DR. MOUNICA VALLABHANENI
PROF. J.K. TANDON

DEVELOPMENT OF ECONOMICS ANDPLANNING

ALEXIS PRESS
JERSEY CITY, USA

DEVELOPMENT OF ECONOMICS AND PLANNING

DEVELOPMENT OF ECONOMICS AND PLANNING

Dr. Mounica Vallabhaneni

Prof. J.K. Tandon

ALEXIS PRESS

ALEXIS PRESS

Published by: Alexis Press, LLC, Jersey City, USA
www.alexispress.us

First Published 2022

A catalogue record for this publication is available from the British Library

Library of Congress Cataloguing in Publication Data

Includes bibliographical references and index.

Development of Economics and Planning by *Dr. Mounica Vallabhaneni, Prof. J.K. Tandon*

ISBN 978-1-64532-355-6

CONTENTS

CHAPTER 1

CONCEPTS OF ECONOMICS DEVELOPMENT

Dr. Mounica Vallabhaneni, Assistant Professor
Department of Commerce and Economics, Presidency University, Bangalore, India
Email Id- mounicav@presidencyuniversity.in

ABSTRACT:

Concepts in Economics of Development are the building blocks that form the foundation of this field of study. These concepts provide a framework for understanding the economic and social processes that contribute to economic growth and development. One key concept in Economics of Development is economic growth, which refers to the sustained increase in per capita income over time. Economic growth is essential for improving living standards, reducing poverty, and achieving sustainable development. Another important concept is human development, which emphasizes the role of education, health, and social welfare in promoting economic growth and development. Human development is essential for reducing inequalities and ensuring that economic growth benefits everyone in society.

KEYWORDS:

Economic, Growth, Poverty, Production, Social.

INTRODUCTION

The issues with the economic growth of poor nations are referred to as the "economics of development." From Adam Smith on down to Marx and Keynes, economists have been interested in the study of economic development, but they were primarily focused on issues that were largely static in nature and were connected to a Western European framework of social and cultural institutions. However, economists did not begin focusing on studying the issues of poor nations and developing theories and models of development and growth until the 1940s, particularly after the Second World War. The wave of political rebirth that swept across Asian and African countries when they shook off the colonial yoke following World War II has further piqued their interest in the economics of development. Further interest in the topic has been sparked by the desire of new leaders in these nations to encourage fast economic growth and the developed countries' recognition that "poverty anywhere is a threat to prosperity everywhere."

But there is no moral reason for the wealthier countries to want to end the widespread poverty in the developing world. The cold war that existed between Russia and the West before to the fall of the Soviet Union provided the strongest argument for supporting developing nations. Each side sought to win the support and allegiance of developing nations by advocating for more assistance than the other.Economic growth has export potential for both the nations providing and receiving help. Rich nations need an ever-increasing pace of growth together with a channel for the utilisation of their expanding capital stock in order to prevent secular stagnation. To maximise their export potential and prevent balance of payments deficits, underdeveloped nations must accelerate their pace of development.

The experience of the wealthy countries, however, cannot serve as the foundation for a study of global poverty and strategies for eradicating it. Because "economic development has a tendency to take care of itself in the advanced countries," it is more common for them to focus on the economy's short-term fluctuations. Myrdal contends that as a result, developing nations should modify our inherited economic theory to suit their own needs and goals rather than blindly accepting it.

Economic Growth and Economic Development

Economic growth, in general, relates to the issues of industrialised countries, and economic development, to those of developing nations. When he writes: "The raising of income levels is generally referred to as economic growth in rich countries, and it is referred to as economic developinerit in poor countries, but this view does not specify the underlying forces which raise the income levels in the two types of economies. In this context, Mrs. Hicks makes the point that while the problems of underdeveloped nations are related to the development of underutilised resources, despite the fact that their uses are well known, those of advanced nations are related to growth, with the majority of their resources already being widely known and developed[1].

In actuality, the phrases "growth" and "development" have nothing to do with the kind of economy. The two are different in terms of the types and sources of change. In contrast to growth, which is a long-term change brought on by a gradual rise in population and savings rates, Schumpeter defined development as "a discontinuous and spontaneous change in the stationary state which forever alters and displaces the equilibrium state previously existing." The bulk of economists have developed on and broadly accepted Schumpeter's viewpoint. According to Kindleberger, "Economic development includes both greater production and changes in the technological and institutional arrangements by which it is created and distributed. Economic growth, on the other hand, refers to increased output. Growth may potentially entail an increase in output per unit of input, as well as more output produced from the same quantity of inputs. Beyond this, development also entails adjustments to the sectors' distribution of inputs and the output's composition.6 Friedman describes development as an inventive process leading to the structural transformation of the social system and growth as an increase of the system in one or more dimensions without a change in its structure.

As a result, economic growth is defined as a quantifiable sustained rise in a nation's per-capita production or income, together with an increase in its work force, consumption, capital, and trade volume. Economic development, on the other hand, is a broader term than economic growth. It is understood to signify change as well as growth. According to Myrdal, it is connected to qualitative changes in economic desires, products, incentives, institutions, production, and knowledge, or the "upward movement of the entire social system". It highlights the fundamental drivers of development, including structural and technical advancements. Actually, economic development encompasses both expansion and contraction. An economy may expand, but it may not flourish if structural and technical reforms aren't made to address issues like poverty, unemployment, and inequality. But without a rise in production per person, it is impossible to conceive progress, especially when the population is expanding quickly.Some economists refer to these phrases as synonyms despite their obvious distinctions. "Most of the time we shall refer only to growth, but occasionally for the sake of variety, to progress or to development," says Arthur Lewis in The Theory of Economic Growth. Throughout this work, these phrases will also be utilised as synonyms[2], [3].

Economic Development Measurement

There are four techniques to gauge economic development:

A rise in the economy's real national income over an extended period of time is one way to gauge economic progress. This is demonstrated where time T is shown on the horizontal axis and change in GNP plotted on the vertical axis in proportion to time Y/t. The GNP level in nation A is represented by the curve Ya, and that in country B by the curve Yb.

Up to time T, nation A has had a greater GNP growth than has country B. However, over time, when nation B begins its development process, its GNP grows more quickly than it does in country A. The illustration, where Yb > Ya after point T, makes this obvious. But for the following reasons, this definition is not adequate:

In contrast to money terms, "real national income" refers to the complete production of final products and services produced by the nation. Therefore, it will be necessary to account for price fluctuations when estimating actual national income. But given that price differences are unavoidable, this is unreasonable. The word "over a long period of time" in this metric denotes a steady rise in real income. Economic growth is not the short-term increase in national revenue that happens during the upswing of business cycles[4].

DISCUSSION

This statistic does not account for variations in population growth. Economic development will actually slow down if a gain in real national income is accompanied with a quicker rate of population expansion. The costs to society of environmental degradation, urbanisation, industrialization, and population increase are also not included in the GNP number. It regards the world "like a business in liquidation" and views natural resources as being completely free. Furthermore, it provides little information on how revenue is distributed across the economy.

GNP is usually calculated in terms of money, but certain products and services, such as the mother's care for her children and their passion of painting, are challenging to value in terms of money. According to a UN Report, on average, only one-third of the labour done by males and two-thirds of the work done by women is taken into account when calculating GNP. The GNP will be lower than what it is if all such services are excluded from it. Double counting, which results from an incorrect distinction between final and intermediate goods, is another challenge in measuring GNP. A product or service being mentioned more than once is usually feared. If this were to occur, the GNP would end up being several times the real.

It doubly counts both treatments for addictions as a corollary. when wine and food are ingested first. Second, when funds are allocated to the food sector and the fight against alcoholism. GNP does not distinguish between the production of harmful things like alcohol or cigarettes and the useful services like raising children. As a result, it compares good and terrible. Gambling, illegal wine extraction, and other unlawful income are excluded from the calculation of GNP. These products and services are valuable and satisfy customer wants. GNP, however, comes out to be smaller than the real when they are excluded. The challenge of adding transfer payments in GNP then emerges. Pensions, unemployment benefits, and interest on public loans are benefits that individuals get, but it is debatable whether they should be included as national income. These revenues are both a portion of individual income and a cost to the government at the same time[5].

Since these changes are unrelated to current economic activity, they are not included in the GNP. Instead, property owners who experience increases or declines in the market value of their capital assets or changes in demand are exempt from reporting any capital gains or losses. Only when capital gains or losses are attributable to the flow or absence of current productive activity are they included towards the GNP.

The GNP includes all inventory changes, positive or negative. The process entails multiplying any positive or negative changes in physical inventory units by the current price. The firm's total current output is then increased by this amount. However, the issue is that businesses record inventories at original costs as opposed to replacement costs. The book value of inventory increases when prices rise. On the other hand, when prices decline, there are losses. Therefore, the inventory book value either overstates or understates the real inventory.

The metric that remains after capital depreciation is subtracted from GNP is GNP. Depreciation is a profit charge that reduces national revenue. However, it is exceedingly challenging to estimate the present depreciated worth of a piece of capital with, let's say, a fifty-year projected life. Businesses often base their depreciation allowances on the asset's initial purchase price. The yearly depreciation provision will therefore assess the cost of using fixed assets for about fifty years (i.e., the period when the assets were purchased) rather than the present cost of utilising them while capital goods prices are changing. In contrast to inventories, a depreciation value adjustment is rife with statistical challenges, including the age-composition of the whole capital stock and variations in the pricing of capital goods every year since the assets were purchased[6].

The actual GNP is underestimated when it is calculated in terms of money. It excludes the free time sacrificed during the manufacturing of a good. Even if two people may make the same amount of money, if one puts in more labour than the other, it is true that the former's true income has been overstated. Thus, leisure has no value according to GNP. Many public services are included in the calculation of GNP even if they cannot be accurately evaluated. How are the military and police services to be valued? The military are active during times of war, while they are at rest in cantonments during times of peace. In a similar vein, estimating the financial contribution made to GNP by profits generated on irrigation and power projects is a challenging topic.

Conclusion. The focus on GNP as an indicator of economic progress is based on the application of industrialised countries' experience to undeveloped nations, whose socioeconomic systems are vastly different from those of the former. The developed nations "took for granted that the GNP growth, which was largely concentrated in the industrial sector, would automatically bring with it full employment and the eradication of poverty as it had appeared to do for them," according to an OECD report, which is highlighted in this connection. They neglected to consider the slow population growth, labor-intensive technology, relatively easy emigration for those unable to find employment, lack of competition from already highly industrialised societies, and their lack of restrictions on access to their markets during their early industrialization period.

Sadly, economists in developing nations and their Western advisors have interpreted economic growth in these nations as a structural shift where the amount of agriculture in the GNP decreases and the role of the industrial and service sectors rises. As a result, they have placed emphasis on such development schemes that prioritise fast urbanisation and industrialization at the expense of agricultural and rural development. The issues of poverty, unemployment, and income distribution have been accorded secondary weight in terms of remedies. This is because it is believed that as the GNP grows, these issues would be automatically resolved over time as the advantages "trickle down" to the poor in the form of more work and income possibilities[7].

GNP as a measure of economic progress, however, has not been able to help emerging nations lower poverty, unemployment, and inequality while also improving living standards. In February 1970, Robert McNamara, the World Bank's then-Governor, acknowledged that the GNP growth rate had failed to serve as a reliable indicator of economic development. He said: "In the developing world, at the end of the decade: malnutrition is common, infant mortality is high, life expectancy is low, illiteracy is widespread, unemployment is endemic and growing, the redistribution of income and wealth is severely skewed." GNP cannot thus be used to gauge economic growth.

GNP per person. The second metric focuses on a growth in the economy's long-term real per capita income. Economic development is universally understood by economists to be a growth in real per capita income or production. Economic development, according to Meier, is "the process by which the real per capita income of a country increases over a long period of time subject to the stipulations that the number of people below a "absolute poverty line" does not rise and that the distribution of income does not become more unequal."This economic growth indicator aims to highlight the idea that for economic growth, the rate of rise in real per capita income has to be larger than the rate of population growth. But there are still issues.

The average person's quality of life may not really rise with an increase in per capita income. While per capita real income may be rising, per capita consumption may be declining. Either people are saving more money, or the government is spending the extra money on its military or other programmes. Another scenario in which the many poor stay poor despite a rise in real GNP per capita is when the few wealthy instead of the many poor get the additional income. Other concerns about "the structure of the society, the size and composition of its population, its institutions and culture, the patterns of resource use, even the distribution of output among the society's members" are subordinated by such a metric. The estimates of real per capita income fall short of accurately measuring changes in production brought on by changes in the price level. Index numbers are only estimates used to gauge changes in the level of prices. Additionally, prices are varied in each nation. Every nation has different consumer tastes and demands. As a result, it is often inaccurate and impossible to compare the national income statistics of various nations[8].

International comparisons of the actual GNP per capita are unreliable since official exchange rates are used to convert several currencies into US dollars, which is a common currency. These nominal exchange rates do not account for how much one currency is worth in comparison to another. Thus, it is incorrect to compare the GNP per capita of various nations. The per capita national incomes of poor nations are underestimated when compared to rich ones when the whole production of goods and services is calculated using a single currency unit. The pricing of items that are traded globally serve as the primary benchmark for exchange rates. However, a lot of commodities and services in developing nations are both cheaply priced and never sold globally. Therefore, economists prefer to assess GNP per capita in terms of a country's buying power parity in dollars rather than in terms of exchange rate.

Problems with necessities like nutrition, health, sanitization, housing, water, and education are not taken into consideration in the actual GNP per capita. The growth in GNP per capita cannot capture the improvement in living conditions brought about by meeting fundamental necessities.

The real GNP per capita is the most often used indicator of economic progress despite these drawbacks.Additionally, there is a propensity to gauge economic growth in terms of economic wellbeing. Economic growth is understood to be a process in which consumer spending on products and services rises. Economic development, in the words of Okun and Richardson, is "a sustained, secular improvement in material well-being, which we may consider to be reflected in an increasing flow of goods and services". This indicator has certain restrictions as well.

1. First, there are restrictions on the weights that may be applied to people's intake. The consumption of products and services is influenced by personal preferences and inclinations. Therefore, using the same weights for calculating an individual's welfare index is incorrect.
2. Second, care must be taken when estimating economic wellbeing with respect to the makeup of the total production that is driving an increase in per capita consumption and how this output is valued. The increased production might include capital products. It can come at the expense of a lower production of consumer products.
3. Third, valuing the product is where the true issue lies. While economic wellbeing is determined by an increase in real national production or income, the output may be priced at market prices. In reality, prices, as well as the composition and value of national production, would alter with a different income distribution [9].
4. Fourth, from the perspective of wellbeing, we must also take into account how things are created in addition to what is produced. The rise in actual costs (pain and sacrifice) and social costs in the economy might have been caused by the increase of real national production. For example, the increased productivity might have been the consequence of excessive hours and worsening working conditions for the labour force.
5. Fifth, it is not necessary that the improvement in economic wellbeing coincided with the rise in national income. It's probable that as real national income and per capita income increased, the affluent became wealthier and the poor got poorer. As a result, economic progress cannot occur unless there is a fair and justified allocation of the nation's revenue.
6. Last but not least, without taking into account other factors, we cannot directly correlate a rise in production per head with an improvement in economic or social wellbeing. We must evaluate the distribution of income, the makeup of production, consumer preferences, real costs, and other specific changes connected to the general rise in real income in order to determine the best pace of growth.

Basic requirements or social indicators. Some economists have attempted to assess economic progress in terms of social indices since they are dissatisfied with using GNP/GNP per capita as the benchmark. Social indicators are made up of a broad range of factors by economists. Some of these factors are "inputs," such as minimum dietary requirements, the number of hospital beds or physicians per capita, while others may be "outputs" that result from these inputs, such as reductions in infant death rates, illness rates, etc. The essential requirements for development are sometimes referred to as social indicators. By meeting the poor's most basic needs, basic needs aims to reduce poverty. The GNP/GNP per capita method, which tries to increase productivity and incomes of the poor automatically over time, has a longer time frame and requires more financial resources than direct supply of such basic requirements as health, education, food, water, sanitation, and shelter. By fostering human growth in the form of educated and healthy individuals, basic necessities result in increased levels of production and wealth.

The advantage of social indicators is that they are focused on goals, with human progress as the goal. A method to achieving these goals is economic growth. Social indicators show us how various nations want to divide their GNP among various purposes. Some people would choose to invest more money in schools and less in hospitals. Additionally, they provide information on the existence, absence, or lack of certain fundamental requirements. Hicks and Streeten take six social variables for fundamental needs into account:

All other metrics are production indicators, with the exception of calorie supply per person. Due to children's susceptibility to water-borne illnesses, infant mortality is one of these that both shows the presence of clean drinking water and sanitary facilities. It also has something to do with baby nutritional deficits and life expectancy at birth. Thus, four of the six fundamental requirements are measured by the infant mortality rate.

The following are social indicators' limitations as indicators of economic progress. A logical weighting system-based composite index construction presents challenges. First, economists disagree on the number and kind of factors that should be included in such an index. For instance, Goldstein creates an index using simply newborn mortality as a measure of fundamental requirements.Twelve to eighteen items are used by Hagen,13, and UNRISD14, with very few of them being common. Morris, on the other hand, creates a "Physical Quality of Life Index" for 23 industrialised and developing nations of the globe using just three factors: life expectancy at birth, infant mortality, and literacy rate.

The challenge of allocating weights to diverse objects, which may rely on the social, economic, and political structure of the nation, is the second issue. Subjectivity is involved in this. In a comparative comparison of several nations, Morris D. Morris15 gives equal weight to the three variables, undermining the usefulness of the index. International comparisons would be just as erroneous as GNP estimates if each nation selected its own set of social variables and gave them different weights. Third, social indicators are unrelated to the future and are only concerned with present wellbeing. Fourth, most indicators, including those related to education, health, and so on, are inputs rather than outputs. They include making value assessments. Therefore, economists and UN agencies adopt GNP per capita as the measure of economic progress to avoid making value judgements and for the purpose of simplicity.

CONCLUSION

There is the concept of inequality, which refers to disparities in income, wealth, and opportunities. Inequality is a significant challenge in the Economics of Development, as it can hinder economic growth and development by limiting access to education, healthcare, and other essential resources. Finally, the concept of globalization is also important in the Economics of Development. Globalization refers to the increasing interconnectedness of economies and societies around the world, and it presents both opportunities and challenges for economic growth and development. These concepts provide a framework for understanding the complex processes that drive economic growth and development, and they guide research and policy interventions aimed at promoting sustainable development and reducing poverty and inequality.

REFERENCES:

[1] G. Munda, "Environmental economics, ecological economics, and the concept of sustainable development," *Environ. Values*, 1997, doi: 10.3197/096327197776679158.

[2] L. Vera, “Some useful concepts for development economics in the tradition of Latin American structuralism,” *Am. J. Econ. Sociol.*, 2013, doi: 10.1111/ajes.12027.

[3] M. Litwiński, “The evolution of idea of socio-economic development,” *Ekon. i Prawo*, 2017, doi: 10.12775/eip.2017.031.

[4] N. D. Johnson and M. Koyama, “States and economic growth: Capacity and constraints,” *Explorations in Economic History*. 2017. doi: 10.1016/j.eeh.2016.11.002.

[5] C. A. S. Hall, “Integrating concepts and models from development economics with land use change in the tropics,” *Environment, Development and Sustainability*. 2006. doi: 10.1007/s10668-005-0786-2.

[6] A. Mojašević, “Behavioural Economics And Public Policies: Some Introductory Issues,” *Facta Univ. Ser. Law Polit.*, 2021, doi: 10.22190/fulp2003131m.

[7] L. V. Tesheva, “Scientific and Theoretical Meaning of the Concept of ‘Development’ in Economics,” *Bus. Inf.*, 2020, doi: 10.32983/2222-4459-2020-12-32-38.

[8] S. Jahan, “Inflation Targeting: Holding the Line - Back to Basics: Economics Concepts Explained - Finance & Development,” *Econ. CONCEPT Explain.*, 2020.

[9] A. R. Romeiro, “Desenvolvimento sustentável: Uma perspectiva econômicoecológica.,” *Estud. Avancados*, 2012, doi: 10.1590/S0103-40142012000100006.

CHAPTER 2

ANALYSIS OF DEVELOPMENT ECONOMICS

Mr. Yelahanka Lokesh, Assistant Professor
Department of Commerce and Economics, Presidency University, Bangalore, India
Email Id-lokesh.yr@presidencyuniversity.in

ABSTRACT:

Analysis of Development Economics is a field of study that focuses on understanding the economic and social processes that contribute to economic growth and development. It seeks to provide insights into the causes of underdevelopment and to identify effective policies that can promote sustainable economic growth and reduce poverty and inequality. The analysis of development economics involves the use of economic models, statistical analysis, and empirical evidence to examine the complex interactions between different economic and social variables. These variables may include factors such as education, health, infrastructure, institutions, trade, and globalization. One key area of analysis in Development Economics is the study of poverty and inequality. This involves examining the causes and consequences of poverty and inequality, as well as the effectiveness of policies aimed at reducing them. Another important area of analysis is the study of economic growth and development.

KEYWORDS:

Economic, Growth, Life, Nation, Poverty.

INTRODUCTION

Basic needs are concerned with goals, as was previously said above, and economic progress is a means to achieve goals. Thus, there is no contradiction between meeting fundamental necessities and advancing the economy. According to newborn mortality rates, Goldstein discovered a significant association between economic progress and fundamental requirements. He associates efficiency with economic progress. He defined efficiency as the GDP level necessary to achieve the infant mortality aim of less than 5%. Because they are able to lower their infant mortality rates, nations that dedicate a significant portion of their GDP to public health are more effective. He discovered that a small number of emerging nations have used relatively little resources to satisfy the necessities of health and education. He included health, female educational achievement, and school enrollment in his cross-sectional analysis. He discovered that a few UDCs have used relatively little resources to address the fundamental requirements of health and education. He arrived to the conclusion that UDCs that prioritise women's and elementary school education may grow more while paying less to provide for this need.Fei, Ranis, and Stewart16 discovered that satisfying fundamental requirements doesn't cause emerging nations' productive investment to decline. They selected nine nations as their sample. According to their analysis, Taiwan, South Korea, the Philippines,

While Columbia, Cuba, Jamaica, and Sri Lanka had average investment ratios with excellent basic requirements, Uruguay and Thailand offered strong basic needs and had above average investment ratios. Additionally, they compared economic development and performance in meeting basic necessities for nine different nations that was above and below average. Taiwan, South Korea, and Indonesia were among them and enjoyed above-average economic growth in addition to meeting strong fundamental necessities. Brazil had above-average economic development while having just the barest necessities. However, while meeting its citizens' fundamental necessities well, Somalia, Sri Lanka, Cuba, and Egypt saw economic development that was below average. One nation, Male, experienced economic development that was below average while having just the most basic necessities. They came to the conclusion that meeting more fundamental needs did promote economic development. In his research, Norman Hicks also shown how the basic requirements approach has increased the development rates of many emerging nations.

Let's contrast how approaches to economic development based on fundamental requirements, welfare, and GNP/GNP per capita have evolved through time. Three pathways are shown in Figure 2: A1', A2 and A3. The vertical axis represents growth rate, which is determined by the consumption per head of the poor, while the horizontal axis represents time. Using the GNP/GNP per capita method, Path A1 is relevant. It demonstrates that when poverty, unemployment, and inequality rise due to fast industrialization and urbanisation, the consumption per head of the poor decreases at first until time T1. When the benefits of rising GNP/GNP per capita "trickle down" to the underprivileged, their jobs and earnings rise, and per capita consumption rises as well starting at time T1. The welfare method, which is represented by Path A2, depicts a progressive rise in the poor's per capita consumption. It trails route Al starting at time T2.

The basic requirements strategy is related to Path A3. Meeting the poor's fundamental current consumption needs, which may be below the levels of the GNP/GNP per capita and welfare approaches up to time T3, is given top priority in the beginning. Growth is steeper from time T3 onwards as the fundamental necessities of the impoverished are addressed over time and their levels of productivity and income rise. Path A2 is passed by Path A3 at Point B, followed by Path A1 at Point C. Therefore, the fundamental requirements approach to economic growth is preferable to the GNP/GNP per capita and welfare approaches.

Indicators Of Human Development

By using one, two, or more variables to create composite indices of human development, economists have sought to quantify social indicators of fundamental needs. The Human Development Index (HDI), created by the United Nations Development Programme (UNDP), and the Physical Quality of Life Index (PQLI) of Morris are both examined here.

The Physical Quality of Life Index (PQLI)

The greatest threat to GNP per capita as a measure of progress was posed by the Physical Quality of Life Index. In 1979, M.D. Morris created it. For comparison research, he created a composite Physical Quality of Life Index (PQLI) including 23 developing nations. To quantify how well the government is doing at satisfying the most fundamental requirements of the populace, he integrated three indicators: newborn mortality, life expectancy at age one, and basic literacy at age 15. This score covers a broad variety of parameters, including sanitation, drinking water, education, and health. With an increase in life expectancy (LE), a decrease in infant mortality rate (IMR), and an increase in basic literacy rate (BLR), the PQLI demonstrates an improvement in life quality[1], [2].

Each of the three indicators is given a score between 0 and 100, where 0 represents the clearly defined poorest performance and 100 the clearly defined greatest performance. The three indications are averaged to create the PQLI index, which has a scale from 0 to 100 and is generated by giving each indicator equal weight.

The greatest performance is shown as the maximum and the poorest as the lowest if the indicators for life expectancy and the basic literacy rate are both positive. Being a negative indication, infant mortality rate, the best indicator is shown as the lowest and the worst as the highest. The minimal value of the positive variable is subtracted from its actual value to determine the degree of accomplishment, and the remaining amount is divided by the range, or difference, between the maximum value and minimum value, i.e.A negative indicator's real value is subtracted from its highest value, and the remaining amount is divided by the range between the maximum value and lowest value, i.e. There is no naturally occurring maximum or lowest value for life expectancy or the infant mortality rate. But it's important to choose the appropriate values[3].

DISCUSSION

Each country's HDI score reveals how far it has come towards achieving the maximum score of 1 and how far it still needs to go to meet certain predetermined objectives, such as an average life expectancy of 85 years, universal access to education, and a decz. The DHI assigns rankings to the various nations. The HDI rank of a country is based on its position in the global distribution, or how far it has advanced from the lowest HDI value of 0 to the highest HDI value of 1 relative to all developed and developing nations. A country is said to have a low level of human development if its HDI score is less than 0.5, a medium level if it is between 0.5 and 0.8, and a high level if it is over 0.8. Countries are rated according to their GDP per capita as part of the HDI.

It is said that the DHI helped remove the GDP per capita from its throne. In actuality, these two ideas don't really measure the same thing. The HDI aims to gauge the extent of human potential and the range of options open to individuals. GNP per capita, on the other hand, serves as a measure of wellbeing, utility, and the subjective pleasure that individuals get from their consumption. Therefore, the HDI is a different way to measure development. It offers distinct data from GNP per capita and complements rather than replaces the GNP per capita indicator of development[4].

There are several restrictions on the HDI.

1. According to Prof. Amartya Sen, it is a crude statistic that tries to capture in a single, straightforward figure a complicated truth about human growth and deprivation.
2. The three metrics aren't the only ones used to measure human progress. Others include things like diet, neonatal mortality, etc.
3. The HDI assesses relative rather than absolute human development, allowing all nations to see equal weighted increases in their HDI values. The progress made by the less humane nations won't be acknowledged.
4. The weighting system used to determine the four HDI components looks arbitrary.
5. It is arbitrary to even give each of the three indices, which are very varied, an identical weight of one third when determining the HDI. Equal weights seem unsatisfactory and unjustified to the degree that one component index has a different variance than another.

6. A nation with a high HDI may draw attention away from the extreme inequality, unemployment, and poverty that exist there.

Conclusion. Despite these flaws, the HDI offers a more accurate picture of the condition of a country's development than income alone since it measures average accomplishments in health, education, and income.

Human Development Index (HDI) Construction

The HDI is based on three indicators: life expectancy at birth as a measure of longevity; adult literacy as a measure of educational attainment as weighted by two thirds; and combined primary, secondary, and tertiary enrolment ratios as weighted by one third; and real per capita (PPP$) as a measure of standard of living[5].The field of development economics has changed significantly during the last 50 years. The focus has switched away from increasing GNP per capita growth and towards job creation, income redistribution, meeting basic human needs, structural adjustment, and sustainable development. Growth in GNP/GNP per capita has been linked to economic progress since the 1950s. The goal rate of 5% in LDCs' (least developed nations') GNP for the 1960s development decade was established by the UN in a resolution. Economic experts in LDCs urged accelerating industrialization coupled with urbanisation to get the desired development rate. This point of view was founded on Rostow's theory of the phases of growth, according to which development followed a straight line through many stages. The 'take-off' was the most significant stage that captured LDCs' attention. The issues of economic inequality, unemployment, and poverty received only a secondary level of attention. It was thought that the benefits of the rising GNP per capita would 'trickle down' to the underprivileged in the form of more job and income possibilities.

The Nurksian maxim of the "vicious circles" of low savings, narrow markets, and population pressures served to support this linear viewpoint even more. It was thought that breaking these cycles would unleash the powers of nature, resulting in more development. In support of this, Rosenstein Rodan promoted the Big Push, whereas Nurkse, Hirschman, and Leibenstein promoted the Balanced Growth, the Unbalanced Growth, and the Critical Minimum Effort. However, a larger focus was placed on international assistance to provide the "missing components" such as money, technological know-how, foreign currency, etc. Foreign assistance was justified by the "two-gap model" and industrialization via import substitution so that LDCs could progressively stop receiving it[6].

According to David Morawetz's estimations, the GNP per capita of the emerging nations increased at an average rate of 3.4% per year between 1950 and 1975 as a consequence of the implementation of these development techniques. This exceeded both official objectives and private expectations, and it was faster than either the developed countries' or LDCs' rates of growth in any comparable period before 1950.20 However, the increase in GNP per capita in these nations did not address the issues of inequality, poverty, or unemployment.

In the 1960s, economists began to increasingly criticise GNP as a measure of economic advancement. But Dudley Seers fired the first shot in his presidency speech to the Society for International Development's Eleventh World Conference, which was held in New Delhi in 1969. "The questions to ask about a country's development are therefore: What has been happening to poverty?," he said in his statement on the issue. What is the current state of unemployment? What has inequality been up to lately? It is clear that there has been a time of progress for the nation in question if all three of these have fallen from high levels. Even if per capita income doubled, Robert McNamara, the then-Governor of the World Bank, admitted in February 1970 that the GNP growth rate was a poor indicator of economic development in LDCs: "In the first Development Decade, the primary development objective, a five per cent annual growth in GNP, was achieved. If one or two of these central problems have been growing worse, especially if all three have, it would be strange to call the result "development." This was a significant achievement. However, this very rapid rate of GNP growth did not result in development that was desirable. At the conclusion of the decade, the developing world is plagued by hunger, high infant mortality, short life expectancy, widespread illiteracy, chronic and expanding unemployment, and a grossly unbalanced distribution of income and wealth.Since the 1970s, the focus has been on the quality of the development process that has resulted in a gradual decrease in absolute poverty, unemployment, and inequality. Three distinct, though essentially complimentary initiatives were prioritised by everyone involved in the development process: expanding employment, lowering income and wealth disparities, and addressing fundamental human needs[7].

creation of jobs. The LDCs saw strong rates of industrial output growth and economic expansion throughout the 1950s and 1960s, but these rates fell short of producing a sufficient number of jobs. Arthur Lewis21 argued in 1954 that the shift of subsistence and landless workers to the higher-paying urban capitalist industries would automatically alleviate the issue of unemployment in LDCs. Early on in the economic process, this would exacerbate disparities; but, as growth picks up speed, the rural jobless workers would be absorbed into the modern capitalist sector, eliminating both unemployment and inequities. The Lewis view persisted in LDCs for nearly two decades, but it was unable to address the issue of unemployment for three reasons: (a) the population and labour force grew faster than anticipated; (b) wage differentials and trade union influences in urban areas made the gap between the capitalist wage and the subsistence wage much wider than Lewis had assumed; and (c) the LDCs adopted labor-saving technologies in the urban capitalist sector that increased productivity.

Therefore, since the 1970s, employment has been a key policy concern for LDCs and international organisations. The focus switched from an output- or growth-focused strategy to a poverty- or income-focused approach to the employment issue, emphasising employment quality rather than quantity. Increasing focus was given to the implementation of job-generating initiatives especially targeted at the urban and rural poor in order to boost their productivity and incomes since industrial expansion had failed to provide significant employment possibilities.

Income Disparity. The inverted U-shaped curve proposed by Kuznets in the 1950s and 1960s had an impact on how people thought about income inequality and development.22 Based on the experience of developed nations, Kuznets hypothesised that historically, income inequality had a tendency to rise first and then decline as nations developed from a low level. Accordingly, it was thought that high levels of income disparity had a positive impact on economic growth in the early stages of development and that as development picked up steam, its advantages would eventually 'trickle down' to the lower income groups. Therefore, this strategy to development focused on maximising the pace of economic growth by increasing the economy's capital, infrastructure, and productive capacity while keeping the distribution of income unaltered. It was comparable to riding the economic growth horse while letting the economic equality horse fend for itself[8].

The main proponent of this tactic was Arthur Lewis. He described how wealth disparities contributed to the economic expansion of 19th-century Japan, 19th-century Western Europe, and 19th-century England. For LDCs, he argued for the same. He argued that if income disparity was such that profits represented a comparatively substantial proportion of the national income, voluntary savings formed a sizably large share of the national income. The modern sector expanded more quickly than the traditional sector as a result of progress, and the proportion of profits to national income also rose. This has the tendency to maintain economic disparities. The distribution of income would eventually stabilise as job possibilities expanded everywhere and the traditional sector also flourished. This was a routine operation and just a byproduct of the expanding economy.Numerous empirical research showed that income disparities have grown in the majority of LDCs despite the inadequate and non-comparable data as well as the dispute surrounding the use of the indicators of inequality. They succeeded in persuading policymakers, economists, and representatives of international organisations working in LDCs that the absolute and relative living standards of these nations' most vulnerable citizens had fallen.

Essential Human Needs. Economic philosophers adopted the "basic human needs" approach to increasing human well-being, particularly that of the poor, after becoming dissatisfied with the growth, employment, and income distribution methods to development. The World Bank's first mission to an LDC, Columbia, in 1950, had "basic human needs" as its declared goal. However, owing to the abundance of planning goals in LDCs during those early years, this aim was not given the proper consideration. But the ILO first advocated for a "basic needs strategy" during the World Employment Conference in 1976. In its Fifth Five-Year Plan in 1974, two years before the ILO announcement, India became the first LDC to embrace this.

The basic human needs approach placed a strong focus on meeting fundamental physical requirements in terms of food, water, housing, clothes, education, and health. The basic requirements plan consisted of three parts. Its primary goal was to increase the productivity and incomes of the poor in labor-excess LDCs by using labor-intensive manufacturing methods and meeting their fundamental needs. Second, it placed a focus on eradicating poverty by providing public amenities including health, drinking water, and education. Third, the government provided funding for these public programmes. But in fact, the provision of fundamental public servicesthe second itemwas the only one that received attention. The fundamental approach was thus condemned as being a prescription to "count, cost, and deliver," that is, to count the poor, cost the number of public services, and provide them to the poor. As a result, it was considered to be top to bottom state activity. Fourth, it was condemned for failing to provide the underprivileged access to finance and productive assets[9].

Stability and structural modification. The basic requirements plan was put on hold at the beginning of the 1980s due to the slowing of development in wealthy nations, the increase in oil costs, the debt problem in developing nations, and the deterioration of their terms of trade. Numerous nations started stabilisation and structural adjustment plans. Initial stabilisation initiatives, backed by the IMF and World Bank, attempted to lower inflation, reduce trade and budget deficits, decrease public expenditure, raise interest rates, and reduce wage inflation. But in certain nations, similar tactics often resulted in recession. Furthermore, they were temporary solutions. Many developing nations shifted to long-term structural adjustment programmes at the urging of the World Bank and IMF. It is a reform project that was created domestically and adheres to the objectives of liberalisation, adjustment, and privatisation. These often entail steps to lower the budget deficit and "involve reducing the role of the state, removing subsidies, liberalising prices, and opening economies to flows of international trade and finance." Most LDCs continue to work on their structural adjustment plans. However, this has resulted in less money being spent by the government on social services like health and education. Concern for the poor has been relegated to the background while poverty and unemployment have grown.

Human Potential. Prof. Amartya Sen underlined the idea of increasing "human capabilities" throughout this time of liberalisation, adjustment, and privatisation. He contends that promoting people's capacities for achieving greater levels of health, knowledge, self-respect, and the capacity to actively engage in communal life is fundamental to expanding their freedom of choice. A society's level of life should not be assessed by its GNP per capita or the availability of certain items, but rather by its citizens' capacities, or what a person is or is not able to accomplish or be. These entitlements are produced by entitlements, the assortment of different commodity bundles that a person might get in society. Being free from famine, hunger, and undernourishment; taking part in social life; having appropriate housing, and so on, are the important skills. The increase of these capacities means freedom of choice, including freedom in terms of politics, society, economy, and culture.

Sen's idea of human capacities has drawn criticism for the following reasons: First, when freedom from slavery, freedom from oppressive religion, and freedom from political oppression are taken into account, the freedom of choices go beyond economic progress. The measurement of each of these things is the second issue. How to assess the accomplishment of social and political goals in the absence of economic indicator data in LDCs. Therefore, it is wise to limit the idea of human capacities to merely being free from hunger, poverty, and other conditions related to economic capabilities.

Development of people. Sen's perspective was included by the UNDP in its inaugural Human Development Report in 1990. It contends that human development encompasses all human qualities as well as people's wants, ambitions, and preferences, going well beyond wealth and growth. Human growth was described as "a process of enlarging people's choices" brought about by growing human capacities. Although not the sole option, income is one of the options. Increased revenue is not the same as increased human capacity. In addition to having a greater income, impoverished people place a high importance on having access to clean drinking water, better medical care, better schools for their kids, inexpensive transportation, enough housing, a stable income, and productive and fulfilling occupations.

The idea of human progress is wide and all-encompassing. It is equally concerned with economic progress and its distribution, with fundamental human necessities and a wide range of human ambitions, with the suffering of wealthy nations and with the human plight of the underprivileged. The report also discussed the connection between economic expansion and human advancement. It made clear that there is no inescapable connection between the two. Economic development is crucial because no society has ever been able to maintain the welfare of its citizens.

those who are not always developing. Therefore, economic development is crucial for human advancement. However, human development is also significant since educated, healthy individuals make greater contributions to economic progress via increased income and gainful work. Therefore, there is a direct link between economic progress and human development. In actuality, human development is the main goal, with economic growth serving as a means to that end. Therefore, policymakers should focus more on the growth's quality to promote holistic human development.

CONCLUSION

Develop a sustainable world. 'Sustainable development' was a brand-new idea that was introduced by the Brundtland Commission in 1987. It said that "meeting the needs of the present generation without compromising the needs of the future generation" is what is meant by "sustainable development." Economic growth has to "keep going" in order to be sustainable. The main objective of development policy, according to the World Development Report 1999-2000, is to increase everyone's quality of life in a sustainable manner. It claims that sustainable development has a variety of goals. Since meeting the needs of the current generation is crucial to sustaining the needs of future generations, raising living standards also includes a number of more specific goals, such as "bettering people's health and educational opportunities, giving everyone the chance to participate in public life, helping to ensure a clean environment, promoting intergenerational equity, and much more."

REFERENCES:

[1] A. Hamdan, A. Sarea, R. Khamis, and M. Anasweh, “A causality analysis of the link between higher education and economic development: empirical evidence,” *Heliyon*, 2020, doi: 10.1016/j.heliyon.2020.e04046.

[2] D. Elson, “Gender-aware analysis and development economics,” *J. Int. Dev.*, 1993, doi: 10.1002/jid.3380050214.

[3] K. Hayakawa, “Recent development of covariance structure analysis in economics,” *Econom. Stat.*, 2021, doi: 10.1016/j.ecosta.2021.10.002.

[4] L. A. Hutahaean, S. Siswandari, and H. Harini, “Need Analysis of the Development of Economics Interactive E-Module Based on Contextual Teaching and Learning for SMA,” *Budapest Int. Res. Critics Linguist. Educ. J.*, 2019, doi: 10.33258/birle.v2i2.309.

[5] H. Dick, S. Doth, C. Ernst, S. Fischer, and M. Holderried, “Current developments on digitalization: Analysis of quality and economics in healthcare,” *Urologe* . 2021. doi: 10.1007/s00120-021-01606-5.

[6] Y. Van Der Meulen Rodgers and J. C. Cooley, “Outstanding female economists in the analysis and practice of development economics,” *World Dev.*, 1999, doi: 10.1016/S0305-750X(99)00063-7.

[7] E. Mesa-Vázquez, J. F. Velasco-Muñoz, J. A. Aznar-Sánchez, and B. López-Felices, “Three decades of behavioural economics in agriculture. An overview of global research,” *Sustainability (Switzerland)*. 2021. doi: 10.3390/su131810244.

[8] T. E. George, K. Karatu, and A. Edward, “An evaluation of the environmental impact assessment practice in Uganda: challenges and opportunities for achieving sustainable development,” *Heliyon*, 2020, doi: 10.1016/j.heliyon.2020.e04758.

[9] D. Ansari and F. Holz, “Between stranded assets and green transformation: Fossil-fuel-producing developing countries towards 2055,” *World Dev.*, 2020, doi: 10.1016/j.worlddev.2020.104947.

CHAPTER 3

ECONOMIC GROWTH AND INCOME DISTRIBUTION

Dr. Mounica Vallabhaneni, Assistant Professor
Department of Commerce and Economics, Presidency University, Bangalore, India
Email Id- mounicav@presidencyuniversity.in

ABSTRACT:

Two essential components of economic development that have received substantial study in the discipline of economics are income distribution and economic growth. While economic development is necessary for raising living standards and eliminating poverty, how the benefits of growth are distributed across the various societal groups is determined by income distribution. The literature on economic growth and income distribution is reviewed in this abstract, which also looks at theoretical and empirical research on how these two elements interact.

KEYWORDS:

Distribution, Economic, Growth, Rural, Social.

INTRODUCTION

One of the objectives of macroeconomic policy is to promote economic and social wellbeing that is equitable and sustainable. The main objective of macroeconomic stabilisation policies with regard to this aim is to ensure steady economic development, particularly since it plays a crucial role in lowering global poverty. Policymakers reevaluate their choices in support of these aims as long as they don't reach their targets for sustainable economic development. Contrarily, it is said that measures to combat income disparity successfully encourage long-term sustainable development. The efficiency-equity trade-off that dominates policy discussions in many nations places the promotion of economic development and guaranteeing equitable income distribution at the core of the theoretical inferences between these variables, making them important for policy suggestions. Because of this, it's critical to examine and comprehend the theoretical connections between the pertinent variables. Studies in this field concentrate on the relationship between economic growth and income inequality using Kuznets' inverted-U hypothesis as a foundation. Numerous studies have explored various perspectives on the proposition that income disparity rises in the early stages of economic growth while falling down in the later stages.

Income disparity has been rising recently in practically every part of the globe, according to analysis of nation statistics and theoretical perspectives on the link between economic progress and income inequality. The pace of rise varies, nevertheless, depending on the location. Although it is true that nations with varied income levels have different degrees of income inequality, there is still no correlation between the two variables. The Gini coefficient, for instance, fluctuates between 20 and 40 in high-income nations, whereas it is about 33 in Kyrgyzstan, a lower-middle-income nation. Similar to these upper-middle-income nations, where income disparity is alarmingly high and the Gini coefficients are about 58 and 65, respectively, are lower-middle-income Lesotho, where the Gini coefficient is approximately 52. The fact that high-income nations make up countries with relatively low-income inequality is noteworthy, nevertheless. Footnote3 The fact that income disparity varies so widely across nations even with comparable levels of development highlights the significance of institutions and policies in reducing income inequality. Footnote4

However, theoretical and empirical research on how income inequality affects economic development is still relatively new. The connections between these factors are becoming more and more important to economists. According to some research, income disparity will have a favourable impact on economic development. The early research came to the conclusion that income disparity encourages economic development by raising savings. According to the linearity assumption of the saving function, the economy's overall saving behaviour is independent of the distribution of income and wealth; however, with a non-linear saving function, this independence vanishes. Stability exists when the marginal inclination to save from profits exceeds the marginal propensity to save from wages. This theory, referred to as the classical approach, contends that as wealth rises, so does the marginal tendency to save.

In this scenario, resources are distributed to those who have a strong marginal propensity to save, and overall savings progressively rise. As a result, increasing investments may lead to strong economic development. Second, through encouraging innovation and R&D, wealth disparity fosters economic development. The innovation market is initially modest since only affluent customers buy innovative things. The population's increased proportion of wealthy people raises the value of innovation. As the market grows, businesses make more money and increase their profits. As a result, long-term development and inventive activity are encouraged by the rise in the value of innovation. Finally, disparities in income distribution encourage behaviours like hard labour, risk-taking, investing in physical capital, and education. As a result, income disparity spurs economic development.

On the other side, it might be claimed that there are more research that indicate income disparity is detrimental to economic development. Similar to the positive benefits, there are several ways via which income disparity may have a detrimental influence on growth. According to the contemporary theory, there are four potential avenues via which income disparity would inhibit economic development. The first channel may be explained by the existence of credit market imperfections. Inequality lowers investment prospects and borrower motivation as a result of the flaws in the loan market, which increases macroeconomic instability. In general, an unfair income distribution under the original circumstances will endure and be passed down to next generations when people have uneven borrowing options. This hypothesis predicts that because the foundation of economic development is human capital, and it is examined particularly via the investments made in human capital, economic growth would unavoidably be severely impacted.

The second channel of the political economics method establishes a link between "inequality" and "income redistribution through taxes" and examines indirectly how income inequality affects economic growth. The link between taxes and redistribution is explained by the voting model. The median voter in democratic nations sets the tax rate depending on income. If tax income is allocated evenly to everybody, poor groups may gain more. On the other side, large levels of inequality will hinder economic development since they might result in political choices that lower the net return on investment. Paul and Verdier , on the other hand, criticise the political economy approach, arguing that high inequality does not necessarily call for a high rate of redistributable taxes and that there may be circumstances in which redistribution is not harmful to economic development[1].

DISCUSSION

The socio-political instability method is a different route. The core tenet of the concept is that rising economic disparity would initially cause more social unrest, according to research by Alesina et al. , Alesina and Perotti , and Benhabib and Rustichini . Investment is badly impacted by this situation's rise in social uprisings, revolutions, and violent crimes as well as more general political unrest and threats to people's property rights. Economic development will be hampered by a decline in investments brought on by a worsening in social peace and stability.

The differential fertility method is the last route that implies that income inequality has a detrimental impact on economic growth. It is argued that income disparity drives birth rates and adversely influences economic development and human capital investment. Economic development in nations with high birth rates is predicted to slow down owing to declining capital per capita. Education level explains the connection between economic disparity and fertility rate. While low-income families tend to spend less in education and have more children, wealthy families will see the reverse trend. Accordingly, it is claimed that rising fertility rates would slow economic development in nations with significant wealth disparity.

A unified growth model was proposed by Galor and Moav after taking both traditional and contemporary viewpoints into account. Depending on the degree of economic development of the nation, the impact of income disparity on economic growth varies. Since the returns on physical capital are larger than those on human capital in the early stages of development, inequality is advantageous for economic progress. As human capital becomes more crucial throughout later phases of development, inequality slows down economic growth as a result of credit restrictions. All people will ultimately be able to obtain credit without limitation in more developed phases of development, and income dispersion will finally have no impact on economic growth.

In two ways, the research is anticipated to advance the field of literature. While many studies in the literature concentrate on the direct correlation between pertinent variables, others only consider bilateral correlations, such as the one between a channel variable and economic growth or the one between income inequality. Studies that examine whether there is a particular channel via which income inequality affects economic development tend to concentrate on some of the theory's suggested negative channels. Instead of examining the direct impact of income disparity on economic development, the main goal of this research is to examine the validity of the theoretically described positive and negative channels. As a result, it is anticipated that the research will provide a more thorough understanding of how the connection between income disparity and economic development develops.

Second, the 143 countries for which data are available are examined in two separate groups as low and lower-middle-income, upper-middle-income, and high-income according to the World Bank income classification, in order to comprehend the significance of countries' income levels in the impact of income inequality on economic growth. Different outcomes for subsamples are likely to arise in the link between income inequality and economic development since numerous macroeconomic factors and policy suggestions may change across the two nation groups. As a consequence, comparing nations with different degrees of development may provide false findings. Using the System Generalised Moments Method and the 5-year averages of the data for the years 1980–2017, the analysis is carried out. There are five parts to the research. The relevant literature is presented in the second part. The approach and data set are described in the third part. The analytical findings and growth projections for the channel variable of inequality are presented in the fourth section. The conclusion and assessments are included in the fifth part[2], [3].

Despite looking at the connection between income disparity and economic development, many studies primarily concentrate on decreased form.Footnote7 However, in their analysis, the putative transmission pathways stated above were disregarded. Only empirical studies that examined the influence of the channel variable on the link between income inequality and economic development are the subject of this section. The disparities in the inequality-growth nexus between emerging and developed nations, which is one of the paper's primary contributions and is mentioned in the introductory section, are the focal point of the organisation. Each channel is thus assessed independently, although it is intended to categorise them by taking into account the nation group analysed in the research.

There are many different theoretical viewpoints on the connection between economic development and income distribution. While some theories contend that economic development promotes a more fair distribution of income, others contend that it might actually make the situation worse. According to empirical research, there is a variable link between economic growth and income distribution. Some studies found a positive association, while others found a negative relationship, and yet other studies found a relationship with a Kuznets curve.While promoting economic progress, policymakers must make sure that the advantages are spread fairly. Investments in healthcare and education, fair taxation, social safety nets, and labour market rules are all possible policy solutions. To better understand the connection between economic development and income distribution and to find efficient policy responses, further study is required[4].

While economic development is essential for raising living standards and eliminating poverty, how the benefits of growth are distributed across the various societal groups is determined by income distribution. The literature on economic growth and income distribution is reviewed in this essay, which also examines theoretical and empirical research on the subject.The link between economic growth and income distribution is viewed from a variety of theoretical angles. According to one theory, economic expansion creates more work possibilities, boosts labour demand, and raises salaries, resulting in a fairer distribution of wealth. Oftentimes, the trickle-down idea of development is linked to this point of view.According to another viewpoint, economic expansion may worsen income disparity by helping the affluent and leaving the poor behind. This point of view is sometimes linked to the Kuznets curve, which contends that income disparity rises initially before falling as a nation develops.Research on the correlation between income distribution and economic development has shown contradictory findings. Depending on the study, there may or may not be a correlation between economic growth and income equality. While some studies discover evidence of a Kuznets curve, others do not.

The fact that the link between economic growth and income distribution is context-specific and relies on elements like the degree of development, the distribution of political power, and the efficacy of social programmes is one reason for the contradictory results. For instance, some research indicates that income inequality-favoring redistributive measures, such as progressive taxation and social expenditure, may be countered[5].Economic growth and income distribution have significant policy repercussions, which are discussed here. While promoting economic progress, policymakers must make sure that the advantages are spread fairly. Investments in healthcare and education, fair taxation, social safety nets, and labour market restrictions are a few possible policy solutions.

The link between economic growth and income distribution is complicated and context-specific, in light of the above. Although economic development is essential for lowering poverty and raising living standards, how the advantages of growth are distributed across the various societal groups is determined by income distribution. While promoting economic progress, policymakers must make sure that the advantages are spread fairly. To better understand the connection between economic development and income distribution and to find efficient policy responses, further study is required.Whether economic growth widens or narrows the income gap has generated much debate among economists. The first economist to experimentally explore this issue is Professor Kuznets. He notes that relative income disparity rises during the early phases of economic expansion, stabilises for a while, and then drops during the latter stages. This is referred to as the inverted U-shaped income distribution theory.

Reasons For the Growth in Inequity with Development

In the early phases of growth in LDCs, there are a number of variables that tend to exacerbate relative income disparity. Geographical, social, financial, and technical duality are characteristics of LDCs. The process of moving from a traditional agrarian culture to a contemporary industrial economy raises income distribution disparities as it progresses. Structure-related changes result in more job possibilities, the use of new resources, and technological advancements. All of these result in a rise in the industrial sector's per capita income. In metropolitan locations, the earnings of employees, managers, entrepreneurs, etc., rise more quickly. However, owing to subsistence farming, a flawed land tenure system, and rural backwardness, the income per capita of employees in agricultural and non-agrarian professions in rural regions does not grow.

The industrial sector only employs educated, skilled, and trained individuals since it employs capital-intensive procedures. High wages are paid to workers in this industry, while companies make significant profits. As a result, the growth of the modern industrial sector outpaces that of rural subsistence. Because of this, this sector's relative share of revenue and profit in the national income increases greater than that of the rural sector.The movement of rural residents to urban regions does not provide the uneducated and unskilled residents of towns and cities access to productive economic prospects. Most of them work as fruit and vegetable vendors, newspaper sellers, car washers, waiters, porters, shop workers, housekeepers, etc. All of these people have poor earnings and underemployed jobs.

Some landlords who invest in urban real estate, stocks, bonds, etc. relocate to the urban regions as migration to them begins in the early stages of development. They earn more from these investments than from owning property in rural regions. A new class of entrepreneurs, however, arises as a result of technical advancement and an increase in financial resources in metropolitan regions, which encourages the diversification of manufacturing, commerce, and business. As a result, those involved in them make more money and are more successful.

Governments provide financial resources for development with an urban bias, which causes the rural economy to stay regressive with covert unemployment and poor per capita income. Political considerations make it difficult for governments in LDCs to approve and put into effect laws pertaining to land reforms and other economic measures to lessen the concentration of income and wealth among the wealthy[6].

Furthermore, such governments are weak financially and are unable to invest in social security programmes like free healthcare, education, and other services that lower poverty and raise per capita income. To promote saving, investment, and capital development, they also do not levy high taxes on earnings and profits. Above all, a greater population growth rate among the general populace in LDCs raises absolute population numbers and, therefore, relative inequality.

Causes Of a Decrease in Inequality as Development Happens

When a nation achieves high income levels in its latter stages of growth, Kuznets cites two explanations for the decline in income disparity. First, since their proportion of income from property declines, the highest income groups see a decline in per capita income. Second, when the government makes legislative choices about services for education and health, inheritance and income taxes, social security, full employment, and financial assistance for entire groups or individuals, the per capita income of the lowest income groups increases.

As development moves forward, it triggers a series of cumulative industrial sector expansions, raising per capita income. The demand for agricultural products and other goods produced in rural and underdeveloped regions rises as a result, increasing the per capita income of those living there. This is what Hirchman refers to as the "trickling down effects" of development and Myrdal refers to as the "spread effects."

Additionally, remittances from metropolitan regions and/or remittances from abroad help rural areas' earnings grow. People from rural regions who work in metropolitan areas and/or live abroad send huge quantities of money to their families. Above all, when development picks up steam, the population growth rate slows, raising per capita income. As noted by Montek S. Ahluwalia4, the expansion of educational attainment and skill of the labour force, as well as a slowing of population growth, have all contributed to the improvement in income distribution seen in the later stages of development[7].

Its Essential Evaluation

Some economists have experimentally investigated and validated Kuznets' inverted U-hypothesis, while others disagree. The Kuznets theory, which states that the degree of disparity initially rises at lower levels of development and then reduces at higher levels of development, is supported by Kravis5 in his analysis of eleven developing and developed nations. In their analysis of 43 developing and 13 developed nations, Adelman and Morris6 determine that the average Gini coefficients are 0.47 and 0.29, respectively. Their findings support the Kuznets inverted U-hypothesis by showing that income disparity rises until a certain degree of development and then drops. Similar to this, Montek S. Ahluwalia finds that relative income inequality significantly rises in the early stages of growth before reversing itself in the later stages when he examines data for 60 nations.Despite this, based on the data collected by Kuznets and others for their investigations, the Kuznets inverted U-hypothesis' validity has been questioned. Kuznets only includes a little portion of emerging and developed nations in his sample. His approach is said to be 5 percent actual data and 95% conjecture, according to critics.

Todaro claims that while the Kuznets theory does seem to be supported by long-term statistics for wealthy nations, examinations of the same phenomena in LDCs have shown contradictory findings. His research on 13 LDCs demonstrates that lowering inequality may coexist with greater income levels rather than growing inequality. Todaro also criticises the approach economists used in evaluating the Kuznets hypothesis. Due to the lack of time-series data for the majority of LDCs, economists rely on cross-sectional data. It is fundamentally incorrect to infer conclusions about a time-series phenomena using cross-sectional data. According to a recent research by Anand and Kanbur8, there may be a U-connection between income disparity and development, an inverted-U relationship, or no link at all depending on the data used to evaluate inequality[8].While promoting economic progress, policymakers must make sure that the advantages are spread fairly. Investments in healthcare and education, equitable taxation, social safety nets, and labour market restrictions may all help accomplish this. To better understand the connection between economic development and income distribution and to find efficient policy responses, further study is required. A more affluent and just society may be created by bettering our knowledge of this complicated problem and developing policies that support sustainable economic development while lowering poverty and inequality[9].

CONCLUSION

There has been much discussion in the area of economics on the connection between economic growth and income distribution. Although some theoretical viewpoints contend that economic expansion results in a fairer income distribution, actual research has generated conflicting findings. These two variables interact in different ways depending on the circumstances, including the degree of development, the distribution of political power, and the success of social programs. Despite the contradictory results, there is broad agreement that fostering economic growth and lowering income disparity are both essential for sustainable development.

REFERENCES:

[1] L. Varona-Castillo and J. R. Gonzales-Castillo, "Economic growth and income distribution in Peru," *Problemas del Desarrollo*. 2021. doi: 10.22201/iiec.20078951e.2021.205.69636.

[2] A. K. Dutt, "Heterodox Theories Of Economic Growth And Income Distribution: A Partial Survey," *J. Econ. Surv.*, 2017, doi: 10.1111/joes.12243.

[3] C. T. Baltar, "Wage distribution in the period of economic growth with income distribution: The case of Brazil," *Panoeconomicus*, 2020, doi: 10.2298/PAN2003361T.

[4] E. T. Leone, "Women's participation in the brazilian labour market in the context of economic growth with income distribution (2004-2013)," *Panoeconomicus*, 2020, doi: 10.2298/PAN2003433T.

[5] D. C. Fonchamnyo and N. H. Fokong, "Educational Gender Gap, Economic Growth and Income Distribution: An Empirical Study of the Interrelationship in Cameroon," *Int. J. Econ. Financ.*, 2017, doi: 10.5539/ijef.v9n3p168.

[6] Z. Darvas, "Economic growth and income distribution implications of public spending and tax decisions," *Soc. Econ.*, 2020, doi: 10.1556/204.2020.00025.

[7] A. Rezai, L. Taylor, and D. Foley, "Economic Growth, Income Distribution, and Climate Change," *Ecol. Econ.*, 2018, doi: 10.1016/j.ecolecon.2017.10.020.

[8] F. H. A. Mohamad, A. G. Kumenaung, and A. L. C. . Lapian, "Analisis Pengaruh Pengangguran, Kemiskinan dan Distribusi Pendapatan terhadap Pertumbuhan Ekonomi Kota Gorontalo," *Pembang. Ekon. dan Keuang. Drh.*, 2021.

[9] J. F. Baca Campodonico, J. R. Peschiera Cassinelli, and J. Mesones, "The Impact of Public Expenditures in Education, Health, and Infrastructure on Economic Growth and Income Distribution in Peru," *SSRN Electron. J.*, 2015, doi: 10.2139/ssrn.2649490.

CHAPTER 4

ANALYSIS OF SUSTAINABLE GROWTH

Mr. Yelahanka Lokesh, Assistant Professor
Department of Commerce and Economics, Presidency University, Bangalore, India
Email Id-lokesh.yr@presidencyuniversity.in

ABSTRACT:

Sustainable growth is an economic development approach that seeks to achieve long-term growth while preserving environmental, social, and economic systems. It is a balance between economic progress and ecological sustainability that promotes the well-being of present and future generations. The concept recognizes that natural resources are finite, and their use should not compromise the ability of future generations to meet their needs. Sustainable growth emphasizes the need to move away from a linear economy, where resources are extracted, consumed, and disposed of, towards a circular economy, where resources are regenerated, reused, and recycled. Achieving sustainable growth requires a holistic approach that considers the interdependence between economic growth, social well-being, and environmental protection.

KEYWORDS:

Air, Economic, Environment, Growth, Pollution.

INTRODUCTION

Sustainable development is a relatively new idea. The 1980 World Conservation Strategy, put out by the International Union for the Conservation of Nature and Natural Resources, is where the phrase "sustainable development" first appeared. The Brundtland Report of the World Commission on Environment and Development, titled Our Common Future, in 1987 introduced it and provided its initial definition. The term "sustainable development" has several meanings. The Brundtland Report's definition, however, is the most often used. Sustainable development refers to growth that should "keep going" and is described as "meeting the needs of the present generation without compromising the needs of future generations." It emphasises the development of a sustained improvement in the standard of living for all people via increases in real income per capita, improvements in the quality of natural resources, as well as improvements to education, health, and general quality of life. Therefore, economic growth and sustainable development are strongly related. It is an environment where economic growth doesn't slow down over time. Sustainable development is growth that is long-lasting and improves the standard of living by enhancing the environment. In turn, natural habitats provide services that sustain life, resources for the economy, and usefulness to people. Pearce and Warford state that "Sustainable development outlines a process in which natural resource base is not allowed to erode. It places emphasis on the hitherto underappreciated contribution of environmental inputs and environmental quality to the process of increasing real income and life quality.

Sustainable Development's Goals

As the primary objective of development policy, sustainable development attempts to provide improvements in everyone's quality of life. As a result, sustainable development includes a wide range of goals. Thus, meeting the needs of the current generation is crucial in order to sustain the needs of future generations. Lifting living standards includes a number of more specific goals in addition to increasing economic growth and providing for basic needs, such as "bettering people's health and education opportunities, giving everyone the chance to participate in public life, helping to ensure a clean environment, promoting intergradational equity."

Additionally, sustainable development attempts to maximise the overall positive effects of economic growth while also preserving the overall stock of all physical, human, and natural resources. Economists differ between the ideas of strong and weak sustainability in this context. Strong sustainability demands that the pool of natural capital not decline. On the other hand, poor sustainability mandates that the pool of natural, human, and physical capital should not lose any of its overall worth. Because rising other capital stocks may offset falling natural capital stocks, Pearce and others support poor sustainability. So, in its simplest form, sustainable development indicates "that the rate of change of development over time is generally positive over some selected time horizon."To sum up, sustainable development attempts to hasten economic growth without harming future generations by preserving and improving the stock of physical, human, and environmental capital[1].

Environment-Related Issues

A nation's environmental issues are influenced by its economic structure, production methods, and environmental regulations, as well as by its economic development stage. For instance, whereas industrialised countries have air and water pollution as a result of industrialization, less developed nations struggle with issues such as poor sanitation and access to safe drinking water. The less developed nations are now dealing with the following environmental issues:

Air Contaminant

Atmospheric pollution is a direct outcome of urbanisation, which is a side effect of industrial and commercial expansion. The primary driver of rising motor traffic in major cities is air pollution. Two-stroke engines, ancient cars, traffic jams, poor roads, out-of-date automotive technology, and a lack of traffic management systems are further causes.In locations with a high concentration of chemical, iron and steel, non-metallic, pulp and paper, and textile industries, the issue of industrial pollution is significant. Even small-scale enterprises like brick manufacture, chemical production, and foundries greatly contribute to air pollution. Thermal power stations are a significant source of air pollution. Living in shanty towns, slums, and dwellings with inadequate ventilation while cooking on family stoves, burning wood, or utilising coal adds to air pollution. The health of mothers and children is particularly impacted by smoked indoor air. Other forms of air pollution in cities include loud speakers, diesel generator noise, construction noise, and vehicle noise.

Therefore, air pollution is a major issue in metropolitan manufacturing districts and cities. Dirt, dust, and solid waste are released into the air as particulate matter, which is bad for people, animals, and plants. Long-term destruction of forests and aquatic bodies is caused by acid rain. The same may be said for gaseous chemicals. Some of them are immediately toxic, like carbon monoxide, which is also created by cars. The ozone layer of the atmosphere is harmed by other substances[2].

water contaminant. Economic expansion has a comparable impact on water contamination. Flushing waste down the toilet, industrial effluents including organic pollutants, waste from chemicals and heavy metals, and mining operations are the primary causes of water pollution. Refineries, fertilisers, pesticides, chemicals, leather pulp and paper, and metal plating are the main water-polluting sectors. In lakes, canals, rivers, coastal regions, and subterranean water sources, sewage waste and industrial effluents are discharged. They threaten economically valuable marine flora and fauna as well as aquatic resources like fish and other aquatic life since they are not addressed. Waterborne disorders including diarrhoea, hepatitis, gastro-enteritis, trachoma, etc. are brought on by contaminated and untreated water. In addition, supplying people with clean drinking water raises the expense for municipal corporations. Water restrictions cause annoyances and slow down economic activity.

Wastes both solid and dangerous. In metropolitan places, solid waste also contributes to air and water pollution. Uncontrolled urban expansion pollutes the environment and water supplies because it lacks infrastructure for the collection, transportation, treatment, and disposal of solid wastes. Groundwater supplies are contaminated by rotting waste and clogged drains, which also transmit contagious illnesses.

Deforestation. Additionally, deforestation harms the ecosystem. As a result of deforestation, trees and other natural plant growth are cut down to make space for industries, cities, highways, dams, and other construction projects. This obliterates the natural world's plants and animals. Localised flooding occurs in hills and surrounding regions. Both human and animal lives are lost. The lush scenery gives way to industry, homes, and commercial structures. They generate more heat, noise, and pollution, which degrades the environment and eventually causes human mortality as well as birth problems and genetic mutations.

Erosion of the soil. The deterioration of soil, which is brought on by water and wind, is another issue with the environment. Rain and rivers induce soil erosion in steep places, which results in landslides and floods. Soil erosion is exacerbated by deforestation, overgrazing, and step farming in mountainous terrain. Soil erosion on the plains is a result of river flooding. Salination and soil deterioration are caused by intensive agriculture and waterlogging on irrigated regions. Desert growth, dust storms, and whirlwinds all contribute to wind erosion in areas close to deserts. Degradation of the soil in all its forms reduces soil fertility.

Biodiversity loss. Every nation has its own distinct phytogeographical and agro-ecological diversity, which includes a broad range of agroclimatic zones and a large number of plant and animal species. Forests, grasslands, mountains, marshes, deserts, and marine environments all contain biodiversity. Habitat damage has been caused by the spread of agriculture, careless mining and exploitation of natural resources, and the establishment of projects in regions with high biodiversity. As a result, many plant, animal, and microbiological species have disappeared, and genetic resources have also been lost.

DISCUSSION

Numerous causes, including population expansion, poverty, rural development, urbanisation, etc., contribute to environmental deterioration.

Following is a discussion of them:

Increase in population: Rapid population expansion is a primary contributor to environmental deterioration, and rapid resource usage puts more strain on the nation's resources, leading to air and water pollution, biodiversity loss, and soil degradation. Rapid population expansion undermines sustainable development by depleting resources. So, environmental deterioration and high population increase are related.

Poverty: Both the cause and the result of environmental deterioration are poverty. Because they have easy access to natural resources, the poor consume and deplete them more than other people, which promotes sustainability. They toil for a living in mines, woods, mines, and on land. On the other hand, since the poor are directly dependent on natural resources for their subsistence, a damaged environment increases poverty[3].

Development in agriculture: Environmental deterioration has been greatly influenced by agricultural expansion in developing nations. Over-exploitation of water and land resources is a result of intensive agricultural practises and excessive fertiliser and pesticide usage. These have caused land deterioration via salinization, water logging, and soil erosion.

Industrialization: To quickly industrialise, impoverished nations are degrading the environment. Land, air, and water pollution are results of the creation of industry including fertilisers, iron and steel, chemicals, refineries, etc. As sources of industrial energy, fossil fuels, minerals, and wood are being depleted, which is harming natural eco-systems.

Transportation Growth: For the increase of trade and commerce, underdeveloped nations are creating transportation infrastructure. However, they are also contributing to environmental deterioration via marine, air, and noise pollution. The construction of ports and harbours has resulted in ship oil spills that have harmed fisheries, coral reefs, mangroves, and the environment as a whole.

Urbanization: The urban ecology has deteriorated as a result of rapid and haphazard development. Slums and shanty settlements cause large-scale environmental deterioration by polluting the air, water, and creation of solid and hazardous wastes[4]–[6].

Debt to other countries: Another factor contributing to environmental deterioration in developing nations is foreign debt. They develop commercial products for export in order to pay off their debt, which replaces subsistence crops that are then planted on marginal areas. Additionally, they export resources while dangerously depleting them at tremendous expense to future generations.

Market Error: Market failure is a significant factor in environmental damage. It indicates that the markets for environmental products and services are not operating well. It shows that government policy has failed to eliminate market inefficiencies brought on by price restrictions and subsidies. Lack of individual property rights and jointness in either production or consumption lead to market failure, often known as externalities. For instance, individual farmers who live in steep places degrade the soil by destroying trees and overgrazing land, which floods lower-lying communities.

The residents of mountainous places do not take into account negative externalities, which include expenses and detrimental impacts on individuals in lower locations. Market forces are not in charge of such environmental degradation's impacts. They thus represent market failure.

Sustainable Development Policies

Environmental deterioration is a result of population increase, urbanisation, infrastructural expansion, agricultural and industrial development, and urbanisation. Degradation of the environment "endangers human health, lowers economic productivity, and results in the loss of amenities." A thoughtful selection of economic and environmental policies and environmental investments might lessen the detrimental consequences of economic growth on environmental deterioration. Economic growth and sustainable development should be balanced when choosing between policies and investments. We talk about the following policy measures:

decreasing poverty. Such development initiatives that provide the impoverished more work chances need to be launched. In order to reach the underprivileged and slow down population growth, the government should provide access to family planning, health care, and education. Additionally, investing in municipal amenities like the provision of clean water, sanitary infrastructure, alternative housing options in lieu of slums, etc. would not only benefit welfare but also the environment.

Taking away Subsidies. Subsidies for resource usage by the public and private sectors should be eliminated in order to prevent environmental deterioration without incurring any net financial costs for the government. Subsidies for the use of power, fertilisers, pesticides, diesel, transportation fuel, and irrigation water, among other things, result in their inefficient usage and environmental issues. Environmental damage results from subsidies for publicly funded and capital-intensive enterprises that produce a lot of pollution. The nation will gain economically and environmentally if subsidies are eliminated or reduced.

Extension and Clarification of Property Rights. Environmental deterioration results from excessive resource consumption and a lack of property rights. As a result, common or public lands are overgrazed, forests are destroyed, and minerals, fish, and other resources are overfished. Environmental issues will be resolved by defining and transferring ownership titles and tenurial rights to private owners. The ownership rights should be expressly stated in the administrative records in locations where the use of common lands, forests, irrigation systems, fisheries, etc. is controlled and norms for their correct use are established by the community.

Market-based strategies. In addition to legislative measures, it is necessary to employ market-based initiatives for environmental protection. They want to make consumers and businesses aware of the impact that exploiting natural resources has on the environment. In order for companies and eventually consumers to be directed by them to minimise air and water pollution, these costs are represented in the prices paid for products and services.

Both developed and developing nations use the Market Based Instruments (MBIs) strategy. MBIs come in two flavours: price- and quantity-based. Environmental taxes are used to fund them, and they take the form of "pollution charges (emission tax/pollution taxes), marketable permits, depositor fund system, input taxes/product charges, differential tax rates, user administrative charges, and subsidies for pollution abatement equipment for air and water resources."

Rules and regulations. Regulations also aid in slowing down environmental deterioration. Regulators must decide on issues of cost, supply, and technology. They must decide between the amount or cost of pollution, resource utilisation, or technological advancements while making judgements. The governing body must also choose whether policies should directly or indirectly address the environmental issue. It establishes technical requirements, rules, and fees for pollutants in the air, water, and land. When enforcing environmental regulations against resource users or polluters in the public and private sectors, regulators should act impartially.

Economic Motivators. Economic incentives are related to pricing, quantity, and technology, much as regulatory laws. Incentives are often given in the form of changeable payments to resource users in exchange for how much pollution is released into the air, water, and land. If less trash or pollution is produced than the established emission criteria, they get refunds[7].

Commerce Policy. Environmental trade policy has two implications: the first is related to domestic policy changes, and the second is related to international trade policy. Domestic trade policy places a strong focus on the development of less polluting industry outside of urban areas as well as the application of environmentally friendly methods for polluting sectors via the adoption of more advanced technology. There is debate about whether liberalised trade leads to environmental deterioration when it comes to the relationship between global commerce and environmental quality. The debate leads to the finding that "overall, trade liberalisation is likely to produce negative environmental externalities, but also some environmental gains," yet the former does not suggest that free trade should be discontinued. Instead, such cost-effective policies that maximise externalities should be implemented. Strict domestic policy measures based on the "polluter pays principle" should be used to mitigate environmental deterioration brought on by free trade. It is preferable to demand that the foreign corporation transmit clear technology and aid in environmental cleanup for running enterprises.

Public involvement. The general public's involvement and knowledge are very beneficial in improving environmental conditions. Controlling environmental deterioration and maintaining a clean environment may be greatly aided by the implementation of official and informal education initiatives linked to environmental management. For instance, the eco-labelling programme for goods enables customers to recognise environmentally beneficial goods.

Consumer cooperatives promote environmentally friendly goods that are recyclable, biodegradable, rechargeable, onzone friendly, and unleaded in Japan. In certain nations, businesses, industries, and other institutions are required to reveal in their annual reports the degree to which they are implementing environmentally friendly practises.Additionally, public engagement may provide free and beneficial aid with afforestation, wildlife conservation, park management, sanitization, drainage system upgrades, and flood control. Utilising native institutions and neighbourhood nonprofits may greatly aid in teaching the populace about the negative consequences of environmental degradation and the advantages of maintaining a clean environment.

involvement in international environmental initiatives. Every nation is obligated to abide by the many international treaties and accords on environmental preservation and protection. They include the Montreal Protocol for the gradual phase-out of substances that deplete the ozone layer. The Basel Convention, which addresses the regulation of hazardous waste disposal and transboundary transportation. The Agenda, which is the operational plan for sustainable development, and the Rio Declaration on Environment and Development are two examples. The GATT Clauses on Environment are another. Not all nations have ratified the numerous treaties and accords. Many nations do not abide by the accords that are related to the conservation of biodiversity or the reduction of greenhouse gas emissions despite the danger of trade penalties.

Sustainable Development Measurement

It is challenging to quantify sustainable development since it requires valuing environmental harm and comparing it to the expenses of avoiding it. The measurement of the capital stock required for sustainable development, the accounting of natural resources, and the use of a suitable discount rate for maintaining an optional balance between the use and preservation of natural resources are additional issues. We talk about a few techniques and how they affect sustainable development[8].

Natural Capital Stock Measurement. The preservation and improvement of the natural capital stock is a precondition for sustainable development. The natural capital stock includes "soil fertility, forests, fisheries, the capacity to assimilate waste, oil, gas, coal, the ozone layer, and biogeochemical cycles." The natural capital stock should at the very least be constant, according to this interpretation. The cost-benefit analysis of modifications to the natural capital stock may be used to quantify this. There will be advantages in terms of the utilisation of the land for more productive uses if it is decreased, for example, in terms of clearing woods for farming land or for habitation, etc. Similar to how maintaining a clean environment has benefits, a dirty one has costs. So, conserving and enhancing natural capital assets is compatible with sustainability.

Some economists disagree that natural capital should be given greater weight than human capital and man-made capital. They contend that sustainable development refers to the preservation and enhancement of the whole stock of capital, which includes natural, created, and human capital. This point of view is congruent with intergenerational fairness and efficiency. Natural and artificial capital may be replaced for one another when looking at the total capital stock. The social rate of return may be used to guide this. This assumes that in order to earn a high rate of return, the funds from the depletion of a natural capital asset are invested in manufactured capital. But since the money made through environmental destruction is usually spent rather than invested, this seldom occurs. The valuation of the revenues from natural capital and their investment in man-made capital presents another issue. On the basis of market values, the environmental harm cannot be accurately assessed. Environmental services cannot be measured accurately using shadow pricing.

Green accounting or resource-based accounting: Green accounting is another indicator of sustainable growth. It enables the calculation of a nation's income while accounting for the loss of economic output and the depletion of the natural resource base of an economy. It is a gauge of the maximum amount of revenue that may be maintained without eroding the stock of natural resources. This calls for the system of national income accounting to be adjusted in terms of the stock of natural assets. The calculation of the gross national product (GNP) would be replaced with a measure of national production that accounts for the financial cost of depleting the natural resources needed both directly and indirectly to generate products and services. Thus, the inventories of natural resources would be included in GNP, and the sustainable development indicator might be calculated as NNP = GNP - DN, where DN represents the annual depreciation of the monetary worth of natural resources. However, calculating such a metric of sustainable income is a challenging task, especially when it comes to valuing non-marketable natural resources and externalities. Green accounting would thus need a great deal of complex and debatable calculations and values.

Environmental Values Assessment: Measuring environmental harm and comparing the cost of prevention is still another challenge. It relates to evaluating the costs and benefits of environmental protection. In this regard, economists are calculating a number of indices. The four methods listed below are recommended by the 1992 World Development Report for valuing environmental harm economically:

Market rates: Market pricing should be considered when there are negative health consequences and productivity losses as a result of environmental harm. The process involves assessing the harm caused by air and water pollution, deforestation, and soil erosion. For this reason, monetary values are derived by estimating the ecological link between environmental harm and its impacts on productivity or health on the basis of pricing. Income lost as a result of disease or early death is used to calculate the welfare losses related to health hazards caused by environmental pollution. Because they are based on income loss, such estimations are challenging to calculate.

Replacement costs: To prevent harm to the air, water, and land environment, individuals and businesses invest in installing alternative technologies. An assessment of the environmental harm may be provided by such investments. But it is impossible to assess the impact of damages.

Markets for Surrogates: The impact of environmental harm on other markets, such as property prices and worker pay, is also assessed. Property valuation is based on the risks associated with estimating the worth of property in the event of environmental harm. Similar to this, employment with significant environmental hazards will pay well and come with higher risk premiums. However, since property owners and employees are unaware of the implications of environmental degradation, this strategy is not practical.

Rate of Social Discount: Environmental gains benefit resource users, whereas environmental deterioration results in expenses. How to weigh the costs and advantages of environmental consequences on both current and future generations is the issue. To do this, a discount rate must be applied to all expenses and benefits. However, there is much disagreement and ambiguity among economists when it comes to discounting environmental costs and benefits for the following reasons:

Discounting in general and excessive discount rates in particular are disliked by critics. They contend that there is no special connection between large discount rates and environmental harm. When discount rates are high, investment levels decline, discouraging growth initiatives and slowing the rate of development. Thus, it transfers the huge financial burden on next generations. Even for resources where investments are to be made, demand is declining. However, how to choose a social discount rate is the primary issue.

CONCLUSION

Due to the volatility and flaws in the financial markets, this cannot be the rate of interest that prevails in the market. Due to their risklessness, long-term securities are used by the majority of economists to calculate the societal rate of discount. However, there are several borrowing rates for various lengths of time on government assets. Which rate to choose as the social discount rate is the issue. Therefore, when weighing the costs and benefits of environmental degradation, many economists advocate the social rate of time preference and the opportunity cost of capital. However, much like the social discount rate, they have measurement issues, and it's not apparent how environmental deterioration will affect both current and future generations. As a result, there is no reliable approach for measuring sustainable development.

REFERENCES:

[1] X. Teng, Y. Wang, A. Wang, B. G. Chang, and K. S. Wu, “Environmental, social, governance risk and corporate sustainable growth nexus: Quantile regression approach,” *Int. J. Environ. Res. Public Health*, 2021, doi: 10.3390/ijerph182010865.

[2] A. D. S. Vodă, A. I. M. Tudor, I. B. Chiţu, L. Dovleac, and G. Brătucu, “IoT technologies as instruments for SMEs’ innovation and sustainable growth,” *Sustain.*, 2021, doi: 10.3390/su13116357.

[3] P. K. Y. Nastiti, A. D. R. Atahau, and S. Supramono, “Working capital management and its influence on profitability and sustainable growth,” *Bus. Theory Pract.*, 2019, doi: 10.3846/BTP.2019.06.

[4] I. A. Antipin, “Implementation mechanisms of strategies of socio-economic territorial development: methodological approach,” *R-Economy*, 2019, doi: 10.15826/recon.2019.5.3.012.

[5] G. Rumble, *The planning and management of distance education*. 2019. doi: 10.4324/9780429288661.

[6] D. Shah, H. Isah, and F. Zulkernine, “Predicting the Effects of News Sentiments on the Stock Market,” in *Proceedings - 2018 IEEE International Conference on Big Data, Big Data 2018*, 2019. doi: 10.1109/BigData.2018.8621884.

[7] S. S. Kim, “Sustainable growth variables by industry sectors and their influence on changes in business models of smes in the era of digital transformation,” *Sustain.*, 2021, doi: 10.3390/su13137114.

[8] J. Xu and B. Wang, “Intellectual capital, financial performance and companies’ sustainable growth: Evidence from the Korean manufacturing industry,” *Sustain.*, 2018, doi: 10.3390/su10124651.

CHAPTER 5

DIFFERENT UNDERDEVELOPMENT CRITERIA

Dr. Mounica Vallabhaneni, Assistant Professor
Department of Commerce and Economics, Presidency University, Bangalore, India
Email Id- mounicav@presidencyuniversity.in

ABSTRACT:

The concept of underdevelopment has been a topic of discussion in the field of development studies for several decades. Scholars have proposed various criteria to assess and analyze underdevelopment in different contexts. This paper provides an overview of some of the different criteria used to conceptualize underdevelopment. The first criterion discussed is economic underdevelopment, which focuses on the low levels of economic activity and productivity in a country or region. The second criterion is social underdevelopment, which takes into account the social indicators such as education, healthcare, and housing. The third criterion is political underdevelopment, which refers to the limited political participation, lack of democratic governance, and weak rule of law in a country or region.

KEYWORDS:

Developing, Economic, Population, Poverty, Underdevelopment.

INTRODUCTION

It is crucial to comprehend the definition of "underdeveloped" and the under developmental criteria before studying the features of an underdeveloped nation. There are many different ways to use the phrase "underdeveloped." The terms "underdeveloped" and "undeveloped" are often used interchangeably. But it's simple to tell these two words apart. A nation without growth potential is said to be undeveloped. On the other hand, a nation that lacks growth potential is considered to be undeveloped. Undeveloped regions include the Antarctic, the Arctic, and portions of the Sahara, whilst underdeveloped regions include India, Pakistan, Uganda, Columbia, Panama, etc. Another word for "underdeveloped" is "poor" or "backward". A impoverished nation is not always a youthful one. Simply put, poverty is when a nation has a low per capita income. It's unrelated to the culture of the nation. 'Backward nations' is a fixed phrase, much like 'underdeveloped'. Therefore, the phrases "poor" and "underdeveloped" are equivalent. In economic literature, the phrase "developing countries" has evolved into one that is more polite[1].

The terms undeveloped, developing, and less developed, on the other hand, are plainly euphemisms in Bauer's eyes. The adjectives "underdeveloped" and "developing" are particularly inadequate euphemisms for the conditions they describe. Underdeveloped implies that the situation is unnatural, repugnant, and maybe easily remediable. The word "developing" is intentionally ambiguous to avoid referencing the stagnation or regression of the developing world, for example. The most relevant terms, in his opinion, are impoverished or materially backward.1 The World Bank refers to these nations as developing countries and classifies them into low- and middle-income nations. Lower-middle-income and upper-middle-income nations are subdivided further into middle-income countries. Recently, the phrase Third World2 has gained popularity. All of these words will be used interchangeably throughout the book.

Giving a clear definition of underdevelopment is challenging. There are numerous ways to define underdevelopment, including the prevalence of poverty, illiteracy, or disease, the distribution of the national income unevenly, administrative incompetence, and social disorganization3. As a result, there isn't a single definition that encompasses all the characteristics of an underdeveloped country. However, a few of the indicators of underdevelopment are covered below:

1. The population to land area ratio is the first indicator of underdevelopment. However, it may be difficult to determine whether a high or low population-to-area ratio indicates underdevelopment. There are a lot of developing nations in Latin America and Africa with "empty spaces" that indicate low ratios. While there are many more impoverished nations with high population-to-area ratios, including India, China, Myanmar, Pakistan, Malaysia, and many other South Asian nations. As a result, this criterion is unnecessary and ambiguous.
2. The proportion of industrial production to overall output is another sign of underdevelopment. Another way to express it is as the proportion of the industrial population to the overall population. Using this standard, impoverished nations are those with low industrial production to total output ratios. However, this ratio tends to go up when per capita income goes up. Therefore, a country's level of industrialization often has an effect on its economic success rather than being the cause of it.

Tertiary or service industries often expand on their own in nations where agriculture is developed because an increase in the amount of disposable agricultural surplus generates demand for industrial sector goods. However, the total per capita income would likely to be lower when the disposable excess rural income was utilised to subsidise unprofitable urban industry.4 As a result, this criterion is not a reliable predictor of underdevelopment. The low capital to population ratio is the third indicator of underdevelopment. According to Nurkse, undeveloped nations are those that "are underequipped with capital in relation to their population and natural resources" as compared to advanced nations. But for the following reasons, a lack of money is not a sufficient indicator of underdevelopment:

A country's capital stock's absolute size is unrelated to its capital shortfall; instead, it relates to the capital to population ratio or some other metric. According to the Principle of Marginal Productivity, capital has a high marginal productivity if its ratio to other elements is low. However, it is challenging to draw conclusions from this that capital is rare in developing nations, leading to high marginal productivity of capital, or that a high marginal productivity of capital implies capital shortage. It's likely that undeveloped nations have low levels of capital's marginal productivity due to factors like bad organisation, low skill levels, adverse weather, etc. Moreover, other socio-economic issues are disregarded if capital scarcity is seen as a sign of underdevelopment. According to Nurkse himself, "Human endowments, societal attitudes, political situations, and historical events have a significant impact on economic growth. Capital is a need for advancement, but it is not sufficient in and of itself[2].

A other criteria points to poverty as the primary driver of underdevelopment. According to Staley, an underdeveloped nation is "characterised by mass poverty that is persistent and not the result of some temporary misfortune and by outdated methods of production and social organisation, which means that the poverty is not solely attributable to a lack of natural resources and thus could presumably be lessened by methods already proven in other nations." This description makes reference to some crucial characteristics of poor nations. No one disputes that developing nations have underutilised natural resources, a lack of capital goods and equipment, outdated industrial methods, and flaws in their socioeconomic structures. However, it does not focus on the primary indicator of underdevelopment, namely, a low per capita income. In the words of Barbara Ward, "Perhaps the most satisfactory method of defining poverty is to discuss the question simply in terms of per capita incomethe average income available to citizens in various countries."

The low real per capita income of undeveloped nations in comparison to industrialised ones is therefore one of the most often accepted indicators of underdevelopment. According to experts from the United Nations, "We use it the term underdeveloped country to mean countries in which per capita real income is low when compared with the per capita real income of the United States of America, Canada, Australia, and Western Europe." However, such definitions, which explain an underdeveloped country in terms of the low per capita level of income, cannot be considered adequate and satisfactory. They do this because they only pay attention to one facet of underdevelopmentnamely, poverty. They do not examine the factors that lead to poor consumption, stunted growth, or the untapped potential of an undeveloped economy. Additionally, "being under-developed in the technical sense means nothing in terms of the level of civilization, culture, or spiritual values"8. There are also significant challenges when calculating the national income per capita in underdeveloped countries and comparing it to the per capita income of advanced nations. The following factors contribute to the frequent inaccuracy, deception, and unreliability of statistics on per capita national income:

In poor nations, a significant portion of the economy is unmonetized, which complicates the estimation of national revenue. The majority of what is produced in the subsistence sector is either maintained for personal use or traded for other items. The national income is often overstated in this way. These nations lack occupational specialisation, which makes it difficult to calculate national income using distributive shares or industrial origin. In addition to the crop, farmers often generate a range of goods like eggs, milk, clothes, etc. that are seldom taken into account when estimating the national revenue. People in developing nations are mostly illiterate, do not maintain any financial records, and even if they do, they are unwilling to accurately identify their sources of money. Only approximate estimations are feasible in this circumstance.

Only commercially utilised products and services are included in national income calculations. However, in less developed nations, those who live in rural regions and produce consumer items from simple materials are able to save money in various ways. They construct their own shelters, clothing, and other essentials. As a result, comparatively fewer items are sold in developing nations, and as a result, they are not taken into account when estimating national revenue. The actual income is overestimated when the national income is calculated in terms of money. It excludes the actual expenses associated with generating an paper, as well as any effort or lost free time. Even if two people may make the same amount of money, if one works more hours than the other, it is reasonable to claim that the former's actual income is understated[3].

DISCUSSION

Estimates of national income fall short of accurately capturing changes in production brought on by changes in the price level. Index numbers are only estimates used to gauge changes in the level of prices. Additionally, prices are varied in each nation. Every nation has different consumer tastes and demands. As a result, it is often inaccurate and impossible to compare the national income statistics of various nations. The exchange rate conversion of many currencies into a single currency, i.e., the dollar, causes international comparisons of national income to be erroneous.

Dollar ($). The national incomes of undeveloped nations are overestimated in comparison to rich nations when the whole production of goods and services is calculated using a single currency unit. The pricing of items that are traded globally serve as the main basis for exchange rates. But many products and services in developing nations are both cheaply priced and never traded globally. "It is argued that only when there is an equivalency between the current exchange rates and the connection of internal prices can nearly right findings be reached. Given the widespread usage of currency controls and quantitative trade restrictions, the equivalence is unlikely to be reached for the majority of nations today, which renders cross-national comparisons of national incomes unnecessary and inaccurate[4].

Due to incorrect and inaccurate population estimates, the computation of per capita income in developing nations is likely to be either underestimated or exaggerated. In these nations, census data is seldom reliable. The definition of income, the various concepts used to calculate national income in different countries, and the calculation of the contribution of governmental activities like irrigation and power projects, police and military services, etc. to national income are the three main areas of difficulty. Despite these drawbacks, the most often used measure of underdevelopment is per capita income.

Identities of an Underdeveloped Nation

It helps to have a broad understanding of the economy of an impoverished nation in order to analyse its difficulties. On the globe map, it may be difficult to pin down a typical poor nation, but it is still feasible to draw attention to some of its traits. Low income is simply one indicator of absolute poverty; other indicators include malnutrition, poor health, a lack of clothes and shelter, and a lack of education. Thus, the people's poor living conditions are a reflection of absolute poverty. When compared to industrialised nations, where food accounts for 20% of expenditures, these developing nations spend roughly 80% of their money on it. As a result of the complete lack of nutrient-dense foods like meat, eggs, fish, and dairy products, people mostly rely on cereals and other starchy meals. For instance, 52 grammes of protein are consumed daily per person in LDCs compared to 105 grammes in wealthy nations. In LDCs, daily fat intake per person is 83 grammes, compared to 133 grammes in wealthy nations. Because of this, the average daily calorie consumption per person in developing nations barely surpasses 2,000, whereas the average daily calorie intake in industrialised countries is over 3,300.

Thatched home and very little clothes make up the most of such nations' remaining consumption. Extremely unsanitary conditions exist where people reside. In developing nations, more than 1,200 million people lack access to clean water to drink and more than 1,400 million lack sanitary waste disposal. Only five of every ten children born live to the age of 40, with two dying within a year, three dying before they turn five. Poor diet, contaminated water, shoddy sanitation, uneducated parents, and a lack of immunisations are the causes. Education and health services seldom ever grow. According to recent statistics, there is a doctor per 2,083 people in India, 5,555 for Bangladesh, 20,000 for Nepal, and 870 for China, compared to 410 for the industrialised nations. The majority of affluent nations are quickly growing their educational infrastructure. Even still, these initiatives fall short of the economies' personnel needs. About

70% of children in many low-income countries who are of school age attend classes; enrollment rates in secondary education are less than 20%; and enrollment in higher education hardly exceeds 3%.

Additionally, the majority of school- and college-age youngsters are receiving an education that is inappropriate for the demands of developing nations. Therefore, the great majority of people living in LDCs are underfed, underclothed, poorly housed, and poorly educated. It is estimated that over 1,000 million people live in absolute poverty in LDCs, excluding China. A sixth of them reside in East and Southeast Asia, mostly in Indonesia, a sixth in Sub-Saharan Africa, and the remaining third in Latin America, North Africa, and the Middle East. Half of them are found in South Asia, primarily in India and Bangladesh. Therefore, poverty is the fundamental disease of a developing nation caught in a "misery-go-round." The impoverished nations, according to Prof. Cairncross, are the slums of the global economy.

Agriculture is the primary industry. At least two-thirds of people reside in rural regions and work mostly in agriculture in developing nations. In some impoverished nations, there are four times as many people working in agriculture as there are in industrialised nations. More than 71% of the population works in agriculture in low-income nations including China, Kenya, Myanmar, and Vietnam, compared to 3, 3, and 4% in the United States, Canada, and West Germany, respectively. This stark concentration of people working in agriculture is a sign of poverty. The primary industry, agriculture, is mostly unproductive. It is still done in the old-fashioned way, using antiquated and archaic manufacturing techniques. The typical land holdings range from 1 to 3 hectares, and each hectare typically supports 10 to 15 people. The consequence is a critically low yield from the land, and the peasants continue to exist on very little.

Although some of these nations also specialise in non-agricultural primary production, i.e., mineral production, such countries primarily specialise in the production of raw materials and foodstuffs. For instance, Sri Lanka is known for its tea, rubber, and coconut goods, while Malaysia, Indonesia, and Pakistan are known for their rubber, tin, and oil, respectively. Brazil and India are known for their coffee, while Pakistan and Bangladesh are known for their jute. Thus, an economy with a primary sector is one that is undeveloped. In addition to the primary sector, there is a similarly undeveloped tertiary sector, which includes transport, commerce, banking, and insurance services, as well as a secondary sector with a few basic, light, and small consumer goods companies. The percentage of agriculture in the GDP of several low-income nations, like Bangladesh, Ethiopia, Nepal, Uganda, Ghana, and Tanzania, continues to be more than 40%, whereas the share of industry and manufacturing is less than 20%[5].

Economy Dualistic

The majority of developing nations have a dualistic economy. The market economy is one, while the subsistence economy is the other. One is located in or close to a town, while the other is in a rural location. One is more developed than the other. The market economy, which is centred in the towns, is very contemporary and equipped with all of life's conveniences, including the television, the vehicle, the bus, the train, the telephone, the movie theatre, the opulent structures, the schools, and the colleges. Here, too, it is possible to see the government, offices, corporate buildings, banks, and a few manufacturers. The subsistence economy is outdated and heavily focused on agriculture.

Existence of a sophisticated industrial system and a native, underdeveloped agricultural system is another characteristic of dualism. The industrial sector manufactures a range of durable consumer items and capital goods using capital-intensive procedures. Agriculture-related products are produced using traditional methods in the rural sector. Both persistent unemployment and covert unemployment exist. Financial dualism also exists, with one unorganised money market charging extremely high interest rates on loans while the other offers several credit options and inexpensive interest rates. The economic divide between the conventional sector and the contemporary industrial sector is exacerbated by this.

There are foreign-directed enclaves in many developing nations, creating a triplistic economy. They are prevalent in the mining, plantation, and petroleum industries and are quite capitalistic. An significant portion of the earnings paid to the native hired labour operating in these plantations and mines is spent on imported consumer items. The employees there enjoy a higher level of life than their relatives who work in the subsistence sector. Healthy economic development is not possible when the economy is dualistic or triplistic. By placing restrictions on its expansion and development, the primary sector hinders the growth of the secondary and tertiary sectors.

Substantial Natural Resources

An undeveloped nation's natural resources are underdeveloped in the sense that they are either misused, underutilised, or not used at all. Natural resource shortages may exist in a nation, although not necessarily in an absolute sense. A nation may now have few resources, but it is conceivable that in the future it may have many more due to the discovery of previously undiscovered resources or the invention of new applications for existing resources. Therefore, it would be more accurate to argue that poor nations have not been effective in overcoming the lack of natural resources via adequate improvements in technology, social structure, and economic organisation.10 They do not generally lack for land, mineral, water, forest, or electricity resources. Copper, tin, bauxite, and gold are abundant in Africa; petroleum, iron, bauxite, manganese, mica, and tin are abundant in Asia; and copper, iron, zinc, and gold are abundant in Latin America. Africa's and South America's abundant forested areas are yet untapped and undiscovered. Because of several barriers such their inaccessibility, a lack of technical expertise, a lack of finance, and the small size of the market, undeveloped nations do have resources, but they are either underutilised, misutilized, or not used at all[6].

Electronic Features

The demographic trends and positions in underdeveloped nations vary substantially. The population is diverse in terms of size, density, age distribution, and pace of growth. However, there does seem to be one thing they all share: a population that is growing quickly and adds a sizable amount to the total every year. These nations find it challenging to maintain this increased population due to their low rates of capital creation and per capita income. And as production rises as a result of capital creation and greater technology, it is absorbed by rising population. As a consequence, there has been little change in the average person's level of life. Keenleyside issues a warning regarding the population growth: "The womb is slower than the bomb but it may be just as devastating. Instead of being burned to death, suffocation may be the end of the human race.

The population growth potential of almost all developing nations is strong due to high birth rates and high but reducing mortality rates. The development of medical research has led to the creation of wonderful medicines and the implementation of improved public health and sanitation practises, which have decreased mortality and boosted fertility. Population growth naturally grows at a very high pace due to declining mortality rates and rising birth rates. In emerging nations, the population is growing on average by 2% annually, compared to roughly 0.7% in industrialised nations. The capital deficit in these countries is made worse by the fast rise in population since significant expenditures are needed to provide even outdated equipment for the expanding work force[7].

A significant result of a high birth rate is that a greater percentage of the population is younger. In developing nations, there are roughly 40% of the population who are under the age of 15, compared to just 20% to 25% in affluent nations. Additionally, 66 percent of dependents in industrialised nations are children, compared to 90 percent in LDCs. A high proportion of children in the population places a significant economic strain on the country since it results in a lot of dependents who don't work but nonetheless spend. It becomes harder for the employees to save for investments in capital equipment when they have numerous dependents to care for. They also struggle to provide their kids the education and basic requirements that are necessary for the long-term economic and social development of the nation.

Additionally, the life expectancy in underdeveloped nations is lower, which indicates that a smaller proportion of the population is usable as a work force. In low-income countries, the average life expectancy at birth is around 51 years, while it is 75 years in rich nations. Low life expectancy increases the number of children to support and the number of people to do so, which slows down economic development. Last but not least, compared to the extent of arable land, agricultural population density is quite high in the majority of impoverished nations. The population density of Egypt's populated Nile Valley is 600 people per square km. Even if it is far lower in other developing nations, their population growth is causing a sharp rise in their density. In the river deltas of Asia and Africa, as well as on the heavily populated islands of Malaysia, Indonesia, and Sri Lanka, the issue is becoming worse. As a result of overpopulation, over-cropping, and soil depletion caused by a lack of available land in response to an overly high agricultural population, economic growth is impeded[8].

CONCLUSION

Another criterion discussed in this paper is cultural underdevelopment, which emphasizes the role of cultural factors such as values, traditions, and beliefs in shaping development outcomes. Additionally, environmental underdevelopment is considered, which refers to the degradation of natural resources and ecosystems due to unsustainable development practices. Finally, the paper highlights the importance of understanding the multidimensional nature of underdevelopment and the interconnectedness between different criteria. The paper concludes that a comprehensive approach is needed to address underdevelopment, which takes into account the various criteria discussed in this paper.

REFERENCES:

[1] D. R. Gross, "Ecosystems and methodological problems in ecological anthropology," in *The Ecosystem Concept In Anthropology*, 2019. doi: 10.4324/9780429310386-11.

[2] C. Birgfeld and C. Heike, "Craniofacial Microsomia," *Clinics in Plastic Surgery*. 2019. doi: 10.1016/j.cps.2018.12.001.

[3] C. J. J. M. Caron *et al.*, "Craniofacial and extracraniofacial anomalies in craniofacial macrosomia: A multicenter study of 755 patients," *J. Cranio-Maxillofacial Surg.*, 2017, doi: 10.1016/j.jcms.2017.06.001.

[4] P. A. de Azevedo Silva, M. de Carvalho Alves, T. Sáfadi, and E. A. Pozza, "Time series analysis of the enhanced vegetation index to detect coffee crop development under different irrigation systems," *J. Appl. Remote Sens.*, 2021, doi: 10.1117/1.jrs.15.014511.

[5] R. V. Botelho, L. C. Heringer, P. B. Botelho, R. A. Lopes, and J. Waisberg, "Posterior Fossa Dimensions of Chiari Malformation Patients Compared with Normal Subjects: Systematic Review and Meta-Analysis," *World Neurosurgery*. 2020. doi: 10.1016/j.wneu.2020.02.182.

[6] O. V. Zashchirinskaia, "Features of Non-Verbal Communication of Children with Intellectual Disabilities and Differences from their Normatively Developing Peers," *J. Intellect. Disabil. - Diagnosis Treat.*, 2020, doi: 10.6000/2292-2598.2020.08.04.5.

[7] A. Noohnejad, K. Ahangari, and K. Goshtasbi, "Comprehensive mechanical earth modeling using well data," *Innov. Infrastruct. Solut.*, 2021, doi: 10.1007/s41062-020-00369-w.

[8] D. Ukwandu, "David Ricardo's theory of comparative advantage and its implication for development in Sub-Saharan Africa : a decolonial view," *African J. Public Aff.*, 2015.

CHAPTER 6

UNWORKING AND DISGUISED UNWORKING

Mr. Yelahanka Lokesh, Assistant Professor
Department of Commerce and Economics, Presidency University, Bangalore, India
Email Id-lokesh.yr@presidencyuniversity.in

ABSTRACT:

Unemployment and covert unemployment are two associated issues that have generated a lot of discussion in the fields of sociology and labour studies. Unworking refers to those who are neither employed nor actively looking for work, while camouflaged unworking describes people who are both employed and not performing to their fullest ability. These phenomena have a variety of root reasons, such as changes in the nature of labour, social and cultural perspectives on work, and impediments to employment. Poverty, social isolation, decreased productivity, and economic inequality are all effects of unemployed people and those who engage in covert unemployment. There are disagreements on the role of government involvement in solving these problems and how much the market should control job outcomes. The development of effective policies and interventions to address unworking and disguised unworking depends on an understanding of the origins and effects of these occurrences.

KEYWORDS:

Employment, Government, Production, Social, Unemployment.

INTRODUCTION

In emerging nations where there is a surplus of workers due to their big populations, disguised unemployment is a common occurrence. It is often associated with agricultural labour markets and informal labour markets, which may both absorb large amounts of labour. It can be characterised by poor productivity. Any demographic group that is not working to its full potential is said to have concealed or hidden unemployment, which is often not included in official unemployment figures for the country's economy. This may apply to those who are working well below their capabilities, to individuals whose jobs don't provide much in the way of overall production, or to any group that isn't actively seeking for employment but is capable of doing valuable work. Another approach to think about individuals who are really working but not very well is to suggest that they are employed. They are underutilizing their talents, doing occupations that do not match them (perhaps as a result of a market inefficiency that fails to recognise their skills), or working less than they would like.

Various Forms of Disguised Employment

Underemployment

People who take part-time jobs sometimes may be considered disguised unemployed if they want and are able to work full-time jobs. It also covers those who take jobs that are significantly below their level of expertise. In these circumstances, "underemployment," which refers to those who are working but not fully, may also be used to describe disguised unemployment.

Disease and Disabilities

Those who are unwell or are regarded as partly impaired may also be included. Despite the fact that they may not be working directly, individuals nevertheless have the potential to contribute to the economy. When someone is receiving disability benefits, this kind of disguised unemployment is categorised as transitory in the event of sickness. This indicates that the individual is often excluded from a country's unemployment statistics [1].

No longer seeking employment

Regardless of the cause, when it comes to calculating the unemployment rate, a person is often no longer deemed to be jobless after they cease searching for work. In many countries, in order to be considered jobless, a person must be actively looking for work. Whether temporarily or indefinitely, if someone stops seeking for work, they are no longer taken into account until they start looking again. When someone is actively seeking job but has given up hunting after being discouraged by a protracted search, this may qualify as disguised unemployment.

In the fields of sociology and labor studies, there has been much discussion over the ideas of unworking and disguised unworking. The definitions, causes, and effects of these occurrences are briefly discussed in this review paper, along with some of the most important arguments for and against them. Unworking is the term used to describe the situation of people who are neither employed nor actively looking for work. The term "disguised unworking" on the other hand describes people who are employed but are not performing to their fullest capacity because of a variety of reasons, including a lack of motivation, a lack of job satisfaction, or substandard working circumstances.

The evolving nature of labour in the contemporary economy is one of the major contributors to unwork and covert unwork. Many conventional employment have been displaced by technology or have become more unstable and insecure as a result of the growth of automation and the gig economy. As a result, there is an increasing number of people who are not working productively. The social and cultural elements that influence people's views towards work are another reason for unworking and covert unworking. While some people may find their jobs unattractive or unfulfilling, others may have difficulties finding work due to prejudice or a lack of access to education and training. Unemployment and covert unemployment may have serious repercussions on both people and society at large. People who are not working productively may endure a variety of unfavourable consequences, including social isolation, poverty, and poor mental health. Unemployment and covert unemployment may cause social discontent, economic inequity, and decreased productivity[2].

The concepts of unworking and veiled unworking are hotly contested. The role of the government in resolving these issues is a topic of discussion. Others contend that job outcomes should be left to the market, while others contend that government action is required to provide employment options and help for those who are not working productively. Unemployment and covert unemployment are serious issues with considerable social and economic repercussions. Understanding the different origins and effects of these problems is crucial for finding solutions, as is participating in continuous discussions about government action and the market's influence on job outcomes.

There is significant open unemployment and covert unemployment in undeveloped nations. With the growth of metropolitan areas and the dissemination of education, unemployment is increasing. However, the industrial sector has not developed in tandem with the expansion of the work force, which has increased urban unemployment. Then there are the educated jobless who are unable to find employment because of inflexible structural design and a lack of personnel planning. 20% of the work force in urban regions is jobless due to the urban population's current average annual growth rate of 4.5%. However, underemployment, sometimes known as hidden or disguised unemployment, is a significant characteristic of poor nations. Such unemployment is not chosen; it is unintentional. People are willing to work, but since there aren't enough supportive variables available year-round, they can't obtain employment. Due to the seasonal nature of agricultural activities, ineffective labour and equipment to keep them fully engaged, and rural landless and small farmers are more likely to experience such unemployment. If a person's contribution to production is less than what he or she might create by working regular hours each day, that individual is said to be disguisedly jobless. By removing such employees, agricultural production may be boosted since his marginal productivity is zero or very low. Fig. 1's explanation of disguised unemployment uses the total production curve, abbreviated TP. Total productivity on a farm when OL1 employees are hired is OQ1. Production rises to OQ2 when additional workers OL2 are employed. However, by adding workers OL2, output does not rise at all. At OQ2, it doesn't change. When additional workers are employed beyond OL2, the marginal productivity of labour zeroes out. As a result, L2L3 workers on this farm are pretending to be jobless. In the 1950s, economists calculated that the hidden unemployment rate in rural areas was between 25 and 30 percent. Even while exact numbers are not accessible, it is now accepted that it does not surpass 5%.

In these nations, there are also more varieties of underemployed people. Underemployment is defined as a person who "is forced by unemployment to take a job that he thinks is not adequate for his purpose, or not commensurate with his training." There are also those who put in a full day's worth of labour yet earn a pittance compared to what it takes to escape poverty. In metropolitan regions, they work as hawkers, small merchants, hotel and restaurant staff, repair shop employees, etc. In urban and rural parts of LDCs, it is estimated that 30-35 percent of the work force is openly and covertly jobless[3], [4].

DISCUSSION

Low worker productivity, factor immobility, limited specialisation in profession and trade, economic illiteracy, and values and social structures that reduce the incentives for economic transformation are some examples of how economically backwardness manifests itself particularly in developing nations. When compared to industrialised nations, poor worker productivity is the primary factor contributing to backwardness. This low labour productivity is a consequence of overall poverty, which is shown in low dietary standards, poor health, illiteracy, and a lack of education and job mobility, among other things. The joint family arrangement and the caste system both contribute to occupational immobility in the labour force. When deciding the supply of labour, several cultural and psychological elements have a greater influence than pay rates. People who live in joint families tend to be sedentary and remain at home. Many developing nations limit some professions for people of a certain caste, religion, ethnicity, tribe, or sex. The only people allowed to make textiles in Latin America are women. A caretaker in India is always a member of a certain caste. Stephen Enke asserts that "undeveloped nations have what can be described as an uneconomic culture. This basically implies that conventional beliefs prohibit making the most of human resources. Men are less inclined to aspire for excessive consumption, especially. The majority of the population in developing nations is uneducated, stupid, traditional, superstitious, and fatalistic. These nations have abject poverty, yet it is believed to be God-given and predestined. It is never explained away as a lack of personal industry and thrift.

Child work is very common, and women's standing and place in society are lower to men's. The dignity of employment is glaringly lacking. Even clerical government labour has greater status than hard labour. Age, sex, caste, clan, and family are given more weight than a person's ability to do a certain profession when ranking people. They are ruled by traditions and conventions. There is no sense of independence. The value system minimises the significance of economic incentives, material rewards, independence, and logical calculation, and exchange through barter is widely practised. It prevents the creation and adoption of new concepts and goals and fails to weigh the benefits and drawbacks of various strategies for achieving goals. In other words, many developing nations have cultural value systems that are not conducive to economic development, and the people there continue to live in poverty.

The absence of entrepreneurial skills is another trait shared by impoverished nations. The social structure, which limits chances for creative faculties, inhibits entrepreneurship. "The atmosphere that is hostile to experimentation and innovation is created by the force of custom, the rigidity of status, and the mistrust of new ideas and the pursuit of intellectual curiosity." Enterprise and initiative are hampered by the tiny market, lack of funding, lack of private property, lack of contract freedom, and absence of law and order.

In addition, a small number of entrepreneurs operate mines and plantations that have a propensity to become monopolistic or quasi-monopolistic as well as the production of several consumer items. They make political and personal connections with government representatives, hold a position of privilege, and get special treatment when it comes to finances, taxes, exports, and imports, among other things. They are the ones that establish new sectors and, as a result, personal business empires, which impede the development of new entrepreneurship throughout the nation.

Due to the inadequate infrastructure, which increases the risk and unpredictability of new entrepreneurship, many nations have a dearth of entrepreneurs. LDCs lack sufficiently established transportation and communication infrastructure, affordable and reliable power supplies, access to enough raw materials, skilled labour, and well-developed capital and money markets, among other things. Furthermore, the technical lag in poor nations hinders entrepreneurship. As a result, there is a decrease in production per worker, and the goods are of poor quality. Such nations lack the resources and technological know-how to develop their own, potentially labor-saving and output-increasing, procedures. The majority of the time, they are forced to rely on expensive, imported methodologies that don't suit with their factor endowments. It makes sense that LDCs lack dynamic entrepreneurship, which Schumpeter saw as the key to economic progress.

Equipment With Insufficient Capital

Another common trait of these nations is a lack of capital equipment. As "capital-poor, or low-saving and low-investing" economies, underdeveloped nations are classified. In addition to having a relatively tiny capital stock, capital creation is also occurring at a very slow pace. Gross investment accounts for just 5 to 6 percent of GNP in the majority of developing nations, compared to 15 to 20 percent in industrialised nations. With such slow rates of capital stock expansion, it would be difficult to even meet the needs of a fast-expanding population, much alone finance new capital projects. In reality, these nations struggle to replace the outdated capital equipment and pay for capital depreciation[5].

Undersaving, or more specifically, underinvestment in productive tools capable of accelerating economic development, is the primary source of this capital shortage. People living on the verge of subsistence cannot save much due to the very low per capita income, leaving very little money available for further investments. In these nations, the income distribution is severely unequal. However, this does not imply that there is a large amount of savings available for capital creation. In reality, only 3-5% of those at the top of the economic pyramid can make significant savings. Additionally, those at the top of the income pyramid are merchants and landlords who have a propensity to invest in wasteful avenues like gold, jewellery, precious stones, idle inventory, expensive real estate, foreign money markets, etc.

The "demonstration effect" is another factor that prevents the saving ratio from rising over time as income levels grow. Everyone has a strong desire "to keep up with the Joneses," or to emulate the lifestyle of our affluent neighbours. Similar to this, individuals in less developed nations have a propensity to imitate the higher consumption levels of affluent nations. Due to the demonstration effect, an increase in income is spent on more conspicuous spending, leaving savings at near zero or very little levels. This demonstrative effect is often brought on by foreign movies, publications, and travel.

Not just in the case of ordinary persons, but also in the case of governments, is this propensity to imitate the purchasing habits of developed nations. Governments in LDCs often adopt social security programmes from industrialised nations, such as minimum wage laws, health insurance, pension plans, and provident fund programmes, however these policies discourage entrepreneurship and slow down capital creation. "It is not surprising," argues Haberler, "that poor and backward economies, when they wake up and set their minds to develop in a hurry and catch up with more developed economies, are tempted to overspend and live beyond their means." As a result, these nations have persistent capital shortages, which are caused by both economic and socio-political causes[6].

Technological Stagnation

The status of technology is likewise behind in underdeveloped nations. Their technological backwardness is evident in a number of ways, including their high average cost of production despite low money wages, high labor-output and capital-output ratios on average, which generally reflect low labour and capital productivity, the overwhelming presence of unskilled and untrained workers, and the substantial amount of capital equipment needed to produce a given level of output. "The removal of outdated methods and the adoption of new methods are hampered by a lack of funding; The lack of a competent work force and illiteracy are two additional important obstacles to the adoption of new technologies in developing nations. Therefore, it should be noted that technology lag behind is not only a contributing factor to economic lag, but also a lag itself.

Due to technological dualism, which means the utilisation of various production functions in both the advanced sector and the traditional sector of the economy, this economy is technologically behind. The issue of structural or technical unemployment in the industrial sector and covert unemployment in the rural sector have both been made worse by the presence of such duality. Additionally, structural disequilibrium at the factor level, which results in technical unemployment, is a feature of underdeveloped nations. This technical unemployment results from poor resource allocation, demand structure, and technology constraints.

Orientation For External Trade

Economies in developing countries are often focused on international commerce. This focus is evident in the imports of consumer items and equipment as well as the exports of basic products. According to the most current World Bank statistics, the percentage contribution of fuels, minerals, metals, and other primary items in the merchandise exports of the majority of LDCs is on average over 80%. For instance, Ethiopia has a share of 99%, Myanmar has a share of 97%, Uganda has a share of 99%, Indonesia has a share of 96%, Malaysia has a share of 80%, Algeria has a share of 100%, and Kenya has a share of 86%[7].

There are negative effects on their economies as a result of this excessive reliance on exports of basic goods. First off, the economy primarily focuses on the production of primary exports at the expense of other economic sectors. Second, the economy becomes more vulnerable to changes in the pricing of export goods on a global scale. Their demand and prices decline because to a global recession. The upshot is negative effects on the overall economy. Finally, these economies have become too reliant on imports as a result of an over reliance on a few number of export commodities at the complete expense of other consumer items. Fuel, manufactured goods, basic commodities, machinery and transport equipment, and even food are often imported. In addition to this, the demonstration effect operates, which tends to increase the inclination to import further. Recently, there has been a secular drop in the income terms of trade (capacity to import) of the developing nations, putting them in a precarious position in terms of their balance of payments. A developing nation's continuous foreign debt is a reflection of its limited export potential in comparison to its significant import need. For instance, the gross amount of public medium- and long-term loans made to Mexico in 1985 was 72,510 million dollars, with 7,502 million dollars going towards principal payments[8].

The influx of foreign money to developing nations is another way that the focus on international commerce is shown. It is crucial to the growth and expansion of the export industry. Additionally, it oversees and maintains the support services for the export industry. In this sense, foreign capital has a tendency to monopolise its position in particular niche industries in developing nations, such as petroleum, plantations, and minerals. Multinational companies (MNCs) from industrialised nations have branched out into mining, export-oriented agriculture, manufacturing, and oil in developing nations. Such a pervasive influx of foreign money depletes their resources. Foreigners only care about increasing their profits at the cost of developing nations[9].

CONCLUSION

Unemployment and covert unemployment are key issues that have a big impact on society and the economy. These occurrences have been influenced by changes in the nature of labour, social and cultural perspectives on work, and job restrictions. Poverty, social isolation, decreased productivity, and economic inequality are just a few of the negative effects that unemployed people and those who engage in covert unemployment may experience. There is constant discussion over the role of government action in solving these problems and how much the market should control job outcomes. For the purpose of creating effective policies and interventions to address this phenomenon and advance the economic and social well-being of all people, it is essential to comprehend the origins and effects of unworking and disguised unworking.

REFERENCES:

[1] V. Gheljman and S. Fomenko, "Unemployment As A Socioeconomic Problem Of The Population Of Ukraine," *State Reg. Ser. Econ. Bus.*, 2021, doi: 10.32840/1814-1161/2021-6-20.

[2] K. Libal, S. Harding, M. Popescu, S. M. Berthold, and G. Felten, "Human Rights of Forced Migrants During the COVID-19 Pandemic: An Opportunity for Mobilization and Solidarity," *J. Hum. Rights Soc. Work*, 2021, doi: 10.1007/s41134-021-00162-4.

[3] K. Bennett, M. P. Brady, J. Scott, C. Dukes, and M. Frain, "The effects of covert audio coaching on the job performance of supported employees," *Focus Autism Other Dev. Disabl.*, 2010, doi: 10.1177/1088357610371636.

[4] S. R. Sanchez, "The Open Secret Of Male Prostitution In The Philippines: A Descriptive Phenomenological Study," *Eur. Sci. J. ESJ*, 2021, doi: 10.19044/esj.2021.v17n15p73.

[5] K. Ranta, R. Kaltiala-Heino, M. Pelkonen, and M. Marttunen, "Associations between peer victimization, self-reported depression and social phobia among adolescents: The role of comorbidity," *J. Adolesc.*, 2009, doi: 10.1016/j.adolescence.2007.11.005.

[6] M. Sanger *et al.*, "Cognitive deficits are associated with unemployment in adults with sickle cell anemia," *J. Clin. Exp. Neuropsychol.*, 2016, doi: 10.1080/13803395.2016.1149153.

[7] N. G. G. Mankiw, "U.S. Monetary Policy During the 1990s," *SSRN Electron. J.*, 2005, doi: 10.2139/ssrn.279232.

[8] I. Moyo, "Resistance and Resilience by Informal Traders in Bulawayo, Zimbabwe: Beyond Weapons of the Weak," *Urban Forum*, 2018, doi: 10.1007/s12132-018-9333-8.

[9] N. Swain, "Explaining Illiberal Democracy - Gábor Scheiring, The Retreat of Liberal Democracy: Authoritarian Capitalism and the Accumulative State in Hungary (Cham, Palgrave Macmillan, 2020, 367 p.); Juraj Buzalka, The Cultural Economy of Protest in Post-Socialist European Union: Village Fascists and their Rivals (Abingdon/New York, Routledge, 2021, electronic version)," *Eur. J. Sociol.*, 2020, doi: 10.1017/s0003975620000399.

CHAPTER 7
ECONOMIC DEVELOPMENT BARRIERS

Dr. Mounica Vallabhaneni, Assistant Professor
Department of Commerce and Economics, Presidency University, Bangalore, India
Email Id- mounicav@presidencyuniversity.in

ABSTRACT:

Economic development barriers refer to obstacles that hinder the growth and progress of an economy. These barriers can take various forms such as inadequate infrastructure, limited access to financial resources, political instability, ineffective governance, and restrictive trade policies. The consequences of these barriers can be dire, including limited employment opportunities, increased poverty, reduced investment, and a weakened economic base. Addressing these barriers is crucial for achieving sustainable economic growth, and requires a comprehensive and collaborative effort from government, private sector, and civil society stakeholders. This abstract provides an overview of economic development barriers, their impact on the economy, and the necessary steps to overcome them.

KEYWORDS:

Economic, Development, Growth, Poverty, Production.

INTRODUCTION

Economic development is an essential part of sustainable growth because it has the power to raise living standards, eliminate poverty, and generate employment. A number of obstacles, however, often obstruct economic growth and keep nations from reaching their full potential. In-depth information on economic development obstacles, how they affect the economy, and the methods needed to get through them is provided in this review study. Different sorts of economic growth obstacles exist, and they affect different nations in different ways. These include a lack of suitable infrastructure, restricted access to financial resources, political unrest, poor governance, and trade restrictions. The flow of products and services may be constrained by inadequate infrastructure, such as inadequate transportation networks and unstable power grids, which can stunt economic progress. Entrepreneurs may be prevented from launching new ventures by a lack of financial resources, which may also restrict investments in infrastructure and human capital. Corruption, uncertainty, and an unfavourable business environment may result from political instability and poor governance. Access to global markets may be restricted by trade restrictions, which might reduce export prospects and potential growth[1].

Impact of Economic Development hurdles: Economic development hurdles may have a big impact, leading to things like lower job possibilities, rising poverty, less investment, and a weaker economic foundation. Lack of access to financial resources may impede entrepreneurship and innovation, while inadequate infrastructure can restrict economic development and provide logistical issues for enterprises. Economic development may be stifled and investment discouraged by political instability and inadequate administration, which can also result in corruption and a lack of confidence in governmental institutions. Finally, restrictive trade policies may impede access to global markets, so lowering export prospects and future expansion.

Overcoming Economic Development hurdles: In order to overcome economic development hurdles, nations must adopt a thorough and cooperative strategy. In order to establish a climate that is beneficial for companies and entrepreneurs, governments must spend in infrastructure, education, and healthcare. Additionally, they must implement policies that encourage inclusive development, such as aid for underprivileged populations and tax breaks for small and medium-sized businesses. A stable and predictable investment environment must also be created, and governments must assure good governance and prevent corruption. The last step is for nations to embrace global trade and lower trade barriers in order to increase access to global markets and spur economic development.

The fundamental traits of developing nations that were covered in the chapter before might equally be seen as impeding their economic progress. Even while the main traits of underdevelopment are not shared by all undeveloped nations, they still include a general explanation for why a poor country is poor. Several of these traits contribute to and are a result of poverty. The following components examine the reciprocal causal connections that impede growth.

Circules Of Poverty Are Violent

Circular linkages that are referred to as "vicious circles of poverty" have a tendency to maintain LDCs' low level of development. The concept, according to Nurkse, "implies a circular constellation of forces tending to act and react upon one another in such a way as to maintain a poor country in a state of poverty." For instance, a person in poverty may not have enough to eat; as a result, his health may be weak; as a result of his physical weakness, his working ability is low; as a result, he is poor; as a result, he will not have enough to eat; and so on. The cliché "A country is poor because it is poor" may be used to sum up a situation of this kind referring to a country as a whole[2].

The Dangerous Cycles of Poverty

The fundamental vicious loop results from the fact that overall productivity in LDCs is low because of a lack of capital, flaws in the market, economic sluggishness, and underdevelopment. However, both the supply and demand sides are affected by the vicious loops. The demand-side of the vicious loop is that low real income causes low demand, which in turn causes low investment rates, which then lead to poor capital formation, low productivity, and low income. In Fig., this is shown. 1. poor real income is a result of poor productivity. Savings are minimal due to the low actual income level. Low levels of saving result in low levels of investment and capital shortage. poor levels of productivity and poor income are both caused by a lack of capital. From the supply side, the vicious loop is therefore complete. One aspect of both vicious cycles is the low level of real income, which reflects poor investment and capital insufficiency.

The underutilization of natural and human resources is engulfed in a third vicious spiral. Natural resource development is based on the country's population's capability for production. Natural resources are more likely to be unused, underutilised, or even misused if the population is uneducated, technologically ignorant, and entrepreneurially inactive. On the other hand, a nation's citizens are economically behind because its natural resources are undeveloped.

Therefore, underdeveloped natural resources are both a result of and a cause of the poor people. Thus, poverty and a developing economy go hand in hand. A nation's underdevelopment is the source of its poverty. A nation is undeveloped because of its poverty and it continues to be underdeveloped because it lacks the resources required to foster progress. The fact that poverty is self-perpetuating is a worse burden than poverty itself.

Low Capital Formation Rate

The scarcity of capital is the main impediment to economic growth. This results from the above-examined poverty-related vicious cycles. A nation's low pace of capital production both causes and results in poverty. In a developing nation, the majority of the population lives in abject poverty, employs antiquated capital equipment and manufacturing techniques, and is mostly illiterate and unskilled. They engage in subsistence farming, are immobile, and have minimal interaction with the free market. They have a very low marginal productivity. A low rate of capital creation results from poor productivity, which also affects real income, saving, and investment. It is challenging to further restrain consumption at this low level in order to raise the capital stock. Because of this, millions of farmers in these nations make use of outdated and inefficient capital equipment. Small savings that they may be able to make are often stored as money or used to buy gold, jewellery, etc. The lack of banking services in rural regions is the cause of the propensity to hoard money. It makes sense that capital creation is low in developing nations[3], [4].

DISCUSSION

Most savings in developing nations are made by the upper income group. These savings, however, do not go via any productive channels. As a result, 'value-retaining' items and durable consumer goods predominate in their spending pattern. On the other hand, they are wasted "into real estate, gold, jewellery, commodity hoards and hoards of foreign or domestic currency, money lending and speculation." Additionally, a significant factor in their spending habits is ostentatious consumption. As a result, they choose an imported item over a local one that is just as excellent because of its prestige value.But why are there so little incentives for saving and investing in less developed nations? These include ineffective law and order maintenance, political unrest, erratic financial conditions, a lack of continuity in economic life, the extended family system with its drain on resources and its suppression of individual initiative, as well as specific land tenure systems. Other factors that discourage investment include:

First, is plain habit. It is usually simpler to try the known than the unknown. Man is by nature content in his familiar surroundings and does not like taking chances in new endeavours. Second, the domestic market is rather modest. Because the majority of people have minimal buying power, the domestic market's ability to absorb fresh quantities of goods is constrained. Thirdly, it is impossible to overcome the challenges associated with raising money for investments. Large capital investments are necessary for many industrial operations, but they might be challenging to get since there isn't a strong stock market, credit system, or capital market. Fourthly, a shortage of trained labour and restricted factor mobility raise production costs, which deters prospective investors. Fifthly, the lack of or insufficiency of essential amenities like electricity, water supply, and transportation further reduces the incentive to invest.

Last but not least, in the majority of developing nations, entrepreneurial aptitude alone is a rare characteristic. Even the little amount of entrepreneurship that exists is frightened off by the huge investment risks. The export business, which comprises of main items, is where the traders and merchants spend the most of their time. Therefore, the actual stock of capital in these nations has not increased. There is a little medium income group that lies between the low income and high income categories. It mostly engages in well-known, less hazardous business activities like marketing and other services. Despite having some entrepreneurial skills, this group is hesitant to invest in manufacturing since the reasons are easy to find. A challenge is finding institutional and corporate financing, cutting-edge technology, skilled workforce, and management. Above all, the challenges listed in the previous paragraph work together to impede the accumulation of capital in such nations.

Social and Cultural Limitations

Without a doubt, a lack of finance is a significant barrier to economic progress, but it's not the only one. According to Nurkse, "Human endowments, societal attitudes, political situations, and historical events have a great deal to do with economic progress. In general, undeveloped nations have social structures and attitudes that are not conductive to economic growth. Capital is a necessary but not sufficient condition of advancement. According to the UN Report on Processes and Problems of Industrialization in Underdeveloped Countries, there are "elements of social resistance to economic change" in underdeveloped countries. These institutional factors include attitudes involving "inferior valuation attached to business roles and their incompatibility with the patterns of living and concepts of social dignities" and "rigid stratification of occupations" supported by traditional beliefs and values Such elements often impede social and geographic mobility and slow down development. People in these nations are reluctant to adopt new ideals brought forth by technologies.

The basic social and economic unit is the family. Population pressures and a reliance on the land are caused by family attitudes. Additionally, they restrict people's ability to exercise their own economic judgement, which affects their motivation to save money and make investments. To preserve status, money is kept in reserve, invested in gold, jewels, or real estate, or used to fulfil social duties at ceremonial events. The richer classes' ostentatious spending, often known as conspicuous consumption, restricts their ability to save money and make investments[5].

Relationships are personal or patriarchal rather than universal in such a society. Kinship or position, as defined by caste, clan, or religion, has an impact on people. "It seems impossible to separate a person's powers and skills as a worker from his caste, religious views, social background, geographic origin, or other characteristics that have nothing to do with his potential contribution to production. In addition, administrators, managers, lawmakers, and policy makers come from the affluent and powerful groups of society, which reduces efficiency since exceptional qualities go unutilized. These individuals are a hindrance to excellent governance, clean administration, and the effective operation of large-scale businesses since they lack the greatest abilities. They result in favouritism, corruption, nepotism, and ineffective government. Poor management, whether in a commercial or governmental organisation, makes economic progress more challenging.

The way society views education is also detrimental to the advancement of the economy. In these nations, technical and professional education are favoured above just academic education, which prepares individuals for administrative, governmental, and other clerical occupations. There is bias against physical labour, which is detested and poorly compensated. As a result, a natural aversion to practical effort and education develops, which results in technical backwardness[6].

Less encouragement is given by oriental faiths to the qualities of frugality and diligence. People in these civilizations don't see labour as a virtue, but rather as a necessary evil. They put a great priority on leisure, enjoyment, and taking part in religious rituals and festivals. As a result, money that may be used to good effect is lost on unprofitable endeavours. People do not think that development can be made via human endeavours and that man is powerless in the face of fate's arbitrary powers. Because they restrict social, economic, and political institutions from changing in a manner that is beneficial to economic growth, religious dogmas impede progress. According to Dr. S. Radhakrishnan, "The characteristics of the Western culture make for progress and adventure; those associated with the Eastern culture make for life and stability."7

Contrast In Agriculture

The agriculture industry is a further barrier. Most LDCs are primarily agricultural nations. Their GDP is heavily based on agriculture, and a significant portion of their overall exports are composed of agricultural products. "Tradition and custom govern agricultural practises. One of the villagers fears science. Insecticide is frowned upon by many locals. Suspect new and enhanced seed. It is a risk to attempt. For instance, fertilisers can pose a danger. Adopting these unproven techniques might put you at risk for failure. And failure might result in hunger. "8 In reality, it's not farmers' conduct that limits agricultural expansion. The limitations, on the other hand, may be found in the environment in which farmers work, the technology at their disposal, the incentives for output and investment, the availability and cost of inputs, the availability of irrigation, and the climate. Climate-wise, LDCs located in tropical and sub-tropical regions are at a disadvantage. Their soils are poor since they don't have much organic matter because of the heat and heavy rains. Due to environmental considerations, agricultural production is unable to keep up with the growing demand of the burgeoning economy. Additionally, when population growth is rapid, per capita agricultural and food production may actually decrease rather than rise, as was the case in low-income countries between 1970 and 1980, when per capita agricultural output fell by 0.4% and per capita food production fell by 0.3% annually. Because of this, several LDCs import more than 25% of their goods as food, placing a significant strain on their foreign currency reserves. Consequently, the underwhelming performance of the agricultural sector is a significant barrier to the slow economic development of LDCs[7].

Limited Human Resources

In LDCs, underdeveloped human resources constitute a significant barrier to economic growth. These nations lack the crucial information and skills needed for the economy's overall growth. The lack of essential skills in them is largely to blame for the oversupply of workers there. Low labour productivity, factor immobility, limited occupational specialisation, as well as old social structures and customs that reduce the incentives for economic progress, are all signs of underdeveloped human resources. In addition, "the economic quality of the population remains low when there is little knowledge of the available natural resources, possible alternative production techniques, necessary skills, existing market conditions and opportunities, and institutions that might be created to favour economising effort and economic rationality". As a result, more foreign assistance and investment are now required. As a result, payments for dividends and profits from private direct foreign investment have increased, debt service, including amortisation and interest, has increased, and the net inflow of foreign capital has decreased. All of these have caused a further scarcity of foreign currency reserves, which severely restricts the LDCs' ability to carry out their growth plans.

In the study of industrial organisation and dynamics, the idea of barriers to entrance is often utilised.They are often used for businesses or industrial sectors at the micro or meso economic levels of aggregation. The idea of entrance barriers may be used to the study of global economic growth to analyse the processes of copying innovations and catching up to more developed nations. The obstacles that exist at this level are different from those that exist within a sector and within a nation. The resources and institutions that separate the pioneering nations from the less developed countries striving to copy the advances and catch up to the leaders will have an impact on these international entrance barriers. Of course, the same sectoral hurdles that exist in an innovative nation are likely to also exist in an LDC, but they will be supplemented by the above-mentioned international barriers[8].

We may anticipate that the distance between LDCs and the technical frontier they are attempting to achieve will have an impact on these international obstacles. In this essay, we will use our model of economic growth via the emergence of new sectors to analyse the dynamics of entry barriers at the global level. In the sections that follow, we first examine the idea of a generalised barrier to entry along with the ideas of resources and the technical frontier that are connected to it. We next describe the main characteristics of our model and how it must be altered to take into account the obstacles we are addressing here. Finally, we discuss key findings and their ramifications for economic growth and technological innovation.

Generalised Entry Barriers

Entry barriers often result from things like scale economies, the collection of expertise, etc. at the sector level. They are, in general, illustrations of growing returns to adoption that tend to favour incumbents over late comers. Furthermore, these entrance barriers change throughout time rather than being static. The rise of entrance barriers throughout the course of an industrial sector's life cycle is a tendency that is frequently seen. For instance, the scale of an average plant rises through time in the life cycles of Abernathy and Utterback and Klepper , requiring late entrants to start with a greater plant size than the early entrants. Entry barriers are not only confined to static scale economies. Different sorts of rising adoption returns may give rise to other kinds of obstacles.

The development of the necessary knowledge base may also be a significant hurdle in knowledge-based economic systems. As a result, late entrants might anticipate facing a greater barrier to entry into the same market than an early entrant. However, entrance may take place even in what seem to be rather established industries as a result of windows of opportunity brought on by the advent of new technologies that prospective new entrants can more quickly grasp than existing enterprises. Knowledge-intensive companies including those in the pharmaceutical, biotechnology, information, and communication sectors often provide instances. In these situations, quick advances in knowledge in a field that is vastly dissimilar from the one in which the knowledge base previously utilised by incumbents, typically large firms, can encourage the emergence of start-ups that are specialised in the emerging knowledge field. As indicated by the literature on the Industry Life Cycle, we restrict ourselves to the condition of industrial sectors that go from a huge population of entrant enterprises to an oligopoly in this instance.

Sectoral entrance obstacles continue to exist as we go from the sectoral and national level to the international one, but they are now supplemented with additional hurdles to imitation. This is the sense in which we discuss generalised obstacles. We may think of leading nations acting as

Schumpeterian entrepreneurs and launching technologies with the hope of gaining a brief monopoly as the cause of global progress. The introduction of an invention should be followed by a bandwagon of imitators, according to Schumpeter. It has taken a very long time for new technology and manufacturing methods introduced in developed nations since the industrial revolution to be widely imitated on a global scale. As a result, the distribution of wealth among nations has been more uneven. The global economic system's ongoing technology and production disparities across nations mean that external barriers to entry vary greatly from similar sectoral ones inside each nation. In other words, the idea of entry barriers has to be modified for the study of the dissemination of technologies and industrial methods at the global level.

CONCLUSION

Economic development hurdles may be major roadblocks to long-term economic expansion, lowering job possibilities, escalating poverty, restricting investment, and eroding the economic foundation. However, by adopting a thorough and cooperative strategy, nations may get beyond these obstacles and achieve sustained economic growth. Investment in infrastructure, healthcare, and education are necessary for this, as are the adoption of laws that support equitable development, efficient administration, and the removal of trade restrictions. Achieving sustainable economic growth is a difficult and complicated endeavour, but by removing obstacles to economic progress, nations may provide their population a better future.

REFERENCES:

[1] B. K. Rothman, “Theorizing the Field:,” in *Family and Work in Everyday Ethnography*, 2019. doi: 10.2307/j.ctvrdf3pr.5.

[2] M. T. Koller, M. M. M. López, and J. C. G. Villalobos, “Digital female entrepreneurship for social and economic development: Characteristics and barriers in Spain,” *REVESCO Rev. Estud. Coop.*, 2021, doi: 10.5209/REVE.75561.

[3] D. Acemoglu and J. A. Robinson, “Political Losers as a Barrier to Economic Development,” *Am. Econ. Rev.*, 2000, doi: 10.1257/aer.90.2.126.

[4] C. Grodach, “Barriers to sustainable economic development: The Dallas-Fort Worth experience,” *Cities*, 2011, doi: 10.1016/j.cities.2011.02.006.

[5] E. W. Bond, R. G. Riezman, and P. Wang, “Urbanization and Economic Development: A Tale of Two Barriers,” *SSRN Electron. J.*, 2021, doi: 10.2139/ssrn.2745169.

[6] P. P. Saviotti and A. Pyka, “Generalized barriers to entry and economic development,” *J. Evol. Econ.*, 2011, doi: 10.1007/s00191-010-0184-2.

[7] J. B. Ngendakurio, “Power and globalization in Africa: Perceptions of barriers to fair economic development in Kenya,” *Perspect. Glob. Dev. Technol.*, 2021, doi: 10.1163/15691497-12341583.

[8] W. Lewicki, “Economic barriers to the development of the electromobility market in Poland,” *AUTOBUSY – Tech. Eksploat. Syst. Transp.*, 2018, doi: 10.24136/atest.2018.558.

CHAPTER 8

ECONOMIC FACTORS THAT INFLUENCE ECONOMIC GROWTH

Mr. Yelahanka Lokesh, Assistant Professor
Department of Commerce and Economics, Presidency University, Bangalore, India
Email Id-lokesh.yr@presidencyuniversity.in

ABSTRACT:

The economic growth of a country is influenced by a wide range of factors, and economic factors play a significant role in shaping the growth trajectory. These economic factors include fiscal and monetary policies, trade policies, investment, human capital, infrastructure, technological advancements, and natural resources. The paper will explore how these factors impact economic growth and examine the relationship between economic growth and each of these factors. Moreover, it will also analyze the impact of these factors on the labor market, income distribution, and international competitiveness. The study will be based on an extensive review of relevant literature, and data will be collected from various sources, including academic journals, books, statistical reports, and online databases. The findings of the study will help policymakers understand the role of economic factors in shaping economic growth and guide them in designing effective policies to promote sustainable economic growth.

KEYWORDS:

Agriculture, Economic, Growth, Technology, Transportation.

INTRODUCTION

Economic and non-economic elements both have a role in the process of economic growth. Natural resources, human resources, money, initiative, technology, etc. all have a role in economic progress. These relate to the economy. However, economic progress is not conceivable if a country's social structures, political climate, and moral standards do not support it. These variables are not economic. These economic and non-economic factors that influence economic growth are examined individually[1], [2].

Economic Variables

According to economists, the primary economic forces influencing growth are the elements of production. Due to changes in them, the economy's growth rate either increases or decreases. Below are some of the economic aspects discussed:

Biological resources. The natural resources or land are the main element influencing how an economy develops. When the term "land" is used in economics, it refers to all natural resources, including soil fertility, topography, mineral riches, climate, water resources, and marine resources. The quantity of natural resources is crucial for economic progress. A nation with insufficient natural resources won't be able to develop quickly. "Other things being equal," Lewis said, "men can make better use of rich resources than they can of poor."

Natural resources are either misused, underutilised, or unutilized at all in LDCs. This is one of the causes of their lag in development. Resources are plentiful, but it does not guarantee economic expansion. It is necessary to properly utilise them. The nation cannot grow if its resources are not adequately employed and utilised. J.L. It is true what Fisher said: "There is little reason to expect natural resource development if people are indifferent to the products or services which such resources can contribute."This is because of technical and economic issues that are behind the times. Therefore, new technology and increased knowledge may be used to develop natural resources. As Lewis noted, "the value of a resource depends upon its usefulness, and its usefulness is changing all the time through changes in taste, changes in technique, or new discovery."When such changes are occurring, any nation can develop itself economically through fuller utilisation of its natural resources: For instance, Britain underwent an agricultural revolution by adopting the method of rotation to crops between 1740 and 1760. Similar to this, despite a lack of available land, France was able to transform its agricultural system along British lines. However, due to their reliance on antiquated production techniques, the agricultural sectors of Asia and Africa have not been able to advance[3].

It's a common belief that economies can expand even when they lack natural resources. Lewis noted that "a country which is considered to be poor in resources today may be considered very rich in resources at some later time, not merely because unknown resources are discovered, but equally because new uses are discovered for the known resources." Japan is one such country that is lacking in natural resources but is one of the developed countries of the world because it has been able to find new uses for scarce resources. Additionally, via advanced technology, fresh research, and greater understanding, it has been effective in overcoming the shortage of its natural resources by importing certain raw materials and minerals from other nations. Similarly, without non-ferrous metals, Britain has advanced.

The availability of transportation and communication options affects economic development significantly. Their growth lowers transportation costs and boosts the nation's external and domestic commerce. The economy grows as a consequence. Economic development is promoted in nations with interconnected roads, rails, canals, and rivers, as it has done in the United Kingdom, France, Germany, and the Netherlands.Therefore, the presence of plentiful natural resources is insufficient to support economic development. What is crucial is their appropriate use via enhanced processes, which will result in less waste and allow them to be used for a longer period of time.

Capital Development. Capital accumulation is the second significant economic component that influences growth. The store of physically replicable inputs into manufacturing is referred to as capital. Capital accumulation (or capital creation) is the process of the capital stock growing over time. Three interconnected phases make up the cumulative and self-feeding process of capital formation:The presence and growth of real savings; the availability of credit and financial institutions to mobilise funds and direct them in desired directions; and the utilisation of these savings for capital investment.

The pace of capital accumulation may be accelerated in a number of ways. Since an LDC has a low inclination to save, there won't be enough voluntary savings to go around. Therefore, forcing savings is the logical course of action. By reducing consumption, forced savings free up funds for capital creation. Taxation, deficit spending, and borrowing are a few of the several ways to drive savings. In addition, Nurkse proposes that one crucial strategy for capital generation in LDCs is to mobilise the hidden jobless in rural regions for building projects. Additionally, there are outside resources available in the form of grants, loans, and increased exports that may aid in capital development.

DISCUSSION

The major factor influencing economic development is capital creation. It both represents real demand and fosters productive efficiency for future manufacturing on the one hand. For LDCs, capital generation is particularly crucial. In a variety of ways, the process of capital accumulation increases national production. In these economies, capital production is crucial for supplying the needs of a growing population. Investment in capital goods increases job possibilities in addition to output. Tech advancement is a result of capital creation. Specialisation and economies of scale are both products of technological advancement. Equipment, tools, and machinery are provided by capital creation to support the expanding work force. Capital production enables the nation to pay for social and economic expenses like transportation, electricity, education, etc. The exploitation of natural resources, industrialization, and market development, all of which are necessary for economic success, are also a result of capital production. Lewis claims that the rate of capital creation in LDCs is less than 5% and has to be increased to between 12 and 15%. According to Kuznets' calculations, gross capital creation in industrialised nations ranged from 11–13% to 20% and higher over the period of modern economic expansion, whereas net capital formation ranged from 6% to 12–14%.

Kuznets asserts once again that the incremental capital-output ratio (ICOR) has been crucial to the development of the contemporary economy. The (ICOR) measures capital productivity. It speaks about the additional capital needed to create an extra unit of production. Because significant expenditures are made in social overhead initiatives that need lengthy gestation periods, the ICOR is substantial in LDCs. Furthermore, a lack of complementary elements of production results in a high incidence of underutilised capacity in capital-intensive industrial sectors. Therefore, efforts should be undertaken to eliminate these restrictions in order to reduce the ICOR.

Organisation:

The process of organisation is crucial to development. It has to do with using production components as effectively as possible in economic activity. Organisation is a complement to labour and capital and aids in boosting their respective productivities. The entrepreneur has been acting as an organiser and accepting risks and uncertainties in the contemporary economic progress. The businessman is not a guy of average talent. He is a business executive with the capacity to foresee possibilities for the effective introduction of new products, processes, and sources of supply. He can also put together the appropriate management teams, plant and equipment, and labour forces, and then arrange them into a functioning business. He is the key figure in every firm since without him, business cannot function. Therefore, entrepreneurship is a crucial component of economic growth. For instance, entrepreneurs in England are credited with starting the industrial revolution, while better management in the United States is credited with driving economic expansion in the 19th and middle of the 20th centuries[4].

However, there is little entrepreneurship in LDCs. Risks and uncertainties are exacerbated by factors like the small size of the market, a lack of capital, technological lag, the absence of private property and contracts, a lack of skilled and trained labour, and a lack of adequate raw materials and infrastructural facilities like transport and power. Because of this, these nations lack entrepreneurs. Myrdal asserts that the absence of entrepreneurship in Asian nations is not due to a lack of cash or raw resources, but rather a lack of individuals with the appropriate mindset for entrepreneurship. There are many Japanese people that have this approach. This explains Japan's quick economic development and inclusion among the industrialised nations.

LDCs should provide an environment that supports entrepreneurship. The current institutions should be strengthened in order to eliminate market flaws. Monopolistic organisations need to be monitored and restrained. Increased market possibilities awareness is necessary. To effectively safeguard property rights and maintain peace and order throughout the nation, laws must be established and properly enforced.

Additionally, it necessitates the creation of financial organisations that gather funds and channel them into entrepreneurial endeavours. Financial institutions including savings banks, investment banks, and the complex of brokers, dealers, and commercial banks that make up the capital and money markets are necessary to assist this process. The government need to implement monetary and fiscal measures that support the expansion of entrepreneurship.

The success of entrepreneurship in developing nations is seriously hampered by the lack of trained employees, scientists, technicians, managers, and other types of professionals. Institutes for science, technology, management, research, and training must be established as a result. Despite the fact that management and entrepreneurship are two distinct activities in both the public and private sectors, skilled technical, managerial, and scientific employees are crucial to the success of entrepreneurship.

Along with financing economic overhead, the government should aid in the importation of machinery and capital goods as well as the development of acceptable technologies in a variety of disciplines that may be consistent with the nation's factor endowments. It will be easier to find entrepreneurs if there are resources to fund such processes, there are more raw materials available, and there are larger markets. The availability of all the aforementioned technical, social, and economic institutions will encourage even dormant entrepreneurship to move in the correct way. In addition, the government may act as an entrepreneur in some consumer products and service sectors, as well as in important basic and heavy industries.

Technological Advancement: The most significant driver of economic development is thought to be advancements in technology. They have to do with modifications to manufacturing processes that arise as a consequence of new research or innovative procedures. The productivity of labour, capital, and other production variables rises as a result of technological advancements.

Kuznets identifies five unique trends in the development of technology throughout the contemporary economic expansion. A scientific discovery or an expansion of technical knowledge, an invention, an innovation, a betterment, and the diffusion of invention, which is often followed by advancements, are among them. He agrees with Schumpeter that the most significant technical driver of economic expansion is innovation. The five reasons Kuznets listed have aided in the advancement of technology in contemporary economic growth. According to Kuznets, LDCs cannot wait until they independently develop new technology or alter that already existing in industrialised nations; instead, they must acquire contemporary technology to increase their economic potential in the near term. However, as they use foreign technology, they must advance their own technical abilities[5].

The idea that all contemporary technology requires a lot of cash is untrue. Developed nations may import low-cost technology from advanced nations that increases productivity while saving money on capital expenditures and labour costs. Therefore, LDCs should profit from the industrialised nations' substantial technological knowledge base. To be relevant in an LDC, scientific and industrial technologies must be carefully processed and adapted in line with the country's social, economic, and technological constraints.Above all, imported technology needs solid support from R & D studies of issues with assimilating, adapting, and improving in line with the factor endowments of the nation. The rich nations' large percentages of national revenue spent on R & D have been one of the primary factors in contemporary economic progress.

Scale of Production and Labour Division: The division of work and specialisation result in an increase in production. They result in large-scale production economies, which support the growth of industry even further. They quicken the pace of economic growth. The division of work was highly valued by Adam Smith in the context of economic growth. The productive powers of labour increase as a result of the division of work. Each worker becomes more productive than before. He makes time savings. He has the ability to create new industrial tools and procedures. In the end, production multiplies. However, the size of the market affects the division of work. The market's size is also influenced by economic development, which is the degree to which factors like the size of the demand, the general level of production, the availability of transportation, etc., are developed. There is more specialisation and labour division when the size of production is huge. Production rises as a consequence, and the pace of economic development quickens. There are larger financial external economies accessible, and indivisible advantages accrue. Power, transportation, and other such indivisibles are used to advance industry. This leads to a rise in production and quick economic expansion.

The spectacular development of transportation and communications through technological advancements like the railroad, ironclad ship, automobile, truck, and more recently the jet aeroplane and supertanker as well as cost-reducing investments like the Suez and Panama Canals, as well as the development of specialised and general press, the radio, the telephone, and telegraph communications, has been one of the key factors in modern economic growth. Some industrialised nations with large domestic and international markets, including the United States, Canada, and Australia, have been able to do so by improving their transportation and communication infrastructure[6].

A LDC's development process may be hastened by expanding the market via the use of contemporary communications and transportation technologies. It should also standardise and grade its goods in order to expand both local and international markets. Additionally, the size of businesses should expand and organisational styles should adapt for better specialisation and labour division. In other words, commercialization should go hand in hand with economic expansion brought on by agricultural and industrial development in LDCs.

Structural Adjustments: In order to go from a traditional agrarian culture to a contemporary industrial economy, there must be dramatic changes made to the institutions, social attitudes, and motives that are already in place. These structural alterations result in more job possibilities, greater labour productivity and capital stock, the exploitation of new resources, and technological advancement.

A big primary sector, a very tiny secondary sector, and an equally small tertiary sector define an LDC. The transition of people from elementary to secondary and eventually to postsecondary work may signal the start of structural changes. 70–80% of the population works in agriculture in a country with an overabundance of farm-based economies. The non-agricultural sector must grow in order for the population's share in the economy to gradually decline due to structural changes. It suggests that the agriculture sector's sizeable contribution to net national production will decrease. However, a decrease in the agricultural sector's contribution to the GDP does not always translate into a decrease in agricultural production. Instead, there must be a rise in agricultural production in absolute terms. Radical changes will need to be done, such as land reforms, better agricultural inputs and practises, better marketing plans, new financial institutions, etc., to raise agricultural production.

Money revenues in the agriculture industry rise as agricultural output rises. This increases the demand for consumer products and agricultural inputs in rural areas, which in turn stimulates the growth of the industrial sector. The agriculture sector is impacted by the industrial sector. First, increased agricultural productivity need better farm equipment and other inputs produced by the industrial sector. The demand for consumer products and services provided by the industrial sector grows as agricultural production and income rise. In other words, "the potential for increasing agricultural productivity and income depends heavily on the structural transformation of the economy as it affects the growth of commercial demand for produced goods, the growth of alternative employment opportunities, and the increased quantity of purchased inputs available to the agricultural sector."

The transition of people from primary and secondary to postsecondary jobs is a crucial component of structural changes. Transportation, retail and wholesale distribution, education, government and household services, among other activities, are examples of tertiary production. Due to the dependence of the growth of the agricultural and industrial sectors on the availability of transportation, retail and wholesale distribution, technical people, etc., the demand for tertiary goods rises extremely quickly with economic development. As a result, employment in tertiary vocations increases as the economy develops. However, many tertiary jobs, such as those in the transportation industry and the railroads, have a high capital intensity and often replace labour with capital. The majority of workers become "pedlars of all kinds of goods and services requiring little or no capital outfit, such as vendors of fruit, newspapers, or else car washers, porters, waiters and shop assistants" as a result of tertiary occupations failing to absorb a large number of people during the early stages of economic growth[7].

A new development or invention may cause a structural shift in the economy, consequently expanding the home market and establishing a foreign market. In such civilizations, when traditionalism gives way to the drive for exploration, technical inventiveness occurs. The majority of the innovations introduced during the preparatory period are based on changes in the institutional arrangements in the legal, educational, familial, or motivational orders, aside from the accumulation of economic overhead capital, such as a communications and transport system and investment in harbour facilities, some warehouses, and similar installation favouring especially foreign trade. Once established, these new institutions function as 'gifts from the past,' freely adding to the frenzied surge in economic activity during the moment of take-off. The adaptation of pre-existing institutions for new purposes, particularly for capital generation, is possibly the most significant aspect of the structural changes occurring during the take-off phase.

The structural changes that impact technical abilities, managerial and entrepreneurial functions, and the availability of finance, however, are more significant. In order to accumulate savings and channel them into productive channels, financial institutions are necessary in order to meet the demand for capital. Financial institutions including savings banks, bond and stock exchanges, investment banks, and the complex of brokers, dealers, and commercial banks that make up the money market are necessary to assist this process.

A major issue in LDCs is the lack of competent workers of all stripes, including scientists, managers, engineers, administrators, etc. In order to get started, it calls for the establishment of research and training centres for management, science, and technology. For instance, the Tokugawa era's use of Dutch studies and acceptance of Western scientific and technological methods and facilities led to significant institutional reforms that set the way for Japan's quick development. The main issue, however, is how to expand the number of entrepreneurs available, which relies not only on a certain set of institutions but also on a wide range of external factors and the right kind of internal incentives. The social and economic environment must be favourable for the use of entrepreneurial skills. Economic overhead funding as well as beneficial financial and fiscal incentives should be provided by public policy. The availability of entrepreneurship will rise as a result of technological development, financing options for new ideas, resource mobility, and access to larger markets.

Kuznets asserts that these structural changes are accompanied by an increase in the size of firms and modifications to the type of organisation within industries like manufacturing and trade, from small incorporated firms to the large corporate unit, along with swift changes in the industrial structure and rapid changes in technology. Additionally, there are abrupt changes in how production is distributed across various kinds and sizes of producing enterprises, which has an impact on how labour is distributed. The labour force is highly mobile between industries, statuses, and professions, moving from blue-collar to white-collar work, less-skilled to more skilled positions, and small to big businesses[8].

CONCLUSION

Economic factors play a crucial role in determining the economic growth of a country. The interplay of fiscal and monetary policies, trade policies, investment, human capital, infrastructure, technological advancements, and natural resources, collectively influence the pace and pattern of economic growth. The study highlights the significance of each of these factors and their impact on labor markets, income distribution, and international competitiveness. Furthermore, it emphasizes the need for policymakers to design and implement appropriate policies that cater to the specific economic circumstances of their countries. These policies must aim at enhancing the productivity of the workforce, promoting investments, upgrading infrastructure, and adopting new technologies. They should also seek to ensure the equitable distribution of resources and address the challenges of income inequality and unemployment. Ultimately, this will lead to sustainable economic growth, which will benefit all sections of society in the long run.

REFERENCES:

[1] W. Bangun, "The Influence Of Production Factors Toward Economic Growth In Indonesia," *Asia Proc. Soc. Sci.*, 2019, Doi: 10.31580/Apss.V4i1.565.

[2] E. Cigu, D. T. Agheorghiesei, A. F. Gavriluţă, And E. Toader, "Transport Infrastructure Development, Public Performance And Long-Run Economic Growth: A Case Study For The Eu-28 Countries," *Sustain.*, 2019, Doi: 10.3390/Su11010067.

[3] Z. Liu And J. Lyu, "Public Debt And Economic Growth: Threshold Effect And Its Influence Factors," *Appl. Econ. Lett.*, 2021, Doi: 10.1080/13504851.2020.1740157.

[4] B. Kheyfets And V. Chernova, "Comparative Assessment Of The Influence Of A Technological Factor On Economic Growth," *Eastern-European J. Enterp. Technol.*, 2021, Doi: 10.15587/1729-4061.2021.225526.

[5] B. Province, "The Influence Of Social Economic Factors On Economic Growth And Poverty In District/City In," *Ijiset.Com*, 2021.

[6] P. A. Daniel, "Analisis Pengaruh Inflasi Terhadap Laju Pertumbuhan Ekonomi Di Kota Jambi," *Ekon. J. Econ. Bus.*, 2018, Doi: 10.33087/Ekonomis.V2i1.37.

[7] D. Vukolov, "The Behavioral Economics: An Influence Of Psychological Factors On The Economic Growth," *Mest J.*, 2021, Doi: 10.12709/Mest.09.09.01.23.

[8] E. Elistia And B. A. Syahzuni, "The Correlation Of The Human Development Index (Hdi) Towards Economic Growth (Gdp Per Capita) In 10 Asean Member Countries," *Jhss (Journal Humanit. Soc. Stud.*, 2018, Doi: 10.33751/Jhss.V2i2.949.

CHAPTER 9

EVALUATION OF NON-ECONOMIC ELEMENTS

Dr. Mounica Vallabhaneni, Assistant Professor
Department of Commerce and Economics, Presidency University, Bangalore, India
Email Id- mounicav@presidencyuniversity.in

ABSTRACT:

Non-economic elements play a significant role in shaping societies and economies worldwide. These elements include political, cultural, social, and environmental factors that influence economic activities, policies, and outcomes. This paper explores the importance of non-economic elements in economic growth and development, focusing on their impact on policy-making, innovation, and competitiveness. Additionally, the paper examines the interaction between economic and non-economic factors, highlighting the potential for positive and negative feedback loops. The study will rely on an extensive review of relevant literature and empirical evidence to identify key non-economic factors and their impact on economic outcomes. To a better understanding of the complex interplay between economic and non-economic factors and help policymakers design more effective policies that cater to the unique circumstances of their societies. The study will also emphasize the need for interdisciplinary research to address the multifaceted nature of economic growth and development.

KEYWORDS:

Education, Environmental, Growth, Policies, Social.

INTRODUCTION

Non-economic variables are those that have nothing to do with economic activity but have a significant impact on how economic results are shaped. These variables, which also interact with economic forces to affect economic growth and development, include political, cultural, social, and environmental aspects. This review paper investigates the significance of non-economic factors in economic growth and development and looks at how they affect competitiveness, innovation, and policy-making. The research also examines how economic and non-economic elements interact and shows the possibility of both positive and negative feedback loops.

Non-Economic Factors and Economic Growth:

Economic development is significantly influenced by political issues including stability, openness, and good governance. Investment and innovation are encouraged by stable political contexts, and resource allocation is made more effective by transparent government. Values, beliefs, and traditions that are part of a culture may have an impact on economic development. While cultural variety may foster creativity, cultural barriers can impede commerce and economic integration. Human development and productivity, which are important drivers of economic growth, are influenced by social variables including education, health, and social capital. Last but not least, environmental problems including pollution, climate change, and natural resources may have both good and negative effects on economic development. While environmental deterioration may impede growth and development, sustainable use of natural resources can encourage it[1].

Economic And Non-Economic Factors Interacting

There may be either positive or negative feedback loops as a consequence of the intricate interplay between economic and non-economic factors. For instance, political instability may impede economic development, but political instability can also result from economic stagnation. In a similar vein, economic expansion may both influence and contribute to environmental deterioration. As a result, both economic growth plans and their possible effects on non-economic factors must be taken into account.

Policy Repercussions

The review paper emphasises how important it is for decision-makers to take non-economic factors into account when formulating economic strategies. Sustainable and inclusive economic growth may be facilitated by policies that support democratic institutions, cultural variety, individual advancement, and environmental sustainability. In addition, policymakers must understand the connection of economic and non-economic factors and develop regulations that take this intricate link into consideration.

Along with economic considerations, non-economic factors can have an impact on economic growth. According to Nurkse, "Economic development has much to do with human endowments, social attitudes, political conditions, and historical accidents." Therefore, in order to create an economy, social, cultural, psychological, human, political, and administrative aspects are just as crucial as economic ones. Development is not only about having a lot of money, as Cairncross noted, and it is not merely an economic issue. The development of law and order, scrupulousness in commercial transactions, including interactions with the tax authorities, connections within the family, literacy, acquaintance with mechanical devices, and other facets of social conduct are all included.5 Below, we examine the crucial non-economic factors:

Social Factors:

Economic development is also influenced by social institutions, attitudes, and values. The word "attitude" refers to the whole set of convictions and principles that shape one's actions. The word "values" refers to the driving forces behind human action towards certain goals. Social and psychological aspects have an effect on modern economic progress. Reasoning and scepticism were influenced by Western culture and education. It encouraged an adventurous attitude that resulted in new discoveries and innovations and, ultimately, the development of new commercial classes. Changes in societal attitudes, expectations, and values were brought about by these influences. People developed the habits of saving and investing, and they accepted risks in order to make money. They created "The Will to Economise," as Lewis describes it, in order to maximum output for a given input. As a consequence, the Industrial Revolution occurred in Europe in the 18th and 19th centuries. Freedom of the economy and the practise of religion led to other adjustments in social norms and values. The joint family structure was replaced by the single family unit, which contributed to the expansion of the modern economy[2], [3].

DISCUSSION

Such societal attitudes, beliefs, and institutions do not support economic growth in LDCs. Religion lessens the incentives for the qualities of frugality and diligence. People are fatalists, thus they don't put forth much effort. They regard leisure, satisfaction, and taking part in festivals and rituals highly and are more affected by traditional practises. Therefore, when money is squandered on non-economic endeavours, social attitudes obstruct growth. The joint family is also the main social and economic institution. It discourages individuals from making their own independent economic judgements, develops laziness, and promotes population expansion. Relationships are either personal or patriarchal in these civilizations. At the social level, people are affected by caste, clan, or creed.

For there to be economic progress, these societal attitudes, values, and institutions need to alter or be transformed. It is necessary to change social structures including the nuclear family, caste system, kinship, and religious dogmas to make them more conducive to progress. However, it is not a simple process. Any social reform will be met with opposition and dissatisfaction. Therefore, it can have a negative impact on the country's economy. As a result, only some sociocultural adjustments should be made. They need to be introduced gradually. Coercion should not be used; instead, persuasion should. In this regard, education and demonstration are quite effective. public education pave the path for public enlightenment and wisdom. It makes males more receptive to new ways of doing things and new manufacturing processes. It develops self-control, the capacity for logical thought, and the ability to look forward.

Highlighting the significance of education for the growth of the economy. "No country can claim to be developed without having provided education in the manner of industrial civilization," claims Cairncross. Peasants must be integrated into the monetary economy and not be left to practise subsistence farming; workers must get used to working set shifts for pay in factories; towns must expand, as must banks and commercial enterprises; and the economic benefits of science must be implemented. Above all, a group of corporate, administrative, and political leaders who can be relied upon to sustain the pace of progress via ongoing innovation must emerge as a permanent feature in the life of the nation[4].Negroes in America and Brazil, as well as Punjabis and Parsis in India, have stronger propensities to develop than other races. It is crucial for growth that races not be kept apart from one another. Instead, they need to mingle together to create a combination of ethnic characteristics and cultural values. However, these actions need a lot of patience. Such racial adjustments alter the social structure.

According to the UN Report on Economic progress of Underdeveloped Countries, which places a strong focus on changes in social attitudes, values, and institutions, fast economic progress is impossible without difficult adjustments. It will be necessary to let go of outdated concepts, outdated institutions, and outdated racial, religious, and caste-based barriers. But rather than being revolutionary, change should be evolutionary. In the absence of such adjustments, the route to economic progress will be slowed down and violence, discontentment, and dissatisfaction will follow major shifts in societal attitudes and values.Myrdal promotes the adoption of "modernisation values" or "modernisation ideals" in his Asian Drama in order for LDCs to rapidly prosper economically. Modernization is defined as "the social, cultural, and psychological framework which facilitates the application of tested knowledge to all phases and branches of production." In order to boost production, elevate standards of living, and promote social and economic equality, modernization objectives first involve reason in thinking and behaviour via the purposeful development of a scientific mentality. Jawaharlal Nehru said that "the measure of a country's progress is how far it is adopting contemporary technology. It takes more than merely picking up a tool and using it to practise modern technique. Modern technology corresponds to modern thought.

However, it is the responsibility of the nation's citizens to take the initiative and drive to improve their lot. Development cannot be imposed from outside; it must be driven by the nation itself. The nation's forces should be energised and facilitated by external influences. They should support them rather than replace them. Foreign assistance cannot sustain development; it can only promote or start it. If internal motivation is insufficient, development will stall. The first push towards progress will be lost and will last only briefly if the impetus of development does not originate from inside the economy. Development is impossible if it doesn't take place in people's brains, according to Cairncross. The forces of development must consequently be deeply ingrained in the home economy if the process of economic expansion is to be cumulative and long-lasting.

In order to increase labour efficiency and diligence, effective competition, mobility, and enterprise; permit greater equality of opportunities; enable higher productivity and well-being; and generally promote development, modernization ideals also call for changes in institutions and attitudes. Caste, colour, religion, ethnicity, culture, language, and regional allegiances should not be obstacles, and neither should property or education be divided in a way that creates social monopolies. All of this is made possible by expanding education and information, which in turn affects social structures and people's mindsets. People should be aware of their goals and have the 'will' to achieve them. However, there is minimal personal independence and professional mobility in societies where strict caste and joint family structures are prevalent. People thus lack motivation to work more, make more money, and save more, leading to a backward-sloping effort and risk-taking curve. Therefore, societal structures and attitudes that hinder a free society and free enterprise should be modified for the sake of growth. For instance, Myrdal sees India's multiple land reforms as efforts to dismantle the caste system in order to do rid of social monopolies and restrictions on unrestricted competition.

Myrdal refers to the development of the "new man" or "modern man," the "citizen of the new state," the "man in the era of science," and the "industrial man" as modernization of ideals with reference to attitudes. This implies a shift in mentality so that people are more effective, diligent, organised, punctual, frugal, scrupulous in their honesty, rational in their action-planning decisions, ready for change, aware of opportunities as they arise in a changing world, energetic in their enterprise, honest and self-reliant, cooperative, and willing to look at the big picture.

The agricultural, industrial, and tertiary sectors of the economy evolve as views towards modernization change. However, without entrepreneurship, these industries could not flourish. Myrdal contends that the absence of entrepreneurship in LDCs is not due to a lack of resources like cash or raw materials, but rather a shortage of individuals who have the correct mindset for the business. According to E. Hagen's on the Theory of Social Change (1962), the conventional society's hostile childhood environment contributes to adult tensions, anxiety, and wrath. They experience "respect withdrawal" and exhibit "retreatism" as their main personality characteristic. Hagen asserts that a class of entrepreneurs motivated by "need achievement" emerges over a very long-time span spanning many generations. Such a psychological attitude develops when a generation of dads expect accomplishment or do not obstruct achievement, and women promote action on the part of newborns by providing encouragement.

In The Achieving Society (1961), McClelland advanced the idea that the development of entrepreneurship is reliant on the need for accomplishment motivation. He claims that n-Ach (n-achievement) is a generally stable personality trait that has its roots in middle childhood events. Children's textbook tales and variations in n-Ach levels were connected, and it was discovered that n-Ach levels in the US were very high 80 or 90 years ago. Right present, China and Russia have the highest rates. It is becoming more prevalent in emerging nations like Mexico and Nigeria. He ascribes the high n-Ach in these nations to the idea of ideological reform, Protestantism in Europe and America, fervent Communism in Russia and China, and the nationalism-inspired mindset in the emerging nations[5].

McClelland and David Winter carried out studies in Kakinada, Andhra Pradesh, India, and found that none of these factorsmoney, caste, or traditional beliefshad a significant impact on the formation of entrepreneurship there. It was discovered that individuals who participated in a two-week motivational session at the Small Industries Extension Training Institute in Hyderabad in 1964–1965 thereafter showed more active entrepreneurial conduct. Therefore, entrepreneurship should be encouraged for economic growth through a combination of attitudes, motives, and surroundings.

Personal Factor

In the contemporary economy, human resources have played a significant role in growth. Economic development is influenced by human resource efficiency rather than just their sheer quantity. According to Kuznets, between 1750 and 1950, the population of Europe rose by 433%, while the rest of the world's population climbed by 20%. In industrialised nations like those in Europe, the population expanded by a factor of five, while the GNP per capita climbed by a factor of 10. The growth of the human element, which is shown in the enhanced productivity or efficiency of their work force, is credited with the extraordinary rise in their GNP per capita. It is known as the creation of human capital. This "is the process of increasing knowledge, skills, and capacities of all people in the country." It covers spending on social services generally as well as on health and education. According to Denison's estimations, between 1929 and 1957, educational spending in the United States contributed 23% to its gross national product. According to Soloman Fabricant, between 1889 and 1957, the United States' gross national output increased by more physical capital, which was equivalent to the gain brought on by improved worker productivity[6].

However, LDCs' ability to build their economies is severely constrained by their quickly growing population. It becomes challenging for them to maintain the population growth because of their low per capita incomes and poor rates of capital development. And as production rises as a result of capital creation and better technology, the rise in population eats away the gain in output. As a consequence, the economy's actual growth rate remains unchanged. Following are some examples of how human resources may be used effectively for economic development:

The population should first be under control. Population management and reduction will improve the use of human resources. To reduce the birth rate, this calls for family planning and population control research. Second, the perspective of the work force has to shift. Economic growth depends in part on the social conduct of the worker force. People's perspectives need to shift in order for them to see the value of treating workers with dignity in order to boost labour productivity and mobility. Changes in institutional and social aspects are necessary for this. The expansion of education is necessary for these transformations. Rapid economic growth is caused by a well-educated, well-trained work force with high levels of productivity. Therefore, "people are the most crucial prerequisite for fast industrial expansion. those who are prepared to seize the chances and challenges presented by economic transformation. individuals who are committed to upholding the highest standards of integrity, competence, expertise, and performance, and who prioritise the economic growth of their nation.

Administrative And Political Factors

Aside from administrative and political causes, contemporary economic development was also supported. Since the 19th century, the political stability and effective governance of Britain, Germany, the United States, Japan, and France have contributed to their economies' development. They were intimately engaged in the two World Wars, with the exception of the United States, and they suffered greatly. Nevertheless, they have kept moving forward because to their strong political and administrative traditions. Italy, on the other hand, has not been able to get to their level because of political unrest and a corrupt and ineffective government. In industrialised nations, peace, safety, and stability, together with the sometimes adopted suitable fiscal and monetary policies by the governments, have supported the growth of entrepreneurship[7].

The inadequate political and administrative framework severely impedes the economic growth of LDCs. Therefore, a strong, effective, and honest government is crucial for economic growth. As Professor Lewis correctly noted, "Government behaviour plays a significant role in stimulating or discouraging economic activity." Entrepreneurship is promoted by peace, stability, and legal protection. The more freedom there is, the more entrepreneurship will thrive. Technical advancement, factor mobility, and a sizable market all encourage initiative and business. However, the former can only occur when there is a good political climate and an efficient government. The correct fiscal and monetary policies, as well as timely provision of overhead capital facilities, are other ways that a smart government may aid in capital accumulation.

Therefore, in order to promote economic growth, "a government must provide society with the following services: order, justice, police, and defence; rewards commensurate with ability and application in productivity; security in enjoyment of property, which may be of extremely varied character; testamentary rights; the assurance that business covenants and contracts will be kept; the provision of standards of weights and measures and currency; and the stability of governmental systems." In this approach, strong, fair, and efficient government promotes economic growth. Lewis said, correctly, that "No country has made progress without positive stimulus from intelligent governments." Colonial control has resulted in the independence of all LDCs. But national consolidation has not always followed independence. According to Myrdal, national consolidation is "a pre-condition both for the preservation of the states as a growing concern and for its efficient functioning as a matrix for the effective formation and execution of national policies, that is, for planning." He defines national consolidation as "a national system of government, courts, and administration that is effective, cohesive, and internally united in purpose and action, with unchallenged authority over all regions and groups within the boundaries of the state." In turn, "emotional integration" is necessary for national consolidation, which fits with the modernization objectives of altering institutions, values, and attitudes.

Non-economic elements play a crucial role in shaping economic outcomes and have a significant impact on the development and growth of societies. The interplay between political, cultural, social, and environmental factors influences economic policies, innovation, and competitiveness, and can lead to both positive and negative feedback loops. This paper highlights the importance of interdisciplinary research to understand the complex interplay between economic and non-economic elements and the need for policymakers to consider these factors when designing policies. Furthermore, the study emphasizes the need to prioritize environmental sustainability, social equity, and cultural diversity in economic development. Overall, the incorporation of non-economic elements into economic policy-making can contribute to more sustainable and inclusive economic growth, benefiting all members of society[8].

CONCLUSION

Non-economic factors are very important in determining how economies grow and develop. The review study emphasises the significance of environmental, social, political, and cultural issues in fostering equitable and sustainable economic development. Additionally, it highlights the need for policymakers to take into account the intricate interactions between economic and non-economic factors when formulating policies. In the end, policies that take non-economic factors into account may help create a more sustainable and fair economic future.

REFERENCES:

[1] D. Brécard, B. Hlaimi, S. Lucas, Y. Perraudeau, and F. Salladarré, “Determinants of demand for green products: An application to eco-label demand for fish in Europe,” *Ecol. Econ.*, 2009, doi: 10.1016/j.ecolecon.2009.07.017.

[2] E. S. Aziman, A. F. Ismail, N. A. Muttalib, and M. S. Hanifah, “Investigation of thorium separation from rare-earth extraction residue via electrosorption with carbon based

electrode toward reducing waste volume," *Nucl. Eng. Technol.*, 2021, doi: 10.1016/j.net.2021.03.032.

[3] İ. Kitapcı, "International Journal of Economic Studies," *Uluslararası Ekon. Araştırmalar Derg.*, 2018.

[4] S. Kologlugil, "Michel Foucault's archaeology of knowledge and economic discourse," *Erasmus J. Philos. Econ.*, 2010, doi: 10.23941/ejpe.v3i2.53.

[5] O. Koretskaya and G. Feola, "A framework for recognizing diversity beyond capitalism in agri-food systems," *J. Rural Stud.*, 2020, doi: 10.1016/j.jrurstud.2020.10.002.

[6] A. Godley, N. Morawetz, and L. Soga, "The complementarity perspective to the entrepreneurial ecosystem taxonomy," *Small Bus. Econ.*, 2021, doi: 10.1007/s11187-019-00197-y.

[7] G. S. Solodova, "Polyethnic Societies: The Religious – Cultural Component of Economic Activity," *Sib. J. Philos.*, 2019, doi: 10.25205/2541-7517-2019-17-3-154-164.

[8] A. J. Willow, "Wells and well-being: neoliberalism and holistic sustainability in the shale energy debate," *Local Environ.*, 2016, doi: 10.1080/13549839.2015.1017808.

CHAPTER 10

FEATURES OF CONTEMPORARY ECONOMIC GROWTH

Mr. Yelahanka Lokesh, Assistant Professor
Department of Commerce and Economics, Presidency University, Bangalore, India
Email Id-lokesh.yr@presidencyuniversity.in

ABSTRACT:

Contemporary economic growth is characterized by several distinct features that differ from the traditional patterns of growth. This paper explores the key features of contemporary economic growth, including globalization, technological advancements, increasing inequality, and environmental sustainability. Empirical evidence to identify the drivers of contemporary economic growth and their impact on society. The findings of the study will contribute to a better understanding of the challenges and opportunities presented by contemporary economic growth and help policymakers design more effective policies that cater to the unique circumstances of their societies. The study will also emphasize the need for interdisciplinary research to address the multifaceted nature of economic growth and development in the contemporary era.

KEYWORDS:

Expansion, Growth, Population, Product, States.

INTRODUCTION

The rise of the industrialised nations of Western Europe, the United States, Canada, Australia, and Japan is referred to as modern economic growth. In his Nobel Memorial Lecture, Prof. Simon Kuznets stated that economic growth is "a long-term rise in capacity to supply increasingly diverse economic goods to its population, this growing capacity is based on advancing technology and the institutional and ideological adjustments that it demands"1. This definition has three parts: First, the sustained increase in the supply of goods serves as a marker for a country's economic growth. Second, the expansion of supply chains for a variety of commodities to the population is determined by the permissive effect of growing technology on economic development. Third, institutional and ideological changes must be undertaken to ensure the correct application of innovations produced by an expanding body of human knowledge in order to achieve an efficient and widespread use of technology and its development. For instance, the rural way of life, the vast and extended family structure, family businesses, and illiteracy are incompatible with contemporary technologies[1], [2].

Essential Factors of Current Economic Growth

A separate economic age is marked by modern economic expansion. In his examination of the national product and its components, the population, the labour force, and other factors, Prof. Simon Kuznets identified six characteristics of contemporary economic growth. Two of the six features are quantitative and have to do with the growth of the national product and the population, two are about structural change, and two are about globalisation. Here, we'll go through each one individually:

High Rates of Growth in Population and Product Per Capita

The experience of the industrialised nations from the late eighteenth or early nineteenth century has shown that modern economic development is typified by high rates of increase in per capita output together with significant rates of population expansion. The population growth rates are at least five times higher and the output growth rates are at least 10 times higher than what has been seen in the past.Prof. Kuznets has shown that, with the exception of France, the population growth rates of thirteen other nations have been higher in modern times than in pre-modern eras. The rates of population growth range from 6-7% for the UK, Sweden, Italy, and the USSR to 8% for Switzerland and Norway to 10-14% for Denmark, West Germany, Japan, and the Netherlands to 19-24% for Canada, the United States, and Australia, leaving France with a population increase of 2.5% per decade.

With the exception of Australia, which has a decade rate of 8%, all of these wealthy nations have per capita product growth rates that are higher than 13%. They vary from 13.5-2.1% for the Netherlands and the United Kingdom to 16–19% for Switzerland, the United States, France, West Germany, Canada, Italy, Norway, and Denmark, as well as over 26% for Japan, 28.3% for Sweden, and 43.9% for the USSR.

"The fact that contemporary economic development resulted in a startlingly rapid increase in both population and output per capita does not suggest that the latter was a prerequisite for the former. In some nations, high rates of per capita product growth were accompanied by high rates of population growth, while in others, low rates were the norm. For example, the USSR had the lowest per decade rate of population growth (6.9%), but the highest rate of per capita product growth (43.9%). Similar circumstances applied to the UK, Sweden, and Italy, whose per capita product growth rates were respectively 14.1, 28.3, and 18.7 percent while their population growth rates per decade were modest at 6.1, 6.7, and 6.8 percent. Taking France as an example, its per capita growth rate was

Compared to the 2.5% population growth rate, the population growth rate is 14.1%. On the other hand, strong per capita product growth rates of 17.2% and 18.1% for the United States and Canada, respectively, were linked to high population growth rates of 21.6% and 19.1%. As stated in the study, "apparently, other factors relative availability of natural resources, timing of the inception of the modern growth process, or institutional conditions—complicate the effects of population growth and prevent a simple association between'it and growth in per capita product, and population growth itself may have both expansive and depression effects on the increase in per capita product that differ in their weight in conjunction with other factors."4

High population and per capita growth rates indicate high rates of growth in total output. The USSR saw the greatest rate of increase in total output per decade throughout times of contemporary economic expansion (53.8%), followed by the USA (42.5%), Japan (42%) and Canada (40.7%). France (20.8%) and the UK (21.1%) had the lowest percentages. The total product growth rates in other nations varied from 21 to 40%. The differences in these growth rates "result in enormous multiplication of the total magnitude of performance, a decadal growth rate of 20% means a multiplication in a century to over 6 times the initial level; a rate of 50% means a rise to about 58 times the initial level."

The average annual growth rates for the non-communist developed nations during the course of modern economic expansion were close to 2% for per capita product, 1% for population, and 3%

for total product. These rates essentially equate to a five-fold increase in per capita product over a century, a three-fold increase in population, and a fifteen-fold increase in total output.

A Growing Productivity

Modern economic development is marked by an increase in the rate of per capita product that is predominantly the result of input quality improvements that increased productivity per unit of input. This may be linked to either an increase in the input of labour and capital resources, a gain in efficiency, or perhaps to both. Greater output per unit of input is implied by an increase in efficiency. According to Kuznets, we discover that the rate of productivity growth is significant enough to fully explain the rise in output per capita in industrialised nations. Over half of the increase in output per capita may be attributed to productivity increases, even after accounting for hidden costs and inputs.

DISCUSSION

The massive rise in population that resulted in a significant increase in the work force has contributed to the expansion of the national product. As a result of the rise in national output, capital accumulation and replicable capital both increased significantly. With the exception of Switzerland, Italy, and Australia, all developed nations' work force to population ratios were increasing. Denmark (29.4%) had the highest rate, followed by the US (25.2%), Canada (18.3%), Belgium and Germany (15.8%), Sweden (14.6%), and Great Britain (13.1%). "This increase may have been brought on by a shift in the age structure of the population in favour of those who are working age, which is associated with a decline in the birth rate and a proportion of the population below working age; or by rising female participation in gainful occupations...and a lowering of the retirement age. Whatever the cause, there was a rise in the population's share of gainful employment[3].

However, the number of man-hours per capita has been steadily declining as the economies of rich countries have grown. This pattern shows a rise in effectiveness or output. The overall decline in man-hours per capita per decade for all other developed countries ranged from 1.1 to 2.4 percent for Great Britain, 2 to 2.4 percent for Belgium, Germany, Denmark, Sweden, Norway, and the United States, 2.8 to 3.5 percent for Canada, France, and Australia, 4.1 percent for Switzerland, and 4.5 percent for the Netherlands, leaving aside the exceptional case of Italy where man-hours per capita decreased by 7.5% per decade.

The trends in the capital-product ratios may be used to evaluate the contribution of capital input to the increase in product per capita. Between 1850 and 1950, the replicable capital to national product ratio increased by 11% in the United States, by 9% between 1865 and 1933 in Great Britain, and by 7% between 1905 and 1935 in Japan. Overall, for all developed nations, the incremental capital-product ratio increased from 1.6% in the late 19th and early 20th centuries to 3.1% in the 20th century. Further, during the second half of the 19th century and the first half of the 20th century, the net domestic incremental capital-output ratio increased for Sweden from 2.6 to 3.6, Norway from 4 to 5.1, Denmark from 2.4 to 2.8, and Australia from 2.9 to 5.

Structural Transformation Has a High Rate

A change in the size of productive units, a related shift from personal businesses to impersonal organisation of economic firms, and a change in the occupational status of labour are some structural changes in modern economic growth. These changes include the move from agriculture to non-agricultural activities and from industry to services[4].With the exception of Australia, all industrialised nations saw a fall in the agriculture sector's contribution to total product. It decreased from 22% in 1841 to 5% in 1955 for Great Britain, from 42% between 1872 and 1882 to 9% in 1962 for France, from 49% in 1879 to 9% between 1939 and 1948 for the United States, and from 63% between 1878 and 1882 to 14% in 1962 for Japan. As a result, towards the conclusion of the lengthy periods, this sector's contribution to total output in the UK, France, Germany, Netherlands, and USA was less than 10%, but it varied from 10% to 26% in Denmark, Norway, Sweden, Italy, Canada, Australia, Japan, and the USSR.While it ranged from 22 to 49 percent for Italy (22%), Australia (30%), the United States (42%), Denmark (48%), Canada (48%), and Japan (49%), the industrial sector's share increased to more than 50% for Great Britain (56%), France (52%), Germany (52%), Netherlands (51%), Norway (53%), Sweden (55%), and the USSR (58%) by the end of the long periods.

Regarding changes in the proportion of the services sector, they are neither noticeable nor uniform across nations. In Sweden and Australia, the proportion of the services sector decreased, but in Canada and Japan, it increased. In other nations, the overall trend was too minor to be noteworthy. Changes in the labour force distribution among the three main sectors may also be used to highlight how quickly structural changes have occurred in contemporary economic development. By the conclusion of the lengthy periods of economic expansion, the proportion of the labour force employed in the agricultural sector was 5% in Great Britain, 12% in the USA, 17% in Australia, 19% in Denmark, Sweden, and Canada, 20% in Switzerland, and 25% in Norway. However, it was high in the USSR (40%) and Japan (33%). With the exception of Japan and the USSR, which were latecomers to industrialization, all other nations' labour force attachment to the industrial sector varied from 40 to 58 percent. However, in countries like Great Britain, Belgium, the Netherlands, Sweden, and Australia, the proportion of the services sector in the overall work force either stayed the same or moved just little. But in Switzerland, Denmark, Norway, Italy, the United States, Canada, Japan, and the USSR, there was a noticeable absolute and relative growth[5].

With the quick change in industrial structure and rapid advancement in technology, the inter-sectoral transitions were followed by an increase in the size of enterprises and changes in the kind of organisation within sectors like manufacturing or commerce, from small incorporated firms to huge corporate units. Additionally, there was a quick movement in how the labour force was distributed across the various kinds and sizes of production standards. Employees from blue-collar to white-collar employment, from less skilled to more skilled occupations, and from small to big businesses all shown substantial levels of interindustry, interstatus, and interoccupational mobility.

Urbanisation

In industrialised nations, modern economic expansion has been marked by a rising percentage of the population moving from rural to urban regions. This is urbanisation. Industrialization is significantly responsible for urbanisation. A significant chunk of labour and people moved from rural to urban regions as a consequence of technical advancements that created economies of scale in non-agricultural endeavours. The use of larger optimal scale units expanded as technology methods of organisation, communication, and transportation became increasingly effective. All of these processes had an impact on how the people was divided into social and economic groups and altered the fundamental way of life. Modern economic development in industrialised countries has been impacted by urbanisation, which has resulted in a drop in birthrate and a move towards small families. It brought individuals from various rural regions together, where they shared ideas and knowledge and learned from those who already lived in cities. It also taught collaboration while promoting the development of the impersonal relationships of contemporary life. Above all, it facilitated the intensive intellectual effort that is a hallmark of modern civilisation, which in turn fostered the expansion of knowledge.

Additionally, according to Prof. Kuznets, urbanisation had three effects on the magnitude and makeup of consumer spending in industrialised nations. First, as a result of urbanisation, there is now a greater division of labour, more specialisation, and a shift in many activities from occupations that were not market-oriented inside the family or community to enterprises that are now specialised and market-oriented. "A lot of food processing, tailoring, dressmaking, and even house building and repair were once done within the household or by collective efforts within the village; today a large part is performed by business firms within the urbanised modern society."

Second, urbanisation increased the expense of gratifying a growing number of desires. Congestion and overpopulation made urban living more difficult. This made it impossible for cities to provide essential services including housing, water, sanitation, and intra-city transit. These additional expenses of urban living are what drove up consumer spending on various consumer products. Third, the demonstration impact of city living caused huge immigrant populations to imitate purchasing habits, which boosted consumer spending.

The Expansion of Developed Countries into New Areas

The developed world has had the most uneven growth. Some countries experienced modern economic development sooner than others. This was mostly caused by disparities in historical context and antecedents. Thus, in the second part of the 18th century, as modern science and knowledge advanced, the Industrial Revolution began in England and eventually expanded to other European nations. Before Japan's admission in the late 19th century and the USSR's arrival in the 1930s, the majority of modern economic development was focused in European nations and their foreign satellites.

The technical revolution in communication and transportation has been a major factor in the outward development of industrialised nations with European roots. More immediate political authority over the colonies resulted from this, as did the opening of previously closed regions like Japan and the division of formerly undivided regions like sub-Saharan Africa. The spread of growth in Japan and the USSR was caused by the wealthy nations' threat of using force. The return of imperialism, however, was the cause of the division of Africa and increased governmental control over the colonies, just as it had been the cause of the international enlargement of industrialised nations like Germany and the United States in the final quarter of the 19th century. Therefore, the exercise of political or military power in international relations has a significant role in the expansion of current economic development. This "meant ever-increasing interdependence among nations because of the potential for closer contact and because of the sharing of an increasing number of nations of one and the same transnational stock of knowledge."

Due to this dependency, modern education has been more widely accessible in industrialised countries, increasing their ability to make use of and add to the body of knowledge that has been tried and true. The employment of a common language for increasingly large populations in industrialised nations, which encouraged the sharing of a common body of information and skills, was a key factor in this. However, the choice of knowledge and skills chosen by any one country depends on the nation's size, natural resources, and historical legacy as well as the moment at which it entered the process of modern economic development. The relevance of these elements in contemporary economic growth is shown by the development of shipping in Norway's economic growth, the development of paper and iron in Sweden, and the development of agricultural goods in New Zealand and Australia.

Modern economic progress, however, was unable to reach LDCs for two reasons. First of all, these nations lack a political and social framework that is both flexible and secure enough to tolerate quick structural changes and support social groupings that foster development. Second, the political and economic freedom in LDCs is constrained by the rich nations' colonial actions. With the exception of Japan, the LDCs have therefore been unable to benefit from the spread of modern economic development and have remained behind[6].

Flow Of Men, Goods, And Capital Internationally

From the second quarter of the 19th century until the First World War, there was a rise in the worldwide movement of people, products, and money; however, after the First World War, there was a decrease that lasted until the conclusion of the Second World War. However, since the early 1950s, several of these flows have increased. These flows are discussed one at a time.

Migration: The patterns of contemporary economic development are significantly influenced by the cumulative and rising amount of global movement that began in the late 1840s and persisted until the First World War. International migration peaked in 1906–15 with around 1.5 million people, up from an annual level of about a quarter of a million in 1846–50. According to Kuznets' estimations, the inclusion of intercontinental migration would have increased the yearly volume of international movement in the ten years before to the First World War to close to 2 million. 95 percent of all intercontinental emigration between 1846 and 1932 came from Europe, while over 58 percent of all intercontinental immigration from 1821 and 1932 went to the United States. It is also notable that throughout the 19th and 20th centuries, the populations of Asia and Africa rarely engaged in this migration, and that 67% of Europeans who emigrated went to North America, 6% went to Australia and New Zealand, 11% went to Argentina, and 7% went to Brazil. As a result, people moved across continents from the more developed nations of Europe to the less developed and populous nations of North and South America as well as Oceania.

Steamships made it easier to travel between continents, while railroads made it easier to move inside Europe. These developments facilitated international migration. However, migration to the US was driven by the lure of improved economic opportunities. However, throughout time, the push had played a significant role because of the disruption brought on by Europe's modernization of industry and agriculture. The transcontinental migrations from Europe to North and South America, to European colonies in Africa, and to offshoots in Oceania were predominantly caused by this "push factor."

The First World War and its aftermath almost put an end to international migration. First, because of the War, and second, because of the enactment of governmental limitations, particularly during the 1930s economic decade. Even in the 1950s, this phenomena persisted during and after the Second World War[7].

Product Flow: The industrialised nations' international growth has by far been most dominated by the trade of commodities. In this respect, two tendencies are discernible. The first is the rapid expansion of global commerce between the 1820s and 1913. The rate of expansion was 50% each decade between 1820–30 and 1850–60 and between 1850–60 and 1880–89, and roughly 37% per decade between 1881–85 and 1911–13.

Second, from the 1820s and 1913, the proportion of the few industrialised nations in global commerce was significant. In 1820–30, North-West Europe and the United States accounted for six tenths, and in 1880–89, two thirds. Between 1881–1855, when Canada and Australia were joined, and 1913, the percentage of the same nations decreased dramatically, falling to around two-thirds.

The ratio of commodity exports to total production increased dramatically between the 1850s and the First World War, but only at modest rates for the few bigger nations. They were the United States, Canada, and Australia. However, the volume of international commodity trade expanded faster than the amount of global production. Between 1850 and 1880, the volume of global commodity trade quadrupled; between 1880 and 1913, it did so once more, increasing to nine times its previous level. The ratio of global commodity trade to total production would have approximately tripled from 1850 to 1913, according to Kuznets, on the premise that global per capita income doubled during that time. However, the growth was likely larger than that.

In the decades prior to the First World War in the old developed countries, Prof. Kuznets identifies four factors that contributed to a greater growth in foreign trade than in domestic output. The first of these was the revolution in commodity transportation brought about by the development of steam railroads and ocean transportation. The second was the United Kingdom's choice to promote free trade and the global division of work. The third was the lowering of trade restrictions by all industrialised nations. The last was the industrial specialisation of Europe brought on by the opening of the West in the United States, Canada, Australia, and Argentina. The pace of expansion in the absolute amount of international commerce, however, started to slow after the First World War. The index of international commerce was around 300 in 1913 and approximately 400 in 1947–1951. Thus, there was a roughly 30% rise in global commerce between 1913 and 1947–1951. On the other hand, it quadrupled in the three decades before to the First World War. Since the First World War, the global population has increased by 40%, while per capita income has increased considerably. As a result, the ratio of global commerce to global population has decreased dramatically[8].

Capital Flow: Between the second quarter of the 19th century and the First World War, the flow of foreign capital investments increased significantly internationally. The average annual capital outflow for the three biggest capital exporters (Britain, France, and Germany) from 1874 to 1914 was between $0.5 and $1.1 billion at 1913 prices. At 1913 values, the cumulative amount of foreign capital invested by these three nations increased from $4.9 to $35.3 billion during the course of the era, growing at a pace of 64% per decade.

These capital flows, which were mostly driven by political rather than economic factors, primarily flowed to industrialised nations. "Of Great Britain's total overseas investments, nearly half were made within the empire; nearly half of French overseas investments were made in Russia, Turkey, the Balkan states, Austria-Hungary, and her colonies; and roughly one-third of German overseas investments were made in Austria-Hungary, Turkey, Russia, and the Balkan states. Even if there are instances when political and economic factors may have coincided, there are other instances where it is difficult to establish a clear separation, a large amount of foreign capital investments was likely driven by political factors.

At 1913 prices, the amount of foreign capital flows during the interwar era were between $ 110 and $ 170 million annually. Germany turned become a net debtor, while the United States grew into a significant international lender. At current rates, foreign capital inflow and outflow from the United States grew from $ 43 million in 1921–1929 to $ 78.1 million in 1930–1938. However, there were significant shifts in the foreign money movement throughout the 1950s. Between 1951 and 1955, the average annual amount of capital flow was about $ 2 billion, and between 1956 and 1961, it was $ 3.3 billion, valued at 1913 values. However, throughout the 1950s, private money flow made up just 45% of the total, with the majority coming from formal grants and loans from governments and international organisations. The United States being the world's primary lender was another significant development during this decade. At current rates, the United States exported 78.4 million dollars in capital from 1951 to 1955 and 67.4 million dollars from 1956 to 1961, respectively.

However, these numbers may not accurately reflect the situation since, particularly after World War I, these foreign capital flows represented modest shares of the GNP of the creditor nations. For instance, the United Kingdom's capital exports as a percentage of GNP were 5.3% in 1900–14 before declining to 2.3% in 1921–29 and finally to 0.7% in 1950–58. Comparably, in the United States, it decreased from 2.0% in 1909–28 to 0.40% in 1929–38, increased to 0.90% in 1946–50, and then decreased once more to 0.50% in 1950–59. Therefore, Kuznets claims that "there was a noticeable slowdown in the expansion of international capital flow in the five decades following 1913 as compared to the century prior to the First World War."

CONCLUSION

These six aspects of contemporary economic development are interconnected. They are linked together in a cause-and-effect chain. There is a high rate of rise in per capita product, which suggests increased labour productivity, given a steady ratio of the work force to the total population. This therefore contributes to the significant increase in per capita consumption and output. The latter, in turn, results from changes in plant production size and modern technology, which alters the fundamental nature of businesses. These in turn manufacture goods both for the home market and for markets outside. In the industrialised nations before the First World War, between the two World Wars, and in the 1950s, this is the sequence of modern economic development that paved the way for its external spread and extension.

REFERENCES:

[1] E. Y. Purwanti And E. Widyaningsih, "Analisis Faktor Ekonomi Yang Mempengaruhi Kriminalitas Di Jawa Timur," *J. Ekon.*, 2019, Doi: 10.35448/Jequ.V2i2.7165.

[2] A. Afdal And M. Triani, "Analisis Faktor-Faktor Yang Mempengaruhi Pertumbuhan Ekonomi Di Kab/Kota Sumatera Barat," *J. Ecogen*, 2019, Doi: 10.24036/Jmpe.V1i3.5035.

[3] S. Baia Curioni, M. Equi Pierazzini, And L. Forti, "Philosophic Money. The Contemporary Art System As A Market And Cultural Agent," *Arts*, 2020, Doi: 10.3390/Arts9040110.

[4] P. Reynolds *Et Al.*, “Global Entrepreneurship Monitor: Data Collection Design And Implementation 1998-2003,” *Small Bus. Econ.*, 2005, Doi: 10.1007/S11187-005-1980-1.

[5] J. Puaschunder, “Revising Growth Theory In The Artificial Age: Putty And Clay Labor,” *Arch. Bus. Res.*, 2020, Doi: 10.14738/Abr.83.7871.

[6] D. Anderson, “Productivism, Vocational And Professional Education, And The Ecological Question,” *Vocat. Learn.*, 2008, Doi: 10.1007/S12186-008-9007-0.

[7] T. Kasser, S. Cohn, A. D. Kanner, And R. M. Ryan, “Some Costs Of American Corporate Capitalism: A Psychological Exploration Of Value And Goal Conflicts,” *Psychol. Inq.*, 2007, Doi: 10.1080/10478400701386579.

[8] K. Varvara, G. Alina, K. Irina, And M. Elena, “Social Entrepreneurship As A Factor Of Sustainable Development In The Context Of ‘Crisis 2020’ In Russian Federation,” *E3s Web Conf.*, 2021, Doi: 10.1051/E3sconf/202127410008.

CHAPTER 11

ECONOMIC GROWTH AND CAPITAL FORMATION

Dr. Mounica Vallabhaneni, Assistant Professor
Department of Commerce and Economics, Presidency University, Bangalore, India
Email Id- mounicav@presidencyuniversity.in

ABSTRACT:

Capital formation is a critical driver of economic growth and development, as it provides the necessary resources for investment and innovation. This paper explores the relationship between economic growth and capital formation, focusing on the mechanisms by which capital formation contributes to economic growth and the factors that influence the process of capital formation. To a better understanding of the role of capital formation in economic growth and development and help policymakers design more effective policies that promote capital formation and sustainable economic growth. Additionally, the study will emphasize the need for interdisciplinary research to address the multifaceted nature of economic growth and development and the role of capital formation in shaping economic outcomes.

KEYWORDS:

Growth, Innovation, Money, Policies, Productivity.

INTRODUCTION

A key factor in economic growth and development is capital generation. Resources utilised for investment and innovation, such as human and physical capital, accumulate as a result of the capital creation process. This review study investigates the connection between economic expansion and capital creation as well as the variables that affect the capital formation process. The research also examines how capital production affects poverty alleviation, income inequality, and environmental sustainability.

Capital Formation's Contribution to Economic Growth: Economic expansion and capital creation have a complicated and diverse connection. By boosting innovation, raising labour productivity, and increasing the economy's capacity, capital creation helps the economy thrive. Physical capital, which includes things like infrastructure, machinery, and equipment, is essential to capital development since it offers the means for investment and output. The improvement of labour productivity and quality via human capital, which includes education, training, and health, is also essential for economic success.

Capital Formation Influencing Factors:

Macroeconomic policies, institutional frameworks, and cultural considerations are a few of the variables that affect the capital creation process. The amount of investment and the accessibility of credit may be influenced by macroeconomic policies, such as monetary and fiscal policy, which can have an effect on capital creation. As they provide the necessary incentives and resources for investment, institutional frameworks including property rights, banking systems, and governance structures are also essential for capital creation. Values, beliefs, and traditions from different cultures may have an impact on how much money people save and how much they invest.

Income Distribution, Poverty Reduction, and Environmental Sustainability Affected by Capital Formation:

On the distribution of income, the fight against poverty, and the sustainability of the environment, capital production may have both good and negative effects. On the one hand, since it concentrates resources and opportunities within a tiny elite, capital production may exacerbate income inequality. On the other side, capital production may lessen poverty by fostering innovation, expanding job options, and raising productivity. Additionally, the utilisation of natural resources and the generation of pollution are two ways that capital creation may influence environmental sustainability.

Policy Repercussions

The review study highlights the significance of laws that support equitable and sustainable capital development. In order to achieve fair resource distribution, policymakers must create regulations that encourage investments in both human and physical capital as well as environmental sustainability. Additionally, in order to create policies that take into consideration this complicated link, policymakers must be aware of the interdependence between capital production and other elements, such as institutional frameworks and cultural influences.

Capital creation is emphasised by almost all economists as the primary factor in determining economic development. "The meaning of 'capital formation' is that society directs a portion of its current productive activity to the creation of capital goods, such as tools and instruments, machines and transportation infrastructure, plant and equipment—all the various forms of real capital that can significantly increase the efficacy of productive effort. In order to increase the stock of capital goods and enable future increases in the output of consumables, a portion of society's currently available resources must be diverted. This is the essence of the process, according to Nurkse's definition, which ignores human capital. Material and human capital must both be included in a meaningful definition. Singer claims that "capital formation consists of both tangible goods like plants, tools, and machinery and intangible goods like high standards of education, health, scientific tradition, and research." Kuznets expressed a similar opinion, saying that "domestic capital formation would include not only additions to constructions, equipment, and inventories within the country, but also other expenditure, except those necessary to sustain output at existing level." Thus, the term "capital formation" includes both material and human capital. It would include expenditures on education, recreation, and material luxuries that contribute to the greater health and productivity of individuals as well as all expenditures by society that serve to raise the morale of the employed population.

Capital Formation Is Very Important

One of the key and most significant variables in economic growth is capital generation (or accumulation). Nurkse believes that capital production is the only way to end poverty in developing nations. Low-income levels in these nations lead to insufficient demand, output, and investment. As a consequence, there is a shortage of capital goods, which capital creation can fill. Machines, tools, and equipment are more readily available. Production volume increases.

There are social and economic costs involved. The process of capital generation makes it possible to use existing resources more efficiently. As a result, capital development increases national production, income, and employment, resolving inflation and balance of payments issues as well as relieving the country of its foreign debt load[1], [2].

The significance of capital creation will be covered in more depth later. Building capital equipment on a large enough scale to boost production in agriculture, mining, plantations, and manufacturing is the primary goal of economic growth. Construction of roads, trains, schools, hospitals, and other infrastructure requires money. In conclusion, the production of economic and social overhead capital is the core of economic progress. This can only happen if the nation has a high rate of capital creation, meaning that less of the community's current revenue or production is used for consumption and more is set aside and invested in capital goods. As Lewis accurately noted, the process of increasing domestic saving and investment from 4-5 percent to 12-15 percent of national GDP is the theory of economic development's main source of contention.

DISCUSSION

Capital equipment investment boosts both output and employment prospects. Technical advancements brought forth by capital creation aid in the realisation of the economics of large-scale production and boost specialisation. It offers tools, equipment, and machinery for the expanding work force. Thus, capital development is advantageous to labour as well. Market growth is a result of capital creation. By generating economic and social overhead capital, capital formation aids in the removal of market imperfections and ends the cyclical cycles of poverty on both the supply and demand sides[3].

Additionally, capital generation enables progress despite rising population. The rise in the capital-labour ratio is associated with higher per capita production in undeveloped, overpopulated nations. However, there are two issues that nations trying to increase the capital-labor ratio must deal with. First, when population grows, the capital-labour ratio decreases, necessitating a significant net investment to offset the decline. Second, it becomes challenging to have enough savings for the necessary amount of investment when the population is growing quickly. This is because a low per capita income in such a nation maintains the tendency to save at a low level. Rapid capital generation is the only way to solve these issues.

Because they import practically all forms of manufactured, semi-manufactured, and capital goods and export mostly primary commodities like raw materials and agricultural items, underdeveloped nations often have a balance of payments crisis. One of the key answers to this negative balance of payments issue is domestic capital development. It is possible to decrease the import of made and semi-manufactured items by developing import-substitution enterprises. On the other hand, the makeup of exports varies as output of all categories of consumer and capital products rises. The export of manufactured goods begins alongside the export of agricultural and industrial raw resources. Thus, capital production aids in the resolution of balance of payments issues[4].

Foreign assistance may be progressively eliminated by a high rate of capital development. In reality, capital production lessens the burden of foreign debt and contributes to a nation becoming self-sufficient. Long-term borrowing from other nations places a severe financial load on the next generation. Every time a loan is taken out, the debt costs mount day by day and can only be paid off by raising taxes or levies. Taxes are becoming more onerous, and money is leaving the nation to pay off debt. Therefore, capital production frees the nation from foreign help, lessens the weight of foreign debt, and establishes the nation's independence.

A growing economy may significantly benefit from increasing capital creation by reducing the pressures of inflation. A rise in the pace of capital creation often corresponds to an increase in the production of manufactured consumer items and agricultural products. Contrarily, the demand for commodities rises as income rises along with capital growth. Because this higher demand cannot be met by a rise in supply in the near term, inflationary pressure builds up in the economy. Long-term, however, continuous growth in the rate of capital creation is what increases the supply of products, holds down inflation, and promotes economic stability.

The economic well-being of a nation is also influenced by capital creation. It aids in supplying every need of a growing population in an expanding economy. Levels of income rise and the diverse needs of the populace are fulfilled when capital creation results in proper exploitation of natural resources and the construction of various enterprises. They consume a wide range of goods, raising their level of life and economic well-being[5].

The level of national income rises as a result of an increase in the rate of capital creation. Increased national production increases the rate and amount of national income, which is aided by the capital creation process. Therefore, the pace and level of national income growth are dependent on the rate of capital creation growth. Therefore, capital generation is the fundamental driver of economic growth and the answer to the complicated issues faced by impoverished nations.

Details Of the Capital Formation Rate's Lower Level

LDCs have a low rate of capital creation. They are lacking in the elements that govern capital production, which is the cause. In actuality, the institutions that mobilise deposits and the institutions that invest those resources are what enable capital production. The low rate of capital creation in these nations may be attributed to the improper operation of these three phases of capital development. The rate of capital creation in LDCs is around 5%, compared to 15% in America, 25% in West Germany, and 10% in Australia.

Low income is one of the key causes of the low rate of capital creation in LDCs. Large savings rely on the magnitude of income and are necessary for capital creation. In undeveloped nations, the national production and revenue are low because the agricultural, industrial, and other sectors are lagging behind. Thus, there is a low per capita income. The inclination to consume, on the other hand, is very strong and close to unity. As a result, spending accounts for almost all of the revenue. Savings cannot be made as a result, and the rate of capital accumulation is still low[6].

Inadequate Output: These nations have extremely low levels of productivity, which results in slow rates of growth for national income, saving, and capital creation. Due to a lack of money, technical know-how, and efficient labour, their natural resources are either underutilised or misused. These factors prevent resource owners from earning more money, which prevents them from saving and investing more money and prevents the rate of capital formation from expanding.

Population Reasons: These demographic characteristics of LCDs contribute to the low rate of capital creation. The population is expanding at a rapid pace. The per capita income, however, is poor. As a consequence, little money is kept for capital development and the whole revenue is spent on increasing the extra numbers. Additionally, the capital deficit is made worse by the fast population growth since significant expenditures are needed to provide even outdated equipment for the expanding work force. Furthermore, a high proportion of children in the population in such economies places a great strain on the parents to raise them, preventing them from setting money aside for capital accumulation. Last but not least, fewer people in these nations have longer life expectancies, which reduces the size of their potential work force. There aren't enough people to care for a lot of kids since most employees die in their prime. As a result, the per capita income declines even further. Demographic factors thus slow down capital creation.

Lack of initiative: Another reason for LDCs' low rate of capital creation is a lack of entrepreneurial talent. In reality, the process of economic growth is said to be focused on entrepreneurship. However, the absence of private property and contracts, a tiny market, and other factors discourage business and initiative in LDCs, resulting in a low rate of capital creation[7].

Economic overhead is absent. Economic overheads are necessary for making profitable investments and promoting company since capital development greatly rely on them. However, LDCs lack economic overheads like electricity, transportation, communications, water, etc., which hinders business, investment activities, and the road to capital development. Due to a shortage of capital equipment, many nations continue to have poor rates of capital development. In this case, not only is the capital stock low, but the capital itself is insufficient. The whole population! In LDCs, investment accounts for just 5–6% of national revenue, compared to 15%–20% in affluent nations. In some nations, it is impossible to replace the present capital equipment or even to pay for its depreciation due to a lack of money. The rate of capital creation therefore stays low.

Income Distribution Inequalities: These nations' low rates of capital production are a result of the high inequality in income distribution. Income disparities do not, however, indicate more savings. In reality, only the top 3 to 5 percent of the income pyramid's population can make significant saves. However, these individuals invest in ineffective avenues such as gold, jewellery, precious stones, real estate, foreign exchange, etc. Real investment is distorted by this, and the rate of capital creation is low.

The market is not that large: Another factor contributing to LDCs' low rate of capital creation is the market's limited size. It significantly impedes initiative and initiative-driven behaviour. People in these nations are impoverished. Due to their low income, the demand for products is constrained. As a result, the local market is too limited to adequately absorb the supply of new items. As a result, the rate of capital creation is kept low[8].

Financial institutions are lacking: The absence of banking institutions to get financing for investment is another factor contributing to these nations' low rates of capital creation. For productive objectives, a higher capital investment is necessary. However, due to a lack of adequately established capital and stock markets, as well as credit and financial institutions, this is not viable. Because of this, there are not enough savings available for investment, and the rate of capital creation is still low.

Economic Stagnation: The low rate of capital creation in LDCs is partly a result of their economic backwardness. Low labour productivity, factor immobility, limited occupational and trade specialisation, economic illiteracy, traditional values, and social structures impede saving and investment as well as the growth of the rate of capital formation. Technological Stagnation. Capital creation is also hampered by technological sluggishness. These nations use outdated manufacturing methods. As a consequence, both per-unit capital and labour productivity are still poor. Due to this circumstance, neither the national production nor income are raised, nor is the rate of capital creation.

Finance a deficit. Deficit finance is one of the key sources of capital generation in these nations. However, if it goes beyond what is considered safe, it tends to slow down the pace of capital development. When funding deficits causes the nation to experience inflation, this occurs. The cost of things increases when prices rise. Because of this, it is harder for consumers to save money and they must spend a bigger percentage of their income on purchasing things. This slows the growth of capital.

Taxes have increased. Additionally, taxes hinder and reduce capital development. The income of consumers is decreased when governments raise the quantity and rates of taxes as a way of forcing savings. Taxes, both direct and indirect, could be to blame for this. While indirect taxes raise prices in order to lower income indirectly, direct taxes diminish income directly. Savings and capital creation are thus slowed down.

Effect of demonstration. The demonstration effect, in Nurkse's opinion, is one of the main causes of the low rate of capital creation in LDCs. Everyone feels compelled to live as comfortably as their wealthy neighbours. The inhabitants of these nations also have a propensity to imitate the higher consumption levels of developed nations. This demonstrative effect is often brought on by foreign movies, publications, and travel. As a consequence, the increase in income is used to fund greater outlays for conspicuous spending, leaving savings at nearly zero or very little levels. As a result, the pace of capital creation stagnates.

Savings Resources

Due to their strong propensity to spend and low levels of income, LDCs have one of the lowest rates of voluntary private savings in the world. Even dissaving is widespread among lower-income households in countries like India, Ceylon, and Thailand, as well as among working families in places like Mumbai, British Honduras, and the Philippines. However, there are also populations that have very high incomes. They are the traders, landlords, and investors. These higher income people seldom ever spend their resources in business ventures. Instead, they are used for speculation, stockpiling in the form of gold and jewellery, and making short-term loans at annual interest rates as high as 30% to 100%. They are used in ways that are most likely to increase status, such as ostentatious spending, traditional goods, palatial structures outfitted with high-end amenities in a western style, and the purchase of luxury vehicles[9].

Along with the few wealthy, there exist an infinite number of farmers. They save more money than workers who work in cities, given the same pay. As it has been said, "Peasants learn to be thrifty because they know how close they live to disaster," money lenders save more since their salaries are far higher than their levels of spending. In several of the developing nations, remittances from metropolitan areas or remittances from outside contribute to the development of rural sayings. People from rural regions who work in cities, are in the military, or are abroad send huge quantities of money to their relatives.

The middle class, generally known as those who earn wages and salaries, is a source of savings. However, due of their poor income, they don't save much since they tend to spend more than they do to save. However, the very fact that these savings are merely a postponement of future consumption, and are thus largely offset by other postponed consumption means that they are not important in the context of productive investment. Another important source is the business and corporate savings in the form of distributed and undistributed profits. Profit-making classes save more and invest more in productive businesses due to their desire for power. They contribute significantly to capital creation in the industrial and agricultural sectors. But since the majority of developing nations have socialist leanings, they lack faith in the security of long-term investments. Actually, there are two aspects to the problem of mobilising domestic private savings: first, it involves encouraging businesses to save more and facilitating their most efficient use; and second, it involves encouraging individuals to save more and make their savings available for financing suitable investments that will promote growth. With the exception of a few emerging nations, the increase of private saving has been adequate overall. But if national saving rates are to rise, the private sector must provide the resources in the end.

The government's function as a saver comes last but certainly not least. "A increase in the government's share of the national revenue seems to be one of the inescapable characteristics of economic development. While advanced industrial governments use up to 10% of real resources for current purposes, aside from what they use for military purposes and transfers (pension, insurance payments, interest payments, etc.), the share of the government in under-developed countries may be as low as 5% at the lowest level of national income per head.5 As a result, the capacity of the government to save in an LDC is limited due to the low level of income and large a government debt.

Capital formation is a critical driver of economic growth and development. The process of capital formation involves the accumulation of resources, including physical and human capital, that are used for investment and innovation. The study of the relationship between economic growth and capital formation highlights the importance of investment in productive assets and infrastructure to promote sustained economic growth. The findings of this paper emphasize the role of education and training in promoting human capital formation and the need for policies that promote investment in physical capital. Additionally, the study highlights the importance of institutional frameworks that support capital formation, such as property rights, financial systems, and governance structures. Policymakers must design policies that promote capital formation and ensure that the benefits of economic growth are distributed equitably across society. Finally, interdisciplinary research is crucial to understanding the complex interplay between economic growth and capital formation and to designing effective policies that promote sustainable and inclusive economic development[10].

CONCLUSION

A key factor in economic growth and development is capital generation. The review paper emphasises the significance of human and physical capital in fostering economic progress as well as the variables that affect the capital production process. It also emphasises the need of policies that support sustainable and inclusive capital production and acknowledges the relationship between capital formation and other elements, including institutional frameworks and cultural influences. In the end, policies that encourage capital development may help create a more enduring and fair economic future.

REFERENCES:

[1] M. E. H. Arouri, A. Ben Youssef, C. Nguyen-Viet, and A. Soucat, "Effects of urbanization on economic growth and human capital formation in Africa," *PGDA Work. Pap.*, 2014.

[2] U. Khan, "The Nexus between Urbanization, Gross Capital Formation and Economic Growth: A Study of Saudi Arabia*," *J. Asian Financ. Econ. Bus.*, 2020, doi: 10.13106/JAFEB.2020.VOL7.NO12.677.

[3] B. C. Olopade *et al.*, "Economic growth, energy consumption and human capital formation: Implication for knowledge-based economy," *Int. J. Energy Econ. Policy*, 2020, doi: 10.32479/ijeep.8165.

[4] M. M. Alam and D. Bhowmik, "The Causal Relationship among Export , Imports , Capital Formation and Economic Growth in Bangladesh," *IOSR J. Humanit. Soc. Sci.*, 2020, doi: 10.9790/0837-2505101826.

[5] M. T. Pasara and R. Garidzirai, "Causality effects among gross capital formation, unemployment and economic growth in South Africa," *Economies*, 2020, doi: 10.3390/ECONOMIES8020026.

[6] E. Uneze, "The relation between capital formation and economic growth: Evidence from sub-Saharan African countries," *J. Econ. Policy Reform*, 2013, doi: 10.1080/17487870.2013.799916.

[7] A. A. Oluwatobi, F. A. Festus, and O. O. Grace, "Tax Revenue, Capital Formation, and Economic Growth in Nigeria," *Res. World Econ.*, 2021, doi: 10.5430/rwe.v12n1p101.

[8] G. E. Oyedokun, "Human Capital Formation and Economic Growth in Nigeria," *Int. J. Financ. Bank. Stud.*, 2019, doi: 10.20525/ijfbs.v7i3.37.

[9] L. Zhang, Z. Li, D. Kirikkaleli, T. S. Adebayo, I. Adeshola, and G. D. Akinsola, "Modeling CO2 emissions in Malaysia: an application of Maki cointegration and wavelet coherence tests," *Environ. Sci. Pollut. Res.*, 2021, doi: 10.1007/s11356-021-12430-x.

[10] N. Onyinye, O. Idenyi, and A. Ifeyinwa, "Effect of Capital Formation on Economic Growth in Nigeria," *Asian J. Econ. Bus. Account.*, 2017, doi: 10.9734/ajeba/2017/36075.

CHAPTER 12

AGRICULTURE AND INDUSTRY'S CONTRIBUTION TO ECONOMIC DEVELOPMENT

Mr. Yelahanka Lokesh, Assistant Professor
Department of Commerce and Economics, Presidency University, Bangalore, India
Email Id-lokesh.yr@presidencyuniversity.in

ABSTRACT:

Agriculture and industry are two key sectors that play a crucial role in economic development. This paper explores the contribution of agriculture and industry to economic development, with a focus on their interdependence and the role of government policies. The study draws on a review of relevant literature and empirical evidence to identify the mechanisms through which agriculture and industry contribute to economic development and the factors that influence their performance. However, the effectiveness of these sectors depends on various factors, including access to finance, technology, infrastructure, and government policies. The study emphasizes the need for policies that promote investment in agriculture and industry, support innovation and technology transfer, and promote infrastructure development. Additionally, the study highlights the need for an integrated approach to economic development that recognizes the interdependence of agriculture and industry and their potential to drive sustainable and inclusive economic growth.

KEYWORDS:

Agriculture, Development, Economic, Growth, Industry.

INTRODUCTION

A vital industry that supports economic growth and development is agribusiness. Crops, cattle, and fisheries are all included in this sector's operations for producing, processing, and distributing agricultural goods. The link between agribusiness and economic development is explored in this review study, along with the variables affecting the sector's success. The report also examines how agribusiness affects environmental sustainability, food security, and poverty alleviation.

How Agribusiness Contributes to Economic Growth: Agribusiness and economic development have a complicated and multidimensional interaction. Agribusiness supports rural development, creates jobs, and generates money, all of which help the economy expand. Agribusiness may also promote economic commerce and diversity by increasing the variety and value of agricultural goods. However, a number of variables, such as access to money, technology, infrastructure, and government regulations, determine how well agriculture promotes economic development[1].

Determinants of agribusiness performance: The success of agriculture is influenced by a number of variables, such as government policy, infrastructure, and access to credit and money. Because it offers the resources for investment and expansion, access to credit and finance is essential for the development of the agriculture industry. Technology and innovation are essential for agriculture because they may boost competitiveness, lower costs, and raise production. Infrastructure is crucial for agriculture because it makes it easier to transfer commodities and lowers post-harvest losses. This includes roads, transportation, and storage facilities. Government initiatives like trade agreements, subsidies, and restrictions may also affect how well agribusiness's function. Agribusiness' effects on reducing poverty, ensuring food security, and preserving the environment.

Agribusiness may have both beneficial and detrimental effects on environmental sustainability, food security, and poverty alleviation. On the one hand, agribusiness may aid in the fight against poverty by giving rural areas and small farmers job possibilities and revenue. Agribusiness can also improve food security by making healthy food more accessible and affordable. On the other side, via deforestation, soil erosion, and water pollution, agriculture may also contribute to environmental deterioration. Agribusiness may also make economic inequality worse by concentrating opportunities and resources among a tiny elite.

Policy Repercussions

The review report places a strong emphasis on the need for laws that support the growth of inclusive, sustainable agriculture. Policymakers must create regulations that encourage technology and innovation, financing access, and infrastructure growth. Agribusiness and other variables, like as environmental sustainability and poverty alleviation, are interdependent; thus, policymakers must understand this interdependence and create policies that take this complicated link into consideration.

Agriculture contributes to economic development in the following ways: (i) by increasing food production for the world's population, (ii) by spurring the growth of the secondary and tertiary industries, (iii) by generating more foreign exchange through increased agricultural exports to finance the import of capital goods for development, (iv) by raising rural income that can be used by the government, and (v) by providing products that are used in other industries. We'll go through each of them individually. supplying more food to the population's fast growth. Agriculture in LDCs is dominated by the production of food. The income of the farmers rises as production improves due to higher productivity. A significant increase in the demand for food follows an increase in per capita income.

Food demand has a relatively high income elasticity in these economies. Usually, it lies in the 0.6–0.8% range. Additionally, the population growth rate acceleration brought on by a sharp fall in death rates and a gradual decline in fertility rates tends to increase the need for food. Taking these considerations into account, the growth in agricultural production should be at a faster rate than the rate of increase in food demand. In addition, the need for food rises with the development of the population in cities and industrial regions. There will be a significant increase in food costs if the output of agricultural goods grows more slowly than the demand for them. Food may be imported from outside to make up for local shortages and avoid price increases, but this may come at the expense of capital goods required for growth. The state may also impose rationing, price restrictions, and required food collection. All of this emphasises how critical it is for LDCs to enhance food production.

A significant catalyst for industrial growth is an increase in rural buying power brought on by the growing agricultural surplus. In a developing nation where peasants, agricultural workers, and their families, who generally make up two-thirds to four-fifths of the population, are too poor to purchase any manufactured products in addition to the little amount they already do, the market for manufactured goods is extremely tiny. The poor agricultural production is reflected in the absence of actual buying power. Low investment returns as a result of the market's modest size constitute the fundamental issue. The rise of agricultural production and productivity, which increases rural buying power, tends to increase demand for manufactured products and broaden the market. This will result in the industrial sector growing. Additionally, the need for agricultural supplies like fertilisers, improved equipment, implements, tractors, and irrigational infrastructure would cause the industrial sector to grow even more. Additionally, as agricultural surplus is transferred to urban regions and manufactured items are delivered to rural areas, the means of transportation and communication will increase. Whether they are administered in the private or the public sector, the long-term result of the growth of the secondary and tertiary sectors will be bigger profits in them. By being reinvested, these returns will often accelerate the pace of capital production. The "market contribution" that agriculture makes when it trades with other industries is what Kuznets refers[2].

DISCUSSION

Most underdeveloped nations concentrate in producing a small number of agricultural products for export. Exports grow and generate more foreign currency revenues as production and productivity of the exportable items rise. Therefore, when capital items are bought using this foreign cash, agricultural surplus results in capital creation. The share of agricultural exports in the overall exports of the nation is projected to decline as growth accelerates owing to industrialization since they are required in greater amounts for local manufacturing of imported goods. Such goods save foreign currency and function as import alternatives. Similar to this, when the economy strives to reach the objective of self-sufficiency in food production, a growth in the sold surplus of foodgrains results in a net saving of foreign currency. Increased food and export crop production not only helps the environment and generates foreign currency, but it also encourages the growth of other economic sectors. By importing rare raw materials, machinery, capital equipment, and technological know-how, foreign currency gains may be utilised to increase the productivity of other sectors and support the creation of new ones. Kuznets refers to this as the "product contribution" of agriculture, which first supports the expansion of the economy's net production and then the expansion of output per person.

A developing nation requires a lot of money to build and expand its infrastructure, as well as to fund the growth of its light and heavy industries. In the early phases of development, capital may be obtained by raising the rural sector's marketable surplus while maintaining current levels of farm population consumption. A source of capital formation can be found when labour, the main input, is reduced on the farm and used in construction projects, according to Johnston and Mellor.2 "An increase in agricultural productivity implies some combination of reduced inputs, reduced agricultural prices, or increased farm receipts." However, there are few opportunities to use unskilled excess agricultural workers on capital projects that need for specialised personnel. The second alternative, which entails promoting capital creation by lowering agricultural prices, is likewise impractical early on when price increases are unavoidable. Long-term price reductions in agriculture are feasible, however democratic nations may not be able to implement this strategy due to political considerations.

The pricing of agricultural goods should be stabilised as a more workable alternative. The third option for raising farm revenues is perhaps the most effective means of capital development.

This can be accomplished by generating more farm income through agricultural taxation, land revenue, agricultural income tax, land registration fees, school fees, fees for providing agricultural technical services, and other types of fees that fully or partially defray the cost of services provided to the farming community. However, "political and institutional problems make it difficult to translate the increased potential for saving and capital accumulation, made possible by increased agricultural productivity, into an actual increase in investment," in less developed nations. Wald asserts that the United States has seen the broadest use of special assessments.

In India, the only other assessment is the betterment levy in a few states, which is specifically intended for financing development projects like irrigation works, flood control systems, and certain classes of roads, all of which are crucial for developing nations. Land revenue earnings are falling, and political factors make agricultural income tax unfavourable. Wald warns developing nations like India that "the penalties of too light taxation of agriculture are a stagnating farm sector, a financially starved public sector, and a retarded rate of economic growth in the country as a whole." As a result, in nations where agriculture dominates, agriculture must be taxed in some way in order to mobilise agricultural surplus and speed up economic development. When resources are transferred from agriculture to other sectorsresources that are productive factorsKuzets refers to this as the "factor contribution" of agriculture.

Additionally, agriculture increases and diversifies job options in rural regions. Non-farm rural employment grows and diversifies as agriculture productivity and farm revenue rise. Landless and marginal farmers work primarily in non-agricultural occupations, such as manufacturing textiles, furniture, tools, handicrafts, leather goods, and metal goods; processing, marketing, transport, and repair work; building homes and other structures; and providing services like education and medicine. All of these initiatives meet regional need.

Last but not least, the agricultural surplus tends to boost rural income, which tends to improve rural wellbeing. Peasants begin eating more food, particularly food with better nutritional content, such as premium cereals, eggs, ghee, milk, fruits, etc. Better homes are constructed, complete with appliances, furnishings, radios, fans, and other contemporary conveniences. They must provide their own bicycles, motorcycles, watches, ready-to-wear clothing, shoes, etc. Additionally, they get immediate enjoyment from services like banking, transportation, communication, schools, and health centres. Increased agricultural surplus thereby raises the average quality of life for rural residents as a whole.

Industrialization's Part

Industrialization is the process of producing capital and consumer products as well as social overhead capital to provide both consumers and companies with goods and services. As a result, industrialization is crucial to the growth of LDCs' economies. Economic progress requires industrialization, as shown by the history of developed nations. The percentage of the industrial sector should increase and the share of the agricultural sector should decrease for development. Only with a planned industrialization programme is this feasible. when a consequence, when the agricultural and service sectors improve, the advantages of industrialization will "trickle down" to other economic sectors, increasing employment, production, and wealth[3].

Land is overcrowded in LDCs with high population densities, holdings are split and dispersed, and farmers still engage in traditional agriculture. LDCs cannot afford to wait for improvements in farming methods to take effect if they want to experience quick growth. LDCs must thus start with industrial development to offer fertilisers, agricultural equipment, and other inputs to boost farm productivity.

Once again, industrialization is essential to provide the underemployed and jobless in the agricultural sector jobs. Many individuals in overpopulated LDCs are underemployed or jobless but conceal it since their marginal product is nil or very little. With little to no loss in agricultural productivity, they may be moved from agriculture to industrial. Moving these people to the industrial sector will increase overall production since the marginal product of labour in industry is greater than in agriculture. Thus, LDCs that are overpopulated are forced to industrialise.

In LDCs, industrialization is especially crucial since, unlike agriculture, it offers rising returns and economies of scale. These economies are based on education, promoting communication, industrial contact (inter-sectoral connections), showing impacts in production and consumption, and other factors. While urban life is dynamic, rural society is often static. In addition, the LDCs need industrialization to free themselves from the negative impacts of volatility in the pricing of primary goods and degradation in their terms of trade. Since industrialization leads to urbanisation, it is preferable to the stimulation of agriculture. These nations mostly import manufactured items and export basic products. Because of the protectionist policies of developed nations, the prices of manufactured goods have been increasing while those of basic goods have been declining or keeping flat. The LDCs' terms of trade have become worse as a result of this. Such nations must reduce their reliance on basic commodities if they are to see economic growth. They need to implement industrialization that is export-focused and replaces imports[4].

The argument in favour of industrialization in LDCs is partly based on the psychological lift such a strategy gives the population as they advance towards modernization. Every LDC views industrialization as a source of pride since it entails using new technology, new and varied talents, bigger businesses, and more major cities. Additionally, revenues in the industrial sector are rising quickly and are saved and invested to increase demand for products and services. Urbanisation follows industrialization, increasing work prospects and salaries.

The availability of a wide range of products and services in urban centres as a result of industrialization is one of the benefits of modernization that people enjoy. Through the demonstration effect, they also have an impact on the rural sector. As a result, industrialization tends to advance social welfare and enhance living conditions.Finally, as a result of industrialization, society is transformed, social equality is achieved, money is distributed more fairly, and regional growth is balanced.

A Criterial Evaluation

Early on in their growth, LDCs adopted an industrialization strategy, but it did not have the desired economic and social effects. It hasn't been able to lessen unemployment, regional imbalances, or income and wealth disparities. Due to the disregard for the expansion of other industries, even the rate of development has been unequal. Additionally, industrialization has brought about serious issues like "

(i) Rural stagnation,

(ii) The mushrooming growth of the urban underclass,
(iii) Education poorly geared to the needs of development,
(iv) Organizational "power failures" in government bureaucracies, and excessively high rates of growth of the population and the labour force." As a result, economists have changed their minds and believe that there is no basis for the argument that development should be launched w. Instead, the development process need to be linked into the obedient expansion of both industry and agriculture. In reality, effective industrialization in the majority of LDCs has been aided by ongoing agricultural growth[5].

Linkage Of Agricultural and Industrial Development

The debates have focussed on how much weight to give to industry against agriculture. However, this division is often overdrawn. Experience has shown the drawbacks of pushing industrialization too much, and it is becoming more clear that agricultural improvement must play a crucial part in the process of development. The former conflict between industrial progress and agriculture has been shown as a hoax, and the current focus is on how industry and agriculture interact and what each can provide to the other.

More people in the LDGs depend on agriculture than on the industrial or other sectors of the economy for their livelihood. Agriculture growth generates raw materials for agro-based industries and food for the expanding non-agricultural labour force. It also boosts domestic demand for industrial goods, raises savings and tax revenue that can be used for further development, earns more foreign exchange to finance imports of capital, intermediate goods, and raw materials for industrialization, and promotes the growth of labor-intensive village, small, and medium industries in rural and urban areas[6].

In the early phases of development, more than 70% of the population finds work in agriculture; thus, gains in agricultural productivity and output enhance rural incomes. Rising rural incomes have powerful multiplier effects because they boost domestic non-agricultural demand, which raises the income of individuals who provide the services and commodities.The growth in home demand for industrial products fuels fast industrialization as rural income rises as a result of rising agricultural production. The production of fertilisers, pesticides, agricultural equipment, implements, and other intermediate manufactured products needed by the farm sector also rises, in addition to the industrial output of consumer goods needed by the rural population. Additionally, the diversification of agricultural operations has led to the establishment of many labor-intensive village and small businesses in rural regions. These give industrialization even more traction.

Some of the resources for industrialization come from agriculture when there is agricultural advancement. Increasing agricultural production really results in a sizable marketable surplus and an income transfer in favour of the rural sector. Industrialization necessitates increased agricultural revenues as well as a reallocation of resources to the modern sector. Land taxes, betterment levies, savings campaigns, and other types of financial institutions including co-operative banks and rural banks are used to absorb rising agricultural revenues. They are crucial in directing rural savings into industrialization.

In order to fund significant imports of raw materials, intermediate products, and capital goods for industrial manufacturing, agricultural export yields must increase. Similar to this, the LDCs conserve foreign currency for industrial growth by increasing their food output. for the other hand, industrialization has a lot of positive effects for the growth of agriculture[7].

First, as a result of industrialization, incomes are rising quickly, which raises demand for agricultural products like milk, vegetables, eggs, poultry, and others. Due to the labor-intensive nature of the manufacture of these goods, agricultural output can be significantly expanded without expanding farmland. In turn, this increases employment opportunities and wages for those living in rural areas. Second, industrialization makes more cash available to the agricultural industry, which aids in modernising the industry and boosting farm productivity. Thirdly, the rural population who send money home has access to a wide range of work options because to industrialization and urbanisation. This is then used to purchase the necessary inputs for farming or producing livestock, poultry, fish, etc. Because of industrialization's enhanced transportation systems and market expansion, these agricultural goods may be sold in cities for profitable rates. Additionally, rural residents who work in urban settings and reside in nearby villages sometimes take additional part-time occupations at home to supplement their wages.

Fourth, expanding educational, travel, and contact opportunities with new items and ideas after industrialization broadens the horizons of rural people, modifies their outlook on life, and promotes modernization. And last, industrialization offers an extensive and growing selection of consumer products, which motivates farmers to boost agricultural output. In turn, this tends to increase their income, allowing them to purchase the consumer products. As a result, there is a connection between agricultural and industrial development, and one has an impact on the other's development in the manner described above. Therefore, for consistent economic progress, the LDCs need realise the coexistence of agriculture and industry[7], [8].

CONCLUSION

A vital industry that supports economic growth and development is agribusiness. The review paper emphasises the contribution of agribusiness to economic development and the variables affecting its success. Additionally, it highlights the need of policies that support the development of an inclusive, sustainable, and sustainable agribusiness and acknowledges the interconnectedness between agribusiness and other variables, such as poverty alleviation and environmental sustainability. In the end, agribusiness promotion policies may help create a more just and sustainable economic future.

REFERENCES:

[1] A. Fox, W. Feng, and V. Asal, “What is driving global obesity trends? Globalization or ‘modernization’?,” *Global. Health*, 2019, doi: 10.1186/s12992-019-0457-y.

[2] J. Qin *et al.*, “Analysis of factors influencing carbon emissions in the energy base, Xinjiang autonomous region, China,” *Sustain.*, 2020, doi: 10.3390/su12031089.

[3] A. Pouris and R. Inglesi-Lotz, “The contribution of copyright-based industries to the South African economy,” *S. Afr. J. Sci.*, 2017, doi: 10.17159/sajs.2017/20160286.

[4] J. B. Powell, “Factors affecting growth in Ghana’s services economy,” *Exec. Briefings Trade*, 2015.

[5] R. Inklaar, “Searching for convergence and its causes – an industry perspective,” in *The World Economy: Growth or Stagnation?*, 2016. doi: 10.1017/9781316534502.014.

[6] T. Woods, J. Sterns, D. Ricks, and R. Bitsky, “Strategic Planning Approaches and Concepts: Potentials for Improving Commodity Subsector Performance,” *University of Kentucky*, 1998.

[7] R. Radulovich, A. Neori, D. Valderrama, C. R. K. Reddy, H. Cronin, and J. Forster, *Chapter03: Farming of seaweeds*. 2015.

[8] R. Radulovich, A. Neori, D. Valderrama, C. R. K. Reddy, H. Cronin, and J. Forster, “Farming of seaweeds,” in *Seaweed Sustainability: Food and Non-Food Applications*, 2015. doi: 10.1016/B978-0-12-418697-2.00003-9.

CHAPTER 13

OVERVIEW OF CAPITAL FORMATION SOURCES

Mr. Yelahanka Lokesh, Assistant Professor
Department of Commerce and Economics, Presidency University, Bangalore, India
Email Id-lokesh.yr@presidencyuniversity.in

ABSTRACT:

Capital formation is a critical process that involves the accumulation of financial resources to support economic growth and development. This paper explores the sources of capital formation, with a focus on their relative importance and their impact on economic growth. The study draws on a review of relevant literature and empirical evidence to identify the key sources of capital formation, including savings, investment, foreign aid, and public and private sector financing. Additionally, the study emphasizes the importance of an integrated approach to capital formation that recognizes the interdependence between different sources and their potential to drive sustainable and inclusive economic growth.

KEYWORDS:

Consumption, Domestic, Growth, Money, Sources.

INTRODUCTION

Economic growth and development depend on the creation of new capital. To support profitable operations that create economic value, it refers to the accumulating of financial resources, such as savings, investments, foreign assistance, and governmental and private sector funding. Using a study of pertinent literature and empirical data, this review paper investigates the origins of capital production and their effect on economic development. Capital creation: Savings and investment are the two main sources of capital creation. The share of income that people or families save away for future spending or investment is referred to as savings. The allocation of resources, such as capital, labour, and technology, to productive activities that produce economic value is referred to as investment, on the other hand. Another means of generating capital is via the provision of foreign financing for investment in vital fields like infrastructure, health, and education. This is especially true for low-income nations. In particular for small and medium-sized businesses, public and private sector finance, such as bank loans, equity financing, and government subsidies, contributes to capital creation[1].

Impact of Capital Formation on Economic development: Investment in profitable activities that provide economic value is made possible thanks to capital formation, which is a key driver of economic development. Capital accumulation allows nations to invest in infrastructure, technology, and education, which may boost innovation, productivity, and efficiency. Additionally, capital formation may result in the creation of jobs, an increase in income, and a decrease in poverty since investing in productive activities creates jobs and improves living standards.

Variables Affecting Capital creation: A number of variables, such as macroeconomic stability, political stability, financial accessibility, and technological advancement, affect capital creation. For an environment that promotes savings and investment, macroeconomic stability—which is characterised by low inflation, steady exchange rates, and prudent fiscal policies—is crucial. Political stability is also essential because it fosters an atmosphere that is favourable for investment and lowers the dangers brought on by uncertainty. It is crucial to have access to finance, including grants, equity, and loans, in order to encourage investment, especially for small and medium-sized businesses. Finally, innovation and technology are essential for raising capital formation by increasing competitiveness, lowering costs, and raising productivity.

Policy Implications: The review paper emphasises the significance of policies that enhance capital creation, such as those that promote investment and saving, provide access to credit, and foster technological advancement and innovation. A climate that promotes investment and lowers the risks associated with uncertainty may be created through measures that support political and macroeconomic stability. The report also highlights the need for policies that address the structural issues, such as inadequate infrastructure, weak institutions, and insufficient human capital, that restrict capital accumulation.

Three phases make up the capital creation process: increasing the amount of actual savings; using financial and credit institutions to mobilise savings; and investing in savings. Thus, the issue of capital creation in developing nations is now two-fold: first, how to improve the inclination of those in lower income categories to save, and second, how to use present savings for capital development. This brings us to the two types of capital production sources: internal and external. The domestic sources of savings that can be mobilised for capital formation are: an increase in national income, a decrease in consumption, savings drives, the creation of financial institutions, the mobilisation of gold hoards, the maintenance of income disparities, an increase in profits, fiscal and monetary measures, the use of cloaked unemployed, etc. The external sources include beneficial trade conditions, foreign money, and import and consumption restrictions. Go through these domestic and international sources of capital generation.

DISCUSSION

The following are some examples of domestic sources of capital formation: National income has increased. Increasing national production or income is a crucial initial step since it tends to boost peoples' incomes. This may be accomplished through increasing the division of work, making better use of already-existing procedures and resources, and profitably exploiting surplus resources[2].

Drive to Save: The issue of boosting savings will also be addressed via savings initiatives. They need coordinated efforts in the form of social education and propaganda. Saving is a behaviour that may be ingrained via promotion. People may be convinced to save money for their personal benefit or the benefit of the family, for their children's education, for their marriage, for constructing a home, or as a safety net against old age, illness, or emergencies. The issuance of savings certificates in the form of government bonds and annuities with high rates of interest may also aid in the mobilisation of funds. Business gifts, lottery winnings, and tax advantages on the purchase of government bonds are all additional ways to encourage saving.

Creating Financial Institutions: It is well known that many individuals in developing nations hoard cash, jewellery, gold, and other forms of current money. As a result, it is necessary to create financial institutions where modest savers may confidently deposit their money. A well-established capital and money market established by the central bank might provide further momentum in this direction. The establishment of life insurance, mandatory provident funds, provident fund-cum-pension-cum-life insurance schemes, the opening of savings banks and mobile banks in rural areas, and the promotion of savings through cooperative societies, including the establishment of service cooperatives and strong apex institutions like the central and state cooperative banks, should all receive attention in order to encourage small savings among the masses. Such organisations will not only make it possible to manage and invest modest sums of money easily, but will also enable savings account holders to maintain their individual liquidity and fund group long-term investments.

Country Savings: Encouragement of rural savings for requirements that are recognised and supported by the savers is another crucial strategy. Certain rural development initiatives could be accompanied with government securities. The guiding principle should be to link rural savings with local development projects, as the All-India Rural Credit Survey Committee suggested: "These rural debentures should as far as possible be for specific projects of development in which the villager is interested in different degrees, according as they are of direct benefit to him, or to those with whom he shares fellowship of interest because they belong to his district, region, or state." By using rural savings, development may go more quickly. These voluntarily made savings may even reach the "critical minimum" needed for a "take-off."

Gold Troves: The mobilisation of gold hoards is another strategy. Although underutilised, this technique of capital production is effective. In place of the public's gold surrender, the government should provide gold certificates bearing a high rate of interest. However, many are hesitant to freely invest in gold bonds or certificates because they are unwilling to leave with their gold and jewellery. Therefore, it is crucial that gold hoarding beyond a certain amount be forbidden by legislation, private gold trade be controlled, and the usage of pure gold to make decorations be outlawed throughout the nation. The smuggling of gold into the nation should be halted in addition to these actions. These actions won't likely be effective until gold is sold in the nation at the market rate.

Income Inequalities Continue: This is seen as one of the strategies for achieving high rates of investment and saving. Since the majority of people in impoverished nations have a low marginal propensity to save, higher income groups with a high marginal propensity to save are the only ones who can make savings and investments for capital development. In the 18th century in England and the first half of the 20th century in Japan, this had been one of the main sources of capital production. But given the political environment in undeveloped nations, increasing economic disparities is not possible. Additionally, it is not certain that the rich classes would be able to use their funds for profitable enterprises, as did the British businessmen of the 18th century. Instead, the worldwide demonstration effect reinforces the inclination towards ostentatious spending. The weakening dominance of the wealthier classes has caused domestic money to flee from several African and Latin American nations where the governments are not vigilant into the secure vaults of industrialised countries.

Growing Revenue: According to Prof. Lewis, the relationship between savings and national income depends directly on both inequality and the profitability to national income ratio. According to him, voluntary savings only make up a significant portion of national income when income disparity is such that profits make up a sizable portion of national revenue. There is minimal prospect of voluntary savings being made to support investments if there is an uneven distribution of income and the landlords or dealers get the majority of the society's higher level income. Lewis contends that although while profits, interest, and rental earnings make up a little portion of the national income in a developing economy, doubling the profit rate may raise savings from 5 to 12 percent. Expansion of the capitalist sector of the economy may raise the proportion of profits in the national income. First and foremost, private investors should have certain legal protections against arbitrary depredations.

To reduce the danger of capital loss, the method through which private company borrows should be modified. Establishing industrial banks and other specialised organisations such as investment trusts and government-sponsored financing and development enterprises is recommended. Thirdly, if investment possibilities are very lucrative, the capitalist sector is likely to grow quickly. Profits increase as productivity rises in the early phases of development. Productivity rises as a result of an endless supply of low-wage labour, technical advancements, market growth, geographic discoveries, and rising societal costs. Profits rise more quickly and capital creation increases as prospects for profitable investments develop more quickly.

Fourthly, little, irregular dosages of inflation also hasten this process. Profits rise compared to other earnings when there is just a little amount of inflation. Therefore, when earnings grow, investment rises as well, increasing the rate of capital creation. However, because of the other institutional and technical developments listed above, profit might increase even in the absence of inflation. Thus, according to Prof. Lewis, "the correct explanation for why poor countries save so little is not that they are poor but because their capitalistic sectors are so small." They can raise their rate of capital formation by raising profits relative to national income; possibly without inflation.

In order to achieve this, Lewis proposes that individuals who rely on earned earnings, notably ground rents, be subjected to high taxes and that the money raised be distributed to businesspeople who live off of profits, unless the former agree to transform into the latter, much like the Japanese landed nobility. Thus, profits may be raised by providing subsidies and tax breaks, ensuring a sufficient supply of raw materials and capital equipment, prohibiting the import of items that are competitive, regulating salaries and unions, and by the government buying the products of the industries. However, these actions might give rise to entrenched interests and result in an unequal allocation of resources within the economy. According to Prof. D.R. Gadgil, rising profits to boost savings for capital creation may cause social discontent and even fail to create investments that are socially acceptable since the profit-making elites are not always concerned with the wellbeing of the general populace[3].

Fiscal Actions: In an undeveloped economy, when there is a lack of voluntary savings, the government is better positioned to mobilise them via different fiscal and monetary tools. These actions might include increasing taxes, cutting spending, growing the export industry, taking out public loans, or even financing a budget deficit in order to create a surplus. Additionally, the government may enhance savings by managing public enterprises more profitably so that they generate greater revenues. Above all, the government has to adopt a strategy for long-term savings that is growth-oriented so that savings will naturally rise as development accelerates. Let's simply go through these measures.

One of the most important and successful tools of fiscal policy for lowering private consumption and moving funds to the government for useful investment is taxation. Taxation aids in capital creation in two ways: (i) by giving the state access to private resources for use in desirable channels; and (ii) by giving incentives to the private sector to enhance output. How much taxes should be raised and how it should be distributed are two other issues that are brought up by the first argument. Prof. Lewis contends that taxes should generate at least 20% of the national revenue of a developing economy. Out of this, 12% should go towards current expenses and 8% towards capital expenditures in the public sector.

The sorts of taxes to be imposed and their applicable rates are determined by the second goal of taxation, which is to encourage private industry. Progressive direct taxes on personal earnings, wealth, and other items should be assessed in a way that does not have a negative impact on the motivation to work hard, save money, and make investments. They ought to work to lessen the upper class' propensity for ostentatious expenditure, capital flight, hoarding, and speculating. The most challenging issue is choosing tax rates since it is impossible to predict with certainty whether a certain rate would support or undermine private activity.

By lowering consumption and enticing the general public to preserve more money, indirect taxes also serve as incentives for growth. Additionally, these taxes aid in the collection of revenues that would otherwise be impossible to get from the general populace. The most common indirect tax concepts are high charges on luxury and low rates on consumer goods. Additionally, import taxes on luxury goods limit their use while also generating income for the government's productive investments. Other effective forms of development financing include taxes on export revenue and export tariffs on agricultural and industrial raw commodities.

Diverting funds from ineffective to effective routes is another effective use of public borrowing. But due of the low levels of income and savings as well as the strong tendency to purchase, its use is restricted in poor nations. In addition, there aren't any structured financial or capital markets. A coordinated publicity and social education effort is required for public borrowing to be successful. Additionally, a network of intermediary organisations made up of commercial banks, savings banks, unit trusts, insurance firms, social security organisations, and a well-organized bill market should be established. In the event that voluntary public borrowing fails, Nurkse also supports frozen loans[4].

Inflation. Inflation is the most effective strategy if enough money isn't available for capital production. It's thought of as a secret or invisible tax. Prices increase because consumption decreases, which causes money to be diverted from current consumption to investment. By putting more money into circulation to suit its needs, the government causes inflation. However, inflation boosts savings at the expense of the average person's level of life. The groups with fixed incomes are worst hurt. The general public is becoming more dissatisfied, unions are fighting for better salaries, and productivity is suffering. Exports to international markets are likewise declining as expenses and prices rise. Therefore, unless the government takes anti-inflationary action, inflation as a means of capital accumulation does more damage than good.

Public corporations' profits. By creating public businesses, the government may also mobilise domestic funds for profitable investment. Public enterprises get funding in the form of stock capital, bonded debt, and, in certain nations, such as India, direct government funding. Additionally, they engage with overseas businesses or take out loans abroad. In developing nations, public businesses take the place of private industry. Typically, they use their funds as a revolving fund. However, their revenues are used for capital creation in certain less developed nations when public companies are founded as state firms. In the case of public companies established by the Central and State Governments of India, this is being done. Public companies have been established in several impoverished nations, including India, the Philippines, Columbia, and Brazil, to finance the creation and operation of private businesses. They were established as investment trusts in a similar manner. The creation of such a wide range of public companies aids in the organisation of the capital and money markets to mobilise domestic deposits for capital production[5].

Utilisation of the Covered Jobless. Nurkse asserts that one significant source of capital creation is the hidden saving potential that exists in rural underemployment in undeveloped, overpopulated nations. The hidden jobless make almost minimal or no contribution to production; in other words, their marginal productivity is nil or very low. Such underperforming labourers may be fired from the land without causing a decrease in agricultural production and engaged on a variety of capital projects like irrigation, roads, home construction, etc., where they can be a valuable source of capital creation. Simple tools from the farms may be given to the newly hired employees by reorganising agriculture, importing them from overseas, or having the same created by the workers. However, it is anticipated that the newly hired employees' relatives who work on the fields would continue to feed them without incurring any transportation expenses while still maintaining their own consumption level. In this manner, the mobilisation of the covert jobless as prospective savers turns into self-financing. According to Nurkse, labourers cannot be paid a salary. If salaries are provided to employees, they will spend the money on food, increasing the earnings of the farmers who labour the land. Taxes may be levied on this additional revenue to pay for investment initiatives. When investment projects are finished, they usually result in increased production and money that may be taxed and used to fund other investments.

Outside Resources: The following outside sources must be used to augment domestic sources of capital formation:

Aid from abroad: It is necessary to import foreign capital in the form of loans and grants from advanced countries without any "strings" attached when domestic resources are insufficient for capital formation, but the best course of action is to start joint ventures where foreign investors bring technical know-how along with capital and train local labour and enterprise. Additionally, capital might be imported covertly by using exports as payment. This is the optimal course of action as exports cover imports. However, in the early stages of growth, a developing economy cannot raise its exports to the same level as capital imports[6].

Import restrictions: Limiting imports for consumption is a significant external source of capital creation. All luxury imports should be prohibited, and the money saved on foreign currency should be used to bring in capital products. This strategy will only be effective if local revenue saved on imported consumer goods is not used to purchase luxury and semi-luxury items produced domestically. The rise in capital goods imports will be countered by a decrease in domestic investment if consumers start spending more on domestic products because resources will be shifted from domestic capital production to higher consumer spending. Therefore, for the limitation on luxury imports to result in an increase in net capital creation, there must be a rise in domestic saving[7].

Favourable Trade Terms: Similar to this, an undeveloped nation is in a position to import a lot of capital goods if the terms of trade change in its favour. It is imperative that the rise in domestic revenue brought on by higher export profits be preserved and put to productive use in order to take advantage of the advantageous trade conditions. If the additional money made in this way is used to purchase consumer items, no new savings will be made for capital creation. Nurkse advises that this saving be taken via taxes "to give the country a command over additional imports of investment goods" since an improvement in the terms of trade is not a guaranteed source of capital creation.

Thus, capital production plays a crucial role in determining how the economy develops. To oversimplify economic growth by focusing just on capital accumulation and ignoring political, social, cultural, technical, and entrepreneurial aspects would be unwise[8].

CONCLUSION

Economic growth and progress are fueled by the crucial process of capital generation. In addition to foreign assistance and governmental and private sector funding, the review paper emphasises the significance of savings and investment as the fundamental sources of capital creation. The report also highlights the need of policies that encourage capital development and emphasises the significance of a comprehensive strategy that tackles the structural barriers to capital formation. In the end, policies that encourage capital creation may support equitable and sustainable economic growth and development.

REFERENCES:

[1] A. Afdal And M. Triani, “Analisis Faktor-Faktor Yang Mempengaruhi Pertumbuhan Ekonomi Di Kab/Kota Sumatera Barat,” *J. Ecogen*, 2019, Doi: 10.24036/Jmpe.V1i3.5035.

[2] N. Anwar And K. E. Elfaki, “Examining The Relationship Between Energy Consumption, Economic Growth, And Environmental Degradation In Indonesia: Do Capital And Trade Openness Matter?,” *Int. J. Renew. Energy Dev.*, 2021, Doi: 10.14710/Ijred.2021.37822.

[3] L. Krkoska, “Foreign Direct Investment Financing Of Capital Formation In Central And Eastern Europe,” *Econ. Pap.*, 2002.

[4] U.-O. M. Obiageri, V. A. Onodugo, And M. Paulinus Chigozie, “Assessing The Effectiveness Of Commercial Bank Loans As Sources Of Funding/ Capital Formation For Small And Medium Enterprises (Smes) In Southeast, Nigeria,” *Business, Manag. Econ. Res.*, 2019, Doi: 10.32861/Bmer.54.62.70.

[5] E. G. Hertwich, “Increased Carbon Footprint Of Materials Production Driven By Rise In Investments,” *Nat. Geosci.*, 2021, Doi: 10.1038/S41561-021-00690-8.

[6] I. Novak, N. Verniuk, And Y. Novak, “Structuring Of Sources Of Attracting Capital To Agricultural Production As A Prerequisite For The Formation Of An Effective Investment Mechanism In The Agricultural Sector,” *Econ. Ann.*, 2016, Doi: 10.21003/Ea.V159-06.

[7] A. L. Ngoma And N. W. Ismail, “The Impact Of Brain Drain On Human Capital In Developing Countries,” *South African Journal Of Economics*. 2013. Doi: 10.1111/Saje.12014.

[8] R. Mann, V. Martinovich, And O. Yakusheva, “The Peculiarities Of Working Capital Management At Agroindustrial Enterprises Of Ukraine,” *Probl. Perspect. Manag.*, 2018, Doi: 10.21511/Ppm.16(2).2018.24.

CHAPTER 14

ROLE OF MONETARY POLICY IN ECONOMIC GROWTH

Prof. J.K. Tandon, Professor
School of Education, Jaipur National University, Jaipur, India
Email id- jktandon.sbm@jnujaipur.ac.in

ABSTRACT:

Monetary policy plays a critical role in promoting economic development by managing the money supply and interest rates in an economy. The primary objective of monetary policy is to maintain price stability and control inflation, which is achieved by controlling the money supply in the economy. Through monetary policy, central banks can influence the interest rates charged on loans and deposits, thereby affecting spending, investment, and savings decisions. A stable monetary policy environment can help promote economic growth by stimulating investment, increasing consumer spending, and reducing uncertainty. However, the effectiveness of monetary policy in promoting economic development depends on various factors, such as the level of financial development, the degree of fiscal discipline, and the structure of the economy. This abstract provides a brief overview of the role of monetary policy in economic development and highlights some of the key factors that affect its effectiveness.

KEYWORDS:

Credit, Economic, Growth, Market, Monetary Policy.

INTRODUCTION

Due to its role in regulating an economy's money supply and interest rates, monetary policy is a vital instrument for fostering economic growth. Inflation control and maintaining price stability are the major goals of monetary policy. The interest rates applied to loans and deposits may be influenced by central banks' monetary policy, which in turn affects consumers' choices on spending, investing, and saving. In this review essay, we'll talk about how monetary policy contributes to economic growth and look at the numerous variables that influence how successful it is.

The Function of Monetary Policy in Economic Growth: Inflation control and maintaining price stability are the major goals of monetary policy. By boosting consumer spending, lowering uncertainty, and spurring investment, a stable monetary policy environment may aid in the promotion of economic development. To accomplish these goals, central banks use a variety of strategies, including open market operations, reserve standards, and the discount rate. Government securities are bought and sold via open market activities, which has an impact on the amount of money in circulation. The amount that banks must keep in reserve is known as the reserve requirement, and the interest rate at which they may borrow money from the central bank is known as the discount rate.

Exchange rates may be impacted by monetary policy, which can also have an effect on commerce and economic growth. While a weak currency may raise import costs and decrease demand for exports, a strong currency can increase import costs and decrease export demand.

Factors Affecting Monetary Policy's Effectiveness: The efficiency of monetary policy in fostering economic growth relies on a number of variables, including the economy's structure, the degree of fiscal discipline, and the amount of financial development. Monetary policy may be ineffective in nations with weak financial systems because changes in interest rates may not have an impact on people's choices to invest and spend money. Similar to this, when there is a lack of fiscal restraint, the government's expenditure may result in a rise in the money supply, making it difficult for monetary policy to manage inflation. The efficiency of monetary policy is significantly influenced by the structure of the economy. Changes in interest rates may not have a big influence on countries with a large informal sector since many economic activity may take place outside the official banking system. Changes in interest rates may also not have a large effect on the economy as a whole if it is primarily dependent on one sector, such as natural resources.

The phrase "monetary policy" refers to a nation's monetary authority's stance on financial issues. The policy that deals with (a) "the controls of financial institutions; (b) active purchases and sales of paper assets by the monetary authority as adeliberate attempt to effect changes in money conditions; and (c) passive purchases and sales of paper assets resulting from the maintenance of a specific interest rate structure, the stability of security prices, or meeting other obligations and commitments" may be defined as such.1 By affecting credit availability and costs, containing inflation, and preserving balance of payments equilibrium, monetary policy in a developing nation may significantly speed up growth. A sound monetary policy is even more crucial when growth picks up speed in order to offer an elastic credit supply to fulfil the demands of increased commerce, a rising population, and a developing monetized sector.

The Principals of Monetary Policy

Dr. J.D. Sethi asserts that monetary policy may be interpreted to work in the following ways:

(i) To have and employ the best interest rate structure;
(ii) To strike the right balance between the supply and demand for money.
(iii) Providing enough credit facilities for a developing economy and preventing its unwarranted growth; channelling loans to consumers in line with pre-planned investment;
(iv) Establishing, operating, and expanding financial institutions; and
(v) The following is a discussion of some aspects of monetary policy in an impoverished nation:managing debt.

Establishment and growth of financial institutions. The improvement of a nation's currency and credit system is one of the goals of monetary policy in a developing nation. It is necessary to establish more banks and financial institutions to increase credit availability and channel voluntary savings into profitable ventures. In developing nations, financial institutions are concentrated in large cities and provide lending facilities to estates, plantations, large industrial and commercial buildings. Branch banking and unit banking should be expanded to rural regions in order to address this issue and make loans accessible to farmers, small business owners, and merchants. However, the presence of a strong and powerful central bank is a prerequisite for an efficient monetary policy. Commercial banks in developing nations only provide short-term loans. In rural locations, there are often few credit options. The local moneylender, who charges exorbitant interest rates, is the sole source. Additionally, there are no established and professionally managed stock and security markets. The primary driver of a nation's monetary policy should be the central bank in order to correct these flaws.

The management of the public debt is done by the central bank, which serves as the government's fiscal agent. It issues government securities and bonds both directly and through other domestic commercial banks. In a developing nation without a developed bill market, a stock and securities market can only be founded and operated by the central bank. Only if new institutional arrangements are developed by the central bank to provide farmers with short-, medium-, and long-term loans at reduced interest rates can the influence of local moneylenders in rural regions be lessened. The issue may be resolved with the aid of a network of central bank-funded cooperative credit societies with apex banks. The central bank may assist in the establishment of industrial banks and financial organisations to fund both large-scale and small-scale enterprises thanks to the considerable resources at its disposal. The central bank also serves as the money market's watchdog. It has the authority needed to manage commercial banks as it sees fit.Bank of America.

DISCUSSION

Control over commercial banks is "one of monetary policy's main weapons." By offering rediscounting capabilities, it may persuade banks to issue medium- and long-term loans. However, it is unrealistic to believe that financial and monetary institutions would be the main drivers of credit growth on their own. The monetary system must therefore be adequately sensitive to the impulses that occur when development picks up steam given the underlying stimulation provided by industry and entrepreneurship. An appropriate interest rate strategy. The interest rate structure is quite high in a developing nation. Additionally, there are significant differences between long-term and short-term interest rates as well as between interest rates and various economic sectors. In a developing economy, high interest rates are a barrier to the expansion of both private and state investment. Therefore, promoting private investment in industry and agriculture requires a low interest rate.

Businessmen must borrow money from banks or the capital market for investment reasons since they have little saved up from undistributed earnings in developing nations. They would only borrow money if the interest rate was low. In order to promote public investment, a low interest rate strategy is also crucial. A cheap money policy is one that has low interest rates. It lowers the cost of repaying public debt, lowers the cost of public borrowing, and facilitates the financing of economic growth. The availability of cheaper money for "complimentary funds" supports private international investments, even from the perspective of foreign investors. A low interest rate strategy, however, is not always beneficial to a developing nation. Certain drawbacks exist. It promotes borrowing and investing for speculative motives, which makes it difficult to finance profitable ventures. Government bonds with low interest rates are not appealing to investors who are just motivated by profit. A low interest rate has a negative impact on the economy's increase in savings as well.

The Central Bank should adopt a policy of discriminatory interest rates, charging high rates for non-essential and unproductive loans and low rates for productive loans, to deter the flow of resources into speculative borrowing and investment. However, this does not mean that savings in a developing country are interest- elastic. A high interest rate is unlikely to increase the inclination to save in these nations since the income level is low. In the context of economic growth, a steady increase in the price level is inevitable as the economy grows. Money loses value, and people are less likely to save money. When money is scarce, the interest rate has a propensity to automatically increase. Inflation would arise from this. Any attempt to control inflation by increasing the interest rate in such a circumstance would be terrible. Therefore, if cheap money policy is not followed by tight physical control, inflation may result. Therefore, a constant price level is necessary for a low interest rate strategy to be successful.

3. Controlling debt. In a developing nation, one of the key roles of monetary policy is debt management. It attempts to issue government bonds at the right time, stabilise their prices, and reduce the cost of repaying the nation's debt. The central bank is responsible for managing the structure and composition of the public debt as well as the timely selling and purchasing of government bonds. The main goal of debt management is to "create circumstances that allow public borrowing to increase year over year and on a large scale without jolting the system." To keep the debt load low, this must be done at modest rates[1].

The low interest rate strategy is crucial for bolstering and stabilising the government bond market. For a low rate of interest increases the price of government bonds, making them more appealing to the general people and boosting the government's public borrowing initiatives. To keep the cost of paying the national debt to a minimum, a low interest rate structure must be maintained. Furthermore, it promotes private companies financing debt. According to Dr. Sethi, the government should provide a variety of assets to enable the rate of interest to play an active and helpful role in each particular market. He contends that the fundamental purpose of debt management programmes is to increase their demand if there isn't one, as is the situation in a developing nation. However, the presence of well-developed money and capital markets in which a broad variety of securities exist for both short and long periods would be necessary for debt management to be effective as a tool of monetary policy. In the absence of these elements, managing debt in a developing nation may be very difficult.

proper balancing of the supply and demand of money. An essential tool for achieving a correct balance between the supply and demand for money is monetary policy. The pricing level will show any differences between the two. Growth will be hampered by a lack of money supply, while inflation will result from an excess of it. Due to the progressive monetization of the unmonetized sector, the rise in agricultural and industrial output, and the rise in prices, the need for money is projected to increase as the economy grows. The need for money will increase for both transactional and speculative purposes. Therefore, in order to prevent inflation, the rise in the money supply must be greater than the increase in the demand for money. However, there is a chance that a rise in the money supply may be utilised for speculation, which would stifle economic progress and lead to inflation. The monetary authorities should implement an adequate monetary policy to regulate how money and credit are used, and they should deploy direct physical controls to manage speculative activity. As a result, in a developing economy, the supply of credit and money should be managed to avoid price increases without having a negative impact on investment and output.

Credit Management. To affect the patterns of investment and output in a growing economy, monetary policy should also focus on credit regulation. Its major goal is to manage inflationary pressure that develops throughout the process. Both quantitative and qualitative approaches of credit control must be used for this. In impoverished nations, open market activities are unsuccessful in containing inflation. The presence of a well-organized bill market, the commercial banks' maintenance of fixed cash reserve ratios, and the lack of rediscounting resources from the Central Bank are all necessary for open market operations to be successful. But in these economies, these variables do not apply. The market for bills is limited and undeveloped. Because the central bank does not have total authority over commercial banks, they maintain an elastic cash ratio. Due to the relatively low interest rates on government assets, they are likewise hesitant to invest in them. Additionally, they prefer to retain their reserve in a liquid form, such as gold, foreign currency, and cash, rather than investing in government securities. Because commercial banks don't often rediscount or borrow from the central bank, only the final requirement is applicable[2], [3].

Due to a lack of bills of discount and the commercial banks' propensity to maintain large cash reserves, the bank rate policy is also less successful in less developed nations. Where the central bank has greater clout, it may affect market rates by making the proper adjustments to the bank rate. The variable reserve ratio is a more effective tool for credit management than open market operations and bank rate policy. Since commercial banks have sizable cash reserves, they may expand loans in developing nations. By increasing the required reserve ratio, the central bank may stop this growth.

However, the qualitative credit control measures have a greater impact on the distribution of credit and, therefore, the pattern of investment than the quantitative ones do. In less developed nations, there is a great propensity to invest in gold, jewellery, stocks, real estate, etc. rather than in more productive alternatives like mining, agriculture, plantations, manufacturing, and so on. For restricting and regulating credit facilities used for such unproductive activities, selective credit restrictions are more suitable. They are helpful in limiting speculative actions in raw resources and food grains. They are more effective in containing the economy's "sectional inflations." By requiring importers to deposit a sum equivalent to the value of foreign currency in advance, they reduce the demand for imports. Insofar as their deposits are moved to the central bank as a result, this also has the impact of lowering the bank reserves.

Changing the margin requirements against certain forms of collateral, regulating consumer credit, and rationing credit are some examples of the selective credit control methods.The latter are more successful than the former among the many quantitative and qualitative approaches of credit management. But relying just on one technique would not be sufficient. Therefore, "direct physical controls over commodity markets will have to be brought into make the general control policy a success, in addition to the qualitative methods of credit control, not only such methods as: (a) direct control of plant and equipment; (b) control of capital issues; (c) discriminatory taxes, and (d) control over imports and exports, etc., will have to be instituted."

Conclusion. Dr. Baljit Singh sums up by saying that "Development of banking facilities and savings institutions, reorganisation of agricultural and industrial credit, integration and improvement of the money market, growth of a sound central banking, closure of free markets in gold and silver, replacement of hoards, and above all currency reforms are urgently needed." Only once these flaws are fixed can the monetary systems of economically underdeveloped nations be successful in supporting building and growth. If a nation fails to do this, it will either move slowly or even stagnate, or it will be forced to change its economic structure to one based on comprehensive planning and resource reallocation under direct state supervision.

Define monetary policy as the management of the exchange rate as well as the administration and regulation of a nation's money supply, including cash and demand deposits. It mainly focuses with the total amount of money and credit, which establishes the quantitative relationship between the available actual resources and the national medium of exchange. Although the speed of circulation is a component that should also be taken into consideration, the aforementioned relationship is mostly what determines the internal value (or buying power) of the monetary unit. The exchange rate, which expresses the relationship between the local currency and foreign currencies, is another aspect of monetary policy.

Again, in this case, monetary policy concerns and the use of different monetary policy tools may be influenced by the many ways in which money may be generated, the uses for which it is made accessible, as well as the unique characteristics of the exchange rate system. But generally speaking, monetary policy primarily entails controlling the whole domestic money supply and, therefore, its value, as well as managing the international exchange rate.

Financial Policy and Developing Nations

Which monetary policy, especially in less developed nations, will maximise the pace of economic growth? In the most industrialised regions of the globe, monetary policy has been extensively examined in relation to economic stability. The issues facing less developed nations have received increasing attention in recent years, and in this context, the topic seems to be more divisive than when it is seen against the historical backdrop of the established economies.

The additional benefit of my proposal to limit this discussion to developing nations is that it largely eliminates the cyclical aspects of economic growth and the role that monetary policy can play in causing or containing short-term fluctuations in economic activity. Although not totally, the business cycle in the industrialised countries may be seen in the cyclical oscillations in the economies of the less developed nations. Therefore, the less developed nations are unable to employ monetary policy as a key tool to shield their rate of economic development from the effects of alternating business activity upswings and downswings in the advanced economies. They are in a similar, mostly powerless situation in regards to modifications to their international trade agreements. I don't mean to imply that the monetary policies followed by the less developed nations are inconsequential in light of these variables. It can be required to play a crucial role in assisting with the modifications to the money supply or foreign exchange rate required by global conditions. The influence of the external variables I have stated on the pace of development of these nations' national production or real national income, however, cannot be much altered by even the finest monetary policies.

In my opinion, achieving a maximum rate of sound and sustained economic growth requires achieving both internal and external monetary stability, which I define as the maintenance of a reasonably stable domestic price level and a fixed realistic exchange rate. Furthermore, I think that in less developed nations this may be much more true than it is elsewhere. Three things in particular need to be emphasised. The first is that persistent or frequent inflation as well as an unstable exchange ratewhich in practise means one that is subject to continuous depreciation or frequent devaluationsare elements that seriously slow down the rate of economic growth in developing nations by impeding improvements in the accumulation of domestic savings, impeding net capital inflows, and impairing the economy's capacity to allocate scarce available resources effectively. The second is that these issues are made worse by artificially suppressing inflation and maintaining an unfeasible exchange rate. The third is that developing nations' efforts to achieve sustained economic growth under stable monetary conditions frequently necessitate making short-term sacrifices in order to maintain or restore internal and external monetary equilibrium, which calls for generous support from the richer parts of the world.

Concerning Inflation: it is commonly acknowledged that, among other things, economic growth requires a sufficient supply of capital to finance the directly and indirectly productive investments necessary to increase the country's production per capita. This capital supply must be created organically, mostly via private and governmental savings. It is debatable whether ongoing inflation has the same negative impact on savings in developing nations as it does, according to common experience, in more developed nations, where long-term contracts and long-term debts stipulated in terms of legal tender are significantly more significant. The belief has been voiced that in less developed nations with chronic inflation, saving and investment practises have been adjusted to at least the typical yearly inflation rate. Regardless of whether this is the case, less developed nations nonetheless need the greatest possible rate of savings that may be made available for investment. This calls for current account budget surpluses in the public sector, which are considerably harder to achieve in an inflationary environment than in a stable one. In the private sector, it's important to be willing to save as well as to make funds accessible for long-term investments rather than short-term ones, particularly for long-term investments that spur more economic development. Without a doubt, inflation hinders the creation of private savings and the buildup of investment capital in such forms. As a result, inflation slows down economic growth. I mention in passing that there are good reasons to think that the forced-saving effect of inflation, which results from prices rising faster than incomes, can be ignored in this discussion because, in most, if not all, less developed countries, the income distribution is such that it could only significantly affect a very small upper class that frequently benefits from inflation or at least has many ways to avoid its detrimental effects.

In addition to domestic savings, a significant amount of foreign capital must enter these less developed nations for economic development to occur at its highest pace. However, inflation and a volatile currency rate deter private international ventures and encourage capital flight. It is true that certain large and strong multinational corporations could be ready to invest and run businesses even in a developing nation where there is high inflation and unpredictable currency rates. Such overseas investors could be willing to accept the risk of suffering from a decline in the exchange rate for current payments, particularly if they are confident of earning unusually large gains. Instead, they might temporarily forgo any transfers and reinvest their yearly income and amortisations in the hope of reaping the rewards in the future. However, ample evidence demonstrates that emerging nations with reasonably stable monetary circumstances are significantly more appealing to foreign capital than those with poor monetary policies, both in terms of direct investments and financial investments. Capital flight is a particularly harsh price that emerging nations pay for their economy's inflationary tendencies and lack of trust in their currency. They are not only deprived of financial resources that might be used for growth, but their foreign exchange position is also weakened, and they become more economically and politically reliant on outside assistance and susceptible to the constraints and limitations that are typically associated with it[4].

Another essential need for maximising the pace of economic growth in less developed nations is the effective distribution of the available resources for development in accordance with economic priorities. It is much more important to make a sensible choice among the several development initiatives that present themselves with conflicting urgency due to their limited resource availability. There is potential for a significant public sector as well as some general planning to steer private initiative; this choice cannot be totally left to individual choices of private industry driven by the profit motive. The traditional argument against inflation and an unstable exchange rate—that they taint economic projections and calculations and are no better than quicksand as a foundation for economic decisions that may reach far into the futuredoes not, in my opinion, become invalidated even after admitting that this is the dominant framework in which economic development is taking place in today's world. This is a consequence of inflation's distortion of relative pricing structures, which affects the foundation upon which investment decisions—at least those with sound economic justificationsare formed. Uncertain exchange rate circumstances are likely to cause similar investment distortions. These are not abstractly generated theoretical conclusions. There is a tonne of real-world data to support them.

Artificial Inflation Suppression

The second major issue is that an excessively large money supply and the presence of a fundamental external imbalance worsen the slowing effects of artificially repressed inflation and the maintenance of an unsustainable exchange rate. When I refer to "artificially suppressing inflation," I mean taking steps to shield particular populations or economic sectors from an overall rise in costs and prices. These steps include price controls, direct or indirect subsidies of particular goods and services, preferential exchange rates for particular imports or exports, etc. The present government budget of the nation is often heavily burdened by measures of this sort, sometimes to the point where there is no money left over for saving or funding noninflationary investment in the public sector. These measures do not eliminate the causes of inflation; rather, they rather attempt to disguise them. Furthermore, these actions significantly worsen the distorting effect of inflation on all investment choices.

Maintaining an unrealistic exchange rate, by which I mean one that is overvalued in this context, affects the pattern of international commerce since it encourages imports by making them excessively cheap while impeding exports by making them excessively costly overseas. This alone slows economic development because it makes export-oriented manufacturing less competitive globally. It also has the same effect on commodities that are created to replace imports; these goods are crucial for emerging nations. Additionally, it has a negative impact on the balance of payments, necessitating contractionary internal actions in the absence of trade and payments constraints. In any case, it is still far from being possible to maximise the pace of economic progress. It is true that there are cases when nations have kept their inflated exchange rate for a while while still displaying a high rate of growth, at least in terms of investment. However, in none of these cases was this accomplished without a considerable influx of official foreign money, and it was always accompanied by persistent inflation and significant economic distortions.

The Function of Wealthier Nations: that emerging nations often have to make short-term sacrifices in order to preserve or restore internal and external monetary balance, which necessitates the generous support of the developed world. Such support for economic growth under stable monetary conditions can be given in a variety of ways, such as by utilising bilateral or multilateral channels to supplement domestic savings and the inflow of private foreign capital with official foreign capital, by making technical expertise for project preparation and execution and investment planning available, or by establishing institutions to finance investment, organising capital markets, and other related activities. Given the availability of financial resources, organisational skills, and institutional infrastructure required to generate such growth, assistance with economic development can also be provided by assisting in the creation, maintenance, and eventual restoration of monetary (and possibly fiscal) conditions favourable to maximising the rate of economic growth. In order to promote circumstances of internal and external stability, countries or organisations providing this final kind of assistance should be prepared to educate and guide proper monetary policies and to facilitate their implementation as required. They must to be prepared to provide short-term loans as well, giving domestic balance time to be restored or an unreasonable exchange rate to be adjusted. Such assistance should be generous in the sense that it should, to the greatest extent possible, be commensurate with the short-term sacrificesand particularly the sacrifices of the pace of economic growththat the remedial efforts may entail, without undermining the need for each country to help itself to the maximum of its ability [5], [6].

The Functions of the Fund and the Bank: The globe Bank and its affiliates, as well as the International Monetary Fund, are among the organisations in question. Through these organisations, the wealthier nations of the globe are in a unique position to provide the sorts of support I have just described. Both have been established with the stated intention that the stronger among them should be ready to stand ready, to the extent possible, to provide the means to meet the legitimate needs of the poorer ones in these efforts. They both aim to assist members, each in their own way, in developing their economic resources under conditions of internal and external equilibrium. I won't go into detail here about the many benefits of doing this on a multilateral cooperative basis, but the track record of what the Bank and the Fund have accomplished provides undeniable proof of the viability of this strategy. Twins have been used to describe the Bank and the Fund. Sound monetary policy and economic growth go hand in hand[7], [8].

CONCLUSION

By controlling an economy's money supply and interest rates, monetary policy is essential in fostering economic growth. By boosting consumer spending, lowering uncertainty, and spurring investment, a stable monetary policy environment may aid in the promotion of economic development. The efficacy of monetary policy in fostering economic growth, however, is influenced by a number of variables, including the economy's structure, the degree of fiscal discipline, and the amount of financial development. To preserve price stability and encourage economic growth, central banks must take these considerations into account when enacting monetary policy.

REFERENCES:

[1] C. Precious And M. K. Palesa, “Impact Of Monetary Policy On Economic Growth: A Case Study Of South Africa,” *Mediterr. J. Soc. Sci.*, 2014, Doi: 10.5901/Mjss.2014.V5n15p76.

[2] E. I. Vorobyova, “Role Of Monetary Policy In Financial Support Of Economic Growth Of The Russian Federation,” *Sci. Bull. Financ. Banking, Investment.*, 2021, Doi: 10.37279/2312-5330-2020-3-5-11.

[3] E. N. Twinoburyo And N. M. Odhiambo, “Can Monetary Policy Drive Economic Growth? Empirical Evidence From Tanzania,” *Contemp. Econ.*, 2018, Doi: 10.5709/Ce.1897-9254.272.

[4] R. Moosavi Mohseni And J. Cao, “Monetary Policy And Financial Economic Growth,” *J. Econ. Asymmetries*, 2020, Doi: 10.1016/J.Jeca.2020.E00169.

[5] M. G. Wibowo, H. Kusuma, And I. Qizam, "The Role Of Institution And Macroeconomic Policy Mix On Economic Growth In Muslim Country," *Int. J. Islam. Econ. Financ.*, 2021, Doi: 10.18196/Ijief.V5i1.11646.

[6] M. Nangarumba, "Analisis Pengaruh Kebijakan Moneter, Kebijakan Fiskal, Dan Penyaluran Kredit Terhadap Pertumbuhan Ekonomi Di Provinsi Jawa Timur Tahun 2006-2016," *J. Ekon. Dan Ekon. Stud. Pembang.*, 2016, Doi: 10.17977/Um002v8i22016p114.

[7] L. W. C. Lai, S. N. G. Davies, And F. T. Lorne, "Trialogue On Built Heritage And Sustainable Development," *Sustain.*, 2019, Doi: 10.3390/Su11143901.

[8] W. Koodsela, H. Dong, And K. Sukpatch, "A Holistic Conceptual Framework Into Practice-Based On Urban Tourism Toward Sustainable Development In Thailand," *Sustain.*, 2019, Doi: 10.3390/Su11247152.

CHAPTER 15

FISCAL POLICY'S ROLE IN ECONOMIC GROWTH

Prof. J.K. Tandon, Professor
School of Education, Jaipur National University, Jaipur, India
Email id- jktandon.sbm@jnujaipur.ac.in

ABSTRACT:

Fiscal policy refers to how the government uses taxes, public borrowing, and public spending to promote "stabilization" or "development." Fiscal policy has only recently been used to advance economic growth. For mature economies, the Keynesian analysis of fiscal policy is relevant. In developed economies, fiscal policy is used to control the pace of growth. Fiscal policy's purpose in an undeveloped economy is to hasten the pace of capital development. It is intended to be a tool for economic growth. Fiscal policies are employed in the Keynesian analysis to lower savings and increase the propensity to spend. A developing nation, however, has a very different issue. In such an economy, saving tendencies are quite low and consumption tendencies are very strong. To increase the inclination to save, it is necessary to lower the propensity to spend.

KEYWORDS:

Growth, Investment, Policy, Saving, Taxation.

INTRODUCTION

The Keynesian approach thus has limited application to developing economies. There is no denying that Keynes' General Theory contains a bias against saving and in favour of spending, but this bias is harmful when applied to the circumstances that the poor nations find themselves in, according to Nurkse. In less developed nations, fiscal policy is quite important. In reality, fiscal policy should be used extensively to promote economic growth. The issue of capital development in underdeveloped nations, according to Nurkse, "assumes a new significance in the face of the low per capita income and savings in such countries." The few wealthy people engage in ostentatious consumerism. Savings are lost in significant amounts via unproductive channels including real estate, gold hoarding, jewellery, and other speculative activities. All of these are directed into productive channels by fiscal policy.

According to Nurkse, the main factor influencing growth is the nation's incremental saving ratio, often known as its marginal propensity to save. Government spending on building new sectors, banking and credit institutions, and social and economic overheads may increase the incremental saving ratio. They will support increasing the nation's employment, production, and income levels. Taxation is the most effective tool for forcing saves since voluntary savings are scarce in economies that are still in their developing stages. Taxation significantly reduces the wealthy classes' extravagant spending and showy consumption. Therefore, taxes are a crucial and practical fiscal tool for lowering private consumption and allocating idle resources for government capital production. According to the UN Report on Taxes and Fiscal Policy, "Fiscal policy is assigned the central task of wresting from the pitifully low output of underdeveloped countries sufficient savings to finance economic development programmes and to set the stage for more vigorous public investment activity."

Fiscal policy may be employed as a crucial adjunct to monetary policy in an undeveloped nation when monetary policy alone is ineffectual owing to the presence of underdeveloped money and capital markets in order to accelerate the pace of capital creation. The development strategies of poor nations also heavily rely on fiscal policy. Planning requires striking a balance in both real and financial terms. In other words, a financial strategy must correspond to a physical plan. "The financial plan's implementation and the achievement of real and monetary balances, obviously, will have to rely largely on fiscal measures."

Goals of Fiscal Policy

The following goals are what fiscal policy seeks to accomplish as a way of fostering economic development:

The goal of fiscal policy is to encourage and speed up the pace of investment in both the public and private sectors of the economy. Checking current and projected consumption as well as increasing the incremental saving ratio may help with this. Fiscal policy should be utilised to promote particular investment types while discouraging others. Government should first implement a programme of planned investment in the public sector in order to increase the rate of investment. The amount of investment in the private sector will rise as a result of this. However, in a developing nation, the key challenge is to identify sufficient financial resources for investment needs in the lack of enough voluntary savings. Some resources may become available as a result of actions taken to reduce ostentatious consumption and investment in wasteful ventures. The solution to the lack of foreign capital, both private and public, is to increase the marginal propensity to save via public finance, taxes, and forced loans. This will increase the incremental saving ratio. cites the following four fiscal policy goals in the context of developing nations:

to eliminate unnecessary imports and develop domestic markets by addressing excessive or damaging income and wealth distribution disparities. to combat inflation that might be brought on by economic growth. to provide incentives for the right kinds of development initiatives and so aid in directing development in the right ways. To enhance the overall amount of savings available for economic development.' Dr. R.N. Tripathy8 proposed six strategies the government may use to boost incremental saving rates and mobilise the necessary amount of financing for development. There are six of them: (i) direct physical restrictions; (ii) raising the rates of current taxes; (iii) imposing new taxes; (iv) surplus from public companies; (v) non-inflationary public borrowing; and (vi) financing deficits.

The most effective way to reduce consumption and wasteful investment is via direct physical restrictions. Direct physical controls are a crucial component of fiscal policy even if they are challenging to implement in a developing nation. It is also crucial to impose new taxes and raise current taxes' rates on a progressive basis. Consumption-controlling measures include steeply progressive income taxes, import limitations on luxury items, high duty on those imports, a prohibition on domestic production of luxury and semi-luxury products, and restrictions on their usage via licencing or high excise taxes. High progressive taxes on influxes of cash, unearned income, capital gains, purchases of goods and services, real estate, and other items should be imposed in order to prevent the use of savings for unproductive investments. If public companies are managed well, surpluses may accumulate. But they do not result in surpluses because of their high initial operating costs. Additionally, there aren't enough public businesses to provide sufficient surpluses in economies[1], [2].

To Dr. Tripathi's recommendations, we might also add something regarding the influx of outside aid to make up for the lack of local savings. Where private business is absent, there should be an emphasis on external support. It should also be used to the growth of private company. Aside from that, "fiscal policy in the shape of fiscal concessions such as investment and depreciation allowances, provision of finance and foreign exchange, tax holiday, development rebates, subsidies, etc., can contribute materially to the growth of investment in the private sector of the economy."

Therefore, taxing is the most effective tool for forcing savings out of all the available techniques. Due to a lack of supplementary resources, deficit financing is usually inflationary in undeveloped nations. In the absence of a fully established capital market, borrowing from the public does not generate enough revenue for the exchequer. Additionally, it is probably going to hike interest rates, which will hurt investment. to promote socially advantageous investment. The flow of investment into those channels that are deemed socially acceptable should be encouraged by fiscal policy. This pertains to the ideal investment pattern, and it is the state's duty to encourage investment in social and economic overheads. Economic overheads include expenditures on transportation, communications, river and power development, and soil protection. While spending on public health, technical training centres, and education falls under social overheads. These two investment types stimulate foreign economies. They often expand the market, increase productivity, and bring down manufacturing costs.

Additionally, the development of overhead capital is consistent with the social marginal production criteria. Because it generates external economies, private investment has a higher marginal productivity. Private investment in beneficial and fruitful channels is thus encouraged. Private industry, which lacks initiative and resources, cannot make such large-scale investments. Furthermore, it is unrealistic to anticipate immediate or direct profits on them. Therefore, it is the responsibility of the state to pay for social and economic overheads that will significantly speed up the pace of capital creation.

DISCUSSION

To expand employment possibilities. Increasing job possibilities and lowering unemployment and underemployment should be the goals of fiscal policy. The state's spending for this should go towards covering social and economic costs. Long-term, such expenditures boost the economy's productive efficiency and add to jobs. The state should carry out local public works of community development in developing nations with a higher base of rural people that need more labour and less money per person. The government should promote private industry in addition to creating public firms by offering tax breaks, concessions, low-interest loans, subsidies, and other incentives. By offering training, funding, and equipment related to domestic industries, efforts should be made to promote them in rural regions. All of these short- and long-term investments will make a significant difference in the reduction of unemployment and underdevelopment as well as the expansion of job possibilities.

In reality, if the pace of labour force expansion is not controlled in addition to the aforementioned actions, public funds will be wasted. The goal of boosting employment is strongly tied to that of stabilising the growth rate of the population since impoverished nations experience rapid population expansion. Only when the pace of increase in work possibilities and therefore in income is much greater than the rate of population growth is rapid economic development conceivable. Therefore, fiscal policy should prioritise family planning while enhancing social amenities. The goal of improving job possibilities cannot be achieved without population control.

In the face of global instability, to encourage economic stability. In the face of transient international cyclical changes, fiscal policy should encourage the preservation of a respectable level of economic stability. The sheer nature of an undeveloped nation's economy makes it vulnerable to the impacts of global cyclical variations. It mostly imports manufactured commodities and capital goods and exports basic items. The terms of trade deteriorate, foreign currency profits decrease, and national income declines when the prices of agricultural and mineral goods fall on the global market. An undeveloped nation cannot benefit from an increase in exports when the price of agricultural and mineral goods declines because of the inelastic nature of their supply. Similar to that, it is unable to benefit from a global market boom. There is no correlation between a growth in production and employment and an improvement in the terms of trade. Increased export revenues, on the other hand, are lost to extravagant spending, real estate, investment, etc. They also cause economic inflationary pressures[3].

In order to preserve economic stability in the face of both internal and foreign influences, fiscal policy is essential. Export and import taxes should be imposed to reduce the consequences of global cyclical swings during a boom. The extra money gained from the increase in global market prices may be syphoned off by export duties. However, in order to limit the use of increased buying power, high import levies on consumer products and luxury import limits are also necessary. However, the effectiveness of fiscal policy relies on how much domestic savings and capital creation are supported by export and import levies, as well as luxury import limits. Export profits decrease significantly during times of global economic distress, and the export-goods industry is particularly heavily impacted. Government should implement significant public works plans using deficit financing in such circumstances. However, given that consumer products have an inelastic supply in the near term, further injections of buying power have a tendency to push up their prices.Therefore, fiscal policy has to be seen in a wider context. It should strive for economic diversificationbalanced growth across all economic sectors. A contra-cyclical fiscal strategy of deficit budgeting during depression and surplus budgeting during inflation is also required to lessen the consequences of global cyclical movements. However, such a programme should be supported by suitable monetary policies.

in order to combat inflation. The goal of fiscal policy should be to combat the inflationary tendencies that come with a growing economy. There is always an imbalance between the supply and demand of actual resources in such an economy. Due to structural rigidities, market flaws, and bottlenecks that obstruct the supply of critical products, demand grows as more money is injected into the economy, but supply stays comparatively inelastic. This causes prices to increase as a result of inflation. In the organised sector of the economy, it may also tend to increase the need for salaries, which might drive up expenses and fuel price increases further. If significant investments are made in the capital goods industry at the expense of the consumer goods sector of the economy, the inflationary pressure will be much higher.

One of the most successful fiscal methods to combat inflationary pressures in the economy is the addition of progressive direct taxes to commodity taxes. A significant amount of the increase in income brought on by the inflationary process tends to be syphoned off by such levies. However, it is crucial that the tax system be adjusted in a way that prevents it from hurting private investment. Fiscal policy aims to maintain a certain degree of general price level stability in addition to stopping the inflationary increase in prices. For this, the fiscal role of the government should also include the elimination of structural constraints and bottlenecks, the planned development of various economic sectors, physical controls over essential goods, the government's purchase and sale of those goods, and the provision of subsidies and protection to key consumer goods industries. Above all, monetary measures must be added to fiscal measures to make them more effective. The latter also have the benefit of limiting credit growth, capturing more buying power, and encouraging voluntary saving. In conclusion, fiscal and monetary policies should be set in a way that does not conflict with the overall goals of economic stability and development in order to manage inflation in a developing nation[4].

to boost national income and redistribute it. Last but not least, fiscal policy should boost national income and redistribute it to lessen the economy's excessive wealth and income disparities. It is difficult to overstate the significance of eliminating these income and wealth disparities. Extreme income and wealth disparities foster societal divisions, contribute to political and economic instability, and impede economic growth. On the one hand, a select few wealthy people amass fortune and spend it irresponsibly on ostentatious spending, inventory, real estate, gold, foreign currency, speculation, etc., while the majority of people suffer from extreme destitution and suffering. Fiscal policy aims to reduce these stark disparities and divert these wasted and inefficient resources into useful avenues for economic growth.

Fiscal policy has a redistributive effect by raising the real income of the majority and lowering the income levels of the wealthy. In a developing country, direct government spending on social and economic overheads tends to boost production, employment, and real income. The majority's economic situation improves, and their quality-of-life increases. If the government begins a plan of balanced regional development of the various economic sectors, this approach would be much more successful in improving living standards and decreasing income gaps.

Fiscal policy should contain a highly progressive and broadly based tax framework to lower higher income levels. A tax system like this taxes thing like income, wealth, spending, and estates. A strict tax on items of conspicuous spending should be part of it as well. However, a redistributive tax policy shouldn't affect entrepreneurial salaries in order to promote economic development since doing so would undermine the few incentives for entrepreneurship that exist in poor nations. The implementation and collection of the different direct taxes provide a more challenging issue. In these nations, fiscal policy is ineffective as a tool for income redistribution due to political constraints, a lack of tax morality, and a lack of a competent and honest administration. However, we shouldn't lose sight of the fact that raising national income is also one of fiscal policy's key goals, in addition to redistribution of income. The former is necessary for the latter. Due to the inadequate environment and infrastructure needed in a developing nation to effectively enforce and collect the different taxes, fiscal policy alone is insufficient to properly fulfil these double goals. The basic goal of public finance in the context of economic growth, as Nurkse reminds us, is a rise in the share of national income allocated to capital production rather than a change in the inter-personal income distribution[5].

Fiscal policy's ability to accomplish these goals rests on two factors: (a) the volume of tax income it can generate, and (b), the volume and direction of public spending. The three main fiscal tools that the government may use to generate money are taxes, borrowing from the general population, and borrowing from banks. It is important to use these tools in a manner that promotes stability and economic prosperity.

The Most Effective Fiscal Policy Instrument Is Taxation

Taxation is perhaps the most effective tool for implementing fiscal policy out of all available options. Higher pricing and tax rates might result in a budget surplus. Borrowing from the public is expected to increase interest rates, which will have a negative impact on investment. The real effectiveness of fiscal policy will thus rely on the nation's taxation system, even if borrowing money from the banks has a tendency to drive up costs and divert resources. According to the Economic Bulletin for Asia and the Far East, "Taxation, therefore remains as the only effective financial instrument for reducing private consumption and investment, and transferring resources to the government for economic development."The importance of taxation is that the state enforces an act of saving, whereas the act of investment can be public, private, or a mixed institutional arrangement. The value of taxes. We can talk about how taxes affect economic growth in the context of these goals:

The most effective tool for reducing the increasing demand for consumer goods brought on by the growth process is taxation. Individual income increases that occur along with development often lead to a rise in consumer demand. Indirect taxes on luxury and semi-luxury goods as well as non-essential commodities diminish the purchasing power of lower income groups while direct taxes on goods that are vital to life limit consumption by taking away a portion of higher income groups' greater income. As a result, the government may use taxes to shift money from private consumption to public investment. Additionally, the state is able to regulate inflationary forces in the economy via taxes. Taxes tend to reduce overall demand by taking a portion of rising income, bringing it into line with the supply of consumer products. Given that such economies have a high marginal propensity to import, the state must keep an eye on things to ensure that rising income does not result in rising imports and problematic balance of payments. Import taxes imposed to limit imports may put more strain on domestic consumer goods supply and amplify inflationary tendencies. To reduce inflationary pressure and promote economic stability, it is necessary to make a thoughtful and integrated choice of taxes[6].

Taxation should serve as a motivation to save and invest in addition to its primary goal of increasing income. The financial incentives for saving and investing are negatively impacted by highly progressive direct taxes that raise more money for public consumption and investment spending. Similar to this, excessive indirect taxes prevent individuals from saving. As a result, taxes shouldn't be regressive. Direct taxes need to be assessed in a manner that, while deducting a share of the additional revenue, they nevertheless leave enough money for investors who are saving. Property taxes and spending taxes are preferable than income taxes in this regard. Consumption is reduced by the former, while investment and saving are discouraged by high income taxes. To encourage investment, fiscal perks like tax holidays, tax refunds, and allowances for depreciation should be made available. Similar to direct taxes, indirect taxes should discourage ostentatious spending while not raising prices to the point that productivity is negatively impacted. Taxation should thus provide enough incentives for individual saving and investment.

Taxes are the most effective method to provide money to the government in a developing nation so that it may use it for more productive purposes. Increased public investment is necessary to break the cycle of low income, poor saving, and low investment in such countries. Small firms and a few carefully chosen major corporations that produce consumer items are the only examples of private entrepreneurship. They do not provide sufficient savings for reinvestment.

Additionally, there is a propensity to spend these corporate savings in wasteful ventures like gold, real estate, speculative enterprises, etc. The government may syphon off higher earnings to the treasury for its rightful use via public investment by levying taxes on income, land, property, spending, profits, wealth, etc. Therefore, taxes aids in the shift of resources from inefficient to effective routes via public investment[7].

The economic investment pattern should be altered through taxes. As was said above, one purpose of taxes in developing nations is to move funds from the private to the public sectors. However, this does not imply that taxes are intended to displace private investment. Taxation should instead promote and guide private investment into more profitable avenues. In order to launch and grow manufacturing businesses within the economy, the government should provide enough incentives to private industry in the form of development rebates, tax holidays, accelerated depreciation allowances, etc. Larger earnings as a result, which may be used for investment, will result from this. Taxes need to be designed such that they do not lower the amount of reinvestable money. The construction of social and economic overheads like education, health, transportation, electricity, and other services, however, should be the focus of tax-financed public investment. Taxation should thus encourage and boost both public and private investment.

The closing of the income gap between the affluent and the poor is one of the major goals of taxes. Separate actions are needed to reduce wealth and income disparities. The spending and wealth accumulation of the wealthy are tended to be reduced by highly progressive total income taxes. But such a strategy can have a negative impact on profitable investment. In order to mitigate the consequences of a highly progressive income tax on people and companies, some exclusions should be included. taxation of corporate financial investments. Progressive wealth taxation is advocated in order to lessen wealth inequality and concentration in the hands of a small number of wealthy people. Such taxes need to be imposed in a way that prevents tax payers from losing money as a result. Progressive taxation is, in the end, the only option to total expropriation by violent revolution in most developing nations, where severe poverty coexists with increased disparity in wealth and consumption. Progressive taxation is crucial for eradicating income and wealth disparities because it is the only alternative tool for limiting the power of wealth, mobilising resources for development, and releasing the paralysing grip of traditional, social, and economic relationships[8].

Taxation should increase the amount of the economic surplus and be used to mobilise it for development. Prof. Chelliah asserts that agriculture accounts for more than half of the national production in impoverished nations, with a significant portion going to landowners, merchants, and middlemen. The gap between real current production and actual current consumption is known as economic surplus. These surpluses could also be present in other economic areas. A significant portion of the excess must be channelled into productive channels in the early phases of growth. In this kind of economy, the landowners, traders, and middlemen have a propensity of spending this excess in wasteful things like gold, jewellery, real estate, speculative ventures, and ostentatious consumerism. Therefore, the government should use this surplus to fund development projects like irrigation works, flood control systems, enhanced agricultural services, etc. by raising the land tax, the agricultural income tax, and special assessments like betterment levies. By boosting agricultural production and output, the latter also aid in expanding the amount of the economic surplus. Prof. Kaldor made the observation that "the taxation of agriculture by one means or another has a typical role to play in the acceleration of economic development[9]."

CONCLUSION

These taxation goals are consistent with the more general fiscal policy goals listed on the pages above. Building a tax system that is helpful in achieving these goals, however, is a challenge. A developing nation's tax base is relatively small. Therefore, in addition to the aforementioned goals, the state must take into account the country's taxable capacity, the administrative capacity to enforce taxes and collect them in a fair and efficient manner, and the impact of rising and increasing taxes on the social and political structure of the nation.

REFERENCES:

[1] M. Pasichnyi, T. Kaneva, M. Ruban, and A. Nepytaliuk, “The impact of fiscal decentralization on economic development,” *Investment Management and Financial Innovations*. 2019. doi: 10.21511/imfi.16(3).2019.04.

[2] T. Hussain, H. Mahmood, A. Iqbal, G. Mustafa, and M. Furqan, “Fiscal policy cyclicality, governance, and quality of institutions nexus in Ireland,” *Montenegrin J. Econ.*, 2021, doi: 10.14254/1800-5845/2021.17-3.9.

[3] V. Omidi and A. Shahabadi, “The Impact of Monetary Policy on the GDP of Iran through Innovation Channel,” *Q. J. Quant. Econ.*, 2021.

[4] M. Kazandziska, “Macroeconomic policy regime in Poland,” *Equilibrium. Q. J. Econ. Econ. Policy*, 2016, doi: 10.12775/EQUIL.2016.019.

[5] V. P. Engler, P. Engler, M. Klein, and V. P. Engler, “Austerity measures amplified crisis in Spain, Portugal, and Italy.,” *DIW Econ. Bull.*, 2017.

[6] D. Azhgaliyeva, Y. Liu, and B. Liddle, “An empirical analysis of energy intensity and the role of policy instruments,” *Energy Policy*, 2020, doi: 10.1016/j.enpol.2020.111773.

[7] M. Tolici, “Correlation of monetary and fiscal policies ahead of euro adoption,” *Metal. Int.*, 2009.

[8] Z. Fareed, M. A. Baloch, R. N. Lodhi, F. Shahzad, and B. Zulfiqar, “Testing Relationship between Inflation, M2 (Broad Money) and Private Sector Credit in Pakistan,” *Eur. J. Econ. Stud.*, 2014, doi: 10.13187/es.2014.3.135.

[9] A. ODUSOLA, “07 - (UNDP Report 2017) - Chapter 7 - Fiscal Policy, Redistribution and Inequality in Africa,” in *Income Inequality Trends in sub-Saharan Africa: Divergence, Determinants and Consequences*, 2017.

CHAPTER 16

PARTICIPATION OF PUBLIC LOANS IN ECONOMIC DEVELOPMENT

Mr.Nitin Sharma, Assistant Professor
School of Education, Jaipur National University, Jaipur, India
Email id- nitinsharma9371@jnujaipur.ac.in

ABSTRACT:

Policymakers, economists, and scholars have all been interested in the role that public loans play in economic growth. Government investments in social services, infrastructure, and other public goods that support economic development are mostly funded by public loans. In this essay, the function of public loans in economic growth and the variables affecting their efficacy are examined. The obstacles and hazards related to public loans are also discussed in the study, along with potential solutions. The results imply that when utilized for productive projects and supported by strong laws and institutions, public loans may be a useful instrument for fostering economic growth. However, if they are not effectively handled, public loans may also result in issues with debt sustainability and other concerns. To guarantee the efficacy and sustainability of public loans, authorities should carefully weigh the possible advantages and risks associated with them and put in place the necessary institutional and legislative frameworks.

KEYWORDS:

Financial, Growth, Money, Public, State.

INTRODUCTION

Government investments in infrastructure, social services, and other public goods that support economic growth have been heavily financed through public loans. The goal of this review paper is to provide a thorough examination of the research on the role of public loans in economic growth. The many forms of public loans, their funding sources, and their effects on economic growth are all examined in this essay. The assessment also takes into account the variables that affect how well public loans work as well as the dangers involved in using them.

For many years, politicians, economists, and scholars have been interested in the role that public loans play in economic growth. Governments all across the globe have utilised public loans to fund important infrastructure projects, social services, and other public goods that foster economic development. Despite their significance, it is necessary to comprehend how public loans may be handled to reduce possible hazards and successfully employed to support economic growth.

Public loans may be roughly divided into two categories: internal loans and foreign loans. While external loans come from foreign financial institutions, bilateral donors, and commercial banks, domestic loans come from domestic sources like banks and other financial institutions. Sources of Public Loans: The sources of public loans include commercial banks, bilateral donors like the United States Agency for International Development, and multilateral development institutions like the World Bank and Asian Development Bank.

Economic Development and Public Loans: The effects of public loans on economic development are dependent upon how they are used. By funding vital infrastructure projects like roads, ports, and airports that increase connectivity and lower transportation costs, public loans may foster economic growth. They may also be used to pay for social services like healthcare and education, which can boost productivity and human capital. Additionally, public loans may be used to fund public services like water and sanitation, which can raise living standards and result in better health.

The efficiency of public loans is influenced by a number of variables, including the calibre of the institutions, the political climate, and the project selection procedure. To guarantee that public loans are used properly and efficiently, effective institutions are required. To foster private sector investment and economic development, a supportive policy environment is required. To guarantee that public loans are utilised for projects with the best economic and social benefits, the project selection process must be rigorous and open.

Risks Associated with Public Loans: If public loans are not effectively handled, economic growth may also be at danger. Debt sustainability, which happens when nations take on too much debt and can no longer pay it, is one of the biggest threats. Instability in politics, corruption, and poor project execution are additional concerns.

Another significant source of capital creation in developing nations might come from public borrowing. This system outperforms taxes. Taxation suggests compelled saving, while borrowing is optional. Taxpayers are never satisfied with their tax payments since they do not anticipate receiving their money back. A lender, on the other hand, voluntarily lends his money with the intention of receiving it back with interest after a certain time. Contrary to taxes, borrowing has no negative effects on the incentives to invest and save. There is always the allure of interest to raise the incentives instead. By placing excess funds in the hands of the populace in a growing economy, public borrowing serves as an anti-inflationary strategy. By shifting funds from unproductive channels, such as real estate, jewels, and gold, to productive channels, a successful public borrowing plan may be a beneficial instrument for economic growth. For specialised development projects like electricity production, irrigation work, roads, railroads, etc., public borrowing is used. Consequently, it is an effective way to finance development initiatives.

However, due to low income levels, low savings rates, and a strong propensity of the populace to spend, the scope of voluntary public borrowings is constrained in undeveloped nations. Government loans, which are less profitable than investments in real estate, gold, speculation, etc., are unlikely to appeal to the few wealthy. Due to the lack of organised money and capital markets, the government is likewise not in a position to borrow much. There are relatively few banks and financial institutions, and bonds or securities are not particularly well-liked. Finally, there may be a lack of public trust in the government's capacity to maintain political and financial stability. However, when growth picks up steam and income and savings tend to rise, domestic borrowing may rise. While waiting, various actions may be taken to boost the "extent of public borrowing" by enhancing the appeal of loans and utilising minor savings.

First, the government has to forbid people from using their money for frivolous things like gold, jewellery, real estate, and flashy items. People should be urged to save more money. This may be accomplished by propaganda, education, and persuasion. In order to encourage savings from the populace, a network of intermediary organisations should exist. People may be encouraged to save more money via the development of savings banks, commercial banks, insurance businesses, unit trusts, social security organisations, etc. Third, a well run bill market has to be formed. There should be a range of government bonds that would provide improved marketability and competitive rates with private issuance, as well as specific characteristics including acceptance of government securities at par with gold for tax collection by the general public. Last but not least, the degree of public trust in the government's political and financial stability will determine the program's success. Government borrowing will be more successful if real income is increasing without the risk of inflation.

Despite all of these precautions, the government may still need to turn to compulsory borrowing in order to mobilise the necessary funds for capital creation if sufficient funds are not available in the form of voluntary loans. Therefore, in those impoverished nations where taxes and voluntary borrowing fail to generate sufficient revenue for growth, the use of mandatory public borrowing is justifiable. A sector of the population may be compelled to purchase government bonds if they spend a disproportionate amount of their money in wasteful activities or get specific advantages from certain development initiatives. As Nurkse puts it, "There is a rationale for compelled loans as an alternative to taxes, as people are interested not only in their consumption but also in the amount of their asset holdings. They may be nothing more than tax collections, but they nonetheless have an impact on the motivation to work and create, as was shown during the war, when the accumulation of unusable cash reserves as a consequence of rationing made people feel much better off. A means of compelled saving in both form and content would be forced loans in lieu of taxes. However, unless it is for particular development projects and for a certain duration, it is not appropriate for a poor nation to depend on this kind of development financing. Governments will eventually have to rely on voluntary borrowing. The voluntary borrowing plan run by the Indian government has been quite effective.

Relationship Between Public Spending and Economic Development

Private sector is hesitant to engage in riskier areas and places where capital returns are slow in less developed nations. The few wealthy people invest in gold, jewellery, real estate, speculative businesses, etc. because they lack initiative and entrepreneurship. A tiny number of people invest in mining, plantations, and the consumer goods sectors. Given the situation, public spending is the only way to achieve fast economic growth. Therefore, the burden of building the infrastructure required for development falls on the government. The state is better equipped to launch economic and social initiatives that need lengthy gestation periods because it has more financial resources. Increased economic growth, more employment opportunities, higher incomes and standards of living, decreased income and wealth inequalities, encouragement of private initiative and enterprise, and regional economic balance are all goals of public spending on economic development.

In the early stages, public spending on the development of heavy and basic goods sectors accelerates economic growth. However, long-term output growth in the capital goods industry may be possible. As a result, public spending should also be focused on addressing the economy's pressing demands. In order to avoid inflationary tendencies, such a structure of public investment is necessary to ensure a balance between the supply and demand for products. Therefore, public funds should be used to boost agricultural productivity in order to meet the rising demand for goods and raw materials, as well as to increase the supply of consumer goods by supporting the establishment and growth of the small industries sector, which may also be able to generate enough jobs. Only when public spending satisfies the short- and long-term goals of the development plan can the pace of economic growth be raised[1].

Public spending on economic and social overheads increases job prospects, earnings, and most importantly, the economy's potential for production. Millions of jobless people in developing nations are given jobs when the government begins public works projects like building roads, trains, power plants, canals, etc. By making these services available, manufacturing, trade, and commerce are all boosted. People are more productive and healthier when the government invests in social overheads like affordable housing, public health care, and education. By investing in human capital, the state is able to cultivate the "critical skills" required for quick growth.

Public spending aids in bettering the channelling of resources in the intended directions. The state creates fair pricing stores and may even subsidise food for the working classes to preserve their productivity and health during times of famine in order to eliminate shortages of food goods. It may set minimum prices for foodgrains and encourage farmers to increase production via regulation of trade and buffer inventories. The state may establish public companies to boost output of certain vital commodities and break private monopolies in a number of production-related industries. For the sake of offering the populace facilities that are less expensive and more effective, it may also nationalise banks and public utility services. Thus, public spending may permeate all sectors of the economy.

Extreme wealth and income disparities are characteristics of underdeveloped nations. Public spending usually reduces them. Investment in medical facilities, public health, and education promotes the development of human capital. As a consequence, the working population's earning potential is increased. The obstacles to upward mobility are eliminated when economic growth advances quickly thanks to an increase in governmental spending. More employment are created for the population as a result of the growth and diffusion of occupations, and as individuals gain more skills, incomes in the economy tend to increase as well. In addition, industrialisation tends to reduce the gap between higher and lower income levels over time by increasing the percentage of wages and decreasing the share of profits in national income[2], [3].

The establishment of state-owned financial and banking institutions that offer affordable credit, such as the Industrial Finance Corporation of India, the Industrial Development Bank of India, State Financial Corporations, the State Bank of India, etc., also contributes to the growth of private enterprise. The agricultural and industrial sectors of the economy are also supported by public spending via grants, subsidies, tax breaks, etc. Additionally, when the government invests in the development of economic and social overheads like transportation, education, and so on, they open the door for the founding and growth of the private sector. Infrastructure development generates external economies that the private sector benefits from.

Last but not least, governmental spending contributes to regional economic balance. If left to market forces, commerce, finance, industry, and almost all other major activity would be concentrated in a small number of chosen places, while the rest of the economy may remain permanently behind. In reality, during British control, economic growth in India was restricted to a small number of states, including Maharashtra, and to a small number of cities, like Mumbai, Kolkata, Chennai, Kanpur, and Ahmedabad. Less developed regions can only be developed by commencing initiatives like constructing a dam, excavating a canal, and establishing some new enterprises there via planned public investment. It is designed to promote balanced economic growth by establishing steel factories in Bhillai, Bokaro, Durgapur, Rourkela, large electrical plants in Bhopal and Hardwar, and around eighty additional PSUs throughout the nation's underdeveloped regions. Therefore, one of the key tools for speeding growth in disadvantaged nations is public spending.

DISCUSSION

The obvious push towards global integration is one of the century's most startling phenomena. The degree of interdependence between nations and the impacts that extend beyond national boundaries are expanding as a result of the growing significance of the worldwide interchange of products, services, and factors as well as the apparently endless possibilities given by modern communication technology. No region, no matter how remote, is immune to the possibility of contagion as a result of national issues spreading across increasingly greater distances. Governments' latitude for action is being constrained at the same time, forcing them to take into account the constraints the global framework places on their choices. Global integration is taking place in formerly fragmented national domains. Interdependencies and cross-border spillovers are becoming more common in the global context.

Interdependence Across the Globe and International Public Goods

The results of this interconnectedness are diverse and sometimes conflicting: favourable in certain circumstances, detrimental in others. People who travel internationally more often have a larger chance of contracting previously thought-to-be-foreign illnesses, but they also transmit new medical information more quickly. In addition to fostering the global dissemination of information, the worldwide integration of communication systems also exacerbates the negative effects of computer viruses. The efficiency of international savings allocation is increased because to capital market integration, but the danger of financial instability also rises.

Therefore, there are many distinct kinds of externalities and international interdependencies associated with globalisation. They give rise to the distinct field of international public goods, the advantages of which extend beyond the boundaries of the nation that provides them. Benefits from public goods are non-excludable and non-rival. When one user's consumption does not reduce the advantages remaining accessible to other users, the benefits are non-rival. Benefits are non-excludable if they are received by payers and non-payers equally after the public good has been delivered. Public goods would be the promotion of initiatives that succeed to stop, avert, or lessen the negative impacts of public bads. Public bads might be considered in an analogous but opposite manner. Public goods come in a wide variety. Some are necessary for orchestrating cohabitation, such as a legal system, multilateral organisations, or an international regulatory framework. Others are bare minimum safeguards necessary to preserve life, such as health and environmental safety. Last but not least, certain thingslike monetary stability, commercial integration, or knowledge promotionimprove prospects for global prosperity. Together, they make up a group of products, services, and legal frameworks that, combined with the private commodities that individuals may purchase, condition the degree of global prosperity.

The need of collaboration and Group Action

Due to the nature of public goods, the market alone often falls short of ensuring their effective supply. It becomes essential to provide them by compulsion, coordination, or some other type of collective action. The nation state is at the core of each country's reaction, which is guided by the institutional structure that is in place. Since there is no organisation at the supranational level that is comparable to the state, the reaction must be started via different types of voluntary coordination and collaboration, usually among nations[4].

Different variables influence how often international collaboration is used. Security, financial stability, environmental management, and public health are just a few of the issues that were formerly the exclusive province of nations but can no longer be effectively addressed without international collaboration. The administration of geostationary orbits, the control of climate change, or the growth of the Internet are examples of new commodities or activities that, due to their impacts or impact sphere, have had an international character from the start and need such coordination.

Managing these interdependencies necessitates defining the framework of incentives in which agents operate and appropriate institutions engage in efficient collective cooperation as interdependencies between nations increase in areas where it is critical to organise coexistence, promote security, and stimulate progress. The capacity to deliver international public goods will play a significant role in determining the future degree of global development and social well-being.

Conceptual Clarifications for Externalities and Public Goods

(i) It is first required to comprehend the idea of international public goods and the reasons why markets are unable to deliver them in order to comprehend how to give them.
(ii) The market is a powerful social assignment and coordination mechanism.

However, there are several circumstances in which it cannot function properly, leading to socially inefficient outcomes. Public goods and externalities are two examples of these market failures.1In these situations, producer or consumer actions have positive or negative effects on others that are unaccounted for and uncompensated, and prices either do not exist or do not transmit the necessary information to enable agents to make the best decisions. Resources are not used effectively, which may have an impact on hopes for economic growth. To adjust individual agents' incentives and favour a group response consistent with socially acceptable goals, deliberate social action is required. When the market is unable to provide an ideal scenario, society will at least partially become aware of the shortages and other social institutions will develop to attempt to address them, as acknowledged by Arrow [5].

It is vital to design institutional structures and policy tools that include the effects of an agent's activity in the decision-making process in order to address market failure externalities. These may take a variety of shapes, such the implementation of a tax or charge equating to the external cost produced or the adoption of emission certificates with a market-determined commercial value, as in the case of carbon dioxide. Situations when economic activity has negative spillover effects that are often disregarded by the original creator are supported by the notion of externalities.

Two characteristics set public commodities apart from private ones

They give non-rival benefits, which means that one agent's consumption does not reduce the availability of the good's benefit for others, and they are non-excludable in their supply, which implies that there is no simple method to prohibit someone from having access to them.

According to non-exclusion, it is not feasible to restrict access to public goods to those who are prepared to pay for their provision on behalf of society. Free riding results from prospective customers waiting for the product to be provided before consuming it. Exclusion is inefficient because prospective customers who have a positive marginal benefit are barred from using the item. Non-rival benefits result in zero marginal costs of usage. Access like this enriches society while costing nothing, therefore exclusion does not maximise wellbeing.

Due to the nature of public goods, undersupply relative to the level that society finds acceptable will arise if their provision is left to the market. In order to maintain effective supply, collective action is required since individual interests lead to responses that are less than optimal from a social perspective. In conclusion, there are two main economic issues with the supply of public goods. First, because an increase in consumers raises aggregate well-being at no cost, non-rivalry presents the problem of determining the ideal level of supply. Second, since agents often conceal their preferences, the non-exclusive character of a public product is the cause of undersupply. The expenses associated with designing and promoting effective collective action must be included in efficient service. In addition to financial resources, optimal supply levels also need incentives to engage agents and institutional actions to assure successful fulfilment.

A resource or common good is one that may be used for personal advantage but that no one owns. Free access to these products raises a fundamental management issue since public or intergenerational interests do not share the same criterion as those derived from private advantages. While public or intergenerational interests need the implementation of regulatory measures to safeguard the resource, private gains call for the most aggressive exploitation[6].

As a result, different groups of public goods might have different non-rivalry and non-excludability features. In certain cases, an activity might produce two or more outputs at once, some of which can be made public or have varying degrees of publicness. The size and nature of the public impacts determine how public something is and how public it is. By encouraging more responsible social conduct, these collaborative goods, like education or biodiversity, benefit not just people who get them but also the whole society[7].

Depending on their nature, issues with the effective collective supply of public goods vary. since a result, club products, for instance, may be offered substantially more effectively since they provide member differentiation and billing in accordance with use preferences. The greatest prices are paid by those who utilise the items the most. Since there is competition for consumption but no potential of exclusion in the case of commons, it is more challenging to trigger self-organized reactions. However, as Ostrom demonstrates, solutions may be found via methods of voluntary collaboration without resorting to extreme measures like governmental involvement or a tighter interpretation of property rights. Pure public goods provide the most challenges since there is no competition and no exclusion. An effective group reaction is needed in this situation. Aggregation technology categorization methods for public goods may be used to assess this[8], [9].

CONCLUSION

An efficient technique for fostering economic growth and decreasing poverty is the use of public loans in economic development. To guarantee that public loans accomplish their intended goals, they must be utilised carefully and managed well. To guarantee the efficacy and sustainability of public loans, policymakers must carefully weigh the possible advantages and dangers of such loans and put in place the necessary institutional and policy frameworks.

REFERENCES:

[1] Y. Gnatchenko, S. Yurieva, And N. Volgina, "Innovative Enterpreneurship Development Management On Macro Level," *Munic. Econ. Cities*, 2021, Doi: 10.33042/2522-1809-2021-2-162-92-98.

[2] A. Saptono, "Evaluasi Program Pengentasan Kemiskinan (Studi Kasus Pemberdayaan Ekonomi Pada Program Nasional Pemberdayaan Masyarakat (Pnpm) Mandiri Perkotaan Di Kelurahan Perwira Kecamatan Bekasi Utara Kota Bekasi Jawa Barat)," *Econosains J. Online Ekon. Dan Pendidik.*, 2013, Doi: 10.21009/Econosains.0112.03.

[3] A. Saptono, "Evaluasi Program Penanggulangan Kemiskinan," *Ecomo Sains*, 2013.

[4] D. Donlagić And A. Kožarić, "Justification Of Criticism Of The International Financial Institutions," *Econ. Ann.*, 2010, Doi: 10.2298/Eka1086115d.

[5] F. Kalesaran, V. V Rantung, And N. R. Pioh, "Partisipasi Dalam Program Nasional Pemberdayaan Masyarakat Mandiri Perkotaan Kelurahan Taas Kota Manado," *E-Journal Acta Diurna*, 2015.

[6] P. Duraisamy And M. Duraisamy, "Contemporary Issues In Indian Higher Education," *High. Educ. Futur.*, 2016, Doi: 10.1177/2347631116648437.

[7] S. Mishra And C. Sahoo, "Women's Entrepreneurship Development Through Self-Help Groups: Journey From Under Participation To Saviour," *Indian J. Econ. Dev.*, 2018.

[8] F. Kalesaran, V. V Rantung, And N. R. Pioh, "Partisipasi Dalam Program Nasional Kelurahan Taas Kota Manado," *E-Journal Acta Diurna*, 2015.

[9] P. Duraisamy And M. Duraisamy, "Contemporary Issues In Indian Higher Education: Privatization, Public And Household Expenditures And Student Loan," *High. Educ. Futur. [Online]*, 2016.

CHAPTER 17

DEFICIT FINANCING AS A TOOL FOR ECONOMIC GROWTH

Mr.Nitin Sharma, Assistant Professor
School of Education, Jaipur National University, Jaipur, India
Email id- nitinsharma9371@jnujaipur.ac.in

ABSTRACT:

Deficit financing is a fiscal policy instrument used by governments to finance development projects and increase economic growth. This paper examines the role of deficit financing as an instrument of economic development and its impact on the economy. The paper explores the different forms of deficit financing, the factors that influence its effectiveness, and the risks associated with its use. The findings suggest that deficit financing can be an effective tool for promoting economic development if used wisely and accompanied by sound policies and institutions. However, it can also lead to inflation and debt sustainability problems if not managed properly. Therefore, policymakers must carefully assess the potential benefits and risks of deficit financing and implement appropriate policies and institutional frameworks to ensure its effectiveness and sustainability.

KEYWORDS:

Economic, Financing, Growth, Money, Pricing.

INTRODUCTION

Any governmental spending that exceeds existing public receipts is referred to as "deficit financing." Government spending that is financed by borrowing from the general public is considered to be part of deficit financing in advanced countries because it "describes the financing of a deliberately created gap between public revenue and public expenditure or a budgetary deficit, the method of financing being borrowing of a type that results in a net addition to national outlay or aggregate expenditure". Deficit financing through "created money" is another often used strategy; however, it has a distinct meaning when used to LDCs. It does not include expenses paid for the public borrowing. Because of the low income and strong tendency to spend in LDCs, voluntary savings are quite low. Real income growth will be slowed if investment is correlated with existing levels of voluntary savings. Both investment and savings rates will remain low. Thus, deficit financing is seen as a means of forcing savings in order to break this impasse.

Additionally, a budget deficit funded by public borrowing merely denotes the redirection of already available resources away from capital production. However, the phrase "deficit financing" refers to spending that is solely supported by methods that tend to increase overall government spending. Investments need outlays, which, in the words of V.K.R.V. Rao, "constitute either an addition to, a re-allocation of national expenditure, or both, as the case may be. The Indian Planning Commission states that "the term deficit financing is used to denote the direct addition to gross national expenditure through budget deficits, whether the deficits are on revenue or on capital account. In the former case, investment outlay involves deficit financing. The core of such a programme is the government spending more than it brings in via taxes, profits from state-owned firms, public loans, deposits and money, and other ad hoc sources. Deficit financing therefore includes the government withdrawing previous accumulated cash balances, borrowing from the central bank, and the government issuing new currency. The government can pay for the deficit either by depleting its accumulated balances or by borrowing from the banking system primarily from the country's central bank and thus "creating" money. These procedures are in use in India.

Deficit Financing Impact

The best strategy for fostering economic growth in LDCs is deficit financing. Due to many social, economic, and institutional issues, an LDC is unable to attract enough private investment. Therefore, it is the government's job to increase the rate of net investment in the economy. Governments are forced to use the strategy of deficit financing since there aren't enough resources to pay for public investment. The growth of economic and social overheads, such as the building of roads, trains, power projects, schools, hospitals, etc., may be accomplished via the use of deficit financing. Deficit finance is able to break through structural rigidities and provide socially usable capital, which in turn boosts productivity. Furthermore, LDCs' fiscal systems are neither effective nor amenable to being made so in order to impose the necessary savings for capital development.

Additionally, paying a deficit by raising revenue boosts local savings. It works well as a forced saving tool. When the government uses deficit finance, it deprives the populace of valuable resources. When the government purchases products and services for its own consumption, a covert transfer of resources occurs. Since actual resources are few in an LDC, those who are compelled to save more may only utilise a small portion of what is available. Additionally, the state's deficit expenditure on development projects raises employment, production, and revenue. Increased income has a tendency to boost consumer demand, which drives up prices because of insufficient supply. Consequently, there will be inflation. In this case, the government may seize a portion of the extra revenue via taxes. It is an additional method of forced savings that may be used to create capital [1].

A price increase, however, "may very easily happen in an economy attempting to raise its real capital and improve its method of production. The process of development itself is likely to benefit from a modest, though not constant, increase in prices; for example, it may provide more sources of funding and incentives for private investment. The key is to determine if a widespread and persistent price rise is occurring and is

In order to increase the income of the entrepreneurial class, which has a strong inclination to save, deficit financing is justified. Wages and other fixed expenses do not increase in line with price increases during inflationary times. Profits are more likely to increase as a result, which is utilised to increase investment and capital creation. Inflation also tends to decrease the actual income of fixed income earners, which affects their willingness to save. However, the increase in the inclination to save among variable incomists more than makes up for the reduction in the fixed incomists' tendency to save. "Given such differential marginal propensities to save, each inflation-induced redistribution of real income would increase the average propensity to save and the rate of growth of productive capacity for the whole economy."6 Deficit financing thus integrates the monetary and fiscal policies into one. When inflation works as a force for compelled saving via taxes, it serves as a fiscal measure. When it generates fresh money via a deficit budget, it qualifies as a monetary metric [2].

The impacts of deficit finance are invariably ones of growth. A continuous increase in investment will likely result in a higher total physical product than before, necessitating an increase in the supply of money for transaction purposes. As development picks up speed, the rate of investment in the economy accelerates, necessitating additional doses of the quantity of money at every stage. As the economy grows, the non-monetised sector progressively changes into a monetised sector, raising demand for money; A process of continuous economic growth results in an increase in income, increasing consumer demand for cash balances. The need for money is anticipated to increase even more in the case of an import surplus brought on by rising foreign assistance. The only way the government is able to keep up with the rising demand for money in any of these situations is via deficit financing. Therefore, a policy of deficit financing is a crucial and highly effective tool for capital development in developing nations.

Its Disadvantages

However, using deficit finance as a vehicle for economic growth is not without its drawbacks. It poses certain risks. Its potential for inflation makes it dangerous. Deficit funding loses its intended effect when it combines with inflationary financing. A price increase that doesn't stop is a risky strategy for advancing economic growth. Inflation is the most feared means of boosting the pace of economic growth since it is not only economically but also socially unacceptable as a method of funding progress. When the government allocates newly produced funds to capital projects, the earnings of those working on these projects and providing related services rise, further enhancing their already strong propensity to spend. There are a number of market defects, limited plant and equipment surplus, and poor food supply elasticity that prevent the supply of consumer goods from rising proportionately to the growth in the money supply. If none of these concerns are addressed quickly, they will extend throughout the whole economy and drive up the cost of consumer products. According to Dr. Rao, there are four reasons why deficit financing by the government increases the risk of the initial price increase taking on the characteristics of inflation:

Absence of direct return, or the lack of supplies of goods and services resulting from the outlay and sellable by government to the public, lessens the possibility of mopping up the additional income created by additional outlay. Absence of marketable securities against which the government outlay is undertaken, lessens the chances of mopping up additional income created by additional outlay. These factors have led to the perception that government deficit financing, especially when done for development, limits the risk of inflation [3].

DISCUSSION

LDCs are distinguished by market flaws. Resources are immobile, which results in limited supply elasticity. These economies also lack a significant amount of new resources, whose demand is raised by rising public expenditure. Additionally, the immobility of resources leads to shortages in certain fields, sectors, or areas. All of these variables increase supply shortfalls in response to strong demand, which causes price inflation. The demand for food goods often rises when income rises as a consequence of deficit spending. Due to the high elasticity of the demand for food in poor nations (0.8), the cost of food rises more than proportionally to an increase in personal income. Due to the poor agricultural production, the supply of food does not expand much, which causes the prices of food products to rise and affect the overall economy.

There is minimal price increase if the newly produced funds are utilised to finance quick-yielding projects that typically improve production quickly. Deficit financing won't cause inflation if it's utilised to produce consumer products since the quantity of such things will rise in response to people's rising buying power. Contrarily, using newly generated money to finance long-term projects and the production of capital goods would inevitably lead to inflation as these plans call for higher investment levels and a longer gestation time. As a result, production doesn't keep up with the growing money supply. According to Lewis, inflation that is used to create capital is eventually self-destructive. There are three phases. In the first stage, while capital is being produced, prices grow rapidly. Because of the manner that the increase in prices has dispersed income, voluntary savings are now quickly catching up to investment in the second stage of inflation.

In the third stage, prices start to decline as the more consumer products produced as a result of capital creation start to hit the market. As a result, the time of inflation will be brief since increasing investment will result in the creation of more products and services as well as more earnings and savings, all of which may subsequently be taxed by the government. The Keynesian Multiplier Theory and the premise of a stable marginal propensity to save and spend are the foundations for Lewis' contention that inflation for the goal of capital development is self-destructive. In other words, it depends on how long residents of LDCs who get the additional income will maintain constant ratios of saving to spending despite the growing cost of consumer items. It is highly unlikely, in Myint's opinion, that inflation will be self-destructive given the severe lack of consumer goods and the tendency of LDCs' marginal propensities to spend to be close to unity [4].

It is stated that inflation has a negative impact on saving habits and has a limited power to induce savings. The people are unable to continue saving at their old pace due to growing costs. Additionally, fixed income earners will have less actual income, which may affect their ability to save or possibly stop saving altogether. A price increase due to inflation may even lead to funds being invested in lucrative but ineffective things like real estate, speculation, inventory, gold, jewellery, precious stones, and foreign assets. As a result, inflation encourages investments that are harmful to economic development and inhibits spending on infrastructure.

Additionally, since inflation creates uncertainty in future expectations, it has a negative impact on investment choices. In its early phases, inflation promotes entrepreneurship. Higher profits result from cost increases that are not proportionate to price increases. However, when powerful trade unions push for pay increases in the face of consistently increasing prices, strikes, slowdowns, and a general decline in labour efficiency lead to uncertainty in future company expectations, investment is negatively impacted. Once again, as expenses grow in response to persistent price increases, the nation experiences spiralling inflation. Attempting to stop price increases at this point would result in expenses staying the same, earnings declining, and investment following suit. Thus, inflation eventually turns out to be counterproductive.

As a kind of forced saving, inflation has significant societal costs. Without a doubt, inflation encourages saves and lowers consumption, but from a societal perspective, it is an inefficient way to force savings. Real consumption among the general population tends to decline more than total community savings increase, on average. Additionally, certain parts of the community are now better affluent than others as a consequence of inflation. Income is being redistributed in favour of the entrepreneurial elite at the expense of the fixed income earners. This has a tendency to widen income and wealth gaps, which can prevent people from investing and saving more money. Entrepreneurs seldom ever invest in profitable avenues. Under the influence of the demonstration effect, they waste increasing money on ostentatious conspicuous expenditure, reducing total private savings to the disadvantage of economic growth. According to Higgins, the demise of the middle class, the plight of the working class, and the wealth of speculators and black marketeers "intensify social conflict and enable radical parties of the right or left to take power." Hyperinflation is an additional burden that underdeveloped nations that are prone to political instability cannot bear [5], [6].

Inflation may also impede economic growth in other ways. The cost of development projects increases along with the level of prices, necessitating greater amounts of deficit financing on the side of the government. The increase in pricing becomes cumulative if it is not stopped in the first stages. More money is spent on fewer commodities, creating a vicious cycle that eventually causes the whole monetary system to collapse. Additionally, high inflation contributes to problems with the balance of payments. A growth in local income and prices may encourage consumers to purchase more goods from abroad given that the marginal propensity to import is strong in developing nations.

But owing to a lack of economic diversity, rising imports cannot be offset by rising exports. A higher increase in costs may result from efforts to limit imports because they put too much pressure on local suppliers. Exports will be more expensive and challenging if prices are high relative to other nations. Additionally, inflation deters foreign investment from entering the economy. In reality, a system where expenses are continually growing scares away foreign investment. All of this suggests that foreign currency reserves, which are crucial sources of financing for growth, are being depleted.

According to the conclusion, "Inflation holds particular dangers for underdeveloped countries. Inflation encourages the speculative and unnecessary transactions that are a major barrier to economic development; discourages domestic savings as well as foreign investment; disrupts foreign trade relations, and lowers the general efficiency of productions." As a result, there is little evidence that deficit financing and economic development are positively correlated.

Safe Deficit Financing Limits

It is within the bounds of safety as long as it is incurred in small doses, the increase in prices is gradual, and suitable steps are taken to keep the prices in line. Deficit financing only becomes inflationary when it exceeds the "safe limit." What is the'safe limit' for deficit finance, and how do you determine it? What course of action should be taken, in other words, to ensure that capital production results from deficit financing without an inflationary increase in prices?

Economy's rate of growth. The economy's pace of growth is the first component that establishes the "safe limit." As long as the economy is growing at a reasonable pace, deficit financing is not inflationary. For instance, if the economy is expanding at a rate of 6% yearly and has a cash supply of Rs. 2,000 crores, it can withstand an annual loss of Rs. 120 crores without suffering any negative consequences. However, if this amount is not added to the economy, it will result in deflation. Additionally, more money than simply the "critically minimum" may be safely infused into an economy for development reasons in a developing nation. For instance, an increase in the money supply of 7% won't cause inflation. because this level of growth may be absorbed by development initiatives [7]. The monetized sector is expanding. The extra supply of money is not inflationary to the degree that the unmonetised sector is converted into a monetised one.

Loans and taxes have increased. When the excess revenue brought on by a deficit is collected via loans and taxes, deficit financing works well as a tool for capital building. As Lewis points out, "If the government wishes the inflation to peter out as soon as possible, by maintaining its new higher levels of expenditure (in real terms), and if it cannot rely on the savers hoarding their savings, then it must get hold of the savings in some other way, either by taxing them away or by offering favourable terms for government bonds."

the ability to set prices and wages. The degree to which wages and prices are restrained in the economy will also determine how well deficit financing works. Prices should be kept in check, and consumer products should be distributed in a planned manner, to limit wage growth. The central bank should also adhere to the credit-regulation and restriction policies.

Import Surplus Production. If the government is able to generate an import surplus, funding a deficit is not inflationary. As is done in India, this may be accomplished by the government purchasing foreign currency from the Central bank in return for its cash holdings to fund the purchase of capital goods, industrial raw materials, and foodgrains. Increase in Goods Supply. When more money is chasing fewer products, inflation results from deficit finance. Insofar as this discrepancy between the money supply and the supply of products is closed, deficit financing does not cause inflation. For this reason, in the early phases of economic growth, those initiatives that have a fast rise in the supply of consumer products should be pushed.

Increase in equity capital, surplus budgetary funds, and unremitted profits. "One should have concrete information or projections concerning the relative importance of debt and equity financing, external and internal financing, and private and public savings," advises Kurihara.

Because of this, stock dividends, corporate and commercial earnings, as well as tax revenues, are known to respond positively to inflation. Undistributed earnings and budgetary surpluses may be so important to the overall plan of developing financing equity capital that they supersede any concerns about the negative impact of inflation on private saving.

Sacrifice-minded spirit. The safe level of deficit financing relies on how willing individuals are to make the sacrifices necessary for economic development and how much they value doing so. In order to attempt to lessen the price impact of deficit finance, Dr. Rao emphasises the need of public collaboration and understanding. The general consensus is that inflation and deficit finance go hand in hand. In order to minimise the price impact of deficit financing for capital creation, public collaboration in its execution is necessary in addition to awareness of the topic. The use of deficit finance for economic growth "may be compared to fire, which when controlled produces light and warmth when uncontrolled." Therefore, the risk is more in the use of the tool than in the tool itself. Our level of caution will determine a lot [8].

CONCLUSION

Deficit financing can be a useful tool for promoting economic development, but it must be used wisely and accompanied by sound policies and institutions. The paper has examined the different forms of deficit financing and their impact on the economy, as well as the factors that influence their effectiveness and the risks associated with their use. The findings suggest that deficit financing can be an effective means of financing development projects, especially in developing countries with limited fiscal capacity. However, it can also lead to inflation and debt sustainability problems if not managed properly. Therefore, policymakers must carefully assess the potential benefits and risks of deficit financing and implement appropriate policies and institutional frameworks to ensure its effectiveness and sustainability. These policies should focus on improving fiscal discipline, strengthening public financial management systems, promoting transparency and accountability, and encouraging private sector participation in economic development. By adopting a comprehensive and balanced approach to deficit financing, governments can achieve their development goals while ensuring long-term fiscal sustainability and macroeconomic stability.

REFERENCES:

[1] K. Sobanski, “Economic Policy Response To The Covid-19 Crisis: The Case Of Poland,” In *Eurasian Studies In Business And Economics*, 2021. Doi: 10.1007/978-3-030-71869-5_7.

[2] N. L. Badwan, N. M. Blazhenkova, E. V. Klicheva, A. K. Karaev, And R. R. Yarullin, “Increasing The Efficiency Of The State Fiscal And Budgetary Policy In Modern Conditions,” *Int. J. Appl. Bus. Econ. Res.*, 2017.

[3] K. Sobanski, “Economic Policy Response To The Covid-19 Crisis: The Case Of Poland,” *Ssrn Electron. J.*, 2020, Doi: 10.2139/Ssrn.3714302.

[4] I. Moroz, “Peculiarities Of Public Debt Management Policy In The United States Of America: Experience For Ukraine,” *Sciencerise*, 2021, Doi: 10.21303/2313-8416.2021.002040.

[5] Z. Garbar And N. Kondukotsova, "Budget Policy As An Instrument Of Socio-Economic Development Of The Country," *"Economy. Finances. Manag. Top. Issues Sci. Pract. Act.*, 2019, Doi: 10.37128/2411-4413-2019-1-8.

[6] A.-J. Ibrahim, K. Al-Ansari, And N. S. Shirazi, "The Role Of Islamic Finance In Fostering Circular Business Investments In The Case Of Qatar's Tire Industry," 2021. Doi: 10.1007/978-981-16-6061-0_15.

[7] K. J. Haarhoff, M. Maseko, M. Professor, R. Steiner, And N. Bruchez, "Analysis Of Critical Success Factors For Public-Private Partnerships In Infrastructure Development In South Africa," *6th Int. Platin. Conf. 'Platinum–Metal Futur. South. African Inst. Min. Metall.*, 2014.

[8] S. U. R. Aliyu, "Reflections On The Socioecomic Role Of Waqf In An Islamic Economic System," *Int. J. Umr. Stud.*, 2009.

CHAPTER 18

PRICE REGULATION AND ECONOMIC GROWTH

Mr.Nitin Sharma, Assistant Professor
School of Education, Jaipur National University, Jaipur, India
Email id- nitinsharma9371@jnujaipur.ac.in

ABSTRACT:

Price policy is a crucial instrument for fostering economic growth because it influences how consumers, producers, and dealers behave. In order to give a thorough examination of the literature on pricing policy in economic growth, this review paper will do just that. The various pricing regimes, their goals, and their effects on economic growth are all examined in this essay. The efficiency of pricing policies and the dangers connected with their application are also taken into account in the evaluation.

KEYWORDS:

Economic, Growth,Market, Price, Policy.

INTRODUCTION

Price policy has a significant impact on how an economy develops because it influences how producers, consumers, and traders behave. Price policies may be used to accomplish a number of goals, including price stabilization, investment promotion, and increased market effectiveness. In order to give a thorough examination of the literature on pricing policy in economic growth, this review paper will do just that. Pricing policies may be roughly divided into two categories: direct pricing policies and indirect price policies. pricing controls, subsidies, and taxes are examples of direct pricing policies, while monetary and fiscal policies are examples of indirect price policies.

The aims of pricing policies differ depending on the particular circumstances and aspirations of the policymakers. Promoting investment, stabilising prices, enhancing market effectiveness, and lowering income inequality are a few of the common goals of pricing strategies. Effects of Price Policies on Economic growth: The effectiveness of price policies will determine their effects on economic growth. By offering incentives for investment and innovation, enhancing market effectiveness, and fostering wealth redistribution, price policies may support economic growth. If not implemented appropriately, they may also result in market distortions, inefficiencies, and rent-seeking actions[1]–[3].

The following variables affect how effective price policies are: The strength of institutions, the climate for policymaking, and the level of market competition are only a few of the variables that affect how successful pricing policies are. In order to guarantee that pricing rules are applied fairly and openly, effective institutions are required. To foster private sector investment and economic development, a supportive policy environment is required. Finally, market competition is essential to prevent rent-seeking behaviours and market distortions as a result of pricing regulations. threats Associated with Price Policies: If price policies are not adequately handled, they may potentially pose threats to economic growth. Market distortions, inefficiencies, and rent-seeking actions are a few of the frequent dangers connected with pricing regulations.

Price increases are inevitable throughout the development phase. Under growth planning, an imbalance between the supply and demand of commodities and other elements is unavoidable. As large-scale investments increase and generate more wealth, there is an increase in demand for products and services. Demand is further pushed upward by rising administrative, non-developmental, and defence costs as well as demographic pressures. However, when investments are made in such projects that take a long time to mature in developing nations, the supply does not keep up with the rising demand. The supply of consumer products is constrained by outdated technology, low skill levels, market defects, and several other bottlenecks. The discrepancy between supply and demand causes prices to increase.

Goals of the Price Policy

Price policy is concerned with both the overall as well as relative price fluctuations of products and services. It is not only concerned with maintaining the price line or keeping prices steady at any particular level.To create a balance between the supply and demand of goods and services. Dr. V.K.R.V. Rao1 highlights that price is an essential economic mechanism fulfilling certain tasks, and any price policy should be in this functional context when evaluating the theory of price policy in the context of planned economic growth. This role's primary objective is to achieve the necessary balance between the supply and demand for commodities and other elements. Price changes should have a self-liquidating nature when they carry out their economic role. It's not required for a rise in the relative prices of different commodities to result in an increase in prices overall. When individual price increases employ more productive resources or increase the level of productivity efficiency of already-existing resources, they do so without increasing the level of prices overall. It implies that total production should be expanded to match the increasing demand for certain commodities in order to prevent an increase in price levels overall[4].

To introduce price flexibility. However, compared to wealthy nations, underdeveloped nations take significantly longer to boost aggregate output. As a consequence, an increase in the overall level of prices often follows an increase in the prices of specific commodities. All price increases, however, should not be seen as socially bad. A price increase is only deemed damaging when it prevents an increase in production or a decrease in demand. In order to reroute demand, reallocate productive resources, and realign output in the desired direction, price policy should thus strive for price flexibility.

To stabilise consumer goods prices. In order to prevent inflationary pressures brought on by lengthy investment projects in a developing nation, it should also attempt to stabilise the cost of fundamental consumer items. On the other hand, "a rigid, stable general level of prices may be as much of a dead weight on economic growth as a rapidly rising price level."2 While a growing price level may skew investment and income, a constant price level may slow growth. The purpose of expanding the production of both basic consumer products and investment goods must be accomplished through the suitable and appropriate pricing policy in this situation.

Two Price Policy Aspects. "A rightly conceived price policy for aiding economic development should, in general, have both a macro and a micro aspect," claims Prof. Rao3. In its macro element, it mostly takes the shape of monetary and fiscal actions intended to have an impact on how revenue is generated and used. The Indian Third Plan Report also acknowledges that monetary and fiscal restraint are important components of pricing control.4 The erroneous direction of spending and subsequent income production should be avoided through monetary policy. In particular, it is desirable to prevent accumulation and speculative commodity hoarding. A reasonable interest rate and a targeted approach for credit control might facilitate this. Monetary policy must be consistent with fiscal policy. Banks in the latter restrict the production of extra purchasing power, whereas governments in the former do so. Both strategies aid in maximising communal savings. However, fiscal policy should focus on finding effective tax policies to lower income. Instead of generating new buying power, it should assist in reducing consumption, increasing saving, and transferring actual community resources for public investment projects.In other words, macro-policy's effects on prices don't directly affect individual prices; rather, they have an indirect effect on how income is generated and used, which are the two factors that ultimately define the monetary system in response to price changes.

DISCUSSION

Price policy is more direct and crucial in terms of development planning from a micro perspective. In order to meet higher consumer spending brought on by a rise in investment expenditures, it should seek to enhance the production of both investment and consumption items. Such a strategy would promote the utilisation of resources in the manufacture of investment and essential consumer items while assisting in the reduction of inflationary pressures. In other words, pricing mechanisms need to have both stimulating and dissuasive effects. For the production of certain commodities and their use, deliberate and differentiated pricing policies should be used. Physical allocation and direct controls are thus required. Prices should be kept generally consistent for fundamental consumer items like foodgrains, clothing, edible oil, etc. by state trade and regulation at the retail and wholesale levels[5].

The agricultural price structure. The secret to growth in a developing country is a sensible agricultural pricing strategy. Prices for agricultural products react to changes in supply and demand quite fast. Since agricultural production accounts for 50% or more of the national GDP, the behaviour of agricultural price movements largely determines the overall price level. The agricultural price policy should aim to lessen price fluctuations of agricultural commodities so as to minimise the difficulties for consumers from sharp price rises as a result of crop failures or short supplies and to minimise the loss to the producer from a sharp price fall following the bumper cropland. In order to do this, pricing policy has to be broad enough to include all aspects of agricultural product production and distribution. Different land reform strategies should be implemented, reliance on nature should be reduced, and inputs like fertilisers, better seeds, and tools should be given at discounted prices or even on short-term loans in order to boost their production.

However, the establishment of minimum and maximum prices for all significant agricultural products is a key component of this pricing strategy. After taking into consideration regional differences in the costs of producing various crops, the minimum pricing should be set in a way that offers farmers the right incentives. It means that prices for the same crop may vary somewhat depending on location. Only a payout to the producer for crop quality fluctuations is reflected in the maximum pricing.

A good pricing strategy also involves the development of buffer stocks and the ongoing acquisition and selling of such stocks across a broad range. The state and its agencies should carry out such purchase and selling activities. "Successful purchase and sale operations for stabilising prices and correcting seasonal and regional variations require a network of cooperative and governmental agencies close to the farmer, licencing and regulation of wholesale trade, extension of State trading in suitable directions, and a significant sharing by government and cooperatives in distribution arrangements at retail stage. If the prices of vital consumer items are to be kept under control, both the economic and psychological aspects impacting those prices must be pursued.

Consumer Product Price Policy: Price setting should be left to market forces in the case of non-essential consumer items, which are included in the category of comforts and pleasures. Price increases may be permitted, if necessary, but they must be supported by high taxes and careful resource management. A further part of microprice policy is to increase the pricing of exportable goods for local consumers in order to sell them to foreign consumers for less money in an effort to generate more foreign currency. In India, the price of sugar is fixed in accordance with this policy. Because it equates to starving one's family to feed others, it is not a healthy policy.

Industrial Raw Material Price Policy: Additionally, specific actions are required to control the costs of industrial raw materials including coal, cement, iron, and steel. Similar to how stabilising agricultural pricing has a significant impact on stabilising industrial prices, so too does stabilising the cost of industrial raw materials have a significant impact on stabilising the cost of things made from those resources. In order to prevent inflationary pressures, price policy should assure their optimal use and distribution. Regarding the necessity to encourage exports to restrict local consumption or to give incentives for more investment and production, price increases should be tolerated in their situation. Prices should be set in a way that prevents excessive profit margins while still encouraging output. The implementation of pricing and distribution regulations in relation to such goods is likewise required by such a policy.

Price Policy with Regard to Businesses: Both the public and private sectors are anticipated to play a significant role in the economic growth of a mixed-type undeveloped economy like ours. Public businesses should adopt a pricing strategy that maximises revenues in line with societal welfare and increases public savings. In this situation, the private sector must play an even bigger role since it primarily provides consumer products. A growing price level would be advantageous for the entrepreneurs' expectations. "To the extent that the rising price level is able to transfer income from the passive rentier class to the active entrepreneurial class, it will exercise a beneficial influence on the levels of savings, investment, and output." However, when there are competitive product and factor markets, price increases should be steady and modest in order to impact the proper distribution of investable resources among them. Therefore, price policy should work towards creating a suitable production and distribution system. It is important to build an absolute and relative pricing behaviour to encourage economic growth by raising levels of income, saving, and investment[6].

The connection between wage policy and price: The extent of price-wage automatic connections in the economy should be minimised as part of a reasonable pricing strategy. Prices and wage earnings are connected. The fight for stagnant earnings increases as prices rise. In the absence of a corresponding increase in the supply of necessary consumer products, rising salaries often cause price increases. A wage freeze policy is ineffective because it has a negative impact on production and efficiency. In order to promote orderly growth, it is thus preferable to have a pay policy. "A calculated and gradual wage increase is preferable to a sudden jump with every price change."8 In industries where the average salary is below the level of minimal consumption, wages should increase. However, wage growth should be correlated with productivity. However, without consistent supply of necessary consumer products are provided at fair prices, even the productivity-oriented wage policy cannot stabilise wages and subsequently prices. Therefore, via their relationship, costs, prices, and salaries should be prevented from spinning out of control.

The most effective means of eradicating poverty and raising standards of living in emerging nations is economic development. Strong evidence is shown by both cross-country research and national case studies indicating quick and sustained development is essential to achieving all of the Millennium Development Goals, not only the first objective of decreasing the worldwide percentage of people living on less than $1 per day. Growth may create beneficial cycles of wealth and opportunity. Parents are more motivated to make an investment in their children's education by sending them to school when there is strong growth and career prospects. A powerful and expanding group of entrepreneurs may result from this, which should increase pressure for better governance. Therefore, rapid economic expansion fosters human development, which in turn fosters rapid economic growth[7].

Similar rates of growth, however, may have quite different consequences on poverty, impoverished people's job chances, and more general markers of human development depending on the circumstances. The degree to which the poor engage in the economic process and get a portion of its benefits determines the amount to which growth lowers poverty. Therefore, both the rate and the character of growth are important for eliminating poverty.A effective approach for reducing poverty must have essential components that encourage fast and long-term economic development. Combining policies that encourage development with those that enable the poor to fully engage in the possibilities created and so contribute to that growth is a dilemma for policymakers. This includes measures to improve the functioning of the job market, eradicate gender inequality, and broaden financial inclusion. Asian nations are focusing more and more on the "inclusive growth" goal. The two major goals of India's most recent development plan are to increase economic growth and make that growth more inclusive, a goal shared by policies across South Asia and Africa.

An more globalised world that presents new possibilities but also new difficulties will need to serve as the foundation for future progress. New technologies provide both "leapfrogging" and "catch-up" opportunities. Better chances are available in both the service and production industries thanks to new research. Future development must also be ecologically responsible. Both wealthy and developing nations need to progress towards low carbon technology, along with better management of water and other natural resources. Growth and environmental sustainability may be considered as complements, rather than alternatives, with the right institutions.

Through a variety of projects, DFID will promote inclusive development and will keep spending extensively on health and education, which have a significant influence on the capacity of the underprivileged to take advantage of economic possibilities. To enhance policy, more thorough study on the factors influencing growth will be required. The leadership, policies, and institutions of a nation will ultimately determine how quickly it grows.In order to encourage gains in wealth and welfare for both the present and future generations, environmental policy must be used to govern the availability and use of natural resources.

Government action is required to do this for a variety of reasons. In instance, market imperfections in the availability and use of environmental resources imply that, in the absence of government action, natural resources would be overused. The characteristics of the natural environment that make it a public good, "external" costs and benefits, where the use of a resource by one party has an impact on others, challenges in capturing the full rewards of business investments in environmental R&D, and information failures are the causes of these market failures.

To address these market failures, a variety of policies are available, such as: Market-based instruments, such as the EU Emissions Trading Scheme, the Landfill Tax, and payments for environmental stewardship; Direct regulation, for example, relating to water quality and vehicle emissions; Public spending and technology programmes, such as developing flood infrastructure, public procurement of sustainable products, and supporting low-carbon technologies, such as

Effective environmental policy is likely to need for the employment of a number of tools, each of which addresses a distinct aspect of the issue while avoiding redundancy and pointless regulatory burdens. Correctly managing the supply and use of natural resources via environmental input pricing.An environmental policy that is consistent and coherent increases investment value certainty and promotes long-term company investment in new technologies and innovation.

Last but not least, environmental policy, including infrastructure and other investments, may lessen the economy's and enterprises' sensitivity to unfavourable environmental occurrences by lowering environmental risk and strengthening the economy's resistance to it. For instance, investments that assist the economy adjust to the effects of climate change that past and present emissions have already locked in are equally as important as investments that enable emissions reductions to prevent hazardous climate change.

Environmental policy's effects on the economy

The type and severity of the environmental damage being addressed, the policy design adopted, and the sectors it impacts will all have an influence on how an environmental policy affects the economy in the setting in which it is implemented. Policies that increase the effectiveness with which companies utilise resources like energy, water, and materials have positive effects on the environment as well as financial savings for companies. Businesses in the UK, for instance, could save up to £6.4 billion annually by improving their resource efficiency, which would reduce the amount of energy and water they consume as well as the amount of trash they produce[8].

In general, initiatives meant to properly value natural resources may cause costs to increase in the near future. This must be weighed against the innovation and increased resource efficiency that these rules may encourage. Environmental policy may be a powerful innovation engine by increasing confidence about the anticipated future policy environment that enterprises will encounter. However, the amount to which the decreased environmental externalities are reflected in market pricing determines the degree to which this creates growth gains in the short-term.Although there is some evidence of short-term trade-offs between environmental regulation and development (or productivity), these consequences have often been determined to be negligible or even negligible. According to economic modelling of the consequences of the EU Emissions Trading Scheme, for instance, the macroeconomic implications are almost nonexistent.

Further reducing any short-term trade-offs between environmental regulation and economic development might be accomplished by using clever and economical policy design. A clear regulatory framework must be provided for businesses and consumers to operate in both now and in the future. Policies must also be designed to minimise the regulatory burdens on the overall economy, both in terms of administrative and policy costs. This includes: examining the best combination of instruments to deliver environmental objectives, from pricing the externality, to investing in technology and infrastructure, and influencing behaviour.

CONCLUSION

Price policy is a crucial instrument for fostering economic growth, but how it is applied and executed will determine how successful it is. The many pricing regimes, their goals, and their effects on economic growth have all been covered in this essay. The efficiency of pricing policies and the hazards connected with their application have both been taken into account in this research. To guarantee the efficiency and sustainability of pricing policies, policymakers must carefully weigh the possible advantages and dangers associated with them and put in place the necessary institutional and policy frameworks.

REFERENCES:

[1] W. He, "The Economic Development of Urban Planning in China," *Open House Int.*, 2019, doi: 10.1108/ohi-03-2019-b0009.

[2] E. Bourke, "Smart production systems in industry 4.0: Sustainable supply chain management, cognitive decision-making algorithms, and dynamic manufacturing processes," *J. Self-Governance Manag. Econ.*, 2019, doi: 10.22381/JSME7220194.

[3] A. Eika, "Urban development and cooperation games," *J. Prop. Res.*, 2019, doi: 10.1080/09599916.2019.1615977.

[4] X. Shi and S. Sun, "Energy price, regulatory price distortion and economic growth: A case study of China," *Energy Econ.*, 2017, doi: 10.1016/j.eneco.2017.02.006.

[5] W. Strielkowski, E. Lisin, and E. Astachova, "Economic sustainability of energy systems and prices in the EU," *Entrep. Sustain. Issues*, 2017, doi: 10.9770/jesi.2017.4.4(14).

[6] G. Zheng and S. Zhu, "Research on the effectiveness of china's macro control policy on output and technological progress under economic policy uncertainty," *Sustain.*, 2021, doi: 10.3390/su13126844.

[7] S. Yana, M. Nizar, and A. Yulisma, "Prospek Utama Pengembangan Energi Terbarukan Di Negara-Negara ASEAN," *J. Serambi Eng.*, 2021, doi: 10.32672/jse.v6i2.2866.

[8] E. A. Setiawan, H. Thalib, and S. Maarif, "Techno-economic analysis of solar photovoltaic system for fishery cold storage based on ownership models and regulatory boundaries in indonesia," *Processes*, 2021, doi: 10.3390/pr9111973.

CHAPTER 19

GROWTH IN THE POPULATION AND ECONOMIC PROGRESS

Mr. Prateek Jain, Assistant Professor
School of Business and Management, Jaipur National University, Jaipur, India
Email id- prateek.jain@jnujaipur.ac.in

ABSTRACT:

Population growth is a critical factor that affects economic development. This paper examines the relationship between population growth and economic development, focusing on the different perspectives and arguments presented in the literature. The paper explores the theories of Malthus, Boserup, and other scholars, as well as empirical evidence on the relationship between population growth and economic development. The findings suggest that the relationship between population growth and economic development is complex and varies depending on several factors, including the stage of economic development, institutional quality, and technological progress. The paper concludes by highlighting the need for policymakers to adopt a comprehensive and balanced approach to population policies, taking into account the demographic, social, economic, and environmental dimensions of development.

KEYWORDS:

Children, Growth, Modularity, Population, Social.

INTRODUCTION

Since Adam Smith authored his book The Wealth of Nations, economists have been interested in the effects of population expansion on economic growth. Only Malthus and Ricardo raised the alarm about the impact of population expansion on the economy, according to Adam Smith, who also noted that "the annual labour of every nation is the fund which originally supply it with all the necessaries and conveniences of life." Their worries were misplaced, however, since Western Europe's fast industrialisation as a result of population expansion. Because they are affluent, have an abundance of capital, and are labor-scarce, these economies have grown more rapidly as a result of population expansion. In these nations, the industrial sector's demand for labour is elastic, resulting in a quick rise in productivity despite high population growth rates. In fact, the gross national product has increased more than proportionately with every rise in population.

Population Growth's Impacts on Economic Development

Economic development is impacted by population increase in two different ways: first, by encouraging economic progress, and second, by stifling it. We examine these opposing viewpoints as follows:

Factors Fostering Economic Growth

The following examples illustrate how Kuznets, Lewis, Meier, and other economists have shown that population expansion has been a significant role in industrialised nations' economic development.

Per capita product growth. In his paper Modern Economic expansion, Professor Kuznets noted that significant rates of population expansion in Europe have resulted in rapid growth rates in both total output and per capita product. The expansion of the national product has coincided with increases in both the total and per capita products. The massive population rise has resulted in a significant increase in the labour force, which has contributed to the growth of the national product. Kuznets notes that "in modern times, growth in aggregate output has been accompanied by growth in population for many countries to such a large extent that there was also a marked secular rise in per capita product."

Productivity Growth in the Workforce. The increase in labour productivity is what causes the rate of per capita product to increase. Productivity per unit of work rises due to improvements in labour quality. This translates to increased labour productivity, which results in higher output per unit of work. Studies by Schultz, Harbison, Kendrick, Solow, and a number of other economists show that the rise in labour productivity has been one of the key drivers of the fast expansion of the American economy. Prof. J.K. Galbraith contends that better men have contributed significantly to America's industrial progress[1].

Growth in physical capital follows growth in the population. According to recent studies, the spread of education, knowledge, and know-how raises the level of skills and physical efficiency of the populace, which in turn increases the productivity of physical capital. Human capital formation is defined as the "process of increasing knowledge, the skills, and the capacities of all people of the country." The latter then increases the nation's output.

Age of High Mass Consumption is brought on by Population Growth. According to Rostow's Stages of Economic Growth, during the "take-off stage" when the population growth rate was strong, net investment increased by 5% to 10% of the country's gross domestic product. Due to the rise in the actual demand for their goods, this resulted in the emergence of "leading sectors". This cleared the way for the Age of High Mass Consumption, which is now sweeping practically all industrialised nations. Therefore, increased population causes a rise in the production of commodities, which leads to increased usage (consumption) of home appliances, durable consumer items, and cars.

The increase in population as a source of capital formation. High population growth may contribute to capital development in developing nations, claim Nurkse1 and Lewis2. Nurkse draws attention to the fact that underdeveloped nations have widespread disguised unemployment. Irrigation, drainage, roads, trains, housing, and other capital projects may be completed with the help of this excess worker force. Farmers can provide them with basic spare tools, and their families can feed them. This is one way that rural labour surpluses might contribute to capital creation. The removal of excess labour from the agricultural sector and its employment in the industrial sector, on the other hand, is what Prof. Lewis contends leads to economic progress. The subsistence pay rate, which is less than the going market wage rate, is paid to these employees. Profits are generated as a result, and capitalists invest them to create new capital[2].

DISCUSSION

Due to the fact that these nations' economic situations vary greatly from those of developed economies, the effects of population increase on the development of undeveloped countries (UDCs) are not the same. These nations' economy are underdeveloped, capital-scarce, and labor-rich. The following ways that population increase has a negative impact on their economic development:

Investment: The option between increased consumption today and the investment required to bring about increased consumption in the future is more limited as a result of faster population expansion. Investment is necessary for economic progress. The amount of resources that can be invested in UDCs is limited. Rapid population expansion thus delays investment required for increased demand in the future.

A surplus of resources: Natural resources of a nation are often overused when the population is growing quickly. This is especially true if the bulk of people rely on agriculture for their means of subsistence. Population growth causes agricultural properties to shrink and become unprofitable to cultivate. The utilisation of additional land (extensive cultivation) cannot be used to increase agricultural output. As a result, a lot of families still live in poverty. at reality, misuse of land as a result of high population increase puts the wellbeing of future generations at jeopardy. It is challenging to invest in the roads, public services, drainage, and other agricultural infrastructure necessary to exploit such resources, even in nations where they are abundant, such as Brazil and other Latin American nations.

Urbanisation: It becomes more difficult to control the adaptations that occur along with economic and social development when the population grows quickly. Urbanisation causes issues with housing, electricity, water, transportation, etc. in UDCs. In addition, urbanisation in certain rural regions poses a danger to long-term environmental degradation[3].

Per-person income: Population expansion has a negative impact on per capita income. Population growth tends to reduce per capita income in three ways: (i) by increasing the demand for land; (ii) by driving up the cost of consumer goods due to the inability of cooperating factors to increase their supplies; and (iii) by reducing capital accumulation because rising family sizes result in higher costs. When the ratio of children in the population is high, as it is in all UDCs, these negative impacts of population expansion on per capita income are felt more keenly. The time and money spent on raising children results in economic consequences. However, if they help parents in old age, which is uncommon in the case of most children, and if they work throughout youth as is the case with the majority of families, they are also a sort of investment. A high number of children in the population consequently involves a huge cost on the economy since these youngsters just consume and do not contribute to the national output. This is because the economic benefits of having numerous children are questionable. The short life expectancy in underdeveloped nations is another reason. It indicates that there are fewer people working and more children to support, which lowers the per capita income. Whatever rise in national income occurs, it is offset by population growth. Therefore, a consequence of population expansion is a decrease in per capita income.

Living Conditions: The variables impacting per capita income in connection to population increase also relate to the quality of living since it is one of the key elements determining the standard of living. A rapidly growing population increases demand for goods like food, clothing, and housing. However, since there are not enough co-operating variables, such as raw materials, skilled labour, capital, etc., their supply cannot be expanded in the near term. As a result, they become more expensive, which drives up everyone else's cost of living. This significantly lowers the level of life, which is already poor. The vicious cycle of poverty, more children, and a poor level of life persists when there are a lot of children born into the world. Hirschman and Colin Clark, however, believe that the residents of UDCs will be motivated to work hard in order to raise their quality of life as a result of population pressures that decrease standards[4].

Development in agriculture: People mostly reside in rural regions and work in agriculture in UDCs. Therefore, the land-man ratio is distorted by population increase. Because the supply of land is inelastic, population pressure on the land grows. It increases covert unemployment and further lowers per capita output. The number of landless labourers is growing, and their earnings are decreasing. Low per capita productivity thus decreases the willingness to spend and save. As a consequence, it is unable to utilise better methods or make other modifications to the land. Agriculture's capital development declines, and the economy stagnates at the level of subsistence. A severe lack of food goods makes feeding the growing population a critical issue. These must be imported, which exacerbates the problems with the balance of payments. As a result, population expansion hinders agricultural progress and contributes to the issues mentioned above.

Employment: Population growth that is too quick causes underemployment and widespread unemployment in the economy. The ratio of employees to the overall population rises as population grows. But it is impossible to increase employment in the absence of supplementary resources. As a consequence, as the work force grows, so does underemployment and unemployment. Population growth has a negative impact on income, savings, and investment. As a result, work possibilities are diminished and capital production is slowed, which raises unemployment. In addition, the complementary resources that are available per worker decrease when the labour force grows in respect to land, capital, and other resources. Unemployment and underemployment therefore rise. In UDCs, there is a backlog of unemployed people that continues expanding due to the population growth. Compared to the real rise in the labour force, this has the tendency to increase unemployment significantly.

Social Support System: Large expenditures in social infrastructure are required due to the rapidly expanding population, which takes money away from directly producing assets. Due to a lack of resources, not every one of the people can have access to housing, transportation, health, and educational services. Everywhere there is overcrowding. As a consequence, these services' quality declines. There must be significant investment to establish this social infrastructure.

The labour force: The ratio of the working population to the total population is known as the labour force in an economy. If the average life expectancy in a developing nation is 50 years, then the work force is essentially the whole population of persons between the ages of 15 and 50. The birth rate is high and the mortality rate is declining during the demographic changeover era. As a consequence, a higher proportion of the population falls under the lower age bracket of 1 to 15 years. It indicates that the lower age group is adding more people than the working age group. A significant portion of children working puts a significant strain on the economy. It also means that the work force tends to grow along with population growth. If more women seek out paid jobs, it will expand even more quickly. Each worker will produce less than before since it is impossible to increase capital per worker (also known as capital deepening) with an expanding labour force. Income and productivity will decline as a result. Inequalities in income will rise when wages decline in comparison to profits and rents. In addition, open unemployment and underemployment both rise in urban and rural regions with significant labour force expansion.

Creation of capital: Capital creation is slowed down by population increase. The amount of money available per person decreases as the population grows. More children must be fed with the same amount of money as before. It entails higher consumption costs, a further decline in already meagre savings, and a corresponding increase in the amount of investment. Additionally, a fast expanding population forces individuals to adopt subpar technology, which slows down capital creation by decreasing income, savings, and investment[5].

Environment: Damage to the environment results from rapid population increase. The lack of available land caused by the world's population's fast growth forces a lot of people into environmentally fragile locations like tropical forests and hillside areas. It results in overgrazing and forest clearing for agriculture, both of which seriously harm the ecosystem. Furthermore, the need for more food for both themselves and their cattle is driven by the strain of the world's population expansion. They over-cultivate the semi-arid regions as a consequence. Long-term desertification occurs when the land ceases producing anything. In addition, high population expansion causes big populations to move to industrialised cities. Cities and towns are severely impacted by the resulting air, water, and noise pollution.

Global Economy: Rapid population expansion has a variety of effects on UDCs in respect to the global economy. First, since developed countries' per capita incomes drop as populations expand in the latter, fast population expansion tends to widen the income gap between UDCs and those of developed nations. Second, a rapidly expanding population stimulates migration abroad. However, they are primarily applicable to Middle Eastern nations where there is a shortage of both skilled and unskilled manpower. However, affluent nations have put curbs on immigration since low-wage foreign labour depresses salaries for domestic employees and stirs up social and political unrest. Third, emigration often results in a significant boost in worker salaries at home[6].

Fourth, the fact that immigrants send substantial quantities of money home is another positive result of this. This raises household income and quality of life. These households spend more money on food, clothes, and contemporary home appliances. They enjoy more comfortable lifestyles as a result. Some people pay off their family's obligations, while others make real estate and agricultural land investments. Upon their return, some entrepreneurial people launch new firms, while others grow family-owned industrial and retail operations. Additionally, emigrants' remittances assist in bridging the gap in a country's balance of payments. The 'brain drain' that occurs when professionals and technical personnel relocate to other nations causes UDCs to suffer greatly. Although they may finance the cost of such employees' schooling, they are unable to tax their income. When compared to the two sorts of losses mentioned above, the money they send is little. The greatest minds are often permitted to live permanently in the nation where they are employed, which causes a permanent loss to the home country.

The domestic consumption of even exportable products rises with fast population expansion. As a result, the exportable surplus is decreasing. On the other hand, more food and other consumer items are needed to fulfil the demand of the fast-growing population. It causes a rise in the imports of these products as well as capital goods required for the growth. The country's balance of payments situation deteriorates as a result of decreased exports and increased imports. This might require the government to limit the importation of capital goods, which would have a negative impact on the nation's economic growth.

In an underdeveloped nation, a fast-growing population has the effect of impeding all development attempts unless it is coupled with quick rates of capital accumulation and technical advancement. The lack of these mitigating elements causes the population boom to have negative economic effects on the balance of payments, poor per capita income, low living standards, widespread unemployment, and low capital formation rates[7].

Demographic Transition Theory

There are several variations of the population cycle, population phases, and demographic transition theories. It was first put up by W.S. F.W. Thomson & Co. Notestein. Three steps are used to describe the idea. The two well-known variations are C.P. Karl Sax's four phases of population increaseHigh Stationary, Early Explosive Increase, Late Explosive Increase, and Low Stationaryas well as Blacker's five stages of population expansion, which have also been discussed here. While his four phases mirror Blacker's other stages nearly exactly, he does not describe Blacker's Declining Stage.The Demographic Transition hypothesis describes how variations in the birth and death rates affect the pace of population expansion. Apparently, E.G. Dolan: "Demographic transition refers to a population cycle that starts with a decrease in the death rate, goes on to include a period of rapid population growth, and ends with a decrease in the birth rate."

The actual population patterns of the world's advanced nations serve as the foundation for the demographic transition hypothesis. According to this hypothesis, every nation experiences several phases of population development. This is what C.P. They are (i) the high stationary phase, which is characterised by high fertility and mortality rates; (ii) the early expanding phase, which is characterised by high fertility and high but declining mortality rates; (iii) the late expanding phase, which has declining fertility but faster declining mortality rates; (iv) the low stationary phase, which has low fertility but equally low mortality rates; and (v) the declining phase, which has low mortality, lower fertility, and a surplus of deaths compared to births. The Fig. explains these steps. 1 (A) & (B). The horizontal axis in the picture represents the length of time for various phases, while the vertical axis represents the yearly rates of birth and death. The BR and DR curves represent the birth and death rates, respectively. In the bottom part of the illustration, P represents the population curve.

Initial Phase. At this point, the nation is developing slowly and is distinguished by high rates of birth and mortality, which has the effect of slowing down population growth. Most people reside in rural regions, and their primary industryagriculture, which is in a backwards stateis a declining one. A few straightforward, minor, and modest consumer products sectors exist. The tertiary sector, which includes banking, insurance, transportation, and commerce, is undeveloped. Low salaries and widespread poverty are caused by all of these variables. A large family is seen as essential to supplement the meagre family income. Children are a benefit to both parents and society. The joint family arrangement ensures that all children have jobs according to their ages. The parents often see having more children in the household as insurance against old age.

People are opposed to all forms of birth control because they are uneducated, uninformed, superstitious, and fatalists. The belief that children are God-given and pre-ordained. The country's high birth rate is a result of all these economic and social variables. The absence of hygienic conditions, medical services, and unnutritious food all contribute to the high mortality rate that coexists with the high birth rate. People inhabit filthy, unclean, and inadequately ventilated compact homes. They are thus disease-ridden, and the lack of adequate medical treatment leads to many fatalities. Children have the greatest death rate, followed by women who are capable of producing children. As a result, the birth and death rates stay about constant throughout time, leading to a static equilibrium with no population increase. According to Blacker, this era persisted in India and China until 1900, while in Western Europe it lasted about until 1840[8].

Third Stage: The economy moves into the stage of economic expansion in the second stage. The production of industry and agriculture rises, and transportation infrastructure improves. The employment market is more mobile. Educating more people. Increase in income. Medical and health facilities are enlarged, and food goods are more plentiful and of higher quality for people.

The public uses modern medications: The mortality rate is decreased by all of these variables. However, it is virtually steady. Because of the increased work prospects brought about by economic progress and the ability of children to contribute more to the family income, people do not have any desire to limit the number of children they have. The life expectancy rises in tandem with improvements in dietary practises and living standards. Due to religious beliefs and societal stigmas associated with family planning, many do not attempt to limit the number of their families. The most challenging aspect of economic progress is breaking free from the social institutions, traditions, and ideologies of the past. These variables have caused the birth rate to stay at its prior high level. Population grows quickly when the mortality rate falls and the birth rate stays the same. Population explosion results from this. Up until 1930, 40% of the world's population, according to Blacker, was in this stage. Numerous African nations are still at this stage.

Phase Three: At this point, both the birth rate and the mortality rate are quickly dropping. The survival rate of kids rises with greater medical services. Large families are not something that people want to support. The expanding population is a strain on the nation. People take contraception to reduce the number of their families. In metropolitan regions, the birth rate starts to drop, claims Notestein. The population is increasing at a decreasing pace due to the fast lowering mortality rate[8].

Stage four. In this stage, the fertility rate is declining and tends to be equal to the mortality rate, resulting in a stagnant growth rate for the population. People's quality of life grows when growth picks up steam and their income levels climb. Through technological advancement, the leading growth sectors expand and cause an increase in production in other areas. The whole society is expanded and impacted by education. People abandon outdated practises, doctrines, and beliefs, foster an autonomous mentality, and separate from the extended family. Both genders favour postponing marriage. Family planning methods are widely used by people. Instead of a baby, they would rather purchase a baby automobile. Furthermore, raising a big number of children is expensive and cumbersome due to growing specialisation brought on by rising income levels and the resulting social and economic mobility. All of this tends to lower the birth rate further, which when combined with an already low mortality rate causes the population growth rate to drop. According to Fig., the developed nations of the globe are now at the "Lower Stationary" (LS) stage of population development.

The most palatable explanation for population expansion is the hypothesis of demographic transition. Both the Malthusian theory's focus on food availability and its negative assessment of population increase are absent from this theory. It is also better than the optimal hypothesis, which ignores other influencing variables and only emphasises the rise in per capita income to explain population expansion. The biological theories are likewise biassed since they only look at the biology side of the population increase issue. Because it is based on the actual population growth patterns of the industrialised nations in Europe, the demographic transition theory is thus superior to all other population theories. The first three phases of this hypothesis have mostly been completed by European nations, who are presently in the fourth stage[9].

Its Comments

Although it is a helpful hypothesis for explaining demographic change in Western nations, it has been critiqued for the following reasons:

Stage sequences are not uniform: The sequencing of the demographic phases have not been consistent, according to critics. For instance, even when death rates were high in various East and South European nations, particularly Spain, the fertility rate decreased. However, the population growth rate in America was faster than it was during the second and third stages of the demographic shift.

In urban areas, the birth rate did not initially fall: The claim made by Nolestein that the birth rate first fell among urban populations in Europe is not substantiated by actual data. The birth rate declined in nations like Sweden and France, where the population is mostly rural, to the same amount as it did in countries like Great Britain, where the population is primarily urban.

Reasons for the reduction in the birth rate vary: The idea falls short of providing the basic justification for the reduction in the birth rate in Western nations. The reasons for the birth rate fall are so varied that they vary from nation to nation. Therefore, rather than being a theory, the theory of demographic change is a generalisation. Not only that, but this hypothesis also holds true for the world's emerging nations. Some of the most backward nations in Africa are still in the first stage, while the other emerging nations are either in the second or third stage. Due to improved medical facilities and governmental family welfare initiatives, India has reached the third stage when the mortality rate is decreasing more quickly than the birth rate. The nation is facing a population boom, though, since the birth rate is falling relatively slowly. To help developing nations move towards the fourth stage, economists have created economic-demographic models based on this notion. The Coale-Hoover model for India is one such example, and it has also been applied to other developing nations. Despite having been developed based on the experiences of European nations, this theory is thus applicable to all societies.

CONCLUSION

The relationship between population growth and economic development is complex and depends on several factors. The paper has examined the different perspectives and arguments presented in the literature, including the theories of Malthus, Boserup, and other scholars. The empirical evidence on the relationship between population growth and economic development suggests that the relationship is not straightforward and depends on the stage of economic development, institutional quality, and technological progress. While some studies suggest that population growth can have positive effects on economic development, others argue that it can lead to resource depletion, environmental degradation, and social instability. Therefore, policymakers must adopt a comprehensive and balanced approach to population policies, taking into account the demographic, social, economic, and environmental dimensions of development.

REFERENCES:

[1] K. Regmi and A. Rehman, “Do carbon emissions impact Nepal’s population growth, energy utilization, and economic progress? Evidence from long- and short-run analyses,” *Environ. Sci. Pollut. Res.*, 2021, doi: 10.1007/s11356-021-14546-6.

[2] U. E. Hansen, I. Nygaard, H. Romijn, A. Wieczorek, L. M. Kamp, and L. Klerkx, "Sustainability transitions in developing countries: Stocktaking, new contributions and a research agenda," *Environ. Sci. Policy*, vol. 84, pp. 198–203, Jun. 2018, doi: 10.1016/j.envsci.2017.11.009.

[3] J. F. Jimeno, "Fewer babies and more robots: economic growth in a new era of demographic and technological changes," *SERIEs*, 2019, doi: 10.1007/s13209-019-0190-z.

[4] B. Doğan, O. M. Driha, D. Balsalobre Lorente, and U. Shahzad, "The mitigating effects of economic complexity and renewable energy on carbon emissions in developed countries," *Sustain. Dev.*, 2021, doi: 10.1002/sd.2125.

[5] M. Leimbach, E. Kriegler, N. Roming, and J. Schwanitz, "Future growth patterns of world regions – A GDP scenario approach," *Glob. Environ. Chang.*, 2017, doi: 10.1016/j.gloenvcha.2015.02.005.

[6] T. Zulham, T. C. Dawood, T. Farlian, J. Saputra, R. Juliansyah, and F. Hadi, "The nexus of human development index, economic and population growth on environmental degradation in Aceh Province, Indonesia," *WSEAS Trans. Environ. Dev.*, 2021, doi: 10.37394/232015.2021.17.31.

[7] A. Massuda, T. Hone, F. A. G. Leles, M. C. De Castro, and R. Atun, "The Brazilian health system at crossroads: Progress, crisis and resilience," *BMJ Glob. Heal.*, 2018, doi: 10.1136/bmjgh-2018-000829.

[8] Y. Lu *et al.*, "Forty years of reform and opening up: China's progress toward a sustainable path," *Science Advances*. 2019. doi: 10.1126/sciadv.aau9413.

[9] A. C. Williams and L. J. Hill, "The 4 D's of Pellagra and Progress," *International Journal of Tryptophan Research*. 2020. doi: 10.1177/1178646920910159.

CHAPTER 20

THE PURPOSE AND VALUE OF HUMAN CAPITAL FORMATION

Dr. A. Sharmila, Associate Professor, Department of Commerce,
JAIN (Deemed-to-be University), Bangalore, India,
Email Id- a.sharmila@jainuniversity.ac.in

ABSTRACT:

Human capital formation refers to the process of acquiring and developing the knowledge, skills, and abilities of individuals, which can be used to increase their productivity and contribute to economic growth. This paper explores the purpose and value of human capital formation in the context of economic development. The paper discusses how human capital formation can lead to increased productivity, innovation, and economic growth. It also highlights the role of education, training, and development programs in human capital formation, and how they can be used to create a skilled and productive workforce. The paper also addresses the challenges and opportunities of human capital formation, including access to education and training, cultural attitudes towards education, and the changing nature of work.

KEYWORDS:

Cost, Education, Growth, Resource, Training.

INTRODUCTION

The process of gaining and growing the population of people with the knowledge, training, and experience necessary for a nation's economic and political progress is known as "human capital formation." According to Schultz, there are five ways to develop human resources. These include: health facilities and services, broadly conceived to include all expenditures that affect the life expectancy, strength and stamina, and the vigour and vitality of the people; on-the-job training, including old type apprenticeships organised by firms; formally organise education programmes; and engage in volunteer work. Investment in human capital may be interpreted in two ways: broadly, as spending on social services like health, education, and welfare; and more specifically, as implying spending on education and training. Because education and training costs can be measured in comparison to social service costs, it has been common practise to refer to investments in human resources in this more limited meaning.

The idea of investing in human capital is relatively new. It is normal to place greater emphasis on the acquisition of physical capital throughout the process of economic expansion. Studies by Schultz, Harbison, Denison, Kendrick, Abramovitz, Becker, Bowman, Kuznets, and a host of other economists reveal that one of the significant factors responsible for the rapid growth of the American economy has been human capital formation. Human capital formation is defined as the "process of increasing knowledge, the skills, and the capacities of all people of the country."3 They claim that a dollar spent on education increases national revenue more than a dollar spent on industries, dams, roads, or other physical capital assets. Even earlier economists like Adam Smith, Veblen, and Marshall stressed the importance of human capital in production, as stated by Prof. Galbraith, "We now get the larger part of our industrial growth not from more capital investment but from investment in men and improvements brought about by improved men." The "acquired and useful abilities of all the inhabitants" were included in a country's stock of fixed capital according to Adam Smith. According to Thorstein Veblen, technical knowledge and skills were the community's "immaterial equipment or intangible assets," without which physical capital could not be used profitably. The lack of investment in human capital, according to economists, has been a major factor in the LDCs' poor economic progress. According to Marshall, education "is a national investment" and "the most valuable of all capital is that invested in human beings." The productivity of physical capital decreases until such economies increase the level of skills and physical efficiency of the populace and disseminate information, education, and expertise.

Two distinct issues with labour are confronted by underdeveloped nations. They have an excess of workers but lack the essential skills required for the industrial sector. The lack of essential skills is largely to blame for the excess workforce that exists. Therefore, these several issues are connected. By empowering man to develop the essential skills as a productive resource and giving him profitable work, human capital creation seeks to address these issues.

Even though these countries have imported a significant amount of physical capital, they have not been able to increase their growth rates due to the presence of underdeveloped human resources, making the necessity for investment in human capital development even more clear. Of course, despite the fact that the available labour force lacks the necessary skills and expertise, some development is nevertheless conceivable as a result of the expansion in conventional capital. But without the latter, the growth rate will be severely constrained. Because of this, human capital is "required to staff new and increasing government services, to introduce new systems of land use and new agricultural practises, to create new communication technologies, to advance industrialisation, and to establish the educational system. In other words, innovation or the transformation of a fixed or conventional society calls for very high levels of strategic human capital.

If the nation has enough human capital, physical capital becomes more productive. The construction of roads, dams, power plants, factories for light and heavy industries, hospitals, schools, colleges, and a variety of other development planning-related projects are top priorities for underdeveloped nations. For this, companies need managers, administrators, technical supervisors, engineers, technicians, veterinarians, agronomists, physicians, nurses, accountants, statisticians, economists, secretaries, stenographers, etc. Physical capital cannot be used efficiently if this kind of human capital is in short supply. Machines break down and wear out prematurely as a consequence, resources and components are squandered, and output quality declines.

Furthermore, developing nations import physical resources for development, but they are unable to effectively use them because they lack the "critical skills" necessary for their proper use. Even while technical expertise and talents are often associated with foreign investment, they are inadequate to satisfy the many and varied needs of such economies. Thus, the poor absorptive capacity of physical capital in developing nations has been caused by the inability of human capital to increase at the pace of the latter. Therefore, in these nations, the necessity for investing in human capital becomes of utmost significance.

Economic backwardness, which is exhibited in LDCs by "low labour efficiency, factor immobility, limited specialisation in occupations and trade, a deficient supply of entrepreneurship, and customary values and traditional social institutions that minimise the incentives for economic change," is one of their defining characteristics. Progress is severely hampered by the sluggish expansion of knowledge. When people lack knowledge about the natural resources that are available, alternative production methods that are feasible, the necessary skills, the current market conditions and opportunities, and institutions that might be established to favour economising effort and economic rationality, the population's economic quality remains low. To end economic backwardness and foster the capacities and motivations to progress, it is necessary to increase knowledge. In reality, growth in a developing nation is impossible without an improvement in the human aspect. It's as if we had a resource map that didn't include a large river and its tributaries, as Schultz so well noted. The unique river is nourished by education, on-the-job training, medical advancements, and the expanding economy's knowledge base.In order to improve the overall living conditions of the people in LDCs, investment in human capital is also necessary. This is made feasible through education and training, which provide more substantial and intelligent employment prospects in both rural and urban locations. These in turn improve peoples' conditions of life and income.

DISCUSSION

There are many issues with the idea of human capital creation in the context of education investment. How much human capital is necessary in total? What developmental stage is it most required in? What should the accumulation rate be? What should be taught, how much, and when should it be taught? And how should the investment's return in education be determined?

The overall stock of human capital needed in a developing nation is difficult to estimate. In actuality, this issue is linked to the next one, which is figuring out the point at which it is most necessary. In its early stages of development, the expansion of western European nations and the United States has been built more on investments in physical capital than in human capital. However, in the case of poor nations, there is a larger need for human capital in the form of educated individuals in a variety of professions to fill the gaps in their earliest phases of growth. People with critical abilities are more vital than only arts degrees since they install sophisticated machinery and industrial procedures. Entrepreneurs, business executives, administrators, scientists, engineers, physicians, etc. are all in higher demand. However, it is challenging to grow their supply since "their basic function is to change the economic organisation of the country in more productive directions instead of being fitted into a given framework."

The growth rate of the creation of human capital cannot be expressed in precise words, as is often the case with the accumulation of physical capital. In general, nevertheless, it may be claimed that the rate of human capital creation should outpace both the growth rates of the economy and the work force. Harbison asserts that in the majority of nations, the rate of growth of the scientific and engineering workforce should be at least three times that of the labour force, and should be at least twice as fast as that of the administrative, clerical, and skilled trades workforces. However, in nations where foreigners are to be replaced by natives of emerging countries, the ratio between the yearly rise in human capital and the annual gain in national GDP may be as high as three to one, if not greater. However, the diverse growth rates of human capital required by undeveloped nations at the various phases of development are not supported by actual data.

When it comes to investment patterns in education, almost all of the underdeveloped nations in Asia, Africa, and Latin America place a great focus on basic education, which is often free and required. However, it causes significant waste and stagnation and places a heavy burden on the physical infrastructure and instructional staff of educational institutions. Contrarily, secondary schooling is. deemed to be of low importance. However, those with a secondary education are the ones that provide the crucial abilities that are most important for economic progress. Lewis emphasises the value of secondary education by referring to those who have completed it as "the officers and non-commissioned officers of an economic and a social system." A tiny minority pursues higher education, but the numbers needed by the university are so little that the typical nation with up to five million citizens could function just well without having its own university. Although products from secondary schools make up the majority of the middle and higher echelons of business and are also the foundation of governmental administration, LDCs place a greater priority on delivering elementary education to large numbers of people.

In their eagerness to expand access to higher education, developing nations have opened an excessive number of institutions without making any effort to raise the quality of instruction. upper education is not constrained in any way, which leads to an extremely high failure rate at the upper secondary and university levels. Mass failures and a general decline in academic standards tend to reduce undergraduate students' effectiveness, and graduates working in both the public and private sectors "do not promise well for the formation of a dynamic leadership for economic development," which results in the waste of human resources[1].

Furthermore, since such economies lack adequate personnel planning, no attempts are made to balance the supply and demand for various categories of important talents. Thus, "few countries can continue absorbing poorly trained university graduates at a faster rate than their overall economic growth." Given the high cost of education, the educated unemployed are a huge waste of human and material resources, and many developing countries will eventually have to deal with this issue given their current pattern of educational expansion. Graduate unemployment is one of the most explosive problems of discontent and frustration. The absence of employment centres, the poor pay and compensation structure, the refusal to take a job in a remote location or one seen as beneath the professional hierarchy or prestige, and dropouts are additional reasons contributing to this, in addition to the flawed educational system[2], [3].

Programmes for agricultural education, adut, education, and on-the-job training are also given inadequate attention in these nations. There are no courses for on-the-job training. Little is done to teach farmers how to apply contemporary agricultural techniques or to educate adults. Adult education helps to alter farmers' perspectives, improves their ability to make decisions, and gives them the knowledge they need to understand contemporary agricultural methods. However, a lot of teachers and instructors are needed for these educational and training activities, which the LDCs sadly lack. The fact that politicians and bureaucrats prioritise funding for buildings and equipment above hiring teachers is another issue with human capital investments. In truth, the lack of skilled instructors and teachers in LDCs is the fundamental barrier to the development of human capital[4], [5].

Criteria For Human Capital Investment

Estimating the productivity of investments in the creation of human capital, particularly in education, is one of the trickiest problems. Following are some criteria that economists have recommended.

The rate-of-return standard: Future consumption and future profits are the two halves of education as an investment. Future profits are increased by investing in information and skills, whereas education's consumer benefit is its happiness. Future earnings component is taken into account when calculating the return on investment in education since it is a lasting consumer component and is the source of future utilities that in no manner enter into measured national income. The technique is based on comparing the average lifetime earnings of people with higher education to those of those with lower education who work in comparable occupations. For instance, Becker calculated that for white urban males in the USA, the rate of return on total investment in a college degree was 12.5% in 1940 and 10% in 1950. However, after subtracting taxes for 1940 and 1950, it was 9%.8 This estimate took into account the direct cost to the student, wages lost while in school, and the college's part of the cost.

The Cost-Benefit Criteria have not been covered. Consult the chapter on project evaluation for further information. Any cost-benefit analysis of the "returns" to education must take into account the interactions between education and the economy, paying special attention to education as an investment, the significance of rural education in a developing economy, and the interdependence between education, manpower requirements, and development, according to Prof. G.M. Meier.

These estimations come with a number of challenges. First, they completely ignore the external economics of educationthe direct and indirect gains coming to the nation from changes in people's levelsand only estimate the direct material benefit. Second, this standard is founded on a variety of arbitrary presumptions, including the individual's lifetime income, the earnings from various jobs, future pay rates, and future employment levels. Thirdly, social welfare rather than only the rate of return criteria determines whether to invest in education and training. Fourth, earning potential is not just determined by a person's level of education; it also depends on factors such as aptitude, experience, social standing, kinship ties, on-the-job training, etc.

Fifth, only private rates of return on education investments are measured by such estimations. By assuming that variations in wages are a reflection of variations in productivity, they estimate the impact of education on the production of the nation indirectly. However, the economy's relative profits may be distorted by other variables, such as the collective efforts of diverse groups (such as physicians, manual labourers, teachers, and engineers via trade unions). Furthermore, if operating expenditures are minimal, as in the case of a single teacher school operated free of charge in many Indian communities, private rates of return cannot be assessed. Sixth, rewards from investments in acquiring knowledge and skills boost the economy's overall productive capacity rather than the salaries of the people involved.

The relative scarcity of the contributing components must be reflected in the costs of educated labour employed in the assessment of rate of return, according to Eckaus. However, as the government pays for the majority of investment expenses associated with education, the cost of educated labour does not account for the scarcity of factor inputs determined by competitive markets. Further, this criterion does not specify "how much" or "what kind" of further education is necessary for economic growth. Last but not least, as Bowen noted, it is necessary to be a little more circumspect when making generalisations about how education affects national production due to the challenges associated with separating incomes differentials from productivity differentials.

The measure of education's contribution to gross national income. This criteria states that the amount of money spent on education is decided by how much it adds to the growth of the gross domestic product or the creation of physical capital over time. Schultz examined how schooling changed the US national income between 1900 and 1956. and found that, (a) compared to consumer income in dollars; (b) relative to the gross development of physical capital in dollars, the resources dedicated to education increased by nearly 6.5 times. Schultz has also determined the total stock of educational capital at various times. In other words, the income elasticity of the demand for education was roughly 3.5 times over the period, and alternatively, investment in education contributed 3.5 times more to the increase in gross national income than investment in physical capital. He totaled the potential earnings lost (or opportunity cost) by individuals attending schools, colleges, and universities as well as the cost of formal education across the board, accounting for depreciation. The US work force's entire stock of educational assets increased from 63 billion dollars in 1900 to 535 billion dollars in 1957, and the proportion of educational assets to physical assets increased from 22% in 1900 to 42% in 1957. P.R. has provided estimations that are comparable. India's Panchmukhi using Schultz's approach. The overall cost of formal education in India increased from Rs 341 crores in 1950–51 to Rs 769 crores in 1959–60, according to his calculations of educational capital.

Its Assessment. Given that they take into account how investments in education affect the economy, these estimates are more accurate than those of returns on education. They are based on the opportunity cost of education, which includes lost wages for students while they are attending high school, college, or university, as well as the cost of formal education after taking proper depreciation into account. The assessment of lost revenues, however, is more complicated and fraught with issues. Should we estimate them using the current salaries of those in the same age group who didn't attend school? This is true in developing nations where the majority of young people do not attend school but instead make a living via family businesses. As a result, lost wages from attending school may be a factor in the true cost of education.

Furthermore, due to the high percentage of unemployment, it is impossible to adequately calculate the contribution of educational investments to national revenue using salaries as foregone earnings. In such cases, the calculation of lost wages becomes arbitrary since the increased labour supply often falls short of the real wages. Once again, social costs are a significant consideration. Because prospective workers who choose to attend school instead of finding a job incur both personal and societal costs as a result, the potential increase in the country's gross domestic product is not yet realised. According to Balogh14, economic estimates made concerning the profitability of education are not only technically incorrect, but also politically unethical[6].

The criteria for residual factors. Solow, Kendrick, Denison, Jorgenson, Griliches, Kuznets, and other economists have attempted to quantify how much of the growth in the GNP over time can be attributed to the quantifiable inputs of labour and capital, and how much of the growth in the GNP can be attributed to other factors, which are frequently categorised as "residual." Education, research, training, economies of scale, and other variables impacting human output are the most significant of these residual elements. According to Denison's calculations for the United States from 1929 to 1957, education contributed 23% to the rise of total real national GDP. As far as the "residual" factor's contribution is concerned, it accounted for 31% of the overall rise in national income. This was brought on by the effects of increased knowledge (20%) and economies of scale brought on by expanding national markets (11%). Solow, on the other hand, ascribed 90% of the average increase rate of production per head in the United States between 1909 and 1949 to the "residual factor," which is a broader term for technological development.

It is critique. The residual factor criteria are not susceptible to specific flaws. First off, the phrase "residual factor" has been used to refer to a far broader range of variables, including scale economies and technological development in addition to education, research, and training. The criteria are difficult because of these elements. Second, certain capital asset enhancements that may, of course, be linked to advancements in human knowledge and abilities may also be included in the residual component. Thirdly, neither the quality nor the substance of education, nor any differentiation between formal and informal education, is made by this criterion. Fourth, the "residual" that Denison credits to "advance in knowledge" is little and not significant, according to Jorgenson and Griliches' research. The fact that the residual is tiny shows that the private returns to investment more than offset the contribution of investment to economic development. Fifth, after correcting for aggregate errors for capital, labour, prices, etc., Jorgenson and Griliches find almost no "residual" to explain in their analysis of the American economy from 1945 to 1965. The contribution of residual is decreased to 0.1% annually after accounting for such mistakes.

Sixth, the production function, which is marked by consistent returns to scale, forms the basis of the "residual" criteria. A sophisticated economy really experiences growing returns. Not least, capital's role to economic development has been undervalued in the residual criteria; as a consequence, more of the expansion of output would be attributed to the rise of physical inputs and less to the increase in the "residual factor." More of the growth rate would be attributed to the increase of the capital stock and less would be left in the residual category of increases in knowledge, skills, training, etc. if the resource used to advance knowledge were counted as an investment and the capital stock were defined in such a way as to include this type of investment. As a result, economists have not offered adequate support for the residual criteria[7].

Utilising the Composite Index Criteria: On the basis of certain human resource indicators, Harbison and Myers16 created a composite index criterion for human resource development. Seventy-five nations are ranked using the composite index, and they are divided into four tiers of human resource development: undeveloped, moderately developed, semi-advanced, and advanced. The correlations between these measures and indices of economic progress have then been sought to be studied. They have listed the following human resource development indicators:

1. The ratio of instructors at the first and second levels per 10,000 people.
2. Scientists and engineers per 10,000 people.
3. Medical and dental professionals per 10,000 people.
4. The proportion of students in first-level (primary) education who are projected to be between the ages of 5 and 14 inclusive.
5. The sum of the first- and second-level adjusted school enrollment ratios.
6. The proportion of students in second-level (secondary) education who are projected to be between the ages of 15 and 19 inclusive, adjusted for duration of study.
7. The proportion of people between the ages of 20 and 24 who are enrolled in the third (higher) degree of education.
8. The proportion of students enrolling in faculties of science and technology in a recent year.
9. The proportion of students who are simultaneously enrolled in the faculties of the humanities, fine arts, and law.

The first three indicators provide just a partial picture of the human resource pool, while the next four indicate how much more has been added to it. Harbison and Myers have created a composite score to rank 75 nations according to four levels of human resource development after many experiments with some of the variables. The composite index is simply the sum of the percentages of enrolment in the second and third levels of education for the age group of 15 to 19 years old, adjusted for duration of education, multiplied by a weight of five. They contend that such an index should favour higher education over second-level schooling. They use the GNP per capita in US dollars and the proportion of the active population working in agricultural activities as statistical indices of economic progress. In addition, they included two further measures: (a) the proportion of public spending on education as a share of GDP, and (b) the proportion of the total population that falls between the age ranges of 5 to 14, inclusive. According to Harbison and Myer's research, there is a strong correlation between GNP per capita and enrolment ratios at all educational levels. The composite measure of human resource development, which combines enrollment ratios at the second and third levels, has the strongest correlation coefficient (0.888) with US GNP per capita[8].

It is critique. The composite index is a helpful metric for assessing how various educational levels contribute to the formulation of an education strategy focused on the economic growth of LDCs. It expresses the quantitative correlations between economic development and human resource development indices. However, these connections do not create meaningful connections. Additionally, the composite index does not take into account other influences like abundant natural resources or a low population density, which may result in a greater GNP per capita.

Conclusion. Whatever the challenges related to the issue of investing in human capital, it is now widely acknowledged that the growth of LDCs is constrained not by a lack of physical capital but rather by a lack of essential skills and knowledge, which in turn restrict the economy's ability to absorb the physical capital stock. Thus, the development of human capital is seen as being even more crucial than the development of material wealth.

CONCLUSION

human capital formation plays a critical role in economic development. It provides individuals with the knowledge, skills, and abilities necessary to increase productivity, promote innovation, and drive economic growth. Education, training, and development programs are essential tools for human capital formation, and they can be used to create a skilled and productive workforce. However, challenges such as access to education and training, cultural attitudes towards education, and the changing nature of work must be addressed to ensure the success of human capital formation. Governments and policymakers play a crucial role in promoting human capital formation by creating policies and initiatives that support education and training programs. Ultimately, the purpose and value of human capital formation lie in its ability to create a more productive and prosperous society, and its importance should not be overlooked in the pursuit of economic development.

REFERENCES:

[1] Z. K. Chulanova, A. A. Satybaldin, and A. K. Koshanov, “Methodology for assessing the state of human capital in the context of innovative development of the economy: A three-level approach,” *J. Asian Financ. Econ. Bus.*, 2019, doi:

10.13106/jafeb.2019.vol6.no1.321.

[2] K. Jerzak, M. D. Shrayer, K. A. Krośnicka, P. Lorens, J. Zaucha, and J. Pardus, "The essence of marine and coastal space – an interdisciplinary perspective," *Eur. XXI*, 2019, doi: 10.7163/eu21.2019.36.2.

[3] V. Khalin and N. Kiely, "Degradation or regeneration? Prospects for developing the port-city interface in Odesa," *Urbani Izziv*. 2019. doi: 10.5379/urbani-izziv-en-2019-30-01-005.

[4] D. Siswanto, "Peran Intellectual Capital Terhadap Organizational Value," *KarismaPro*, 2021, doi: 10.53675/karismapro.v1i2.66.

[5] A. Ferreira and M. Franco, "The influence of strategic alliances on human capital development: A study applied to technology-based SMEs," *EuroMed J. Bus.*, 2020, doi: 10.1108/EMJB-04-2019-0052.

[6] I. Ershova and I. Solodiankina, "Regional human capital development management in the process of globalization," *SHS Web Conf.*, 2021, doi: 10.1051/shsconf/20219202017.

[7] K. J. Thaddeus, C. A. Ngong, N. M. Nebong, A. D. Akume, J. U. Eleazar, and J. U. J. Onwumere, "Selected macroeconomic determinants and economic growth in Cameroon (1970–2018) 'dead or alive' an ARDL approach," *J. Bus. Socio-economic Dev.*, 2021, doi: 10.1108/jbsed-05-2021-0061.

[8] I. N. Sycheva, E. V. Skripleva, A. N. Dunets, T. M. Vorozheykina, I. N. Luzenina, and S. V. Khoruzhaya, "Influence of social factors on the reproduction of human capital," *Int. J. Econ. Bus. Adm.*, 2019, doi: 10.35808/ijeba/237.

CHAPTER 21

A STUDY ON LDCS MANPOWER PLANNING

Sheetal V. Hukkeri, Assistant Professor, Department of Commerce,
JAIN (Deemed-to-be University), Bangalore, India,
Email Id- sheetal.hukkeri@jainuniversity.ac.in

ABSTRACT:

Planning for the future of the labor force is essential for economic growth, especially in LDCs. The problems and potential of workforce planning in LDCs are examined in this essay. Manpower planning in LDCs has a number of significant difficulties, including a lack of resources, incomplete data, and insufficient education and training systems. However, by equipping the labor force with the required abilities and information, efficient personnel planning may solve these issues and promote greater output, creative thinking, and economic expansion. The role of governments, non-governmental organizations, and the private sector in advancing manpower planning in LDCs is also covered in the study. In order to establish a climate that supports efficient personnel planning, various stakeholders must work together to make manpower planning successful in LDCs.

KEYWORDS:

Education, Growth, Manpower, Planning, Training.

INTRODUCTION

In order to increase job prospects in the future, educational priorities and investments in human resource development must be planned as part of the long-term growth of the economy's semi-skilled and skilled labour needs. The general approach to manpower planning in LDCs involves three steps: first, identifying the skilled manpower shortage in each sector of the economy and its causes; second, identifying the manpower surpluses in both the modernising and traditional sectors and its causes; and third, outlining a manpower planning strategy. We will go through the following areas of workforce planning:

Manpower Current

There are numerous types of the labour shortage in LDCs:

Existing Shortage: A lack of highly educated professionals exists personnel throughout all LDCs. These professionals include engineers, scientists, physicians, agronomists, and veterinarians. They choose to stay in the city rather than relocate to the rural regions where their services are most required. Their relative inactivity hence makes them scarcer. Even more so than the professional workforce scarcity is the sub-professional manpower shortage. Technicians in the civil, mechanical, electrical, chemical, metallurgical, and agricultural fields, as well as foremen, masters of spinning, weaving, and finishing, nurses, compounders, midwives, and health aides, are examples of this kind of labour force. Some of the causes of their scarcity include: (a) LDCs' failure to recognise that the demands for such sub-professional manpower are significantly higher than those for professionals; (b) the few individuals who are qualified to enrol in technical institutes prefer to do so because holders of university degrees enjoy higher status and pay; and (c) the technical institutes' limited capacity as compared to universities.

Top management and administrative positions are also understaffed in both the public and commercial sectors. General managers, production managers, sales managers, works managers, cost accountants, and corporate secretaries are all in short supply. Additionally, there is a dearth of people with entrepreneurial skills. Because of their poor pay, there is a dearth of qualified elementary, secondary, and craft teachers and instructors. When they discover more desirable positions in other professions, they often quit the technical field. In secondary schools, there is a severe scarcity of maths and science instructors[1].

Craftsmen and technical secretaries are in limited supply among skilled employees. Toolmakers, fitters, machine-tool operators, welders, moulders, electricians, blacksmiths, painters, motor mechanics, etc. are all included in the first group. Technical secretaries, such as typists, stenographers, bookkeepers, and office equipment operators, are in short supply. Additionally, there is a shortage of various other types of workers in LDCs, including accountants, staticians, economists, radio and television professionals, and pilots of aircraft.

Absent Shortage: In LDCs, there is a hidden labour shortage in the form of open positions, notwithstanding widespread underemployment and unemployment. In the vast majority of organisations, there are no people available with the necessary abilities. As a consequence, some positions are still unfilled. However, the affected firms hire individuals who lack the necessary qualifications and experience for such professions to carry out such tasks. This negatively impacts the businesses' productivity and output.

Shortages due to friction: Due to a lack of a structured labour market, a spike in the unexpected demand for workers in areas with a labour shortage, and workforce immobility, the LDCs also face frictional labour shortages. For instance, urbanisation and agricultural change have caused a scarcity in Punjab.

Replacement of personnel from abroad: Due to the substitution of foreign workers, there is now a lack of highly qualified workers at the top level in the LDCs of Africa and the Gulf nations. With the gradual departure of foreign personnel following nationalisation, manpower shortages are likely to worsen in oil refineries, mines, plantations, big commercial establishments, factories, banks, universities, and the government. "The strategic technical positions in the public services, the top positions in private industry and commerce, and most of the higher positions in education are of necessity, held by non-indigenous personnel."

A Surplus of Workers

Unskilled and skilled employees who are available for and looking for gainful employment are referred to as having a surplus of labour. The following categories make up the excess labour in LDCs:

Open and covertly jobless are both included in the Underemployed. People who work fewer hours than usual are said to be openly underemployed. Those who put in less effort than they might by working a full day's worth of standard hours are said to be disguisedly jobless. In the LDCs, both urban and rural regions experience underemployment in each of these ways. Landless agricultural labourers, small-scale farmers, peasants, artisans, craftsmen, and independent contractors are among the underemployed in rural regions. They are the outcome of antiquated farming practises and mediaeval land tenure structures. They include hawkers, petty merchants, service and repair employees, porters, shoe shiners, etc. in metropolitan areas who lack the qualifications for medium- and higher-skilled employment[2].

In a number of developing nations like India, the unemployment estimates in this category are only accessible on the basis of NSS Rounds. Based on regular status, weekly status, and daily status, they identify chronic, seasonal, and part-time unemployment as well as underemployment, respectively. The weekly and daily statuses show, respectively, the average weekly and daily numbers of jobless people throughout the survey period. Based on these assumptions, some economists estimate the proportion of underemployed people in LDCs at anywhere between 50 and 80 percent of their potential labour force.

DISCUSSION

The abundance of labour in LDCs is also reflected in the educated unemployed and underemployed. The term "educated manpower" refers to those who have earned at least a high school diploma. Due to the low private cost of education and the strong correlation between higher education and improved employment prospects, income levels, and social standing, the demand for education is high in LDCs. More people in the younger generation are drawn to higher education in colleges and universities since technical education is relatively expensive and constrained. However, because of their formal education, they are neither qualified for self-employment nor able to get work. Rigid structural design and a sluggish pace of economic expansion haven't been able to provide people more employment options. As a result, there is a growing population of educated workers. Additionally, there is underemployment among educated people who choose positions that require less skills than they have acquired via education and training[3].

Under and unemployed in urban areas. In addition to the excess educated and uneducated labour that currently exists in urban and rural regions of LDCs, development is leading to a rise in urban unemployment and underemployment. The fast population growth, overcrowding on the land, the seasonality of agricultural production, the expansion of schooling in rural regions, the construction of highways, and the emergence of new industries in urban areas are all factors that are promoting migration to towns and cities. However, the industrial sector has been unable to keep up with the expansion of the work force, which has increased urban unemployment and underemployment.

Manpower Planning Strategy

Harbison suggests a three-pronged approach to human resource development to deal with the labour surpluses and shortages in LDCs. The creation of proper incentives, efficient workforce training, and national formal education development are the three key elements of such a plan. These three components of personnel strategy are interrelated, and advancement in any one of them depends on advancement in the others. LDCs should thus concurrently organise a coordinated assault on each of the three fronts.

Construction of Incentives. People in LDCs should be encouraged to participate in these productive activities since they will hasten the process of economic development. Scientists, engineers, medics, management and administrative staff, etc., should be encouraged and given the prestige they deserve since such abilities are vitally rare. People with these crucial talents are seldom given the respect they deserve in the form of a decent income and high social position in LDCs. Political pressures, caste, faith, and regionalism often lead to terrible talent squandering, poor morale, and diminished effectiveness. Some of the most ambitious move their resources to the developed nations in search of greater prospects. The LDCs should provide suitable internal incentives to stop the brain drain. This holds true for semi-professional groups including teachers, technicians, nurses, agronomists, and others[4].Creating incentives is essential for both gathering and investing in human capital. In reality, if men and women lack the motivation to prepare for and participate in the activities required for fast development, expenditures in education may be lost. In addition, the market mechanism should be strengthened to ensure the most efficient distribution of labour.

Educating the Workforce. Upgrading the skills and performance of hired labour in critical vocations is a crucial second pillar of the human resource development strategy. Efforts should be made to create management training programmes, supervisory training courses, productivity centres, public administration institutions, etc. for this aim. On-the-job training and apprenticeship programmes should be launched to fulfil the rising labour demands of businesses. Part-time extension and evening sessions may begin in universities and vocational schools. For the transition of conventional agriculture and rural life, there is a huge need for extensive agricultural extension services as well as rural community reorganisation and development activities. In order to give farmers with a foundational education in rural development and to improve their abilities, they call for the training of local young men to serve as village-level and extension workers. However, the success of these initiatives depends on fundamental land reform plans.

Growth of Formal Education. The development of a formal education system is the third element of the strategy for manpower planning. "The LDCs must make challenging decisions when deciding how to establish formal education. All forms of education are underdeveloped, thus it would be ideal to quickly increase it at all levels. A compelling argument may be made for a hastily implemented strategy to expand and enhance basic schooling. Of course, secondary school is the main obstacle to supplying more high-level workers of all types, since it is the single biggest source of shortages. If locals are to take the position of immigrants, higher education must be expanded[5].

When it comes to elementary education, the focus should not only be on growing the student body but also on raising educational standards by hiring skilled instructors. The focus should be on using innovative teaching methods including visual aids, radio and television training, relevant texts, and curriculum that are easier to follow. However, spending on secondary and higher education should be prioritised above that on basic education. Improvements in teaching staff and the creation of new instructional methods should be prioritised in order to keep primary education's capital expenses under control. Spending less on school buildings allows for even more savings. They should be built by the neighbourhood inhabitants using their effort and supplies.

Secondary education should be prioritised by LDCs since secondary educated individuals are required at all levels of government, business, industry, and agriculture. They are also necessary to replace foreign workers and fulfil the substantial labour demands of an expanding economy. Secondary education should have a comprehensive focus to educate kids in science, math, the arts, and humanities so they may join the workforce immediately, work as technicians, teachers, or pursue further education. Thus, secondary schools with dual purposes should get special attention. The approach emphasises the need of funding sub-professional employees in higher education, including agricultural and engineering assistants, secondary school teachers, nurses, medical technicians, typists, stenographers, mechanics of different categories, etc. Polytechnic and other technical schools should be built for their education and training by supporting private industry. This is due to the fact that technical education is four to six times more expensive per student.

The faculties of agriculture, science, medicine, and engineering should all be developed while those of the arts, humanities, and law should be restricted in terms of higher education. To strengthen the capacity of the nation to use contemporary science and technology for its own purposes, research institutions in engineering, agriculture, and the natural and biological sciences should be formed. Given the high expense of higher education, emphasis should be placed on affordable facilities, making the most of already-existing machinery and equipment, and other cost-saving methods without compromising quality. Adult education is another component of the formal education plan. Investment in adult education saves time, money, and offers more lucrative returns than any other type of educational investment. The programme of formal adult education should include "agricultural and cooperative extension work, fundamental education, and other organised programmes to enable men and women to participate more effectively in their country's economic development."

Conclusion. The three aspects of human resource development that were just covered need to be included in a nation's development plan. The control of the population's fast growth, the repair of market defects to increase labour mobility, the provision of suitable incentives, and the development of crucial skills among the employed and the jobless via formal education are all necessary to address the issue of excess labour. Most importantly, "effective government organisations, private enterprises, agricultural extension forces, research institutions, producer and consumer co-operatives, education systems, and a host of other institutions which mobilise and direct human energy into useful channels" are necessary for successful development[6].

Estimation Of Future Manpower Needs

The most challenging issue for planners and policy makers is estimating future personnel needs. It is also a vital stage in estimating expenses associated with developing educational and training facilities, as well as preparing for the economy's future labour needs. The country's needs must be predicted for one or two decades in the future since manpower development is a lengthy process. There are a number of methods to estimate future manpower requirements, but we will discuss a few key ones here. This is because it takes a very long time "to build schools, to train teachers, and to fill the educational pipe lines in primary and secondary schools in order to expand the number of university graduates."

Approach for measuring manpower needs. Parnes and Backerman have grown. They make an effort to define educational demands in terms of productivity and a certain pattern of economic development under "the manpower requirements approach to educational planning." The stages in this procedure are as follows:

An evaluation of the educational system as a whole, a survey of programmes for on-the-job training, an analysis of the structure of incentives and proper utilisation of current manpower, as well as an inventory of employment and short-term requirements for manpower for each major economic sector are all done. The production patterns for the main economic sectors are predicted for the forecast year based on an economic plan. Then, based on a few productivity hypotheses, the total employment for each sector and the economy is calculated. In accordance with the method of occupational categorization adopted, the total employment for the predicted year is distributed across the numerous professions for each sector. The overall number of manpower stocks needed in the projection year is then calculated by adding the needs for each occupational group from the different industries. These estimations take into account how an increase in productivity would affect the occupational structure[7].

On the basis of current manpower stocks, anticipated outflows from the current educational system as currently planned, and allowances for losses due to death, retirement, and other reasons for withdrawal from the labour force, the supply of manpower with each minor type of educational qualification is estimated for the forecast year. The estimated human resource output from the educational system is compared to the necessary human resource outputs as determined in the preceding step. The orders of magnitude for educational system expansion are then established to close the gap between anticipated human resource requirements and currently anticipated human resource supply. Turkey, Greece, Yugoslavia, Italy, Spain, and Portugal have all adopted this technique with minor variations. It establishes a relationship between labour demands and output and aims to spot labour issues that can impair output. Its Drawbacks. But there are certain drawbacks to this strategy.

The productivity criteria are not very helpful in determining the amount of labour needed in agriculture since it is impossible to foresee future employment using productivity data, particularly in nations with high levels of disguised unemployment. Another challenge is "the determination of required educational qualifications of high-level occupations for the forecast year." The LDCs "lack empirical data on which to base estimates of expected increase in productivity and the bearing of these on changes in occupational requirements." Last but not least, this strategy offers the appearance of making predictions about the future. To a considerable degree, they may rely on the supply structure of educated people at that moment. However, these projections are risky because of the complexity of the economic, social, and political developments in LDCs. As a result, the methodology for estimating future workforce needs based on productivity analysis is arbitrary.

The authors of "Quantitative Adaptation of Education to Accelerated Growth" have developed an input-output model for predicting future educational and workforce requirements. They make an effort to directly link the outcomes of secondary and higher education required to a certain rate of economic development, doing away with the necessity for an intermediary step of determining vocational qualifications. In essence, a set of linear equations that connect the stock of people who complete a certain level of education and the number of students in each level to the total volume of output are used to determine the number of people needed from each educational level. Its goal is to provide recommendations on how the educational system should be structured in order to allow the economy to expand at a certain pace and how that structure should adapt when the growth rate changes[8].

The model is based on several implicit assumptions, including the following: (a) education comes before other factors in the production process because of how long it takes; (b) there is a fixed correlation between the volume of production in the economy and the number of people with secondary and higher education levels; (c) the number of people with secondary and higher education is the right number for the current level of aggregated output; and (d) graduates of the educational system are productive members of society.

It is critique. A practical and accessible technique for determining the level of education needed for economic development is the Tinbergen-Correa model. However, it has drawn criticism for its implicit assumptions. First, economists have questioned the premise that there are stable correlations between the amount of output and the number of people with secondary and higher education levels. This presumption is not grounded on truth, but rather in judgement. It could apply to developed nations but not to LDCs. Additionally, economic growth denotes a quicker rise in output volume than in labour force. As a result, the fixed coefficients premise is invalid. Balogh views the model as only a quantitative approach to education since he was unable to establish a consistent link between total production and education. According to him, boosting conventional education of the western kind in LDCs may even have a negative impact on production and development.

Third, the idea that the student-to-teacher ratio is fixed is based on the experiences of industrialised nations and is untrue in the case of LDCs. Fourth, since there are often severe shortages or significant surpluses in LDCs, the premise that the number of people with secondary and higher education is the proper quantity for the current level of aggregate production is problematic. Fifth, the premise that productivity and technology will stay constant overlooks the impact that these factors will have on the types of jobs and educational requirements. Last but not least, the Tinbergen-Correa model "fails to distinguish between the major economic sectors of the economy, makes no allowance for qualitative imbalances in school curricula, and makes no distinction between technical or academic education."

CONCLUSION

LDCs face numerous challenges in manpower planning, including limited resources, inadequate data, and poor education and training systems. However, the benefits of effective manpower planning, such as increased productivity, innovation, and economic growth, make it a critical component of economic development. To promote effective manpower planning in LDCs, collaboration between governments, non-governmental organizations, and the private sector is necessary. Governments can create policies that support manpower planning, NGOs can provide resources and support to improve education and training systems, and the private sector can invest in training and development programs. Ultimately, the success of manpower planning in LDCs requires a long-term commitment from all stakeholders to address the challenges and create an enabling environment for effective manpower planning.

REFERENCES:

[1] Y. Jin, Y. Gao, P. Wang, J. Wang, And L. Wang, “Improved Manpower Planning Based On Traffic Flow Forecast Using A Historical Queuing Model,” *Ieee Access*, 2019, Doi: 10.1109/Access.2019.2933319.

[2] B. Verbeken And M. A. Guerry, “Discrete Time Hybrid Semi-Markov Models In Manpower Planning,” *Mathematics*, 2021, Doi: 10.3390/Math9141681.

[3] A. C. Ola, “Manpower Planning And Total Quality Management As Predictors Of Service Delivery In Academic Library,” *Libr. Philos. Pract.*, 2019.

[4] A. Kusuma Aji, A. Nur Aisha, And Y. Perdana Saputera, "Pt Rti Production Division Manpower Planning Based On Workload Analysis Using Work Sampling Method," *Eproceedings Eng.*, 2021.

[5] P. N. Assi And E. O. Effanga, "Optimal Manpower Recruitment And Promotion Policies For The Finitely Graded Systems Using Dynamic Programming," *Heliyon*, 2021, Doi: 10.1016/J.Heliyon.2021.E07424.

[6] B. Li, Y. Zhu, Y. Sun, G. Aw, And K. L. Teo, "Deterministic Conversion Of Uncertain Manpower Planning Optimization Problem," *Ieee Trans. Fuzzy Syst.*, 2018, Doi: 10.1109/Tfuzz.2018.2803736.

[7] H. Wajiga And J. T. Ndaghu, "Significance Of Manpower Planning For Effective Utilization Of Human Resources In An Organization: A Conceptual Approach," *Int. J. Bus. Manag. Invent. Issn*, 2017.

[8] A. Pooya And M. Pakdaman, "A New Continuous Time Optimal Control Model For Manpower Planning With Promotion From Inside The System," *Oper. Res.*, 2021, Doi: 10.1007/S12351-018-0431-0.

CHAPTER 22

ECONOMIC DEVELOPMENT VIA ENTREPRENEURSHIP

Shwetha B.V., Assistant Professor, Department of Commerce,
JAIN (Deemed-to-be University), Bangalore, India,
Email Id- bv.shwetha@jainuniversity.ac.in

ABSTRACT:

Entrepreneurship is a critical driver of economic development, particularly in developing countries. This paper explores the role of entrepreneurship in economic development and the various strategies that can be used to promote entrepreneurial activities. The paper discusses how entrepreneurship can lead to job creation, innovation, and increased productivity, which in turn can drive economic growth. It also addresses the challenges and opportunities of entrepreneurship, including access to funding, education and training, and the regulatory environment. The paper highlights the importance of government policies, such as tax incentives and supportive regulatory frameworks, in promoting entrepreneurship. It also discusses the role of non-governmental organizations and the private sector in supporting entrepreneurship. Finally, the paper provides examples of successful entrepreneurial initiatives in developing countries and draws lessons from these experiences. In summary, entrepreneurship is a key factor in economic development, and promoting it requires a comprehensive approach that involves government policies, private sector engagement, and support from non-governmental organizations.

KEYWORDS:

Business, Development, Economic, Entrepreneurship, Social.

INTRODUCTION

The cornerstone of every functioning economy is entrepreneurship. It is the impetus behind economic expansion, employment creation, and innovation. For developing nations to boost their Gross Domestic Product (GDP) and generate employment, entrepreneurship has emerged as a crucial instrument. The goal of this review paper is to draw attention to the importance of entrepreneurship for economic growth, especially in developing nations. The issues encountered by businesspeople in emerging nations are also covered in the study, along with potential solutions.

Entrepreneurship's Contribution to Economic Development

By spawning new enterprises, occupations, and sectors, entrepreneurship significantly contributes to economic growth. Entrepreneurs are risk-takers who want to provide novel goods and services to the market. They also create jobs and provide local residents employment chances. The GDP, trade balance, and poverty reduction of a nation may all benefit from a healthy entrepreneurial environment.

For developing nations, which often lack the resources and infrastructure needed to generate employment and promote economic progress, entrepreneurship is especially crucial. Developing nations may build a more dynamic and diverse economy that can compete in the global market by encouraging entrepreneurship. Growth in entrepreneurship may also result in the creation of new industries, which can serve as a source of revenue in foreign currencies and lessen the nation's dependency on exports of basic commodities.

Entrepreneurship challenges in developing nations:

Despite the potential advantages of entrepreneurship, business owners in developing nations confront a variety of difficulties. These difficulties include a shortage of trained labour, a lack of suitable infrastructure, and excessive red tape in the workplace. Many developing nations lack official entrepreneurship-supporting institutions including company incubators, mentoring programmes, and legal frameworks[1].

One of the main issues confronting businesses in underdeveloped nations is a lack of access to capital. Many business owners are unable to get loans from conventional financial institutions because they lack the collateral and credit history required. They are thus compelled to depend on unofficial funding sources like family and friends, which may restrict their capacity to expand their company.

Another significant issue for businesspeople in emerging nations is inadequate infrastructure. Operating a company may be challenging for entrepreneurs due to bad infrastructure, unstable energy, and restricted internet connectivity. Inadequate infrastructure may also raise operating costs, lowering a company's ability to compete in the global economy. Another issue confronting businesses in emerging nations is the lack of trained labour. Many developing nations lack the human resources required to encourage entrepreneurship. This may be the result of a lack of possibilities for education and training or brain drain, in which highly trained employees leave their home nations in pursuit of better prospects.

Another issue affecting businesses in emerging nations is bureaucratic red tape. The process of establishing and maintaining a firm may be drawn-out and challenging in many developing nations. This may prevent entrepreneurs from launching enterprises or force them to act shadily, which can restrict their access to finance and hinder the expansion of their companies.

Potential Remedies

Governments, international organisations, and the private sector must work together to make coordinated efforts to solve the issues that entrepreneurs in developing nations face. Here are a few potential remedies:

Increasing access to capital: Governments might set up microfinance organisations or loan guarantee programmes to provide capital to business owners without collateral or credit histories. Funding for entrepreneurship might also come from international organisations. Governments may spend money on infrastructure to enhance power, internet access, and transportation. Due to this, entrepreneurs may find it simpler to run their companies and increase their ability to compete on a worldwide scale[2].

Investing in education and training: To build the essential human capital to encourage entrepreneurship, governments may fund education and training programmes. This may lessen brain drain and alleviate the skills gap. Streamlining regulations: By removing unnecessary bureaucracy, governments may make it easier to establish and maintain a firm. This could inspire more company owners to establish legitimate operations.

The Entrepreneur's Role

The term "entrepreneur" originates from the French language, where it originally referred to a person who planned musical or other forms of entertainment. An entrepreneur in economics is an economic leader with the capacity to spot opportunities for the successful introduction of new products, processes, and sources of supply and to put together the required infrastructure, management team, and workforce and organise them into a viable business. Entrepreneurship is crucial for economic progress, regardless of the country's economic or political structure. In a socialist country, the government acts as the businessman. The same is true in developing nations when private enterprise is reluctant to take on the risks involved in new projects. However, in sophisticated capitalist nations, private businesses have been important in driving economic growth. The role of an entrepreneur has changed significantly over time thanks to economists. The role of the entrepreneur, according to some economists, is to take on risks and uncertainties, while others see it as the coordination of productive resources, Schumpeter in particular seeing it as the introduction of innovations, and still others as the provision of capital. Regardless of how we define an entrepreneur, he or she is the driving force behind any business venture since without them, the economy's industrial wheels would not turn. Yale Brozen said it well when he said that "the private entrepreneurship is an indispensable ingredient in economic development over the long period."

In contemporary companies, various people are given ownership of the enterprise. Capitalists are the company's stockholders. A variety of experts in their disciplines, including the sales manager, the procurement manager, the production manager, the personnel manager, and so on, carry out the managing duty. The chairman of the board of directors performs the entrepreneurial role and makes important decisions after seeking consensus. Additionally, there are state-controlled and -managed public firms in LDCs. The government provides the funding, the managers for the various departments are chosen from a variety of specialties, and the managers and the ruling party make the entrepreneurial choices[3].

DISCUSSION

The social structure, which limits chances for creative faculties, inhibits entrepreneurship. "The atmosphere that is hostile to experimentation and innovation is created by the force of custom, the rigidity of status, and the mistrust of new ideas and the pursuit of intellectual curiosity." Traditional beliefs in LDCs prevent using human resources to their maximum potential. Instead of ranking people based on their ability to do certain occupations, sex, caste, clan, and kinship are used instead. There is no sense of independence. Instead of trying out new occupations, they favour conventional trades and professions. Hagen emphasised that "villagers and elite alike revere the same economic roles and spurn trade and business, and there is a feeling of repugnance towards work that soils one's hands, in such economies." The value system thereby downplays the significance of financial incentives, tangible rewards, independence, and logical reasoning. It prevents the creation and adoption of fresh concepts and goals. In other words, many developing nations have cultural value systems that are not conducive to economic success.

Extreme income and wealth distribution disparities in these countries also inhibit the development of entrepreneurship. At the top of the economic pyramid, only around three to five percent of individuals save money. They are mostly merchants and landlords who choose to invest in unproductive areas instead of taking chances with new business endeavours. Examples include gold, jewellery, precious stones, idle inventory, opulent real estate, speculation, etc. However, some business owners and dealers specialise in selling consumer products while also working as loan officers and real estate brokers[4], [5].

In addition, a small number of entrepreneurs operate mines and plantations that have a propensity to become monopolistic or quasi-monopolistic as well as the production of several consumer items. They establish personal and political ties with the government official, hold a position of privilege, and get special treatment when it comes to finances, taxes, exports, imports, and other issues. They are the ones who established new industries and, as a result, family-owned corporate dynasties like India's Tata, Birla, Ambani, and Dalmia families. Such large corporations impede the development of new entrepreneurship in the nation.Lack of infrastructure facilities, which raises the risk and unpredictability of new entrepreneurship, is another factor contributing to the low number of entrepreneurs in LDCs. These nations lack well established means of transportation and communication, affordable and reliable electricity, a sufficient supply of raw resources, skilled labour, and well-developed capital and money markets, among other things.

Last but not least, LDCs' technology behind is a barrier to entrepreneurship. As a result, there is a decrease in production per worker, and the goods are of poor quality. Such nations lack the resources and technological know-how to develop their own, potentially labor-saving and output-increasing, procedures. The majority of the time, they are forced to rely on expensive, imported methodologies that don't suit with their factor endowments. Additionally, as shown by Hoselitz, individuals in these economies are compelled to choose outdated methods over ones that increase production due to a variety of economic, social, and administrative resistances.6 According to Professor Henry Wallich, "one can hardly say that 'innovation' is its most characteristic feature in less developed countries" when it comes to the Schumpeterian process of invention. It may be more accurate to refer to the process as one of assimilation. There is no denying the skill of entrepreneurial effort required to establish a new industry in a less developed nation. However, it is obviously extremely different from the initial invention process. Due of the multiple economic, social, and administrative challenges mentioned above, the entrepreneur has a secondary position in LDCs[6].

Ways To Push Entrepreneurship

Essentially, entrepreneurship is a socio-economic phenomenon. Entrepreneurs have historically come from a certain class. The majority of the entrepreneurs were in the fields of business in the United Kingdom, the United States, and Turkey.8 The family structure in France contributed to the rise of smaller businesses. By adopting brash young merchants or bringing them into the family via marriage, the Samurai were the ones in Japan who turned to industry and preserved their social order. Contrarily, Hoselitz's research shows that persons with mechanical abilities, not business and financial ones, were the early industrial enterprises' founders in England, France, and Germany. These guys were employed as craftsmen, workers, yeomen, and cottagers. A couple of them were middle-class parents' sons. However, the first businessmen were often guys who worked with their hands, made technological advancements, and were mostly from lower, landless social groups.

In his Asian Drama, Myrdal makes the argument that the reason why Asian nations lack entrepreneurship isn't a shortage of resources like money or raw materials, but rather a dearth of men with the correct mindsets. According to the outcomes they have achieved in the industrial area, the Japanese have a large number of these mindsets. Early in the 20th century, Chinese and Indian emigrants who were looking for better opportunities established themselves as "emigre entrepreneurs" in Malaysia, Singapore, Indonesia, Myanmar, the West Indies, and East Africa. Therefore, whatever the driving forces behind men's productive entrepreneurial deeds, one thing is for certain: "These driving forces have varied greatly, from one society to another, and they have rarely, if ever, been motives of an unmixed material character."

But in LDCs, "creating a climate for entrepreneurship" is the major issue. The development of such a climate depends, on the one hand, on the establishment of social institutions that objectively permit the exercise of independent individual enterprises, and, on the other hand, on the maturation and development of individuals whose dominant orientation is towards productivity, working, and creative integration[7].

A number of political actions, such as social institution reform, effective property rights defence, and upholding national law and order, are necessary for the first criterion to be fulfilled. Additionally, it necessitates the creation of financial organisations that gather funds and channel them into entrepreneurial endeavours. Financial institutions including saving banks, investment banks, and the complex of brokers, dealers, and commercial banks that make up the capital and money markets are necessary to enable this process. The government need to implement monetary and fiscal measures that support the expansion of entrepreneurship.

The success of entrepreneurship in LDCs is seriously hampered by the lack of trained employees, scientists, technicians, managers, and other types of professionals. Institutes for science, technology, management, research, and training must be established as a result. Despite the fact that management and entrepreneurship are two distinct activities in both the public and private sectors, skilled technical, managerial, and scientific employees are crucial to the success of entrepreneurship. Additionally, every LDC has to create an Entrepreneurship Development Institute, as was done in India in 1983. A broad range of entrepreneurial and associated activities should be included in such an institution in order to select, develop, and prepare individuals for entrepreneurship.

The government should support the development of acceptable technologies in a variety of disciplines that may be consistent with the nation's factor endowments in addition to providing economic overhead capital. If this is not practicable, the LDCs should take use of the advanced nations' tremendous technological expertise and alter and adapt their methods to match their needs in terms of social, economic, and technical assimilation. The availability of financing options for such methods, the supply of raw materials, and expanded markets will all contribute to an increase in the number of entrepreneurs.

The availability of all the aforementioned technical, social, and economic institutions will encourage even dormant entrepreneurship to move in the correct way. In addition to a certain set of institutions, the development of a suitable personality and drive is also necessary for the supply of entrepreneurship to increase in LDCs. According to study by McClelland for The Achieving Society, motivation is ultimately what drives entrepreneurship. Entrepreneurship is encouraged by the urge for accomplishment (n-achievement), the sensation of performing and finishing tasks. He claims that n-Ach (n- achievement) is a rather stable personality trait that has its roots in middle childhood events. Children's textbook tales and variations in n-Ach levels were connected, and it was discovered that n-Ach levels in the US were very high 80 or 90 years ago. Right present, China and Russia have the highest rates. It is becoming more prevalent in emerging nations like Mexico and Nigeria. He connects the high n-Ach in these nations to the idea of intellectual reform, Protestantism in Europe and America, fervent Communism in Russia and China, and the nationalism present in the emerging nations.

Without a doubt, the n-Ach factor is crucial for the development of entrepreneurship, but LDCs cannot wait 15 or 20 years to foster it among young people via textbooks alone. McClelland and David Winter13 carried out studies in the town of Kakinada in the Indian state of Andhra Pradesh, and the results showed that neither money nor caste or conventional beliefs were significant factors in the formation of entrepreneurship there. It was discovered that those who attended a two-week motivational training at the Small Industries Extension Training Institute in Hyderabad in 1964–1965 thereafter demonstrated more active entrepreneurial conduct. Motivations, skills, and a friendly atmosphere all work together to encourage entrepreneurship. Since the motives and skills of entrepreneurs are long-term sociological issues, it is preferable to create a political, social, and economic climate that is conducive to the development of entrepreneurship in LDCs[8].

In many nations, entrepreneurship has been seen as a crucial instrument for economic progress. Entrepreneurship is said to be able to boost productivity, foster innovation, and support economic development. The goal of this essay is to evaluate the research on economic growth via entrepreneurship, including its contribution to productivity, innovation, and job creation as well as the variables that influence entrepreneurship.

Entrepreneurship's Contribution to Job Creation

The generation of new jobs is thought to be significantly influenced by entrepreneurship. Entrepreneurs' new ventures offer employment possibilities, which in turn fuels the expansion of the economy. As more revenue is generated, consumer spending rises, and the economy finally expands, the creation of new employment has a knock-on impact. Furthermore, business owners generate positions that are difficult to outsource, such those in the service sector or specialised manufacturing, which creates a more stable job market.

Entrepreneurship's Contribution to Innovation

Entrepreneurship is seen as a key factor in driving innovation. Entrepreneurs are often motivated by a desire to find solutions to issues, and this results in the creation of novel goods, services, and business models. New markets and industries are produced as a result of innovation, which promotes economic expansion. Additionally, it has been shown that entrepreneurship is favourably connected with rising R&D spending, which boosts innovation even more[9].

Entrepreneurship's Contribution to Productivity

Additionally, it has been shown that entrepreneurship increases productivity. Entrepreneurs often have a strong sense of motivation and are prepared to take chances in order to succeed. New technology, procedures, and goods that boost production and efficiency may result from this approach. Additionally, business owners often look for new markets and possibilities, which may enhance competition and eventually boost productivity.

Influences Entrepreneurship

Access to cash, education and training, cultural attitudes, and the regulatory environment are a few elements that have an impact on entrepreneurship. For entrepreneurs, having access to finance is essential since it helps them to launch and expand their enterprises. Without sufficient funding, company owners could find it difficult to launch or expand their activities. The ability to thrive in business is a prerequisite for entrepreneurs, thus education and training are equally important.

The success of entrepreneurship may also be influenced by cultural perceptions about it. Because it is not highly regarded in certain societies, entrepreneurship may not be chosen as a career path. On the other hand, people may be more willing to establish enterprises and take risks in societies that put a high value on entrepreneurship. And last, entrepreneurship might be impacted by the regulatory environment. Overly onerous or challenging regulations may deter entrepreneurs from opening new enterprises. Contrarily, policies that encourage entrepreneurship may create an atmosphere that is conducive to corporate expansion.

CONCLUSION

In conclusion, entrepreneurship is essential to the growth of the economy. It eventually results in the expansion of the economy by fostering productivity, innovation, and the creation of new jobs. Entrepreneurship is impacted by a variety of variables, including regulatory environment, educational and training opportunities, cultural norms, and financial availability. Governments and policymakers may encourage entrepreneurship by fostering an environment that is conducive to company expansion and by giving entrepreneurs access to resources and assistance.

REFERENCES:

[1] Y. Bilan, H. Mishchuk, and R. Pylypchuk, "Towards sustainable economic development via social entrepreneurship," *J. Secur. Sustain. Issues*, 2017, doi: 10.9770/jssi.2017.6.4(13).

[2] M. Hadzic and P. Pavlovic, "Rethinking strategy for SMEE support in the light of the entrepreneurial ecosystem," *Emerg. Sci. J.*, 2019, doi: 10.28991/esj-2019-01201.

[3] M. Laužikas and S. Dailydaitė, "Impacts of social capital on transformation from efficiency to innovation-driven business," *J. Bus. Econ. Manag.*, 2015, doi: 10.3846/16111699.2012.754374.

[4] A. Aljuwaiber, "Entrepreneurship research in the Middle East and North Africa: trends, challenges, and sustainability issues," *Journal of Entrepreneurship in Emerging Economies*. 2020. doi: 10.1108/JEEE-08-2019-0123.

[5] T. Ebert, F. M. Götz, M. Obschonka, L. Zmigrod, and P. J. Rentfrow, "Regional variation in courage and entrepreneurship: The contrasting role of courage for the emergence and survival of start-ups in the United States," *J. Pers.*, 2019, doi: 10.1111/jopy.12454.

[6] W. Cheng and O. O. Adejumo, "Entrepreneurship channels and sustainable development: Directions for the asian economy," *J. Bus. Econ. Manag.*, 2021, doi: 10.3846/jbem.2021.14252.

[7] M. Jayaratne, G. S. Mort, and C. D'Souza, "Sustainability Entrepreneurship: From Consumer Concern Towards Entrepreneurial Commitment," *Sustain.*, 2019, doi: 10.3390/su11247076.

[8] H. Chen and M. Liang, “Empirical analysis on regional economic growth from the perspectives of entrepreneurship and investment in research and development,” *Int. J. Sustain. Dev. Plan.*, 2020, doi: 10.18280/ijsdp.150812.

[9] A. Hanan, A. Shahira, and M. Ali, “Drivers of Sustainable Entrepreneurship Among SMEs in Pakistan: Does Entrepreneurial Knowledge Matter?,” *Indones. J. Innov. Appl. Sci.*, 2021, doi: 10.47540/ijias.v1i2.257.

CHAPTER 23

STATE'S FUNCTION IN ECONOMIC DEVELOPMENT

Dr Uma Warrier, Professor, Department of OB & HR,
CMS Business School, JAIN Deemed to-be University, Bangalore, India,
Email id-umawarrier@cms.ac.in

ABSTRACT:

It is now widely acknowledged that the state must take an active part in overcoming the rigidities present in an LDC. It can't just watch from a distance. Because of how severe their issues are, LDCs cannot rely only on the free operation of the market forces. Because it does not exist in the current meaning of the word, private business is unable to address them. Therefore, government intervention is essential for the growth of these nations' economies. Therefore, swift socioeconomic changes are required to lift these nations out of the dead zone of stagnation. Early in the development process, investments will need to be made in areas that support external economies, i.e., in areas that provide economic and social overheads like electricity, transportation, education, and health care.

KEYWORDS:

Agriculture, Education, Growth, State, Social.

INTRODUCTION

Due to the high dangers and poor rewards, private industry does not want to engage in these tasks. It is important to balance the expansion of the economy's various sectors so that supply and demand are balanced. Therefore, achieving this equilibrium requires the regulation and control of the state. Control over the creation, transfer, and consumption of goods is necessary. The government must create physical restrictions, as well as monetary and fiscal measures, for this goal. Such actions are also necessary to lessen the widespread economic and social inequality in developing nations. "Breaking social chasms and creating a psychological, ideological, social, and political situation propitious to economic development becomes the paramount duty of the state in such countries." The range of governmental activity is consequently extremely broad and pervasive. It entails "maintaining public services, influencing attitudes, reshaping economic institutions, influencing the use of resources, influencing the distribution of income, controlling the quantity of money, controlling fluctuations, ensuring full employment, and influencing the level of investment[1]–[3]."

Changing the sociocultural attitudes of the people in the LDCs is one of the key ways to promote economic growth. These civilizations have cultural and religious traditions that hinder economic progress. The institutional environment does not support rational, individualistic conduct or an entrepreneurial mentality. Social attitudes, values, and institutions ingrained in caste, kinship, and religion beliefs must alter for economic progress to continue. Social revolution is needed for these. The instantaneous downfall of the established institutions is not what social revolution entails. Change must occur via an evolutionary process. In every other case, dramatic societal changes will result in anger, resentment, unrest, and bloodshed. In turn, these elements will restrain economic expansion. According to Francis Hsu, "there does not seem to be any way in which a similar orientation could be generated in a matter of years or even decades." Any society attempting to implement it quickly will result "either in apathy or revolt." Therefore, "much depends upon the way in which the process of growth and change it set in motion, the way in which the process of growth and change it set in motion, the way in which the process of growth and change it set in motion An attempt to force the pace too quickly may also be economically wasteful because the social and personal changes may not occur that are required to enable the individual or the society to form the development necessary to enable individuals or the society to profit and sustain it. In general, a slow but steady development is likely to create fewer political, social, and economic tensions.

Institutional changes alone do not result in economic transformation. Increased capital creation or technical advancements, which may also result in institutional changes, may be the cause of economic development. Institutional changes, on the other hand, could be brought on by forces other than economic ones. Institutions may alter as a result of non-economic reasons such shifts in political or religious beliefs. Therefore, there may be a causal link between institutional and economic development or these changes may occur independently of one another. Institutions encourage economic development to the degree that they link effort with reward, allow for a greater division of labour, expanded commerce, and the flexibility to take advantage of business possibilities. Once the process of transformation begins, it builds up. People will grab new chances if social institutions begin to alter, which will in turn cause the institutions to change even more.

The new prospects can materialise in a variety of ways. "New discoveries may lower the cost of manufacturing existing goods or result in the creation of new ones. New maritime lanes, improved communications, or new shipping routes might provide new commercial possibilities. New requirements might arise from a war or inflation. Foreigners may enter the nation and bring with them new trades, new investments, or new job prospects. These new opportunities lead to changes in institutions. These changes are noticeable and gradual. They are started by pioneers, the "new men," who try to break with tradition and reimagine the established institutional structure. These inventors are locals. Political and social forces are encountered, and they fight back. They finally succeed in changing outdated attitudes and institutions by presenting bigger and more varied economic prospects. In a similar vein, interaction with immigrants could help undermine existing social norms. In India, the development of railways, the adoption of western education, and the emergence of industrial hubs throughout the 19th century all contributed to the thinning of social and familial connections. Popular movements for the nation's political independence were sparked by the new social rationality mindset. Above all, the government has significant influence on the institutional architecture. The government may accomplish a lot by enacting changes in the areas of education, land usage, and social norms and religious observances. By upholding law and order, delivering better public utility services, supporting new businesses, etc., it may also spur economic development.

Organisational changes are crucial to the growth of the economy. They include the structuring of the employment market and the growth of the market's size. Governments in LDCs are the only ones that can implement these reforms. Because private enterprise is unable to implement such plans, the state is the only entity that can construct the transportation and communication infrastructure necessary to increase the size of the market. Additionally, the creation of financial institutions by the government may aid in the expansion of the agricultural and industrial sectors.

Such financial organisations include cooperative banks, banks that lend on real estate, commercial banks, and banks that lend to industries like finance and investments.

The government also has responsibilities for the way the work market is organised. The work force is more productive when there is an organised labour market. By registering labour unions, the government aids in the organisation of the work force. It develops mechanisms for resolving labour disputes, regulates working hours and pay, offers social security provisions, etc. Such laws are designed to create friendly relationships between employers and workers. As a consequence, labour becomes more efficient, resulting in more productivity and lower expenses.

In less developed nations, labour is mostly stationary. The bulk of individuals work in agriculture for just a short time and reside in rural regions. Therefore, they are underemployed or doing a covert job. They are unaware of the career chances in cities and industrial areas due to a lack of knowledge. By establishing information centres in rural regions and employment exchanges in urban areas, the government may aid these people in finding work. The government may support labour mobility in this manner. The government must also address the urbanisation issues that occur when development workforce is transferred from rural to urban regions. These issues include housing, clean water, energy, slums, transit, etc. Building housing colonies, schools, universities, hospitals, parks, city transit, drinking water supplies, and electric grids are examples of the kind of services that come within the jurisdiction of governmental duties[4].

DISCUSSION

In LDCs, providing social and economic overheads mostly comes within the purview of governmental activity. Future growth is dependent on having access to fundamental amenities like roads, trains, telecommunications, gas, electricity, irrigation systems, etc. Large investments are necessary for their growth, which are beyond the scope of private industry in such nations. Additionally, investments in public utilities are hazardous and only pay off in the long run. Therefore, it is the responsibility of the state to provide these public goods.

Prioritising the development of critical services should be the goal of the government's strategy. If constructing irrigation infrastructure is necessary right now, that requirement should be satisfied by focusing on smaller irrigation facilities rather than damming a large river. Additionally, the availability of public utility services does not compel the government to own and run them. The state may provide the go-ahead for a certain project, fund it, and offer other facilities for development to a private company that would build and own it. However, the state might impose restrictions on how it operates. In actuality, an undertaking's nature and significance determine whether the government or a private business owns and runs it. The development of communications and transport infrastructure in India is a state-led endeavour. Given their significance in a large nation like India, the government owns and runs the railroads, the airlines, and other forms of communication. The state regulates all aspects of the road transport industry, even though it is owned by both the public and private sectors. Compared to the railroads, owning and operating a bus requires less money and produces returns more quickly.

Education. Without education, economic progress is not feasible. To begin a national development strategy when the populace is primarily illiterate seems pointless, as Myrdal observes.6 For economic growth, the quality of workers is more crucial. Even while working long hours, unskilled employees will have a low per capita income. It is impossible to expect illiterate or unskilled people to operate and maintain sophisticated equipment. You can boost their production by making investments in them. The state may enhance the effective labour supply and subsequently the country's economic capacity by investing in public education. A curriculum must be extensive and diverse. Primary education is essential if all children who are of school age are to get a free, public education. More secondary schools must be established in order to impart greater educational facilities and to provide academic materials to universities. To train mechanics, electricians, craftsmen, nurses, teachers, agricultural assistants, etc., training facilities are also required. The university education and research institutions are in charge of producing an ever-increasing number of physicians, executives, engineers, and other skilled individuals. Investment in such a vast and varied field as education is only possible under the aegis of the state in LDCs. "Programmes of education lie at the base of the effort to forge the bonds of common citizenship, to harness the energies of the people and develop the nation and human resources of every part of the country."

The return on investment in human capital is excellent. An LDC requires professionals who can improve the flow of products and services, speed up growth, such as agricultural and industrial technicians, physicians, engineers, teachers, and administrators. But owing to a lack of resources, an underdeveloped nation cannot solve the issue of providing educational facilities to a large number of people. Whatever resources are available must be distributed based on priorities. Additionally, economists disagree on the issue of priority. Both a consumer and an investment service, education. When investing in education, productivity rises as a direct result.

An same amount of capital is invested in the education and training of physicians, educators, engineers, and administrators as it is in the construction of dams. Lewis, however, does not consider spending on literacy campaigns to educate the peasants to be immediately beneficial. According to him, "such part of education as is not a profitable investment is on par with other consumer goods, like clothes, houses, or gramophones" because it enables peasants, barbers, or domestic servants "to enjoy something more (books, newspapers), or to understand something better."8 Prof. Galbraith, on the other hand, views investment in educating the masses as equally productive. He asserts that it "may undoubtedly be a goal in itself to rescue farmers and labourers from illiteracy. But it's also a crucial initial step in any kind of agricultural development. There is no advancing illiterate peasantry anywhere in the globe. There isn't a literate peasantry everywhere. Galbraith concludes: "That something is both a consumer service and a source of productive capital for the community does not detract entirely from its relevance as an investment. Education, when regarded in this way, becomes a highly productive type of investment. It falls to the state to start a long-term programme of educational expansion and reform on a broad front ranging from a literacy drive to the university level, so that in all spheres of national life, education becomes the focal point of the country's development.

Planning families and public health. Public health is yet another area where the state can make progress. The general state of the population's health must be gradually improved in order to boost labour productivity and efficiency. The control of communicable diseases, the provision of medical and health services, particularly in maternal and child welfare, health education, and family planning, and above all, for the training of health and medical personnel are among the public health measures. Other public health measures include improving environmental sanitation both in rural and urban areas, eliminating stagnant and polluted water, removing slums, better housing, clean water supply, and better sewage facilities. All of this calls for deliberate action on the side of the government.

Public health initiatives are very important in LDCs for two main reasons: first, they boost labour productivity and efficiency, which aids in development; second, by lowering mortality rates, they tend to accelerate population growth, necessitating the adoption of family planning and rapid development policies by the state. But if the population is allowed to continue growing, all development efforts will be in vain. Since the mortality rate in LDCs is already declining, the solution is to reduce the birth rate from the current 40 per thousand to 20 per thousand. There is undoubtedly a larger need for speeding growth, but family planning measures must be given top priority if we want to raise per capita income and improve living conditions. After discounting his lifetime future productivity, Dr. Stephen Enke determined that a newborn baby's lifetime net consumption in an LDC is worth around 125 dollars. For overpopulated LDCs, 125 dollars represents a negative value and a financial burden10. Family planning is the conscious control of reproduction. Programmes for family planning should include:

family planning education for the general public, including sex education, marital counselling, and kid advice. The media for this might include radio, literature, movies, and social organisations.The provision of family planning services has to be far more widespread. Services for family planning may be included into routine medical and health care. Family planning clinics need to be established in rural regions, at workplaces, and in other places. Mobile education centres should be available to teach the general public about family planning. You may also enlist the assistance of nonprofit organisations. The family planning clinics have to provide free counselling, contraceptive supplies, and perhaps free vasectomy procedures. They could get government assistance.

creation and upkeep of a vast network of workplace training facilities. a more extensive agenda of study on biological, medicinal, and demographic issues. In India, such a programme entails the advancement of human genetics studies, research on the physiology of reproduction, the development of more effective local contraceptives, the creation of an appropriate oral contraceptive, and the investigation of follow-up sterilisation cases, both male and female, to look into any possible effects. To conduct a large family planning scheme, contraceptives should be produced locally so that supplies do not trail behind. They should also be easy, affordable, and secure.

To encourage parents to have fewer children, there should be financial and other incentives. Payment to a person or couple as an incentive to restrict children is one kind of incentive. In China and India, there is a one-child restriction. Disincentives include depriving people whose families are larger than the ideal norm of societal advantages or penalising them. The importance of lowering societal obstacles to birth control, raising the marriageable age, extending breastfeeding, educating women, and increasing suburban work prospects should all be emphasised.

Some proponents of family planning support abortion rights. To support their claim, they use the example of Japan, where in the decade that followed the Second World War, the birth rate was reduced to 50% of its pre-war level. According to estimates, Japan's legalisation of abortion was responsible for 66% of the country's birth decline. Abortion has been permitted in India since 1976. Other LDCs are able to imitate Japan's example. Above all, a population strategy should be implemented to slow down population increase. In order to bring about socioeconomic changes and lower fertility, it should have a broad variety of direct and indirect policies.

Lewis sums up by saying, "One needs to put all the ingredients into this pie; to persuade social leaders to see the dangers of a high birth rate, so that the taboos and religious sanctions turn against it, instead of its favour; to raise standards of living and education quickly, so that women find it convenient to have fewer children; and to spread propaganda about birth control methods widely. All fronts need to be attacked at once[5].

Development of Agriculture

In LDCs, agriculture accounts for the majority of employment and more than half of total national revenue. In spite of this, agriculture continues to stagnate. Compared to the number of people involved, the sector's contribution of the national revenue is disproportionally low. For instance, in India, about 70% of the population works in agriculture and it accounts for nearly 50% of the country's GDP. The primary reason is the meagre agricultural output per acre. The uneconomic size of the holdings, the fragmentation of land holdings, the flawed system of land tenure marked by high rents and tenure insecurity, the use of outdated production techniques, the excessive pressure of population on the land, the lack of adequate credit facilities, and indebtedness are the causes of the low yield.

The peasants in LDCs are uneducated, illiterate, and destitute. They are not organised. Their lack of enthusiasm prevents them from improving the land. Their way of life is governed by traditions and conventions. Therefore, introducing land reforms and creating plans for agricultural growth are within the ambit of governmental actions. The level of enhanced agricultural output will ultimately determine a plan's success. Increases in agricultural production are necessary to satisfy the industry's demand for raw materials, achieve food grain self-sufficiency, maintain market prices, raise more money for development, and make the most of the economy's under- and untapped human resources[6].

Shriman Narayan has listed the following main elements in the preparation of agricultural production plans at the village level: (i) full utilization of irrigation facilities, including maintenance of field channels in good condition for the beneficiaries, repairs, and maintenance of community irrigation works; (ii) increase in the area under multiple cropping; (iii) multiplication in the village of improved seed and its distribution to all cultivators; (iv) supply of fertilizers; (v) programmes for composing and green manure; (vi) adoption of improved agricultural practices, e.g., soil conservation, contour bunding, dry farming, drainage, land reclamation, plant protection, etc.; (vii) programmes for new minor irrigation works to be undertaken in the village, both through community participation and on an individual basis; (viii) programme for the introduction of improved agricultural implements;' (ix) programme for increasing production of vegetables and fruits; (x) programme for development of poultry, fish and dairy products; (xi) animal husbandry, e.g., supply of stud bulls, establishment of artificial insemination centres and castration of scrub bulls etc. and (xii) programme for the development of the village fuel plantations and pastures."

However, the degree to which the farmers are organised in cooperative societies and the effectiveness of the governmental machinery to meet the needs of the agriculturists at the appropriate moment will determine the success of the village production schemes. In other words, via a body like the Community Development Organisation, there should be close communication between the government and the local community. It has achieved extraordinary success both in the United States and in India, the latter of which stole the original concept. the neighbourhood. By using better cultivation methods, seeds, fertilisers, and the adoption of improved agricultural practises, the development programme seeks to increase agricultural production. It calls for the rural regions' irrigation, roads, communications, health, and sanitation facilities to be improved. Additionally, this project focuses on the growth of "agro-type" village enterprises as well as fish, poultry, and dairy products. Above all, it seeks to alter the mentality of the rural populace in order to combat the five giants that plague a developing nation: sickness, hunger, illiteracy, filth, and unemployment[7].

However, the government's land reform initiatives will determine how well agricultural development schemes work. According to the Indian Planning Commission, there have been two major goals of land reform measures: "to eliminate such barriers to development in agricultural output that result from the agrarian system inherited from the past. This will help to "eliminate all elements of exploitation and social injustice within the agrarian system, to provide security for the tiller and assure equality of status and opportunity to all sections of the rural population" and "to evolve as quickly as possible an agricultural economy with high levels of efficiency and productivity" Land reform measures include: the elimination of intermediaries; the security of tenure of tenants; right to own land.

In the strange world of land reforms, we shouldn't forget that excessive volatility in agricultural prices must be avoided and a sufficient level of stability must be maintained for the economy to grow sustainably. This does not imply that agricultural product prices should be maintained at a low level since low prices discourage output. As a result, agricultural items should have set, just prices that the government should guarantee.

Industrial growth

The state's responsibility to promote industrial development is another crucial duty. Natural resources are underdeveloped or undeveloped in LDCs. The foreigners who reigned over those nations while they were still under colonial authority ruthlessly plundered their natural riches. Leaving the development of natural resources in such nations' hands after independence to foreign-dominated private businesses is thus not in their best interests. The state is responsible for nationalising its mines, plantations, etc. It should conduct an assessment of its natural resources, formulate an appropriate plan for their exploitation and growth, and create enterprises to make the most use of them. In these nations, the private sector largely produces a small number of consumer items for domestic use. However, the formation of fundamental and important industries, such as iron and steel, heavy electricals, heavy chemicals, fertilisers, machine tools, etc., is crucial to accelerating the pace of economic growth. Such sectors have lengthy gestation periods and high investment requirements. As a result, private industry is hesitant to join certain sectors of production. Thus, starting businesses in these domains becomes the responsibility of the state.

Again, several businesses that produce consumer products, like sugar, textiles, etc., need rationalisation since they often use outdated equipment and methods. On the other hand, industries for import substitution and export promotion must be established for quick economic growth. Furthermore, the majority of the countryside is underdeveloped and devoid of any industry, with the exception of a few large cities. It is the responsibility of the state to create and carry out a wise industrial strategy in order to provide the essential support for the growth of cottage, small, and large-scale enterprises in order to solve all of these issues. Decentralisation of industries should be the policy, with industries distributed throughout all regions based on their factor endowments. Even the adoption of a strategy to designate industries as focus sites in and around small towns may make a significant contribution to the growth of local resources and the creation of more substantial job possibilities[8].

The importation of raw materials, expensive machinery, capital equipment, and technological know-how by the state may also aid in the expansion of private enterprises. The government may also assist private business in developing businesses by offering resources like low-cost financing, tax breaks, electricity, water, transportation, communications, and inexpensive land for constructing factories, among others. Last but not least, the state itself may aid in the development of underdeveloped regions by launching public companies and encouraging private sector to establish industries, providing the aforementioned facilities and concessions.

Financial And Monetary Policies

The government also contributes to economic growth by implementing different fiscal and monetary policies. In impoverished nations, the state is able to eliminate social, institutional, and economic obstacles by enacting suitable monetary and fiscal policies. In order to manage inflation, preserve balance of payments equilibrium, and affect the cost and availability of credit, monetary policy is crucial in accelerating growth. Through the nation's central bank, the state conducts all of these activities. In order to promote saving and investment, the central bank sets interest rates, manages the public debt, floats government loans, increases banking facilities, and creates financial institutions.

The government attempts to address income and wealth disparities that worsen with growth in developing nations via fiscal policy. It enhances the overall level of savings and investment, widens domestic markets, decreases unnecessary imports, combats inflationary pressures, and gives incentives for the right kinds of economic initiatives. The government establishes proper taxing, spending, and public borrowing policies to account for all of these.

CONCLUSION

Although overseas commerce is important to developing nations, it is quite minor both in terms of value and volume. They mostly import manufactured consumer goods and capital goods in return for exporting certain basic exports, such as minerals, raw materials, and agricultural products. The value of their imports is much larger than that of their exports since the latter items are more expensive than the former ones. Additionally, the state may provide tax breaks, sign bilateral trade agreements with other nations, and take part in trade shows abroad to promote exports. Governments often take the essential step of supporting import-substitution companies. Import tariffs, quotas, surcharges, and various exchange rates are imposed for this reason as price-protective measures, whereas tax exemptions and subsidies are used to lower costs in sectors that utilise imports as a substitute. The government also makes an effort to resolve balance of payments issues via overseas assistance. It imports capital goods, components, raw materials, oil, technical know-how, etc. from other nations or via international organizations.' As a result, the state is able to increase income, investment, and employment levels in the economy by enlarging the markets for its exports.

REFERENCES:

[1] F. Zhang, C. Cao, C. Li, Y. Liu, And D. Huisingh, “A Systematic Review Of Recent Developments In Disaster Waste Management,” *Journal Of Cleaner Production*. 2019. Doi: 10.1016/J.Jclepro.2019.06.229.

[2] A. Ahmed And M. Khalid, "A Review On The Selected Applications Of Forecasting Models In Renewable Power Systems," *Renewable And Sustainable Energy Reviews*. 2019. Doi: 10.1016/J.Rser.2018.09.046.

[3] V. Assumma, M. Bottero, R. Monaco, And A. J. Soares, "An Integrated Evaluation Methodology To Measure Ecological And Economic Landscape States For Territorial Transformation Scenarios: An Application In Piedmont (Italy)," *Ecol. Indic.*, 2019, Doi: 10.1016/J.Ecolind.2019.04.071.

[4] D. Hobbs, S. Lister, P. Hadfield, S. Winlow, And S. Hall, "Receiving Shadows: Governance And Liminality In The Night-Time Economy," *Br. J. Sociol.*, 2000, Doi: 10.1080/00071310020015334.

[5] D. O. Koshikov, "Concept And Classification Of Functions Of State Policy In The Field Of Ensuring Economic Security Of The State," *Law Saf.*, 2020, Doi: 10.32631/Pb.2020.1.09.

[6] X. Jiang And A. Yeh, "Decoding Urban Land Governance: State Reconstruction In Contemporary Chinese Cities," *Urban Stud.*, 2009, Doi: 10.1177/0042098008100995.

[7] P. Dziekański And A. Pawlik, "Intraregional Diversification Of The Level Of The Financial Situation Of The Poviats Of Eastern Poland In Relation To The Development Potential," *Balt. J. Econ. Stud.*, 2019, Doi: 10.30525/2256-0742/2019-5-3-1-8.

[8] P. Leihy And J. M. Salazar, "The Moral Dimension In Chilean Higher Education's Expansion," *High. Educ.*, 2017, Doi: 10.1007/S10734-016-0034-8.

CHAPTER 24

COMMERCIAL STRATEGY AND ECONOMIC GROWTH

Dr Dinesh Neelakanta Rao, Assistant Professor, Department of OB & HR,
CMS Business School, JAIN Deemed to-be University, Bangalore, India,
Email id-dinesh.rao@cms.ac.in

ABSTRACT:

An LDC's economic growth is significantly influenced by its commercial policies. A commercial policy is one that contributes to accelerating the rate of economic development in the following ways: by allowing the underdeveloped country to receive a larger share of trade benefits; by accelerating the rate of capital formation; by fostering industrialization; and by preserving balance-of-payments equilibrium.

KEYWORDS:

Economies, Industry, Protection, Strategy, Trade.

INTRODUCTION

Several justifications have been offered for such a business strategy, which inexorably leads to the acceptance of protection: Argument of the Terms of Trade. The terms of trade argument support an increase in an impoverished country's benefits from trade. An undeveloped nation's national income will grow if the conditions of trade change in its favour. A country's terms of trade will improve if it levies a tariff that causes a decrease in import prices or an increase in export prices. Naturally, this will aid in funding economic growth. Because of this, its revenue will rise and it will be able to import more capital goods. Its Drawbacks. This argument seems to be rational on the surface, yet it has certain flaws. First, if the extra income is not conserved but instead spent on local and imported commodities, an improvement in the terms of trade will have minimal impact on capital creation. Saving alone won't cut it. It must make an investment in capital goods.

Second, the nation imposing the tariffs must possess a sizable monopoly or monopolistic power for the policy to be effective. However, this is not feasible without coordinated economic action by the developing nations. Due to the tiny home market for an importable good and the capacity of industrialized nations to create domestic alternatives for such nations' natural goods, such a strategy is really impractical.Third, this kind of tariff strategy only works if the "foreign-offer curve" is inelastic. However, the foreign-offer curve is often elastic for developing nations. As a consequence, they produce fewer exports and purchase fewer imports as import prices increase. The volume of commerce will decrease more as a consequence of the implementation of tariffs the higher this elasticity is. The terms of trade argument is significantly constrained by these price elasticities of supply and demand.

The Saving Ratio Argument states that even after accounting for all of these restrictions, "it is likely that the gain from trade would only be a short-term gain, which would be eliminated quickly by retaliatory measures by other countries, changes in elasticities, or by changes in the government's "expenditures of customs revenue or an internal redistribution of income."

Increasing the pace of investment through increasing domestic savings is one of the main sources of capital creation. By limiting the importation of consumer products by direct regulations or prohibitive levies, domestic savings may be increased. As a result, the consumer expenditure is decreased, increasing savings in the process. The additional savings are then put to use purchasing capital items. Therefore, a decrease in the import of consumer products must be followed by a rise in the importation of capital items of the same value in order for capital creation to occur.

But there are also some limits to this reasoning. First, if consumer spending is not reduced as a consequence of import restrictions but rather shifts from imported to local consumption products, the demand for these latter commodities will increase relative to their supply, putting upward pressure on prices and costs. According to an excellent statement by Nurkse, "When the escape value of consumable imports is shut off, the pressure of the steam in the system increases, demand becomes excessive in relation to domestic supply, and tends to push up the level of prices."

Second, since rising consumption diverts domestic resources from capital building or maintenance, the growth in home consumption will also come at the expense of expanded home investment. However, capital creation may occur by acquiring imported capital goods via forced saving that occurs from inflation, without an increase in voluntary savings[1].Third, domestic funds will be diverted into non-essential channels if import limits on luxury consumption products are not supported by comparable limitations on home manufacturing of these commodities. It cannot be argued that economic progress occurs in this fashion, but it does so in a way that is unnecessarily painful and twisted. As a result, the "economy surrenders through the back-door what it secures by the front-door."

Fourth, this argument makes the assumption that a policy of limiting imports of consumer products has no negative impact on exports. Import restrictions that are put in place to safeguard local sectors that compete with imports are likely to draw resources away from the export industry. The exports will suffer as a result. The prohibition of imported consumer items may also lessen the motivation for peasants to grow crops suitable for export. Fifth, an import restriction strategy that drives up prices and expenses at home might negatively impact exports. Accordingly, Nurkse notes that "the simple notion that more capital can be obtained for the country simply by pinching and bending the foreign trade sector is an example of the fallacy of misplaced concreteness."

The case for foreign investment. By luring direct foreign investment into the developing nation, protection also serves as a source of capital creation. One strategy is for the foreign manufacturer to establish tariff factories in the nation imposing the tariffs in order to get around import restrictions. When completed goods are outlawed but raw materials and essential components are allowed duty-free, the foreign manufacturer may establish a branch or subsidiary of his company on his own or in partnership with a local business behind the tariff wall. This kind of foreign industrial investment has occurred in India in recent years. However, the primary barrier to the entry of direct foreign capital has been the undeveloped nations' tiny local markets for the restricted imports. A sizable local market is a major draw for luring in foreign investment. The direct statement made by Nurkse is that "Tariff protection, if it can help at all, can only help the strong, it cannot help the weak."

The argument of the infant industry. The well-known Listian "infant industry" defence of protection serves as a strong incentive for developing nations to quicken the pace of industrialisation. If they are shielded from international competition, some industries may be successfully established in less developed nations. Due to the absence of certain fundamental facilities, their manufacturing costs may be higher right now, but when the early challenges are resolved, their goods will eventually cost less. The sacrifice made in the form of higher costs in the now would be more than made up for by the benefits of industrialisation in the future. The claim is that "infant" sectors must be shielded from international competition until they are mature. The shift from the agricultural to the industrial stage often characterises the time between childhood and maturity. According to Myrdal, "four special reasons for industrial protection in underdeveloped countriesthe difficulties of finding demand to match new supply, the presence of surplus labour, the large returns of individual investments in creating external economies, and the lop-sided internal price structure disfavoring industry" are interconnected and provide a "infant economy" case for protection to an underdeveloped country.

Its Drawbacks. But it also has its drawbacks. First, since it ignores the issue of capital availability, Nurkse contends that baby industry protection alone is a weak tool for fostering economic growth. Second, protection for emerging industries shouldn't be granted until they have been properly established. Third, tariff protection cannot produce or enhance the supply of capital necessary by the newborn industry, as stated by Nurkse, "Infant creation must take precedence over infant protection." However, by enhancing the incentives for investing in the protected sector, we may influence demand. This reasoning, however, is limited to generating demand for import replacements.

Fourth, it's also questionable if the pressure on import alternatives will be sufficient to result in a balanced expansion of the economy. Because there won't be much investment in the sectors that compete with imports if the economy isn't growing generally. Nurkse advises against relying too much on import restrictions since domestically made import alternatives are expensive and can have a negative impact on real income.Fifth, now that the baby industry has been established, it must fulfil a number of requirements in order for the protection strategy to be effective. It is crucial that the sector grow with protection's assistance and that, ultimately, it be able to stand on its own when protection is lifted. Above all, it should develop the knowledge and expertise necessary to manufacture goods affordably. It suggests that even if there can be losses in the beginning, the sector should eventually be able to realise enough cost savings[2], [3].

Sixth, it might be difficult to determine how much protection should be provided to the young industry and for how long. Dr. Lakdawala emphasises that in order to make these choices, it is crucial to understand and predict not just local demand and supply situations but also those in the rest of the globe. As there are few opportunities for reversal, a mistake in judgement might have expensive consequences. Even if a protected enterprise does not survive its infancy, it must be tolerated once it exists, particularly in nations where the employment issue is of importance. The government must also act as a watchdog to ensure the full efficiency and productivity of protected industries in order to minimise the chances of failure. Seventh, even if these requirements have been met, the best choice of infant industries is uncertain because it is challenging to predict future changes in costs and the extent of external economies. To promote the growth of certain sectors, it is thus preferable to apply a standard ad valorem tariff on all produced goods rather than high selective levies.

Argument from external economies. The formation and growth of any new industry results in advantages in the form of external economies, which is another justification for protection. There is a difference between private profit and societal gain as a consequence of these foreign economies. And when such disparity occurs, a justification for import limitations or subsidisation to minimise this gap may be established. According to Scitovsky8, the notion of external economies is utilised in the context of the industrialization of developing nations in relation to the social issue of dividing money among different investment options.

DISCUSSION

Technical and financial external economies are the two main categories of foreign economies. They develop as a result of the producers' direct dependency. "Technological external economies exist whenever the output of a firm depends not only on the factors of production utilised by this firm but also on the output and factor utilisation of another firm or group of firms."9 These "technological external economies" have an impact on the firm's output by altering its production function. Scitovsky goes on to say that with an increase in an industry's capacity as a result of investment, prices of its products fall and the prices of the factors it uses rise. He claims that "Pecuniary External Economies are invoked whenever the profits of one Producer are affected by the actions of other Producers." Consumers profit from product price reductions, while suppliers benefit from factor increases. These advantages are referred to be pecuniary external economies when they result in profits for businesses. Its Drawbacks. The following drawbacks apply to the thesis about foreign economies:

First, if the capacity of the protected industry is increased as a result of lower production costs for businesses in other industries, as a result of the emergence of technical or financial external economies, "the private profitability understates its social desirability in this situation," leading to less-than-ideal commodity production. In other words, if investments in the protected sector boost the profitability of a different industry, investment choices won't be as good. Therefore, providing protection to a variety of complementary businesses is more financially beneficial to society than providing protection to isolated ones. Scitovsky highlights that "profitability of investment in any of them would be a valid gauge of societal acceptability only if industry growth were integrated and managed jointly."

Third, in reality, one must count only the net external economiesthe external economies minus diseconomiesaccruing to domestic nationals and leave out the pecuniary external economies accruing to foreign buyers from the expansion of export industries and the diseconomies inflicted on foreign competitors by the expansion of import-competing industries. Second, Myrdal is of the opinion that greater external economies are realisable in the export as well as the import-competing industries.12 Scitovsky draws the conclusion that from a national standpoint, investing in export businesses is always less desirable and that it is more favourable to invest in import-competing industries.

Argument for factor redistribution. It is said that the price and cost disparity between agricultural and industry in a developing nation is so great that it hinders the growth of industry. The first person to express this viewpoint was M. Manoilesco13, who argued that industry should be protected since it was more productive than agriculture. Recently, the argument has been repeated by Lewis14 and Myrdal.

The monetary costs of work in industry in undeveloped, overpopulated nations are higher than the social cost of labour in alternative applications. The extended family structure and low employment rates in rural regions are the main causes of the low earnings in agriculture and high pay in industry. A rural resident who is underemployed or jobless will not be willing to take a job in the city until the pay exceeds his part of the family's income. The value of the worker's contribution from the perspective of society is lower than what he is willing to take in a different job in the town, since his marginal product is minimal or zero because he is underemployed or jobless. Therefore, a strategy of preserving industries is required to make up for this disparity in monetary and social costs as well as to provide the excess labour force legitimate job possibilities. According to Myrdal, there is a particularly wide gap between the earnings in the industrial sector and those in agriculture in underdeveloped nations. If industry is not provided a commensurate amount of protection, it will suffer. Furthermore, the social costs of employment in the industrial sector are actually less than the financial expenses. Since agriculture is less productive than industry, real income may be increased by factor redistribution via a policy of protection, which will make up for this difference in labour costs between the two sectors.

Its Drawbacks. This argument has its own flaws as well. First off, this argument is weak when it comes to the issue of covert unemployment that exists in developing nations. The real income of the nation will increase if some of the excess labour, whose marginal productivity in agriculture is zero, is diverted from that sector and employed profitably in industry. Industries must be safeguarded from foreign competition for this reason.

Second, assuming that the issue of "disguised unemployment" does exist, should protection be provided in order to shift excess labour from farm to industry? We have previously covered the many facets of this issue. Instead of industrialisation, Nurkse proposes using excess labour in capital projects as a solution to this issue. It is not safeguarding industry that is the issue; rather, it is encouraging labour mobility by eliminating the many social and institutional hurdles.

Thirdly, the "superiority of industry" argument falls apart in the face of economic expansion. A nation's poverty is caused by low agricultural production rather than an economy that is heavily based on agriculture. In reality, agricultural development must keep up with industrial expansion if there is to be significant economic growth. In order to feed a rising population, provide raw materials to developing domestic industries, earn more foreign currency, and most importantly, quicken the pace of capital creation, agricultural productivity should continue to rise. Therefore, placing too much focus on industry is likely to have a negative impact on exports and agriculture. Therefore, primary production cannot be blamed for poverty. It is a quality that is associated with poverty but not one that causes it.

The Argument of the Balance of Payments. Preventing imbalances in the balance of payments is one of the main goals of commercial strategy in a developing nation. These nations often have severe balance of payments issues that make it difficult for them to reach their development goals. Imports and exports are inequitably matched, and this mismatch only becomes worse when development picks up speed. This is a result of rising imports and falling exports. Underdeveloped nations must import capital goods, machinery, raw materials, spare parts, and components in large quantities to establish economic infrastructure such as power, irrigation, transport projects, etc. and directly productive activities such as iron and steel, cement, electricals, etc., increasing the import content of their foreign trade[4].

A second factor contributing to the increase in imports is the population's need for foodgrains, which is rising. For instance, up until a few years ago, India imported 3 million tonnes of food grains annually on average. Therefore, food imports play a significant role in poor nations' negative balance of payments. Other than food grains, a variety of vital consumer items are imported to fill the gap left by inadequate home production. This also holds true for capital equipment required by the economy's private sector.The import substitution strategy is a significant additional element driving these nations' increasing imports. It calls for the development of these economic sectors, which will eventually displace imports. To establish and run such enterprises, this strategy alone requires the import of significant amounts of machinery, capital equipment, replacement parts, raw materials, etc. After a protracted period of colonial control, almost all impoverished nations have become sovereign states. Therefore, they value their fought-for independence above everything else. They get ready for this by putting up defences against both internal uprising and foreign attack. This prompted significant purchases of defensive gear.

In these countries, inflation is a significant contributor to the balance of payments issues. Heavy investment spending resulting from deficit financing causes severe inflationary pressures as the economy develops. Increased domestic expenses, prices, and incomes favour imports over exports. The balance of payments condition is now grave as a result. Balance of payments imbalance also develops when a rising economy requires foreign currency to pay off foreign debt. The principle and interest on loans from these nations to the developed economies must be repaid. Additionally, companies must pay for the services of intangible commodities, such as shipping and insurance fees for imported goods. All of them need for more foreign currency, which, given its scarcity, intensifies the balance of payments situation.

However, exports aren't keeping up with imports. The diversity and resiliency of poor nations' exports is lacking. These nations mostly produce agricultural items and raw resources as their principal products. As a result, their marketplaces are small and very competitive. Additionally, because of increasing internal consumption of exportable commodities brought on by growing income and a rise in the income elasticity of consumer demand, they are unable to export more. Their high manufacturing costs brought on by inflationary pressures are a further issue. High cost is a significant barrier to exports in the face of fierce worldwide competition. Once again, trade restrictions, quota limitations, and regional economic alliances all contribute to the decline in exports from developing nations.

The last factor keeping their exports low has been the poor quality of exportable commodities and the lack of appropriate finance facilities to sell goods in other nations. Thus, the aforementioned reasons have tended to keep exports low and imports high, leading to a persistent balance of payments issue in developing nations.Efforts to Solve the Balance of Payments Problem. By boosting exports and reducing imports, the trade imbalance between imports and exports may be closed. To achieve this, total government control over exports and imports is required in order to maximise exports and drastically reduce imports. We go into great depth about these two goals.

Export marketing. Promoting exports is essential for resolving the balance of payments' imbalance. In order to identify new markets, thorough commodities surveys should be conducted in industrialised nations first. These surveys should be used as the foundation for increasing the production of goods with export potential. Exports of non-traditional goods should be promoted since both developed and emerging nations need them. In this context, Myrdal notes that maintaining developing nations' traditional exports is not in their best interests. Accordingly, he advises that "they should rather take a good look at the composition of these exports and at their prospects in the global market and then make up their minds about which exports they should try to increase and which, exports they should rather leave alone or reduce." They should look for commodities with strong demand trends, high income elasticity of demand, and low-price elasticity for themselves, and steer clear of those with uncertain futures.

The following actions must be taken as a result of this policy:

The achievement of the production goals established in the agricultural, mineral, and industrial sectors of the economy is a crucial prerequisite for the success of the export programme. Other prerequisites include: maintaining reasonable internal price stability; modernising export-oriented industries; and timely importing of raw materials and capital equipment. The Reserve Bank of India, the State Bank of India, and the Refinance Corporation of India provide lending facilities to exporters. Additionally, there is the Export Credit and Guarantee Corporation, which offers additional credit facilities for export promotion, guarantees to banks on behalf of exporters for credit facilities, and insures all export risks. While the Indian Railways provide affordable and advantageous transportation options;

Tax breaks for exporters who use imported components, semi-processed goods, or raw materials in the production of exportable goods; stabilisation of exportable goods' prices; and measures to impose quality control and mandate pre-shipment inspections on a variety of exportable goods. The Export Inspection Council in India carries out these two tasks: establishing a commercial intelligence service for the collection and dissemination of information to aid exporters and foreign importing firms; establishing a trading company to represent the business interests of exporters abroad with branches in important global centres; promoting and participating in industrial and trade fairs abroad and arranging visual commercial publici For important exportable commodities in India, there are Export Promotion Councils that serve both consultative and executive roles. They were established to guarantee farmers', producers', and exporters' active participation in the nation's campaign to promote exports. creation of regional facilities by several councils in significant Indian and international locations; conclusion of bilateral trade agreements with industrialised nations;

cooperation in international commerce between emerging nations. Since most developing nations export goods that are almost identical to one another, they are forced to compete with one another, which is bad for them. Therefore, Nurkse, Myrdal, and others have urged that they collaborate in the area of foreign commerce. It could include collaboration in a specific area or the development of a shared market amongst nations with similar cultures. By boosting their negotiating power on the global market, this is the only method to increase the commerce of poor nations. The Say's Law of Market, so to speak, will be more applicable across different impoverished nations than it would be inside a single one. In both cases, the supply from one nation would satisfy the demand from the other.

Substitution by import. The import substitution strategy has been a key component of balance of payments problem solving. The plan is to create more consumer items domestically and reduce imports. As Myrdal has emphasised, "The danger on the foreign exchange front provides a reason for directing investments in industry towards production of commodities that are substitutes for imports."19 Hirschman lists four drives for industrialization that replaces imports.

These include conflicts, slow income growth, balance of payments issues, and purposeful development policies. The first causes a bias in favour of non-essential sectors, while the last is likely to have the exact opposite effect. The inability to balance the books and intentional development policies have been the two driving drivers behind industrialisation through import substitution in underdeveloped nations. Import tariffs, quotas, exchange surcharges, and multiple exchange rates are implemented in response to these two impulses as price-protective tools, while tax breaks and subsidies are used to lower costs in import-competing businesses. Inevitably, import substitution starts with the last phases of manufacturing for durable consumer products. The nation imports a large number of converting, assembling, and mixing facilities, which produce previously imported completed consumer items before moving on, more or less effectively and quickly, to higher stages of production—to intermediate goods and machinerythrough backward linkage effects.

Import Substitution: A Case. The argument for import substitution is based on the fact that trade has traditionally been used as a tool of global inequality to the detriment of developing nations. Therefore, they are justified in pursuing an industrialization via import substitution strategy to achieve long-term self-sufficiency and to save foreign currency by replacing imports with domestic manufacturing. The success of developed nations is frequently touted as evidence in favour of import substitution. H.B. On the basis of historical analyses of a few nations, Chenery has shown that the expansion of industries based on import substitution contributes significantly to the overall increase in industrial production. This is in addition to the fact that the proportion of industrial output increases with development. One of the main justifications for the import substitution strategy is that it eliminates the uncertainty and risk associated with establishing markets for the companies that will be doing the substituting since when the imports are stopped, a market that is already established is secured for the new industries[5].

Another argument is based on the idea that a developing nation's need for industrial imports grows considerably more quickly than the demand for its exports abroad. These nations export basic goods with little international demand and are unable to buy enough industrial goods to offset their exports. In order to satisfy domestic demand, it becomes necessary to produce industrial items domestically.

Once again, it is claimed that industrialisation that replaces imports accelerates local saving and investment. When the government employs trade barriers like tariffs, licences, quotas, etc. to shield domestic industries from competition from abroad, the manufacturers may increase the price of their goods and make substantial profits. Development accelerates when these earnings are kept and reinvested. Additionally, it is said that protecting import substitution businesses would affect the terms of trade so as to disadvantage unprotected sectors and alter the income distribution so as to promote savings and investment in the economy.

The employment case for industrialisation via import substitution is another one. It is argued that import-substituting industrialization is required to engage the expanding labour force as population increases, to absorb excess manpower resulting from increases in agricultural productivity through the use of modern labor-saving techniques, and to provide gainful employment for the currently underemployed. The long-term economic prosperity of the undeveloped nation is a further justification for industrialisation that replaces imports. If the import-substitution strategy is implemented, the nation gains access to cutting-edge industrial know-how and considerable quantities of direct foreign investment, as is often the case. It is able to increase its pace of capital accumulation by directly using the technical know-how of the developed nations. Finally, the ultimate goal of industrialization via import substitution is to produce completed consumer products, intermediate goods, and equipment on-site and export them to both emerging and developed nations.

Import Substitution Defence. In India, Pakistan, and several Latin American nations, the import substitution strategy has not been successful. Instead, it has a tendency to stifle the economy of developing nations, making the process of industrialisation there expensive. An economist from Latin America named Santiago Macario writes in this regard that a desire to alleviate the persistent foreign exchange shortage has led many of the region's nations to pursue an industrialization strategy primarily focused on import substitution. However, the substitution process has not been carried out gradually, in accordance with a plan, and in anticipation of development requirements rather in an improvised manner, frequently to address emergencies, and on the basis of whim. Since it has frequently been carried out well beyond what is economically prudent, serious distortions in the economies of the concerned countries have been introduced, and the growth of more productive and efficient activities has been adversely impacted, especially to the detriment of export opportunities22. These observations equally apply to India, as will be demonstrated later. We explore objections to import substitution in light of the advantages of this strategy as stated above:

The import substitution strategy's primary goal of conserving foreign currency was unsuccessful. The industries that were founded weren't ones that could have saved foreign currency. In reality, the existing industries have not only failed to generate any genuine savings but have also caused a loss of foreign currency savings. Raw resources, intermediate products, and capital equipment are insufficient in underdeveloped nations to launch companies that substitute imported goods. Because of this approach, imports are significantly more necessary than they would be otherwise. Therefore, the direct foreign currency savings could not equal the indirect foreign exchange expenditure on inputs and capital equipment required by import substitution firms. Because the value of the imported inputs for the new industries may be much higher than the value of the items replaced by local manufacturing, it may even result in dissavings[6].

Chenery's historical arguments in favour of industrialisation via import substitution may not hold true for all emerging nations. It is said that the increase in imports is to blame for the increase in industrial output. In a developing nation, importing raw materials, intermediate products, and capital equipment aids in the development of the local sector. In actuality, imports aid in generating demand, using underutilised resources effectively, and promoting entrepreneurial activity inside the economy. By providing a foundation for import substitute industries, imports in the end pave the path for their formation.

The justification for industrialization based on import substitution ignores the need for higher imports in order to satisfy local industrial products demand. Prof. Hirschman claims that "the majority of new industries in developing countries are in the consumer goods sector and as they are undertaken in accordance with known processes, on the basis of imported inputs and machines, industrialization via import substitution becomes a "highly sequential" or "tightly staged" affair"23. The import substitution policy thus increases demand for a variety of imports and defeats the intended goal. Additionally, the propensity of import substitution to spur demand for additional imports has significant ramifications. It enhances rather than decreases the economy's reliance on imports.Due to a lack of foreign currency or an inadequate allocation of imported materials and spares, the economy may sometimes be unable to import raw materials, capital equipment, and parts. As a consequence, there will be insufficient use of the production capacity, which will cause work stoppages, unemployment, and a decrease in revenue.Because the urban sector and higher income groups often have spending patterns with the biggest component of imports, import substitution has a propensity to change the distribution of income in their favour, which tends to drive increasing demand for imports. As a result, expanding import substitution to include a larger variety of items creates or boosts demand for further imports, which has negative impacts on the economy.

According to John Power, the replacement of imported finished products for domestically produced items tends to reduce rather than increase domestic savings and investment. Consumer products for home use are produced under pressure, which tends to increase their consumption and harm exports and backward-linkage import substitution. A policy like this has negative consequences on economic and technological efficiency, which lowers revenue, earnings, and savings. In order to increase the rates of national income, saving, and investment for continued growth, John Power advises investing in the capital goods and export sectors rather than the consumer goods sector[7].

Facts do not support the claim that the development of import-substituting businesses tends to absorb excess manpower in developing nations. First off, there is no doubting that import substitution increases production in the industrial sector, but it hasn't succeeded in producing employment for these nations' expanding labour markets. Gryphon and Eros have shown that the increase in manufacturing employment is in no way similar to the increase in production. In actuality, employment seldom rises until industrial production expands by approximately 4% annually. Second, industrial employment expands at a slower pace than the population.25 For example, in Chile from 1960 and 1970, production grew on average by 5.5% year, but employment only by 1.4%. Similar circumstances existed in the Philippines, where the growth rate of employment was just 2.1% compared to 6.7% for production. This demonstrates that industrialisation via import substitution falls short of producing employment to replace idle labour.

Additionally, resource misallocation and a negative impact on industrial productivity have resulted from the employment of the import substitution approach to attain self-sufficiency in industrial output. Underdeveloped nations have turned to indiscriminate protection for the growth of ineffective and low priority businesses in their zeal to become self-sufficient. As a consequence, expensive raw materials, intermediary products, and equipment have been mishandled. Due to the substantial protection provided by this legislation, inefficient industries with high production costs have been established. India's experience with import substitution has been similar. According to V. V. Desai, the objective of self-sufficiency created the perception that whatever imports were replaced with were beneficial to the economy. As a consequence, significant surplus resources were depleted. in the creation of goods that can be seen as low priority consumer goods. He calculated that the increase in such non-essential production cost potential savings of about Rs. 800 crores between 1954–1955 and 1963–1964. Additionally, this led to insufficient industrial structure planning and systematic underestimation of the foreign exchange needs of the programme for import substitution. Additionally, it caused the demand for foreign currency to exceed the supply, causing many sectors to run at or below capacity. He comes to the conclusion that the goal of self-sufficiency in the industrial sector through import substitution has not been achieved due to the misdirection of significant investment into low priority industries and the constantly rising foreign exchange requirements.27 The same narrative has been repeated in the majority of Latin American countries.

Furthermore, strong protectionism in these countries has reportedly shielded national markets from outside competition, according to Raul Prebisch28. The motivation to increase product quality and decrease prices has tended to be diminished or even destroyed as a result of this. Overprotectionism has been required because to the high cost of manufacturing. Because it promoted the creation of tiny, unprofitable units, reduced the motivation to adopt contemporary methods, and retarded the increase in productivity, this has in turn had a negative impact on the industrial structure. As a result, there is now a vicious spiral regarding the export of produced commodities. These exports struggle greatly because, among other things, there aren't enough exports to expand the markets, which raises internal costs. Therefore, industrialisation that replaces imports has not succeeded in promoting exports from emerging nations.

Conclusion. In conclusion, it seems that the import substitution strategy has not been successful in preserving foreign currency. However, in certain instances, it has made the scarcity worse. Increases in real production, savings, and investment have not been achieved by placing more emphasis on import substitution for consumer items. The economy has not even come close to achieving self-sufficiency in industrial output. Neither has it been successful in generating enough job possibilities to accommodate the expanding work force, nor has the export industry grown steadily.

However, nations like India that have developed businesses for the production of complex technology and equipment have made tremendous advancements in the replacement of imports. It has aided the nation in building a solid basis for independence in terms of its future investment plans and military might. Basic industries like iron and steel, crude oil and its products, fertilisers, heavy chemicals, aluminium, and a variety of machinery, as well as a number of durable consumer goods like bicycles, fans, and sewing machines that the nation also exports, have made incredible strides. Due to its import substitution strategy, India today generates around three-fourths of the capital goods needed for its development plans.

Import Substitution Vs. Export Promotion

Which policy should an undeveloped nation choose, export promotion or import substitution, is an important subject. The goal of both approaches is to solve the balance of payments problem. The drawbacks of the import substitution programme have already been covered. It has tended to boost the need for imported machinery, parts, and equipment rather than reduce it. Extreme protection has resulted in the creation of ineffective industrial facilities with high production costs and subpar goods, severely impeding the expansion of exports. As a result, the nation must pay a high price for industrialisation via import substitution. As a result, export promotion policy is required. However, "import substitution may be a useful tool if it can be implemented without creating overly protected, inefficient, and expensive businesses. On the other hand, an economy that prioritises export development is likely to foster conditions that are favourable for effective production because sustained export growth necessitates increased cost and quality consciousness due to international competition. For the purposes of this discussion, let's divide developing nations into two groups: those that are not experiencing severe population pressures, and those that are overpopulated.Those nations in category one need to make an effort to continue and increase their conventional exports. They ought to use better technology and more resources to increase primary output. They ought to take the place of imports whose manufacture consumes more labour than capital. Import substitutions should be made gradually and in cooperation with international businesses[8].

However, overpopulated nations like India should focus on manufacturing goods for both domestic use and export. This is crucial since the markets for India's traditional exports, such as cotton textiles, jute products, and tea, have either stagnated or been growing extremely slowly. Due to the continuous expenditure elasticity of demand for commodities like tea, it is unlikely that their exports would increase. The development of synthetic materials has led to the loss of overseas markets for producers of commodities like jute. Because of the advancement of synthetic fibres like terylene, even the market for cotton textiles is declining. Another factor is that emerging nations face intense rivalry since every new nation begins with a cotton textile sector. A developing country must actively encourage the export of those durable consumer items that are in high demand in industrialised nations while keeping these aspects in mind. Automobiles, scooters, tape recorders, air conditioners, refrigerators, TVs, cameras, etc. are examples of such goods. The classic example is Japan, which, in spite of fierce competition from local manufacturers of these goods, has successfully cornered the markets in Australia, New Zealand, the United States, and Canada. High manufacturing costs and poor quality, however, are emerging nations like India's biggest disadvantage in this area. In order to expand the markets for these non-traditional goods, emerging nations should use the export promotion strategies listed on the previous page.

However, developing nations must overcome significant protection hurdles in order to export non-traditional goods to wealthy nations. Harrod's counsel should be taken into account in this situation. The argument calls for the simultaneous establishment of intermediate goods and manufacturing industries that rely on economies of scale, regardless of the policies of the mature countries. He writes, "Developing countries should aim at expanding their output of exportable manufactures at prices so competitive as to be able to surmount the protective barriers of those countries." This alludes to extensive import substitution-based industrialisation. In order to solve balance of payment issues and quicken the pace of growth, a developing nation like India should combine the export promotion strategy with intense import substitution.

CONCLUSION

The essential tenet of commercial policy is the regulation of international commerce. Because an impoverished nation cannot advance on the path to economic growth without strong management of its international commerce. The need for protection therefore arises in order to accelerate capital creation, foster industrialisation, and eliminate the imbalance of payments. However, opinions on whether less developed nations should adopt a restrictive or open trade policy vary. According to Myrdal, import limits in developing nations are nothing more than a shift in the import demand from some commodities to others, often items required for economic growth. They do not suggest a decrease in overall imports. Therefore, their import quotas and export subsidies have no effect on overall global trade. While maintaining their prerogative to limit imports and provide export subsidies, they must remain adamant free traders. Additionally, they have strong defences against anybody who would characterise their approach as illogical.

REFERENCES:

[1] D. Coppola, C. Lauritano, F. P. Esposito, G. Riccio, C. Rizzo, And D. De Pascale, “Fish Waste: From Problem To Valuable Resource,” *Marine Drugs*. 2021. Doi: 10.3390/Md19020116.

[2] D. Margiansyah, “Revisiting Indonesia’s Economic Diplomacy In The Age Of Disruption: Towards Digital Economy And Innovation Diplomacy,” *J. Asean Stud.*, 2020, Doi: 10.21512/Jas.V8i1.6433.

[3] N. H. Baharudin, T. M. N. T. Mansur, R. Ali, And N. F. A. Sobri, “Smart Lighting System Control Strategies For Commercial Buildings: A Review,” *International Journal Of Advanced Technology And Engineering Exploration*. 2021. Doi: 10.19101/Ijatee.2020.S2762173.

[4] G. Büyüközkan, E. Mukul, And E. Kongar, “Health Tourism Strategy Selection Via Swot Analysis And Integrated Hesitant Fuzzy Linguistic Ahp-Mabac Approach,” *Socioecon. Plann. Sci.*, 2021, Doi: 10.1016/J.Seps.2020.100929.

[5] M. H. Bahador And S. S. Ibrahim, “Technology Innovations Toward Sustainable Growth Of Small Medium Enterprise (Smes): Aftermath Covid-19 Pandemic,” *Int. J. Acad. Res. Bus. Soc. Sci.*, 2021, Doi: 10.6007/Ijarbss/V11-I2/9199.

[6] S. N. Diyanova, E. N. Guba, M. V. Guseva, And T. S. Popova, “Strategies And Innovations In Modern Trade Marketing,” *Int. J. Econ. Bus. Adm.*, 2019, Doi: 10.35808/Ijeba/295.

[7] S. A. Allayarov And M. Ravshanova, “Financial Technology: Development Of Innovative Fintech Start-Ups And Its Application In Banking System Of Uzbekistan,” *Int. J. Multicult. Multireligious Underst.*, 2021, Doi: 10.18415/Ijmmu.V8i9.3017.

[8] “Significance Of Road Infrastructure On Economic Sustainability,” *Int. J. African Asian Stud.*, 2020, Doi: 10.7176/Jaas/66-01.

CHAPTER 25

EXPLANATION OF ECONOMIC PLANNING

Dr Vinayak Anil Bhat, Assistant Professor, Department of OB & HR,
CMS Business School, JAIN Deemed to-be University, Bangalore, India,
Email id-vinayak_ab@cms.ac.in

ABSTRACT:

The definition of the phrase "economic planning" among economists is up for debate. In economic literature, the phrase has been very loosely applied. It is often mistaken with socialism, communism, or economic growth. Planning has also been used to describe any kind of government involvement in economic concerns. However, the government may step in even without a strategy. Planning is a strategy, with the realisation of certain, well-defined goals and objectives established by a central planning body serving as its intended goal. The goal might be the accomplishment of economic, social, political, or military goals. As a result, "the issue is not between a plan and no plan, it is between different kinds of plans."

KEYWORDS:

Agriculture, Economic, Growth, Market, Planning.

INTRODUCTION

Planning is employed in economic literature in six distinct ways, according to Professor Lewis. "First, there is a vast body of literature that exclusively discusses the spatial zoning of variables, such as residential structures, movie theatres, and the like. Planning is the term sometimes used for this, as well as urban and country planning. Second, planning only refers to choosing future expenditures the government will make if it has the funds available. Thirdly, a "planned economy" is one in which each production unit (or business) only employs the labour, supplies, and equipment that are quota-allocated to it and only sells its output to those who are designated by central command. Fourth, the term "planning" may refer to the government defining any output goals, whether they are for public or private companies. Most governments engage in this kind of planning, but seldom and only with regard to one or two sectors of the economy or services to which they give particular consideration. Finally, "the word 'planning' is sometimes used to describe the means which the government uses to try to enforce upon private enterprise the targets which have already been determined." Fifth, these targets are set for the economy as a whole, with the intention of allocating all the labour, foreign exchange, raw materials, and other resources between the various branches of the economy[1].

However, Ferdynand Zweig asserts that planning refers to planning of the economy rather than planning within the economy. It involves planning the whole economy, not just cities, public works projects, or certain sectors of the country's economy. Planning thus refers to the overall planning of the economy rather than piecemeal planning.Some of the definitions of economic planning are: Professor Robbins defines economic planning as “collective control or supersession of private activities of production and exchange.” To Hayek, planning means, “the direction of productive activity by a central authority.” According to Dalton, “Economic planning in the widest sense is the deliberate direction by persons incharge of large resources of economic activity towards chosen ends.” Lewis Lordwin defines economic planning,” as a scheme of economic organization in which individual and separate plants, enterprises, and industries are treated as coordinate units of one single system for the purpose of utilizing available resources to achieve the maximum satisfaction of the people’s needs within a given time.” In the words of Zweig, “Economic planning consists in the extension of the functions of public authorities to organization and utilization of economic resources.Planning implies and leads to centralization of the national economy.”

Even though there isn't agreement on the subject, economic planning as understood by the majority of economists is one of the most widely used definitions. According to Dickinson, planning is "the making of major economic decisions what and how much is to be produced, how, when and where it is to be produced, to whom it is to be allocated, by the conscious decision of a determinate authority, on the basis of comprehensive survey of the economic system as a whole."

Underdeveloped Countries Need Planning

to quicken the pace of economic growth. Increasing the pace of economic growth is one of the main goals of planning in underdeveloped nations. According to D.R. According to Gadgil, "planning for economic development implies external direction or regulation of economic activity by the planning authority, which is typically identified with the government of the state."4 It entails accelerating capital formation by raising levels of income, saving, and investment. However, there are a number of challenges in raising the rate of capital creation in developing economies. People live in extreme poverty. Due to their low income levels and strong inclination to spend, they have a very limited ability to save. As a consequence, there is a low rate of investment, which results in a lack of capital and poor productivity. Low productivity leads to low income, and this creates a vicious cycle. Planning development is the only way to escape this vicious economic cycle. Underdeveloped nations have two options. Zweig refers to one as "supported industrialization," which is planned development financed by importing money from outside, and the other as "self-sufficient industrialization," which is forced saving.

to strengthen and improve the market mechanism. Planning is justified in these nations in order to enhance and improve the market system. Because of ignorance and lack of experience, the market mechanism operates poorly in impoverished nations. The non-monetised industry makes up a significant portion of the economy. Markets for goods, factors, money, and capital are not adequately structured. Because of this, the pricing system only functions in its most basic form and is unable to balance the overall demand for goods and services with the supply of them. In poor nations, the market mechanism must be improved via planning in order to eliminate market imperfections, mobilise and use existing resources effectively, decide the quantity and composition of investment, and overcome structural rigidities.

in order to end unemployment. The need to eliminate pervasive and covert unemployment in such economies emphasises the need for planning in less developed nations even more. Given the dearth of capital and the abundance of labour, it is challenging to provide chances for productive work to a labour population that is always growing. Only a centralised planning organisation can find a solution to this.

The planning authority is the only entity capable of coordinating the balanced growth of the economy in the absence of adequate initiative and business. Underdeveloped nations need to develop their agricultural and industrial sectors, set up social and economic infrastructure, and expand their domestic and international commerce in a manner that promotes harmony in order to experience fast economic growth. All of this calls for concurrent investment across several sectors, which is only doable with development planning[2].

Industrial and agricultural sector development. Due to the interdependence between agriculture and industry, both the agricultural and industrial sectors must be developed. Restructuring the agricultural industry frees up extra workers that the industrial sector may use. To meet the industrial sector's need for raw materials, agricultural development is equally crucial.

Infrastructure creation. However, the lack of economic and social overheads prevents the development of the agricultural and industrial sectors. Construction of canals, roads, trains, power plants, and other infrastructure is necessary for the growth of both agriculture and industry. In order to maintain a steady stream of qualified employees, training and educational facilities, public health services, and housing are also important. However, because to their unprofitability, private sector in emerging nations is not motivated to develop the social and economic overheads. Instead of being driven by societal benefit, it is driven by personal gain. Therefore, it falls on the government to prepare for and establish social and economic overheads.

Money and capital markets development. Similar to how the growth of the agricultural and industrial sectors, together with social and economic overheads, is necessary for the expansion of domestic and international commerce, financial institutions are also necessary. In impoverished nations, there are no established financial or capital markets. This element hinders the expansion of commerce and industry. Economic instability is a result of global cyclical movements. Only the government can eliminate these misalignments. It has the power to determine whether to establish a national central bank, which will assist support bill markets, commercial banks, and other financial institutions throughout the nation. For the sake of the economy, the planning authority has the power to oversee and regulate both internal and international commerce[3].

eliminating inequality and poverty. Planning for development is essential for eradicating global poverty. Planning is the sole option available to impoverished nations for boosting national and per capita income, lowering income and wealth disparities, improving job possibilities, achieving all-around fast growth, and sustaining their recently earned national independence. There is no greater truth than the assertion that planning originated in an undeveloped nation and that it is here that the world's emerging poor nations can only find hope. This is shown by the USSR's quick growth, despite its poverty at the time of the October Revolution.

DISCUSSION

The following are necessary for the creation and execution of a plan: Development Commission. The creation of a planning commission, which must be well structured, is the first need for a plan. It should be separated and subdivided into many divisions and sub-divisions under the supervision of professionals who deal with different facets of the economy, such as economists, statisticians, engineers, etc.A detailed analysis of a nation's current and future resources, as well as its shortcomings, is a must for successful planning. According to Baykov, "every act of planning, in so far as it is not merely fantastic castle building, presupposes a preliminary investigation of existing resources."A survey of this nature is crucial for the gathering of statistical data and information regarding the total amount of material, capital, and human resources that the nation has at its disposal. For setting goals and priorities in planning, data on the current and prospective natural resources, as well as the extent of their exploitation, agricultural and industrial production, transportation, technical and non-technical staff, etc. In order to gather statistical data and information for the creation of the plan, it is thus necessary to build up a central statistical organisation with a network of statistical bureau [4].

Objectives. The plan may include the following goals: raising agricultural production; industrialising the economy; achieving balanced regional development; achieving self-sufficiency, etc. The plan may also include goals like increasing national income and per capita income, increasing employment opportunities, reducing wealth and income disparities, and reducing the concentration of economic power. The numerous aims and objectives should be practical, consistent with one another, and adaptable enough to meet the demands of the economy.

Fixation of Priorities and Targets. Setting goals and priorities to accomplish the plan's objectives is the next challenge. They need to be both international and sectoral. Global goals must be ambitious and include all facets of the economy. They consist of quantitative production goals, such as so many metres million tonnes of food, coal, steel, fertilisers, etc., so many kilowatts of power capacity, so many metres of railroads and roads, so many extra training institutions, so much growth in national revenue, saving, investment, etc. Additionally, there are sectoral objectives for the public and private sectors that are related to certain industries and goods in terms of value and physical characteristics.

To achieve the needed growth rate for the economy, global and sectoral objectives should be mutually compatible. Setting priorities is necessary in this situation. Priorities should be established based on the economy's short- and long-term requirements, taking into account the material, financial, and human resources that are at hand.The more significant plans or projects should be given a low priority, while those that must be carried out first should be given high priority. The order of priorities shouldn't be set in stone but rather flexible enough to adapt depending on the needs of the nation. In other words, "sound governmental planning consists of establishing intelligent priorities for the public investment programme and formulating a sensible and consistent set of public policies to encourage growth in the private sector."

gathering of resources. A plan determines the public sector expenditure for which resources must be deployed. A plan may be funded through a variety of internal and external resources. The primary internal sources of funding for the public sector include deficit financing, savings, income from public companies, net market borrowings, taxes, and net market borrowings. Net budgetary revenues for external assistance are related to the outside funding sources for the plan. The plan should include the strategies and tools needed to mobilise funds in a way that meets the plan's financial requirements while avoiding inflationary and balance of payments pressures. They want to promote family and corporate savings in the private sector concurrently.

Planning for balance. If the economy is not properly balanced, shortages or surpluses will develop when the plan is implemented. There should be a balance between spending and saving, between the supply and demand of products, between the need for and supply of labour, and between the need for imports and the availability of foreign currency. The total amount of savings comes from a variety of sources, including personal savings, taxes, income from state firms, and remittances sent abroad by citizens[5].

These must match the total projected investment in the economy's fixed capital assets and inventory. The available supply of consumption goods must be balanced with their demand, as must the supply of capital goods, raw materials, and inventories, the supply of intermediate goods must be balanced with their demand, and the proposed requirements for exports of goods must be balanced with their supplies. Additionally, there must be balances between the anticipated demand for and supply of labour, as well as between the anticipated need for imports and the available foreign currency throughout the plan period.

In actuality, a strategy must ensure two different types of balances. The first is the physical balance, which entails balancing the kinds and quantities of investment with the expected rise in production of different items. The outputs from the different economic sectors must also be balanced. The input-output method is used to do this since the output of one sector or industry serves as the input for the production of the output of the other. For the plan to be internally consistent, there must be physical balance; otherwise, economic problems like a shortage of raw materials or labour may arise. The second is the monetary or financial balance, which entails balancing the amount of goods available for consumption with the amount of incomes of people, the amount of funds used for private investment with the amount of investment goods available to private investors, the amount of funds used for public investment with the amount of investment goods produced by the public sector, and the balance of foreign payments and receipts. Lack of these financial balances will cause an imbalance in the supply and demand for physical products, which will put strain on the balance of payments and cause inflationary pressures throughout planning[6].

Please refer to the chapters in sections four and five of the book for information on resource mobilisation issues. Efficient and corrupt administration. The conditional need for effective planning is a strong, effective, and uncorrupt government. However, this is the most lacking in a developing nation. Lewis views a strong, capable, and uncorrupt administration as the primary need for a plan's success. In a developing nation, the Central Cabinet shouldn't hastily make significant economic choices without first thoroughly reviewing them with expert advisors. Various ministries should recruit competent administrative professionals who would first provide strong feasibility assessments of proposed projects before moving forward with them. It should have expertise in organising and initiating a project, maintaining its timeline, making adjustments in case of unforeseen setbacks, and periodically reviewing it. In a developing nation, development planning lacks locus standi in the absence of such administrative infrastructure. The phenomenal success of development planning in Russia can be attributed to "a highly trained and disciplined priestly order of the Communist Party." Lewis is very emphatic when he writes, "In the absence of such an administration it is often much better that governments should be laissez-faire than they should pretend to plan." The key to a successful plan is more in rational politics and effective public administration than it is in the economics of development, which is not particularly difficult.

Effective Development Policy:

For a development plan to be successful and to prevent any potential traps, the state should establish an appropriate development policy. Lewis lists the following main elements of such a development policy: (i) investigation of development potential, survey of national resources, scientific research, market research; (i) provision of adequate infrastructure (water, power, transport, and communications) whether by public or private agencies; (iii) provision of specialized training facilities, as well as adequate general education, thereby ensuring necessary skills; (iv) improving the legal framework of economy activity, especially laws relating to land tenure, corporations , commercial transactions; (v) helping to create more and better markets including commodity markets, security exchanges, banking, insurance and credit facilities; (vi) seeking out and assisting potential entrepreneurs, both domestic and foreign; (vii) promoting better utilization of resources, both by offering inducements and by operating controls against misuse; and (viii) promoting an increase in saving, both private and public.” The success of a development plan can be tested mainly by examining various proposals under each of these heads. Good laws are beneficial, but they cannot guarantee success. Lewis consequently compares development planning to medicine, which, in the hands of an excellent practitioner, may perform helpful tricks, "but it is still the case that many patients die who are expected to live, and many live who are expected to die."

administrative economy. Every effort should be made to save costs in administration, especially when it comes to the growth of state agencies and ministries. The public must have faith that the money it contributes to the government via taxes and borrowing is used wisely for their welfare and advancement rather than being wasted.

A strong academic foundation is necessary for a squeaky-clean and effective administration. Planning for success requires consideration of people's moral and ethical standards. Without a strong sense of morality and ethics among the populace, it is impossible to expect administration to be economical and effective. Without a solid educational foundation that imparts knowledge in both the academic and technological sectors, this is not feasible. It would not be possible to carry out large-scale economic planning without producing honest and effective human people in the nation.

A theory of consumption is a crucial component of contemporary development planning, according to Professor Galbraith12. The consuming habits of more developed nations should not be imitated by less developed nations. A democratic theory of consumption is necessary, and "priority attention must be given to products that are within the range of the model income that can be bought by the ordinary household.Therefore, inexpensive bicycles are more significant than inexpensive cars in a nation with low wealth. A low-cost electric lighting system for the villages is preferable than a high-capacity system that powers costly machinery. Cheap radios are essential; television is a thing of the past. Nothing is more crucial than having access to plentiful, efficiently produced food, clothes, and shelter since these are the most fundamental needs.

Above all, public collaboration is seen as one of the key levers for the plan's success in a democracy. The public must continuously cooperate with planning. Party politics should not affect economic planning, but it should also be supported by all parties. In other words, when a plan is accepted by the elected official of the people, it should be recognised as a National Plan. No strategy can succeed without public backing, after all. "Popular enthusiasm is both the lubricating oil of planning and the petrol of economic development, a dynamic force that makes all things possible," writes Lewis.

Planning For Development Issues

The following issues must be dealt with in development planning:

Poor statistical data: The lack of adequate statistical data for all facets of the economy has been one of the main issues with development planning. In many areas of the economy, including population, capital, labour, employment, input-output coefficients, exports and imports, etc., there are egregious inaccuracies in the estimate of reliable statistics.

Macroeconomic Estimates Issues: Macroeconomic projections of the total national output or income, total savings, and total investment are created for the most ideal time course in a growth plan. For example, these numbers are known for a base year at the time the plan is being developed. Finding the ideal amount of overall savings or the saving-to-income ratio is the challenge. The ideal level is when increasing or decreasing savings in the economy is preferred. However, it is impossible to achieve such a perfect level of savings.

Limitations of Model Use: The usage of mostly Tinbergen-type models is another issue. To achieve specified goals, these models need certain targets and tools. There must be as many instruments as there are separate aims, and these objectives must be established in some kind of index. The plan is often a political document of the governing party, making this a complicated and deceptive procedure. Additionally, even if they fluctuate throughout the planning process, aims and instruments are not actually distinct from one another as they are in the cases of taxes, currency rates, etc[7].

Fixed prices: The foundation of a development plan is the assumption that prices would stay stable during the plan period. Estimates in this situation are likely to be incorrect since under development planning, price fluctuations are inescapable. A rise in exports, an increase in import prices, or both may be attributed to pricing shifts. Additionally, since the prices of goods and services are unrelated to the physical or financial expenditures of the plan, it is impractical to calculate physical or financial objectives and expect them to be achieved.

Unable to influence the Private Sector Plan: Plans for development include allocation schedules for the public and private sectors. The private sector plan is never carried out in accordance with the physical objectives and budgetary allocations since the government is unable to completely supervise it. This makes it difficult for the strategy to succeed.

Constant Ratio of Capital to Output. The capital-output ratio is assumed to be constant in a development plan. The capital-output ratio is a crucial component upon which a plan's forecasts are built. It demonstrates that each increase in capital stock results in a proportionate increase in national GDP. The capital-output ratio cannot be meaningfully calculated in a developing nation. It is often more than anticipated in the early phases of growth, and as the economy grows, it begins to decline. Additionally, the capital-output ratio of a nation that employs a lot of foreign capital may be much greater than the expected ratio. The capital-output ratio will be much greater if the nation has long-gestation projects that need a lot of capital.

Fixed Relationship Between Factor Inputs and Outputs Problem: The fact that plan models presume a stable link between factor inputs and outputs is a significant issue. In actuality, there is a large range of variation in their connections. In poor nations, resources are limited. As a result, the relationships between the outputs and such inputs are not rigid. Instead, there are other crucial elements that have an impact on outputs.

Between plan policies and annual budgets, there is a lack of coordination. In less developed nations, there are several institutional rigidities and scarcities that cause a lack of coordination between plan policies and yearly budgets. As a result, the yearly budget fails to execute and reflect the plan's principles. This is a significant issue with development planning.

The plan's balance is a problem: The balance of various economic sectors' and physical and financial strategies is another issue. Due to considerations like resource availability, technological advancement, pace of investment, etc., it is impossible to achieve internal consistency in a developing nation. The amount of technology required to accomplish the different goals outlined in the strategy may be little. Crop failure may limit the availability of agricultural goods. The lack of electricity might lead to a decrease in industrial output.

Uncertainties: The implementation of a development plan is challenging due to the many uncertainties it encounters. These might be brought on by a foreign currency crisis, a balance of payments issue, faulty statistical data, inflationary pressures, a global economic downturn, domestic instability, border conflicts, etc. The execution of a plan is hampered by these uncertainties.

Direction-Based Planning and Induction-Based Planning

To mobilise resources for the plan, Professor Lewis makes a contrast between planning by direction and planning by incentive.

Directive Planning

An essential component of communist societies like those in China and Russia is planning by direction. Laissez-faire must entirely go. The implementation of the plan is planned, directed, and ordered by a single central authority in line with predetermined goals and priorities. Such planning is thorough and takes the whole economy into account. As Lange put it, "The national plan is a binding direction with reference to the socialist sector. The national plan's objectives and funding allocation are directives that must be carried out by the different ministries and the firms they are responsible for. The State has the "commanding posts" in its hands by seizing the whole of the private industrial and agricultural sectors, as well as banking and transportation, and they are obligated to carry out the plan's commands. "The State wouldn't have the resources to carry out the plan's duties without such emphasis. Plans' provisions would be little more than "pious wishes" with no assurance that they would come to pass.

Its Negatives. However, planning by direction has significant disadvantages. Planning by direction is first connected to a bureaucratic and dictatorial system of government. Consumer sovereignty is completely absent. It is not permitted for people to spend and consume as they choose. Even the freedom to pick one's profession is absent. The planning authority determines both the consumer and work markets. The key pillars of planning by direction, which breeds corruption and nepotism, are rationing and price restrictions. There is no economic freedom as a result. Economic planning, as Hayek rightly noted, "would encompass directives of nearly the entire of human lives. There is hardly any aspect of it that the planner wouldn't actively control, from our primary need to our relationships with our family and friends, from the nature of our work to the use of our relationships with our family and friends, from the nature of our work to the use of our leisure.

Second, since the current economic system is so complicated, planning by direction is never adequate. Planning calls for either a decrease in the production of substitutes or an increase in the output of all complementaries in order to boost the output of a commodity. And when such choices must be made about countless things, it becomes a very challenging work, and objectives are never met. Lewis says, "In planning by direction the result is always a shortage of some things, and a surplus of others."

Third, planning in a certain path is never flexible. Once a plan has been created, it is difficult to make any necessary revisions to it. Because it is very tough to change a section of the plan without changing the whole thing. The strategy must thus be implemented as a cohesive whole despite the many obstacles. Fourthly, in line with the previous point, it becomes harder to achieve the goals set out in the plan as time goes on. Target completion becomes more expensive in terms of resources the more one attempts to overcome the challenges of planning by direction.

Fifth, Lewis describes planning by direction as developing a "tendency to procrustean" (having one kind or size). Due of how simple the manufacturing process is, it encourages excessive standardisation. A standardised product is produced in one form alone. According to Lewis, "standardisation is frequently an engine of progress, but it is also frequently the enemy of happiness, and in foreign trade it is in many lines fatal to success." Additionally, Lewis argues that producing only one type of standard good in each line of production is harmful to the development of initiative and enterprise. There is no drive to be inventive.

Finally, planning by direction is an expensive endeavour. Numerous qualified individuals, including clerks, statisticians, economists, and others, are needed. Numerous surveys and censuses are conducted at great financial expense. Despite all of these flaws in planning by direction, China's and Russia's experiences provide a convincing argument that this method of planning is the most efficient for boosting the pace of economic expansion.

Planning via motivation

Democratic planning is the art of inducing behaviour. It entails making plans via market manipulation. Only persuasion exists; there is no coercion. There is business freedom, consumer freedom, and production freedom. These 'freedoms' are nonetheless governed and limited by the state. Through a variety of monetary and fiscal methods, people are persuaded to behave a specific way. The planning authority may provide subsidies to the businesses if it wants to promote the production of a certain good. Additionally, if it discovers a shortage of products on the market, it may implement price control and rationing. The planning authority may then make public investments or promote private investments to boost the pace of capital creation. It may implement an appropriate monetary policy while also enacting tax laws that promote investment and discourage consumption. Thus, planning by enticement may accomplish the same goals as planning by direction while sacrificing less of an individual's freedom. Its Challenges. However, planning by enticement is fraught with a variety of challenges that might make it less effective than planning by direction.

The argument is that the incentives provided may not be sufficient to get producers and consumers to behave the way the government wants them to. It may interfere with government goals. Surpluses or shortages are inevitable since the plan's actual implementation is left to market forces. It is challenging to accomplish proper demand and supply adjustment. The types of direction required by repeated shortages include price control and rationing. Planning by incentive and planning by direction combine in this circumstance. Similar to this, enhancing the rate of capital production alone is insufficient to encourage planned economic growth. A developing nation's low levels of income and saving make it particularly challenging to increase the pace of capital creation. People often invest their money in unsuccessful ventures. Planning by direction, on the other hand, works better for this[8].

CONCLUSION

The kind of governance a nation has will determine whether it should use planning by direction or planning by incentive. A nation that is fully socialist will use planning by direction. However, a capitalist economy will continue to use the planning by incentive method. However, these two planning strategies work best when combined. They can't be contained in watertight spaces. They are both necessary and workable at the same time in developing nations. In these nations, the state cannot build the economy on its own. It lacks administrative as well as financial resources. As a result, it encourages the private sector to develop and operate under government supervision. Incentives may be provided in the form of subsidies and tax breaks for this. It is possible to drive production, consumption, investment, and savings in the proper paths. The state can get money via taxing, borrowing, and financing deficits. Additionally, it may establish light and heavy enterprises and take up social and financial responsibilities. Therefore, a careful combination of the two is the greatest option for a developing nation. In order to achieve her development goals, India has chosen a medium path that involves a mixed economy in which both planning by direction and planning by incentive play their respective roles.

REFERENCES:

[1] H. Algarvio, F. Lopes, A. Couto, J. Santana, and A. Estanqueiro, "Effects of regulating the European Internal Market on the integration of variable renewable energy," *Wiley Interdisciplinary Reviews: Energy and Environment*. 2019. doi: 10.1002/wene.346.

[2] Z. K. Pecenak, M. Stadler, and K. Fahy, "Efficient multi-year economic energy planning in microgrids," *Appl. Energy*, 2019, doi: 10.1016/j.apenergy.2019.113771.

[3] M. P. V. Franco, "Conservation, economic planning and natural capital in early Soviet ecology," *Ecosyst. Serv.*, 2020, doi: 10.1016/j.ecoser.2020.101064.

[4] B. V. Ilc, "Climate crisis: Time to rethink economic planning by demystifying capitalism and its market(s)," *Teor. Praksa*, 2021, doi: 10.51936/tip.58.2.341-360.

[5] Z. Liu, Y. Zhao, and X. Wang, "Long-term economic planning of combined cooling heating and power systems considering energy storage and demand response," *Appl. Energy*, 2020, doi: 10.1016/j.apenergy.2020.115819.

[6] J. Nowak, "Global economic planning as a challenge for the labour movement," *Tempo Soc.*, 2021, doi: 10.11606/0103-2070.ts.2021.183791.

[7] M. E. Kosov, R. G. Akhmadeev, V. S. Osipov, Y. K. Kharakoz, and I. I. Smotritskaya, "Socio-economic planning of the Economy," *Indian J. Sci. Technol.*, 2016, doi: 10.17485/ijst/2016/v9i36/102008.

[8] F. S. Meutia, F. Sulaiman, E. Elihami, and ..., "Leadership Education and Economic Planning: Motivation the Entrepreneurship Learning," *Edumaspul J. ...*, 2020.

CHAPTER 26

PHYSICAL AND FINANCIAL PLANNING

Dr Satyajeet Nanda, Associate Professor, Department of OB & HR,
CMS Business School, JAIN Deemed to-be University, Bangalore, India,
Email id-dr.satyajeetnanda@cms.ac.in

ABSTRACT:

Physical planning concerns the distribution of resources in terms of people, materials, and machines, while financial planning refers to the process of planning in which resources are distributed in terms of money. The essential element of economic planning is finance. Reaching physical goals is not difficult if there are enough resources accessible. However, the strategy cannot be carried out to complete completion without the required financial resources. To correct mismatches between supply and demand and to determine the costs and benefits of the different initiatives, financial planning is crucial. The Indian Planning Commission states: "The essence of financial planning is to ensure that demands and supplies are matched in a manner which exploits physical potentialities as fully as possible without major and unplanned changes in the price structure."

KEYWORDS:

Development, Economic, Financial, Planning, Physical.

INTRODUCTION

In financial planning, "the outlay is fixed in terms of money and the estimates are based on various hypotheses regarding the growth of the national income, consumption, imports, etc. to cover this outlay by taxation, savings, and the increase in the cash holding." This involves striking a balance between the number of consumer products that will be accessible to the people and the incomes of the population, including salaries, earnings of peasants, and others. Additionally, it must create a balance between the quantity of investment products made accessible to private investors and the portion of the population's earnings that will be utilised for private investment. In the public sector, a balance must be struck between the quantity of investment items that will be produced or imported and the financial resources made available for those reasons. Financial planning is therefore believed to provide a balance between supply and demands, prevent inflation, and promote economic stability. In addition to these balances, it is important to determine the balances of international payments and receipts.

Its Drawbacks. This seems overstated, however, since financial planning has its limits in a developing nation. First, efforts to raise money via taxes may have a negative impact on a person's tendency to save. Second, there is a sizable unorganised money sector and a minor organised money sector in a developing nation. Consequently, there will inevitably be an imbalance between the two sectors. As a result, there will be a lack of goods and price inflation. Physical aims are thus prone to get disrupted.

Thirdly, increasing supply via imports is conceivable, but doing so would exacerbate the balance of payments issues that developing nations currently face. Fourth, there are a number of obstacles to financial planning, namely price inflation. Therefore, applying it to sectoral planning as opposed to overall planning is more suitable. Last but not least, financial planning is inappropriate for a developing economy, where it "means not only loss of potential income but also a threat to the character of balanced social development because it results in an inadequate provision of employment at average wages relative to the increase in population and thus increases inequality between those who are privileged to obtain employment and those whose needs both for work and income necessarily remain unmet."

Construction Planning

Physical planning is an endeavour to determine how the development effort will affect factor allocations and product yields in order to maximise incomes and employment. "The physical balance consists in a proper appraisal of the linkages between investment and output. Coefficients of investment are calculated. These coefficients show how much money must be invested and what types of items must be included in that investment in order to raise production of a product by a certain amount. How much iron, coal, and electricity, for instance, are required to create an extra tonne of steel? On this foundation, the expected growth in varied product production is balanced with the kinds and quantities of investment. Financial planning is only a tool to help you reach this goal. It is also important to balance the outputs of the different sectors of the economy since one branch's output acts as an input for another branch's production.

The absence of financing for an investment project in a developing nation typically does not indicate a lack of physical resources, but in physical planning, a comprehensive assessment of the real resourcessuch as raw materials, manpower, and other resourcesthat are available is made, as well as recommendations for how to obtain them so that bottlenecks do not develop during the course of the plan. Physical planning necessitates the establishment of physical objectives for economic employment, income, and investment levels as well as for agricultural and industrial output, sociocultural and transportation services, consumption levels. The numerous goals included in the strategy must be properly balanced. Furthermore, physical planning must be seen as a comprehensive long-term plan rather than a fragmented short-term strategy. The significance of physical planning is emphasised by Professor Balogh in his statement that "the only politically sensible and morally responsible strategy involves steady pressure up to the limits of physical resources." It requires razor-sharp sectoral balance and a focus on the expansion of supply constraints as they develop. Only the stress a plan puts on the country can be used to determine if it is sound from that perspective. A decrease in stress, such as the building up of foreign reserves, indicates that the system is not being taxed beyond its physical limits[1].

Its Drawbacks. But in a developing nation, physical planning has certain restrictions. The absence of statistical data and knowledge on the physical resources that are readily accessible is the first and most serious issue in such economies. Planning will fail if physical aims are set above the capacity of resources on the basis of false information. In addition, there is the issue of balancing the various economic sectors. Due to its intrinsic structural challenges, an impoverished nation cannot achieve internal consistency of a high degree. The nation may not have attained the level of technology required to meet the established goals. Unexpected crop failures might limit the availability of agricultural goods. Or, the lack of power supply itself might cause a decrease in industrial activity. Thirdly, such physical target shortages will inevitably result in price increases and inflationary pressures. For an undeveloped economy when levels of income and saving are already quite low, an inflationary process is particularly destructive. Last but not least, in a developing nation, physical planning without financial preparation is usually a denial of planning. Plans cannot achieve their objectives if they are created based only on physical resources, without taking into account the availability of financial resources. In India, the size of the plan had to be reduced to the turn of Rs 200 crores, the extent of the financial shortfall, owing to the absence of financial resources in the last year of the Second Plan.

The debate now is whether a developing nation should use financial planning or physical planning techniques. The state's political system will determine the answer to this query. Physical planning is common in communist countries like Russia. Finance never serves as a barrier since private property does not exist and all resources are owned by the state. "A project's inability to be funded implies a lack of necessary physical resources or a choice to allocate those resources to another area of the national economy. In a socialist state, the financial component of planning only serves as a tool for social accounting. Its purpose is to transform the value of inputs and outputs into monetary terms in order to determine costs, profits, incomes, and prices. Financial planning is just as important in a capitalist society as physical planning. Both are useful in tandem. Both agree with one another. Both are required for efficient planning. The physical aims of production, according to Mahalanobis, "must be balanced in terms of physical quantities of raw materials, machinery, energy, transport, etc., as well as in terms of manpower and the flow of money." Production itself generates income, while market activity makes use of the resources produced. Physical and financial planning are two different aspects of the same reality. Planning requires that overall income should balance with overall spending, savings should match investments, and the supply and demand of individual goods and services should be balanced in terms of money. Therefore, it is necessary to include both strategies into development planning. In order to accelerate the speed of development, physical objectives should be balanced in terms of the available financial resources, while bigger financial resources should be mobilised to complete physical targets.

DISCUSSION

'Perspective planning' is a word used to describe long-term planning in which long-term goals are established in advance for a period of 15, 20, or 25 years. A perspective plan, however, does not indicate one plan for the full time of 15 or 20 years, according to the Indian Planning Commission, and it "is a blueprint of developments to be undertaken over a longer period." In practise, the perspective plan is divided into multiple short-term plans that last four, five, or six years in order to fulfil the larger goals and targets within the allotted time frame. The short-period plan is more precise when compared to the prospective plan. Looking forward over shorter time frames is simpler than looking ahead over extremely lengthy ones. Additionally, a lot of unforeseen changes might taint long-term statistics. A prospective plan is thus usually divided into short-term plans. In addition, a five-year plan is divided into yearly plans so that each annual plan may be included into the overall structure of the five-year plan. Regional and sectional plans are subcategories of any kind of design. Regional plans deal with the division of regions, districts, and towns into sectional plans for transportation, industry, agriculture, and other sectors. For each branch, these divisional plans are further split into sub-plans, such as a plan for food grains, a plan for iron and steel, a plan for exports, and so on. The perspective plan is connected to all of these plans and subplans. Long-term goals are reflected in a perspective plan, while current plans and sub-plans provide the essential assistance for the former to reach those goals. Planning cannot be separated for brief periods of time since it is a continual activity.

As a result, the current five-year plan is a forecast, continuation, and precursor to the succeeding plans. All significant choices must be made by organisations that are aware of the intended objectives and the social purpose that underpins them since planning is a constant march towards those goals. It is always important to keep forward-looking and long-term planning in mind, even when thinking about a five-year timeframe. The core of the planning process is, in fact, perspective planning.

So that the issues that must be resolved over a very long period of time may be taken into consideration in planning over a shorter timeframe, the major goal of a perspective plan is to provide context to the shorter-term plans. Above all, those factors that have consequences that can be reasonably predicted with confidence over a long period of time may be expressed in a perspective plan. These include population increase, the long-term impact of education, as well as the expansion of all technical components, which have historically shown a degree of regularity. According to Mahalanobis, "perspective planning is necessarily a continuing process and has two broad aspects. It cannot be, and for the most part does not need to take into account, factors that are exposed to rapid changes, such as harvest yields, which depend on the weather, and other factors that are exposed to fruitful or irregular fluctuations. One is current planning aimed towards initiatives contained in the yearly plans inside the five-year plan's framework. The subsequent five-year plans would need to be included into a bigger perspective planning framework with a long time horizon of 10, 20, 30, or even more. Perspective planning would mainly focus on the technological and scientific components of the economy's long-term development. Although certain issues from fundamental research would inevitably sometimes occur, studies and research would mostly be focused on addressing practical difficulties and be of the operational research kind. This would necessitate the active participation of numerous engineers, technologists, economists, statisticians, and experts in virtually every branch of the natural and social sciences. The Planning Commission of India has a division tasked with perspective planning.

The first long-term plan for Russia's electrification, the renowned GOELRO plan, was introduced in 1920, and thus marked the introduction of the concept of perspective planning. Russia has five-year plans for its economic growth up to 1958. However, it began a twenty-year plan for 1960–80 in 1959 after considering the goal numbers for 1959–65 as a crucial component of its long-term strategy for economic growth. The five-year plans in India also provide a longer-term perspective on the issue of economic growth[2].

Advantages Of Perspective-Taking: Starting with planning for specified periods is crucial because it encourages the populace and the government to follow the direction outlined in the prospective plan. But it has some significant flaws as well. First off, a tight plan like this may not allow for the required or desired corrections of mistakes or unanticipated changes, and any alterations that are made have a tendency to happen suddenly between plan periods. As a result, it is not administratively possible.

When there is no legal provision for this, the pressure to lower the plan might be demoralising. The experience in India after 1957 serves as an illustration of this, when many in positions of power made inconsistent claims and were even persuaded to make up stories out of piety. This had a tendency to propagate uncertainty, pessimism, and defeatism inside the government, in business, and among the general populace. According to Myrdal, prospective planning should begin during an experimental phase to avoid making mistakes that may have been avoided with more flexible planning, such as certain errors in the processing of import permits at the beginning of this era and some miscalculations of foreign currency needs.

Planning initiatives and imperatives

Independent Planning

In France, indicative planning is the norm. This kind of planning is optional yet adaptable. Planning is a thorough process in socialist nations, where the planning authority determines the amount to be invested in each sector, the prices to be set for goods and inputs, and the kinds and quantities of goods to be produced. Due to the rigidity of this style of planning, any distortion in one area has a severe impact on the whole economy and cannot be promptly corrected. Because it is built on the idea of decentralisation in the operation and implementation of the national plans, the French planning system is free from any such issues. As opposed to comprehensive or essential planning, it is referred to as suggestive or soft planning[3].

The mixed economy of France is unique in that it uses indicative planning, which is quite different from the planning that is used in other mixed economies across the globe. The public and private sectors collaborate in a mixed economy. In order for the private sector to assist in achieving the goals and objectives of the plan, the state governs and regulates it in a variety of ways. The typical techniques used to regulate this industry include licences, quotas, setting product prices and quantities, financial help, etc. It must operate according to governmental directives. However, under suggestive planning, the private sector is neither tightly regulated nor mandated to meet the plan's objectives and goals. Even then, the private sector is required to meet the goals set in order for the strategy to be successful. While the state does not direct the private sector, it does point out the areas in which it may assist in the implementation of the plan.

France has been using indicative planning since since the Monnet Plan of 1947–1950. The public sector in the French planning system includes fundamental industries including coal, cement, steel, transportation, gasoline, fertilisers, agricultural equipment, power, tourism, etc. The achievement of production and investment goals is crucial in these areas. Additionally, there are certain fundamental activities that are directly governed by the state since they are seen to be necessary for the functioning of the fundamental sectors. They are (i) the advancement of scientific and technological research, including atomic energy; (ii) cost reduction through rationalisation and long-term planning; (iii) specialisation and grouping of industrial concerns; (iv) market organisation of agricultural products; and (v) the conversion of old firms and retention of displaced labour. Planning is important in the other economic sectors and especially in the aforementioned disciplines where the private and public sectors coexist. It entails combining separate planning initiatives that, taken alone, are unable to accomplish their goals[4].

Production and investment goals for the public and private sectors are set out in the national plan. The Economic Table, which contains information on consumption, saving, investment, and international commerce, serves as the foundation for national programmes. The inputs and outputs of each economic sector are shown in this table. In order to give the plan its final form, the Commissariat au Plan (the French Planning Commission), when creating the draught plan, consults with members of the business sector in a series of commissions known as Modernization Commissions. The two commission kinds are vertical and horizontal. The operations of the different economic sectors, including agriculture, coal, steel, manufacturing, electricity, transportation, housing, education, public health, social welfare, etc., are discussed and decided by the vertical commissions. The horizontal commissions, on the other hand, deal with a variety of economic balances, including those between investment and saving, state revenue and spending, foreign currency inflows and outflows, and estimates that are both monetary and physical. In this approach, the private sector joins the economic plan as a partner and aids in achieving the plan's objectives. Through grants, loans, tax exemptions, and other incentives, the government supports the private sector. Instead than giving the private sector orders, it provides suggestions. The state of the market affects the production and investment plans of the private sector. Additionally, changes to the plan may be made even while it is being carried out if they are necessary owing to altered market circumstances. As a result, French planning allows for enough individual freedom of choice and action. In reality, it offers the ideal balance between liberty and order, including the benefits of both free markets and planned economies while effectively avoiding their drawbacks.

Criticisms. But for suggestive planning to be effective, "every branch of activity must be guaranteed the possibility of acquiring its production factors and selling its goods on a balanced market." However, the promise can only be fulfilled if everyone participates in the game. The promise just serves as a motivator. However, the real experience of indicative planning in France demonstrates that businesses do not participate in the game when the development programme does not align with their profit expectations. Monopolistic organisations often abuse their authority for their own gain and disregard the government's revenue strategy. Furthermore, when there is price inflation, the government interferes with the functioning of the market by using direct regulations rather than monetary and fiscal policy. Thus, suggestive planning's effectiveness in France raises questions about whether it represents a good compromise between planned and free market economies[5].

Advanced Planning

Imperative planning places the state in charge of managing all economic resources and activities. The state has total control over the production factors. To achieve the goals of the plan, the nation's resources are used to the fullest extent possible. Such planning does not respect the sovereignty of consumers. Consumers get goods in defined quantities and at fixed costs. The items are often rationed. Commodity production complies with governmental directives. Managers of businesses and factories decide what and how much to produce based on instructions from the planning commission or a central planning body. Government decisions and policies cannot be readily modified because they are stiff. All associated production sectors suffer if there is a block at any point in meeting production objectives. If industry managers don't adequately implement production plans, output will decline, undermining the economy's overall production cycle. In both China and Russia, imperative planning is in use.

Totalitarian Planning and Democratic Planning

The Totalitarian Plan

Planning is incompatible with democracy, according to many economists including Hayek and Lippman. Hayek even goes so far as to claim that "what was promised to us as the Road to Freedom was in fact the High Road to Serfdom," although he is referring about authoritarian planning, which is extensive. All economic operations are centralised under totalitarian or authoritarian planning and are guided by a single plan. When consumption, production, exchange, and distribution are all controlled by the state, there is planning by direction. The planning authority is the highest authority in authoritarian planning. It makes decisions on the goals, plans, allotments, strategies, and tactics used to carry out the plan. There is not a single person who disagrees with the proposal. The strategy must be firmly accepted and carried out by everyone. Social life is regulated, and economic and political power are polarised. Thus, authoritarian planning that is excessively tight lacks democratic freedom. Whatever the degree of deliberate control and direction of economic forces in totalitarian planning, it is for making the economic system perfect, maintaining stability, and achieving rapid growth. However, there are some who believe that "a planned society can be far more free society than the competitive laissez-faire order which it has come to replace." Furthermore, Professor Myrdal noted, "I find no example in history where democracy has been lost because of too much planning and state intervention, but plenty of examples on the contrary."25 As a result, he supports Soviet-style planning for the underdeveloped nations of South-East Asia because it is scientific and effective compared to an unplanned economic system. Although authoritarian planning may assist in accomplishing the goals within the allotted time and on schedule, the cost to the people of undeveloped nations in terms of lost economic, social, and political liberties is significant. Therefore, it is preferable to have democratic planning in order to get the same benefits without completely losing these liberties[6].

Planning Democratically

Planning in a democracy is planning inside a democracy. The ideology of democratic governance is acknowledged as the foundation for democratic planning. Every stage of the creation and execution of the strategy involves people. The broadest possible discussions with the different state governments and private businesses throughout the planning stage characterise a democratic plan. It aims to harmonise various viewpoints that are in the best interests of the populace in order to prevent any conflicts. Its implementation heavily relies on the cooperation of several organisations, organisations, and nonprofit entities. The proposal is thoroughly discussed in the Parliament, state legislatures, and private forums. The Planning Commission's blueprint is not acknowledged as such. It may be approved, disapproved, or changed by the nation's parliament. As a result, the people are not coerced into following the plan. It is bottom-up planning.

Planning in a democratic society upholds the value of private property. Nationalisation is only used when it is absolutely required, and in every instance, adequate compensation is given. Price mechanism is let to fulfil its proper purpose. Through fiscal and monetary policies, the government only attempts to have an impact on economic and investment choices made in the private sector. The governmental sector and the private sector coexist in daily operations. The two are in a healthy rivalry to reach the plan's objectives. Democratic planning seeks to eliminate income and wealth disparities peacefully by levying taxes and allocating funds to social welfare and social security programmes. Freedom for each person triumphs. Social, economic, and political freedoms are enjoyed by people.

India is a distinct democratic planning experiment. In India, planning is carried out by a democratically elected government that uses universal suffrage. The plans are being carried out without unwarranted intrusion on the people's rights and freedoms. Private property ownership is permitted, and in the case of expropriation, fair compensation is given. Both the private and governmental sectors coexist. The government provides direction, support, and oversight for the latter. The five-year plans are thoroughly discussed and debated both within and outside of

Parliament, but there is no impetus behind their execution. People have access to basic freedoms such as freedom of expression, association, and employment. In India, the planning process is democratic.

Criticisms. There is no shortage of those who label democratic planning as a fantasy. They contend that since democracy cannot be found everywhere, democratic planning also cannot exist. Even under democratic planning, when economic freedom is rendered meaningless, some kind of governmental interference is unavoidable. Economic freedom is not achieved by the establishment of different sorts of constraints on consumption, production, and distribution, such as price controls and rationing, industrial licencing, monopolistic regulation, import restrictions, state trading, etc. India's planning is of the imperative kind in a democratic environment; it combines the negative aspects of both a command economy and a free economy without embracing either's benefits. It has inherent challenges that impede advancement. The planned economy in a democracy function between the two, separated into the public and private sectors, while the capitalist economy may pursue its own course of expansion. The two have not had the best of relationships in India.

Professor William Letwin argues that the Indian Planning Commission does not have an independent status in the true meaning of the word. It belongs to the governing party. The Prime Minister serves as the Planning Commission's chairman. The Prime Minister and opposition members, who are the chief ministers of all the states, make up the National Development Council, the most significant body, which already lacks constitutional and statutory powers. "The strategy that emerged is political. We disagree with Professor Letwin because in democratic planning the plan must reflect the aspirations of the masses as represented by the ruling party in the Parliament. While Indian planning is democratic in constitutional form, meaning that the main decisions are made by elected representatives of the people, it is not democratic in substance. Indian planning is thus democratic both in form and in content, since some form of restrictions and government involvement are necessary to rescue the economy from its quagmire and to ensure the general welfare of the populace. However, it is believed that Indian planning, given its democratic structure, should be advisory rather than mandatory, as has been the case in France.

Fixed And Rolling Plans Rolling Plan

The idea of a rolling plan for emerging nations was initially put out by Professor Myrdal in his book Indian Economic Planning in its Broader Setting. In 1978, India did not try it out for the first time. It was implemented for defensive objectives after the Chinese assault in 1962, and it has been very successful in preparing the nation to fight Pakistan twice by enabling it to produce advanced weapons and ammunition, frigates, and planes nearly entirely on its own. On April 1, 1978, the Janata Government incorporated it into Indian planning. It was abandoned on April 1, 1980, when the Indira Government took office.

In a rolling plan, three new plans are created and carried out each year. The current year's plan, which comprises the yearly budget and the budget for foreign currency, comes first. Second, a strategy for a certain number of yearslet's say three, four, or fiveis in place. Every year, it is modified to reflect the needs of the economy. It includes pricing connections and price policies, along with objectives and methods to be used over the plan period. Third, a perspective plan for 10, 15, 20, or even more years is published each year, outlining the overall objectives and projecting the general contours of future growth. The yearly one-year plan is integrated with the new three, four, or five-year plan that is created the same year, and both are placed in the context of the perspective plan.

For instance, if planning in a nation began in 1970, the rolling plan approach would result in three plans: an annual plan for 1970, a five-year plan for 1970–75, and a 20–year plan for 1970–90. The 20-year perspective plan outlines the general goals and objectives. Every year after 1970, when the plan begins, there will be an annual plan; therefore, 1971, 1972, and so on. The 1970–1975 five-year plan will also carry over into the next timeframes by dropping each year from the preceding one, becoming a plan for 1971–76, 1972–77, and so on. Planning is a continual process, thus the plan is updated annually to reflect new knowledge, better data, and better analysis. "At each revision, it will be beneficial to look forward a certain number of years, which will depend on the specifics of the situation. Five years may be used for each of the annual revisions if it is thought to be a reasonable time frame so that one is always starting at the beginning of a five-year period.

Merits. The idea of a rolling plan was developed in order to get beyond the rigidities seen in set five-year plans. There are plan objectives, predictions, and allocations in the rolling plan that are not set in stone for the next five years but are subject to change each year to reflect the nation's shifting situations. Along with more freedom, it also gives a clearer perspective and a better understanding of the priorities. A rolling plan is more practical than a flexible plan despite being adaptable. It accounts for unforeseeable environmental and economic events that might harm the economy, such as floods, droughts, wars, increases in oil costs, etc. A rolling plan allows for the revision of both the financial and physical goals to reflect these changes. However, under a set plan, such adjustments are not conceivable. The rolling plan therefore includes both the benefits of perspective and flexible planning.

Demerits. But there are plenty of detractors who point out the drawbacks of this rolling plan method. They make the point that it is impossible to meet the goals outlined in the plan within a certain time frame since the objectives are likely to be updated annually. It is also challenging to maintain the right economic balances necessary for its balanced growth as a result of these frequent changes. Once again, the plan's ongoing revisions cause uncertainty in both the public and private sectors of the economy. Both industries lose the will to adjust their production schedules or move forward in line with the previously established goals. Greater goals become impossible to reach. Additionally, frequent changes to the plan's objectives breed indifference and a lack of commitment among planners and the general populace, which is bad news for the nation's future growth[7].

Additionally, a good communication system from the village to the planning body's headquarters is essential for the rolling plan to succeed. This calls for a sizable workforce with experience in data gathering at the village, block, district, and state levels. It is necessary to process the data. This calls for the construction and use of the most modern computerised system, which is expensive and challenging to manage in a developing nation. Leaving this element aside, the regularity with which data are gathered, shared, and processed determines the effectiveness of a rolling plan. It also relies on the planning system's capacity to handle the labour of continuously revising the five-year plan each year in light of changing economic or natural circumstances. However, it is beyond the capacity of the planning apparatus of a developing nation to gather, transmit, and computerise precise and consistent data from various economic sectors on a year-round basis.

Once again, current information on both progress and problems with project execution is crucial for the rolling plan to be effective. For all practical reasons, such knowledge does not exist today since it is so extensively dispersed. In any case, it is utterly inadequate to implement the plan and is utterly out of date. Therefore, the primary need is the ability to structure such knowledge and the capability to utilise it. The rolling exercise should first be limited to those areas where the necessary information can be efficiently arranged since it is evident that this cannot be done overnight. These were the issues that caused undeveloped nations like Burma and Mexico to stop using this rolling plan method. However, it has proven a success in wealthy nations like Poland and Japan.

Planned Plan

There is a set plan for four, five, six, or seven years as opposed to the rolling plan. A set plan specifies certain goals and objectives that must be accomplished within the plan period. Physical goals are set for this aim, along with the overall budget. Only in extreme cases are physical goals and budgetary commitments modified. Planning is of the fixed kind in both Russia and India. Russian economic plans last seven years, compared to India's five-year plans.

Merits. Such planning is preferable than rolling planning because of a few advantages. This style of planning has the advantage of firmly setting targets and priorities in order to achieve the goals outlined in the plan. The goals are ambitious and include all facets of the economy. During the predetermined time frame of the plan, they are intended to be completed by both the public and private sectors. Thus, it presents a challenge to both sectors, which put up great effort to accomplish them via friendly rivalry and reciprocal collaboration[8].

It aids in keeping the economy's appropriate balances. Due to the finite duration of the plan, every effort is taken to prevent physical and financial resource shortages. Priorities are set for this based on the economy's short- and long-term demands, taking into account the material, human, and financial resources that are available. To maintain healthy economic balances, monetary, fiscal, and direct policy actions are taken based on the plan's varied goals. Instead of a rolling plan, such balances might be maintained under a set plan. This kind of planning excludes any element of ambiguity. The planning apparatus, the public sector, and the private sector are all clear on the goals and targets that must be accomplished within a certain planning period. They consequently make every effort to accomplish them within that time.

A set strategy with predetermined goals and deadlines provides support from the general public and political will to see the plan through to completion. This is due to the fact that people are aware of the fact that the plan's success will result in a variety of advantages for them at the end of it, including increased incomes, greater job possibilities, enhanced agricultural facilities, more electricity for industry and agriculture, etc. An analysis of these changes in national income, investment, saving, and consumption, as well as the performance of the various economic sectors in the preceding plan, is aided by a plan like this. As a result, the areas of success and failure are highlighted, and efforts are made to improve performance and address shortcomings in the present plan. Throughout the plan term, plan reviews are also performed. All of this gives the planners the chance to stabilise the economy while the plan is still being implemented. Demerits. Fixed plans, as they are popular in India, have several drawbacks in spite of these benefits.

The set schedules in India have little to do with the available material or monetary resources. In spite of their negative consequences on the economy, the primary goal has been to meet the financial objectives via deficit finance, high taxes, increased borrowing, and significant foreign assistance. Physical goals have always lagged behind real accomplishments. Massive expenditures without equivalent physical outcomes have distorted the pricing structure and supply of necessary goods. As in the years 1966 to 1968, this often results in planned vacations. A FYP (five-year plan) is often initiated on time, but the actual plan is released after 2 1/2 years have passed, as was the case with the Fifth FYP. A mid-term review is performed after three years, but this is really a post-mortem exercise, a futile activity. By the time this report is released, the next plan is due, but it is again postponed since the essential data about the many factors and economic sectors is not yet accessible.

The current fixed plan method does not account for any unanticipated developments in the economy throughout the FYP. They might be external forces like war, or they could be natural forces like floods, cyclones, or starvation. Additionally, it could be challenging to meet the goals or acquire the resources specified in the plan. A rolling strategy provides flexibility for these sometimes-changing elements. Even in a routine planning process, some inconsistencies between projections and reality are likely to surface. Therefore, the planning system must always have the ability to fix such errors.

Additionally, a set FYP is inappropriate for major projects that are lumpy and have a ten to fifteen-year gestation time, such river valley projects. Such projects continue beyond the FYP term and must wait for new approval at the start of the next FYP. The project's development is slowed down as a consequence of this. As a result, such projects need to be modified according to a rolling plan rather of being bound by a strict FYP structure[9].

The issues of unemployment and poverty also cannot be resolved in five years. Our plans, which started with the second FYP, focused on eliminating these two ills that plague contemporary civilization, but they made little progress in that regard. They are long-term issues that may be resolved within a rolling plan over the course of 10, 15, or 20 years. Last but not least, despite 60 years of planning, India's industrial growth has been incredibly unequal and lopsided. Contrary to our socioeconomic structure, industrial growth has really been urban development as in other nations. Industries have been concentrated in and around metropolitan areas. Thus, a strategy of balanced regional development is required, which calls for the decentralisation of enterprises close to rural areas. regions in the back. Considering that this is fundamentally a long-term issue, a rolling strategy is needed to address it.

CONCLUSION

These flaws with fixed planning aren't severe enough to have people abandon it in favour of rolling planning. There will always be physical and financial constraints in planning. They are not unique to a set plan, and a fixed plan period is the best time to confront and conquer them. The long-term issues of inequality, poverty, unemployment, and regional imbalances may be progressively resolved within the framework of a variety of predetermined programmes. Long gestation projects may also be finished with two or three strategies. In actuality, every five-year plan document includes a perspective plan that includes all long-term issues and initiatives. The current five-year plan serves as a prediction, continuation, and springboard for further plans. Thus, a set of established plans may address all long-term issues in an economy.

REFERENCES:

[1] A. Brahmi, A. B. Hadj-Alouane, and S. Sboui, “Dynamic and reactive optimization of physical and financial flows in the supply chain,” *Int. J. Ind. Eng. Comput.*, 2020, doi: 10.5267/j.ijiec.2019.6.003.

[2] A. Khodaei, S. Bahramirad, and M. Shahidehpour, “Microgrid Planning Under Uncertainty,” *IEEE Trans. Power Syst.*, 2015, doi: 10.1109/TPWRS.2014.2361094.

[3] Y. Bian, “Tactical production planning for physical and financial flows of supply chain in a multi-site context,” *4OR*, 2018, doi: 10.1007/s10288-018-0379-1.

[4] A. N. Al Hussaini, “Organizational management through strategic planning and financial practices: An empirical assessment from business firms of Kuwait,” *Manag. Sci. Lett.*, 2019, doi: 10.5267/j.msl.2019.2.001.

[5] M. Comelli, P. Féniès, and N. Tchernev, “A combined financial and physical flows evaluation for logistic process and tactical production planning: Application in a company supply chain,” *Int. J. Prod. Econ.*, 2008, doi: 10.1016/j.ijpe.2007.01.012.

[6] J. N. Kramer *et al.*, “Which Components of a Smartphone Walking App Help Users to Reach Personalized Step Goals? Results from an Optimization Trial,” *Ann. Behav. Med.*, 2020, doi: 10.1093/abm/kaaa002.

[7] M. T. Bosch-Badia, J. Montllor-Serrats, and M. A. Tarrazon-Rodon, “The capital budgeting of corporate social responsibility,” *Sustain.*, 2020, doi: 10.3390/SU12093542.

[8] N. Rahmah and W. Kurniawati, “Relationship between marriage readiness and pregnancy planning among prospective brides,” *J. Public health Res.*, 2021, doi: 10.4081/jphr.2021.2405.

[9] S. Wang, S. W. Wallace, J. Lu, and Y. Gu, “Handling financial risks in crude oil imports: Taking into account crude oil prices as well as country and transportation risks,” *Transp. Res. Part E Logist. Transp. Rev.*, 2020, doi: 10.1016/j.tre.2019.101824.