

Every person's morning begins in a different way. Many people lead their life full of material pleasure. But maximum people of the world are seen struggling for existence. For these people, who are called poor, physical pleasure, well being or resting is an imagination only. How has this situation originated? How to come out of this situation? Such type of questions have their answers :

Economic development

In today's modern world every country is trying to achieve development. But development is not confined to economic development only. It is a process of social change having many faces.

Economic development shows constant increase in National income of a country.

Economic development means :

- constant increase in national income of a country
- increase in per capita income of a country
- Improvement in the living standard of the people

This is called economic development. Total income of the country is called "National income". By dividing the total income of the country with total population of the country, we obtain 'per capita income', while living standard includes the facilities like obtaining food, clothes, education, health services, transportation services as well as shelter. Because of increase in national income and per-capita income in India, after independence, there has been improvement in services and facilities such as availability of food grains, cloth, electricity, education, health services, shelter etc. The above mentioned requirements are fulfilled easily and in a better way as compared to the past. So, we may say that economic development is taking place in India.

National Income of India

National Income (GDP) of India which was ₹ 87,36,039 crores in 2011-12 has increased to ₹ 1,35,67,192 crores in 2015-16.

Difference between economic progress and economic development

In ordinary sense economic progress as well as economic development, both the words show an increase. But there is lot of difference between both of them. They are as follows :

- (1) **On the basis of development process :** Economic development is qualitative while economic progress is quantitative. Economic development is first stage, while economic progress is the stage after economic development.
- (2) **According to changes taking place in economy:** On the basis of new researches in economy increase in production is economic development. Because of research in hybrid seeds, in agriculture sector, there has been many fold increase in agriculture production. This shows economic development. On the other side, when there is increase in agriculture production because of increase in agricultural land, it is called economic progress.

- (3) In relation to developed and developing nations :** Difference is seen in both of them in relation to developed and developing nations also. Increase in national income of developed countries is called economic progress, while increase in national income of developing countries is called economic development.

Features of Developing economy :

Economy of developed and developing countries is separated on the basis of per capita income. As per world development report of 2004 of world bank, countries having less than \$ 735 per capita income are categorized as developing economy. Following are the features of developing economy :

(1) Less per capita Income : National income of developing countries is less, while population growth rate is high. So, per capita income remains low. Because of less per capita income, living standard of people is low.

(2) Population growth : Population growth rate is high in developing nations. Rate of population growth is 2 % or more in these nations.

(3) Dependence on agriculture : Main occupation of the people of developing countries is agriculture. More than 60% of the population is dependent on agriculture for employment. Contribution of agriculture in national income of these nations is about 26 %.

(4) Unequal distribution of income : Unequal distribution of income and factors of production is seen in developing countries. This inequality is seen in cities as well as villages. 20 % rich people of the country share 40 % of national income and the poorest 20 % people share 10 % of the national income. This concentration of income and property is seen in the hand of rich people in developing economy.

(5) Unemployment : Unemployment may be counted as an important feature of developing countries. In these countries ratio of unemployment is more than 3% of total labour. In these countries different types of unemployment may be seen. e.g. seasonal unemployment disguised unemployment, industrial unemployment etc. Moreover, the period of unemployment is very long.

(6) Poverty : Poverty is also a feature of developing economy. People who are not able to satisfy their primary necessities like food, clothing, shelter, education and health are called poor. In developing countries such people constitute one third of the total population.

(7) Dual economy : The economy of a developing country is based on dual or mixed system. On one side backward farming, old machinery, orthodox social structure, less production are seen in villages. On the other side, there are the cities having modern industries, new production, process, modern implements and modern sophisticated lifestyle.

(8) Insufficient infrastructure facilities : Crucially vital infra-structural facilities like education, transportation, communication, electricity, health facilities, banking etc. are less lacking in developing countries, which hinders the development of a nation.

(9) Form of International Trade : The structure of foreign trade of developing countries is different. These countries mainly export agro-products and farm-products as well as mineral ores. These type of products have less demand and low rate. So, less income is gained by exporting these goods.

While imports include industrial products and machinery. As the cost of these products is more; so expense on imports rises. Thus, as the conditions of foreign trade are adverse, there is an increase in foreign debt. Thus, we see above mentioned features in developing countries. As Indian economy is developing, all these features, are related to India in greater or lesser measure.

Economic and Non-economic Activities

Before studying about Indian economy, let us know what economic and non-economic activities.

Economic Activities

Economic Activity means earning or spending money for the exchange of commodities or services. For example activities of a farmer, an artisan, a businessman, a teacher etc. are included in economic activity.

Non-economic Activities

Activities that are not aimed at obtaining income or reciprocate something indirectly are called non-economic activities. For example, nurturing of a child by the mother, activities of social services done by a social worker etc. can be identified as non-economic activities.

Structure of Indian Economy

Various occupations and economic activities are classified in three sections : (1) Primary sector (2) Secondary sector (3) Service sector. This classification of economic activities are recognized as commercial structure. All the three sections and activities included in them may be discussed as follows :

(1) Primary sector : Agriculture and agriculture related activities such as cattle rearing, cattle breeding, fishing, poultry farm, collection of forest products, mining of raw metal etc. are included in primary sector section.

(2) Secondary sector : Small and large scale industries, factories, construction, electricity, gas and water supply are included in this section. This section is also acknowledged as industry, which includes production from small pin to gigantic machines.

(3) Service sector : Different types of services are included in this section. Services like trade, communication, airways, waterways, education, health, banking and insurance, tourism and entertainment are included in this sector.

Normally the primary sector dominates in developing countries. Primary sector contributes. The most in employment generation and national income. However, as there is rise in economic development significance of primary sector decreases in comparison to secondary and service sector and importance of industrial sector and service sector increases.

Factors of production :

Production is done with the help of natural resources and labour. Different types of tools are used for production. These factors are divided into four parts : (1) Land (2) Capital (3) Labour (4) Entrepreneurship.

(1) Land : In normal sense land is the upper layer of surface of the earth. But in terms of economics land means different types of natural resources, which includes forests, rivers, mountains, minerals present in the interior of the earth, metals etc. present on the earth surface. Thus, land is natural tool for production.

(2) Capital : Man-made instruments helpful in production process such as instruments, tools, houses etc. are included in capital, property, assets and investment etc.

(3) Labour : Labour means mental or physical work done with the aim to obtain monetary gain. Labour is a living factor of production. Work of farm labours, workers, teachers, doctors, artisans etc. is called labour.

(4) Entrepreneurship : The person who efficiently combines the three factors of production-land, capital and labour is called entrepreneur. The process of co-ordinating the three factors of production in profit making process is called entrepreneurship.

Distribution of factors of production

Human wants are unlimited while resources to fulfill them are limited. No nation of the world has resource in unlimited quantity. There will always be scarcity of factors of production. As a result, every country faces problems related to allocation of resources. Many questions arise such as why, when and how much quantity of limited resources can be used.

(1) Unlimited Wants : Human wants are uncountable and unlimited. So many wants originate from one want. Many requirements are to be fulfilled again and again while many wants arise because of development of science and technology. Thus, because of many reasons wants become unlimited. So, in order to fulfill the wants, one has to make selection among wants.

(2) Important order in terms of Priority : As the resources to satisfy wants are limited, the individuals has to decide which want is more important. He has to satisfy his requirements in the order of priority. Whichever requirement is more important that has to be satisfied early and later on the others.

(3) Limited Resources : Factors of production mainly include natural wealth and man-made wealth. All these tools are limited. So they have to be utilized judiciously. Distribution of tools has to be done keeping selected wants in the centre.

(4) Alternative use of the Resource : Resources to satisfy demands are limited. Not only this, they have alternative usage also. When any tool of production may be utilized in more than one way, it means that the tool has multiple usage. So, it may be said that this usage is alternative. For example, if wheat is sown in a land bajra, maize, groundnut or any other yield can not be cultivated. Other usage of the land has to be stopped.

Thus, in above mentioned condition, distribution of factors of production is done in such a way that they satisfy to maximum possible demands.

Methods of Allotting (Allocation) of Resources :

Every nation tries to attain speedy economic development by making the best possible allocation of resources. Allotment of resources is mainly done by two methods : (a) Market Mechanism : (b) Social System. Both the systems are opposite to each other. By mingling both systems many other methods have developed. Every country accepts one or the other method as per their requirement. Following is the explanation of methods of allotment of resources.

(A) Market system : Nations like America, Japan etc. have made their economic development through market system. Market system is also called capitalist system. In this method, the process of resource allocation is done on the basis of profit scope. In this system, in production and its related activities profit is at the centre. People invest in those industries where they find more scope of profit. Market is completely free in this system.

Government does not have any specific economic policy or does not play any role in this method.

Competition plays a vital role in market system. In the competitive market, the owner has to increase working capacity to the greatest extent in order to obtain maximum profit. Because of this method, many new researches are done and new methods of production are created. So production is the maximum. Because of this fast economic development of the countries takes place.

Thus, competition controls the whole market like an 'invisible hand'. As the State does not interfere, this system is also known as "Free economy".

Features of Market Mechanism System :

- (1) Ownership of resources of production is either individual or private.
- (2) Profit is at the centre of economic activities in market system.
- (3) Consumers get good opportunity of choice.
- (4) Government interference is not there in this system.
- (5) Distribution of resources is based on profit.
- (6) Economic decisions are taken while keeping price mechanism in mind.

Benefits of Market Mechanism System :

- (1) Economic freedom of individual is protected in market system.
- (2) Resources of production are utilized to the greatest extent and efficiently.
- (3) Abundant production may be done.
- (4) New explorations keep on taking place continuously in economy. As a result, economic development becomes faster.
- (5) Quality of things improve because of competition.

Limitations of market mechanism system : Inspite of having many benefits, market system is not perfect. There are many disadvantages and limitations of it. which are as follows :

- (1) Because of keeping profit in the centre of production, commodities are produced in more quantity and production of luxurious commodities of basic requirement is neglected or reduced.
- (2) Because of lack of policy related to role of state, natural resources are wasted.
- (3) Due to lack of knowledge and ignorance about the market, consumers are exploited.
- (4) Due to centralization of property and income there is increase in disparity of income.
- (5) There is a fear of monopoly, economic instability, exploitation of labour etc.

(B) Socialist system : Socialist system originated because of limitations and failures of market system. Countries like Russia and China have achieved fast economic progress by adopting this system.

Socialist system is quite opposite to the market system. In the socialist system all economic decisions are taken by the state machinery. State owns all the resources of production. In this system whole economy is managed by the State. All the decisions pertaining to production, investment, resource distribution, production distribution etc. are taken after keeping the requirement of the society in mind.

In the socialist system rather than profit social welfare is at the centre. Production of resources and their prices are decided by the State. The responsibility to achieve the target of production, decided by the State governed factories. Farming is also, owned by the state. Labour are paid according to their ability and accordingly work is taken from them.

Features of Socialist System :

- (1) Resources are owned by the State.
- (2) All the economic decisions are taken by the state.
- (3) Rather than profit, social welfare is at the centre of economic activities.
- (4) Labourers are paid wages in return of work.

Benefits of Socialist System :

- (1) Because of production according to the requirement of the society, unimportant and luxurious items are not produced.
- (2) As the decisions related to production are taken by the state, so wastage of resources is not there.
- (3) Disparity of income and property is removed.
- (4) Consumers are not exploited.

Limitations of Socialist System : Socialist system which has come into existence with the noble intention of equal distribution and social welfare, too has certain limitations.

- (1) As the resources of production are owned by the State, people do not get encouragement and motivation to increase production.
- (2) Due to lack of competition, contest and research do not get momentum in the economy.
- (3) There is lack of individual freedom in this system.
- (4) Because of complete interference of state, there is fear of bureaucracy.

Mixed Economy : Mixed economic system attempts at removing the limitations of market system and socialist system and tries to assimilate in it good elements of both the systems.

Mixed economy is such a type of economic system in which public and private sector co-exist and both the sectors do not work as a competitor rather they work as complementary to each other. There is individual or private ownership in agriculture, trade, small consumer goods industry etc. While basic key areas like heavy industries, factories, producing defence material, railway, electricity, roads, irrigation etc. are owned by the State.

In this system market is not completely free. Government lays control in different ways. For example state lays heavy tax on production of unwanted things. In the same way industries in the backward areas are encouraged by giving subsidy, relaxation in tax etc.

Thus mixed economy is such an economic system in which important place is given to economic planning in taking economic decisions. Co-existence of private and public sector is accepted in system. This system is also called “Controlled Economic System” because of the restrictions and control. Countries like India, France and England follow mixed economy.

We, so far studied about, market system, socialist system and mixed economy as deciding factors for economic decisions and distribution of resources. There is no country in the world today, where there is absolute market system or socialist system. Both the systems have lost their individual features and have assimilated into mixed economy. Market system witnesses indulgence of planning elements and state interference, while socialist system witnesses economic relaxation and economic liberalization.

But, demerits are also witnessed in mixed economy. For example economic instability, lack of coordination, inconsistent economic policy, low rate of growth of economic development etc. There are limitations in mixed economy.

Exercise

1. Answer the following questions in detail :

- (1) Discuss any five features of developing economy.
- (2) Wants are unlimited. Explain.
- (3) Discuss limitations of market system.
- (4) Discuss the distribution of resources in mixed economy.

2. Answer the following questions as per requirement :

- (1) Land as a factor of production.
- (2) Limitation of socialist system.
- (3) Discuss the difference between economic progress and economic development.
- (4) Write a note on primary sector.
- (5) Differentiate between : Economic and Non-economic activities.

3. Answer the following questions :

- (1) What is economic development ?
- (2) Which are the factors of productions ? Name them.
- (3) What is the meaning of economic activity?
- (4) Which economic system has been followed by India ?
- (5) What do you mean by alternative use of resources ?

4. Answer the following questions by choosing the correct alternative :

- (1) Economically, India is which type of country ?
(A) Developed (B) Backward (C) Developing (D) Poor
- (2) According to world bank report 2004, what is the minimum per capita income (in dollars) for a country to be called a developing country ?
(A) \$ 480 (B) \$ 520 (C) \$ 735 (D) \$ 250
- (3) Which system is called free economy ?
(A) Socialist System (B) Mixed Economy (C) Market System (D) None of these
- (4) Cattle rearing is included in which sector of economy ?
(A) Secondary (B) Primary (C) Service Sector (D) Three of them

Activity

- Teacher should enable the student to prepare activities related to the topic economic and non-economic activities under her/his guidance.
- Collect information about national income of our country in different years and prepare a chart.
- Classify the production equipment by the students and prepare the sketchbook.