farm is usually less than 5 hectares or 12 acres in size. Of course, there are exceptions. Bananas, tea, sugarcane, rubber, and some other crops tend to be produced on large plantations.

**Limited Commercialization:** Small farms in developing countries tend to produce subsistence crops (for home consumption) instead of cash crops (for sale on the market). They tend to be much less specialized in the crops and livestock products produced than their counterparts in developed countries. They also tend to supply the majority of the inputs into production themselves rather than relying on purchased inputs. In brief, small farmers in developing countries have comparatively limited involvement in markets.

Although urbanization is increasing rapidly in Africa, agriculture still provides livelihoods for about 60 per cent of the continent's active labour force, contributes 17 per cent of Africa's total gross domestic product and accounts for 40 per cent of its foreign currency earnings. Yet farmers' yields have essentially stagnated for decades. Although total output has been rising steadily — often by simply extending the land area under cultivation — this growth has barely kept pace with Africa's increasing population. Food production in particular has lagged, so that the number of chronically undernourished people increased from 173 million in 1990-92 to about 200 million in 1997-99 out of that total, 194 million were in sub-Saharan Africa. This growth in hunger has come despite high levels of food imports. The reasons for such stagnation are multiple: continuing dependence on uncertain rainfall, nutritional deficiencies in Africa's soils, small and dispersed domestic markets, the instability and decline of world prices for African agricultural exports, the small size of most farms, farmers' frequent lack of organization, the lack of rural roads, neglect of the
particular needs of women farmers (who produce most of the continent's food), and the spread of HIV/AIDS. Government agricultural policies also have been poor, providing only weak economic incentives to rural producers. Privatization and other structural adjustment policies led to an “over-hasty withdrawal” of the state from direct production. In the absence of a sound private sector, this caused “severe dislocation of production, farm trade and farmer support services.” Agriculture also has been starved of investment. Many African governments devote less than 1 per cent of their budgets to agriculture. Not only have overall donor aid levels declined, but donor priorities have simultaneously shifted away from agriculture toward other sectors.

In low-income countries, 45–70 percent of the labor force is in agriculture, forestry, hunting, and fishing; 10–25 percent in industry (manufacturing, mining, construction, and public utilities); and 15–35 percent in services. In contrast, high-income countries tend to have less than 5–10 percent of the labor force in agriculture; 20–30 percent in industry; and 60–75 percent in services. In low-income countries, the average agricultural family produces a surplus large enough only to supply a small non-agricultural population.

**iii. A dual economy**

Although in the aggregate low-income countries have inadequate technology and capital, this is not true in all sectors. Virtually all low-income countries and many middle-income countries are dual economies i.e. a market economy and a subsistence economy existing side by side. These economies have a traditional, peasant, agricultural sector, producing primarily for family or village subsistence. This sector has little or no reproducible capital, uses technologies handed down for generations, and has low marginal productivity of labor (that is, output produced from an extra hour of labor is less than the subsistence
wage). Amid this labor-intensive, subsistence, peasant agriculture (together with semi-subsistence agriculture, petty trade, and cottage industry) sits a capital-intensive enclave consisting of modern manufacturing and processing operations, mineral extraction, and plantation agriculture. This modern sector produces for the market, uses reproducible capital and new technology, and hires labor commercially (where marginal productivity is at least as much as the wage). Today, it is increasingly owned domestically, by either government or private capitalists, and sometimes jointly with foreign capital. Despite local majority ownership, operation of the modern sector often still depends on importing inputs, purchasing or leasing foreign patents and technology, and hiring foreign managers and technicians. The market economy is found in urban/town centres while the subsistence economy is in the rural areas. The market economy in towns is modern with all life amenities while the subsistence economy is predominantly agricultural and backward. The dual economy is not conducive for economic progress; the primary sector mars growth of the secondary and tertiary sector by putting a limit on their expansion and development.

iv. High rates of population growth and high dependence ratios

Demographic features of undeveloped countries differ but high population growth is a common feature. Due to low agricultural productivity, a large population results in low per capita income and low rate of capital formation. While yield or output is increased by improved technology it is consumed by a higher population hence improvement in living standard is hindered. The situation is compounded by declining death rate due to advancement in medical science. Higher birth rate results in a higher concentration of the population in the younger age groups hence high rates of dependency.
About 5.3 billion people, or 82 percent of the world’s 6.5 billion people in 2004, live in developing countries. Developing countries have a population density of 500 per arable square kilometer (63 per square kilometer) compared to 263 per arable square kilometer (23 per square kilometer) in the developed world. These figures contribute to a common myth that third-world people jostle each other for space. However, India, with 625 inhabitants per arable square kilometer, whereas more densely populated than Canada (67) and the United States (156), is less densely populated than Germany (714) and Britain (1,000). Moreover China (1,000) is not so dense as Japan (2,500), whereas both the Netherlands and Bangladesh have 1,667.

The problem in LDCs is not population density but low productivity (low levels of technology and capital per worker) combined with rapid population growth. Between 1945 and 2004, death rates in developing countries were cut more than two-thirds by better public health, preventive medicine, and nutrition. Additionally, improved transport and communication made food shortages less likely. Whereas the population growth rate in industrialized countries was 0.1 percent in 2004, LDC birth rates remained at high levels, resulting in an annual growth of 1.6 percent (a rate doubling population in 44 years). High fertility means a high percentage of the population in dependent ages, 0–14, and the diversion of resources to food, shelter, and education for a large nonworking population. The lagged effect of even more rapid population growth in past decades has generated an LDC labor force growth estimated at 1.9 percent yearly in 2004 – a much faster labor force growth than that of industrialized Europe in the 19th century (which grew at less than 1 percent a year). Industrial employment’s demand growth lags behind this labor force growth, so that unemployment continues to rise in developing countries, especially in urban areas.
The extended family, including two or more nuclear families of parent(s) and children, is a common institution in developing countries. Although some scholars regard the extended family as an obstacle to economic development, this is not necessarily the case. To be sure, if one family member earns a higher income and saves, others may demand the savings be shared, which hinders development, as funds are diverted from capital formation. However, if family members attend secondary school or university, acquire training, seek urban employment, or start a new business, the larger family unit may pool risks to support them financially and so contribute to economic development.

v. Low rates of saving

A country’s capital stock is the sum total of previous gross capital (including human capital) investments minus physical capital consumption (or depreciation), natural capital depletion, and environmental capital damage. Consistently low adjusted net savings means that capital stock in low-income countries remains low.

Sustainable development refers to maintaining the productivity of natural, produced, and human assets (or wealth) over time. The World Bank uses a green national accounts system of environmental and economic accounts, measuring these changes in wealth as adjusted net savings. From gross domestic savings, the Bank subtracts not only the consumption of fixed capital but also energy depletion, mineral depletion, forest depletion, and carbon dioxide damage, while adding education spending, a proxy for human asset accumulation. This adjusted net savings gives lower than traditional estimates for low- and middle-income countries, as resource depletion and environmental damage are a higher proportion of savings and education.
spending a lower proportion than those for high-income countries. High income countries’ net savings after adjustment are a higher percentage of gross national savings than for developing countries.)

Saving rates around the world vary widely: on average East Asia saves more than 30 percent of gross national disposable income (GNDI), while Sub-Saharan Africa saves less than 15 percent. Regional differences have been rising: over the past three decades saving rates have doubled in East Asia and stagnated in Sub-Saharan Africa and in Latin America and the Caribbean. Across countries higher saving rates tend to go hand in hand with higher income growth—a fact that has been taken as proof of the existence of both virtuous cycles of saving and prosperity and poverty traps of insufficient saving and stagnation (see figure below).

**Fig: Median Gross National Saving Rates by Region, 1965–94**

*Note: Gross national saving rates, including net current transfers, are given as a percentage of gross national disposable income.*

*Source: World Saving Database.*