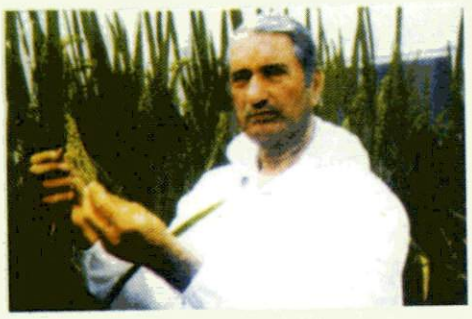
Karnataka State Open University
Manasagangothri, Mysore- 570 006

ಕರ್ನಾಟಕ ರಾಜ್ಯ ಮುಕ್ತ ವಿಶ್ವವಿದ್ಯಾನಿಲಯ
ಮಾನಸಗಂಗೋತ್ರಿ, ಮೈಸೂರು ೫೭೦ ೦೦೬

COURSE : 2

M.A. (PREVIOUS)
DEVELOPMENT ECONOMICS

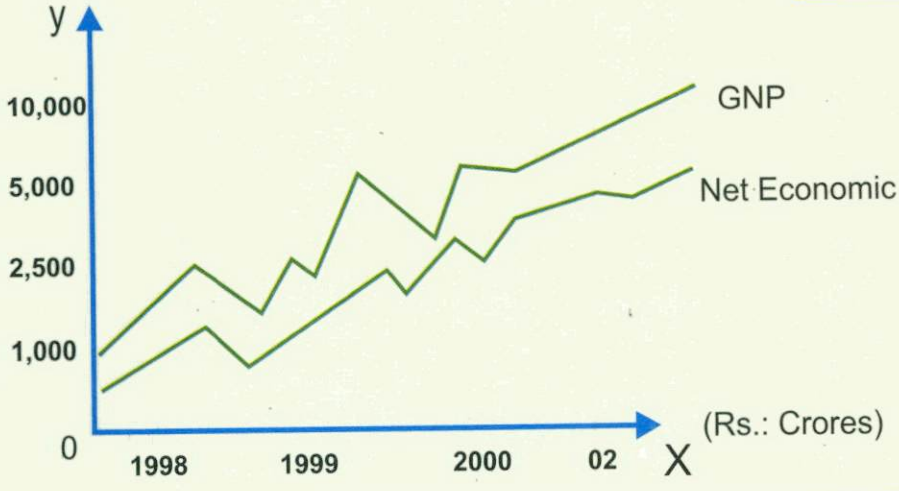
Modern Agriculture



Industrial Development

Agriculture

IT Industry



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ರಾಷ್ಟ್ರೀಯ ಶಿಕ್ಷಣ ನೀತಿ 1986

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ಡಾ. ಕುಳಂದೈಸ್ವಾಮಿ

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INTRODUCTION

Economic development is determined by not just economic factors alone, but even the so called non-economic factors. However, at present the institutional factors have come to occupy a crucial place in economic analyses. Broadly speaking, the insitutional factors pertain to the organisation of development process as also the fostering of growth related attitudes and motives. Unlike other factor inputs, institutional factors cannot be substituted by other factors. Population growth which is a major factor of Economic Development is influenced by both social & state institutions. The qulaity of human resource in LDC's is poor as a result of which surplus and unskilled labour has become an obstacle to development. Human Resource Development through manpower planning is essential for human capital formation. All new growth theories emphasise endogenous human factor in their growth models. Similarly rural-urban migration is also influenced by institutional factors. Both State & Markets are the powerful institutions which mould the economic activities. However, both State and Market failures have led to a new thinking on the role of the state. This block is an attempt to provide the broad frame work of institutional factors in Economic Development.

UNIT-19: POPULATION AND ECONOMIC DEVELOPMENT (E.D)

19.0 Objectives

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19.2 Population and Economic Development

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19.2.2 How Population growth retards economic development?

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19.3.1 Malthusian Theory of Population

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19.0 OBJECTIVES

The major objectives of this Unit are

1. To examine the relationship between population and economic development
2. To understand how population stimulates and retards economic development.
3. To discuss the theoretical foundation of the relationship between population and economic development.
4. To discuss in brief the three major dimensions of population explosion namely unemployment poverty and environmental pollution.
5. To throw light on the population policy debate.
6. To throw light on the population policy imperatives for LDC's.

19.1 INTRODUCTION

Population is an important factor, which determines Economic Development (E.D.). It is also an important macro economic variable which influences production as a factor input i.e., labour and also as a source of effective demand. The rate of growth of population determines development and development inturn determines the population growth. They are inter related and inter dependent. But the relationship between these two is very complex.

In 1961 world population was around slightly over 3 billion, in 1980 it was around 5.3, and by 2005 global population is expected to reach 7 billion and by 2025 around 8.3 billion. If growth continues in the same pace, within 500 years only one square yard of the world's land surface will be available per person. Then the phrase "Standing Room" will come into existence. Over 4/5 of that population will inhabit the developing world.

Every year about 90 million people are being added to the world population and over 80 million of this additional population per year is born in III world countries. That means. population problem has become serious in these countries. Because, it is not only a simple question of numbers, but human welfare. The entire analysis of the relationship between population and economic development is discussed in the context of developing countries.

19.2 POPULATION AND ECONOMIC DEVELOPMENT(E.D)

The relationship between population and ED is quite intresting as well as complex. All economic activities centre around people and now development is understood as by the people of the people and for the people. Thus, development is people centred and without people, hardly there is any demand for development. Economic Development is basically the process of expanding the capabilities of the human beings. It aims at involving more and more people in development process and also creating a situation in which the fruits of development are fairly distributed among people. Hence, providing social justice has become a significant approach to economic development the displacement of labour and other human beings in the devlopment process, concentration of wealth accompained by the exploitation tendencies, has made the relationship between population and economic development very complex issue

19.2.1 How Population Promotes Economic Development

Population stimulates development from both supply and demand perspectives.

From the supply perspective, population is regarded as the main source of the supply of labour, which is an important input in the production process. Labour is combined with other factor inputs to produce goods and services. The supply of labour as well as its quality determines the nature and speed of economic development. Labourers through their mental or physical labour, influence the entire course of economic activities in their capacities as workers, managers, organisers, supervisors, technical personnel, administrators, researchers, enterpreneures etc.,. The shortages of both Physical/manual Labour and skilled labour, hinder economic activities, particularly production.

Similarly from demand perspective, population growth also determines economic growth. Population growth constitutes an important source of effective demand. They not only contribute to production but also constitute the cause for production. Unless there is demand for goods and services from people, hardly there is any scope for expanding production. All economic actvities centre around people and all production activities are demand driven. Changing tastes and preferences of the people are reflected in the diversification of thier demand. This inturn paves the way for diversification of production. However, the level of income determines the level of effective demand, which inturn constitute the base for all economic activities.

Thus, both from supply and demand perspectives, population growth determines economic development of a country. At the same time, economic development also influences the growth of population. The health care facilities, education and training facilities employment oppurtunities, the management of human resources, the population policy of the Government etc.,. also influence the growth of population as well as its quality. Hence, it becomes quite clear that population growth and economic development are inter related and interdependent. However, if population is within the limits, it can be a 'boon', otherwise, it can become a 'bane'. This is the case in most of the developing countries where 'population explosion' has become an obstacle to development. Most of the LDC's are facing such a situation.

19.2.2 How 'Population Explosion' Retards Economic Development?

Rapid rate of growth of population has led to population explosion in many of the III World countries including India. In such cases population could become a limiting factor in economic development. There has been a public health revolution in developing countries prior to and independent of Economic Development. LDC's have been able to import certain byproducts of development from economically advanced countries but not the growth process itself. More specifically, the spread of western techniques of public health, sanitation and medicine in the LDC's has brought sharply falling death rates and rapid population growth even in the absence of rising living standards and other accomplishments of economic progress.

There are three major reasons why and how population explosion retards economic development.

1. It creates the difficult choice between higher consumption now and investment needed to bring higher consumption in the future. Low percapita availability of resources make investment in population quality difficult. Yet the key to development lies in the development of more educated and skilled people.

2. Most of the LDCs are agro-based economies, characterised by surplus labour in agriculture. This is reaponsible for low agricultural productivity, low income, low standard of living poverty etc.,. Besides, contributing to rural-urban migration, such population explosion leads to environmental damage which will also threaten the economic well being of the poor.

3. Finally, rapid increase in population growth make it hard to manage the adjustments that are necessary to promote economic and social change. High fertility is a major contributor to rapid urban growth. Cities in developing countries are growing to an unprecedented sizes. Such growth poses enormous new problems of management, let alone improving living conditions for city residents.

Besides, the problems of rapid population growth affects countries with untapped natural resources, making them difficult to develop. The human skills and administrative structures needed to exploit the natural resources. Where the amount of new land or other exploitable resources is limited as in Bangaladesh, Burundi, China, Egypt, India, Java, Kenya, Malawi, Nepal and Rwanda, the short-run difficulties caused by population explosion are much more obvious.

There are several reasons why population growth in developing countries is a greater economic burden today that it was in today's developed countries in their periods of economic transition.

1. Population growth is much more rapid in LDC's (2%) when compared to Europe and Japan in the 19th Century where the population growth seldom exceeded 1% per year.

2. Large scale migration that occured in Europe in 19th century is not possible today from developing countries. Migration rules and regulations are very tough.

3. Compared with many developed countries in thier periods of faster population growth, income in developing countries is still low, human and physical capital is less builtup and in some countries political and social institutions are less well established.

4. In Japan and U.K by 1980's, population growth in rural areas had ended. But in much of Asia and Africa today, rural population growth still exceeds 2% a year.

All the above discussions reveal how population explosion retards growth and why the problem is very serious compared to rich countries, particularly in thier periods of economic transition. Besides, they also portrait population explosion as a limiting factor in economic development.

19.3 THEORETICAL FRAME WORK OF POPULATION GROWTH AND ECONOMIC DEVELOPMENT

Theoretical frame work for examining the relationship between population and E.D is very much desirable. Several attempts have been made to theorise the relationship between population and economic development. They provide us various parameters to interpret the inter relationship between these two. Let us try to review a few important theoretical frame works.

19.3.1 MALTHUSIAN THEORY OF POPULATION(1766-1834)

The first and the most significant attempt was made by T.R Malthus. His essay 'The Principles of Population as it affects the future' is based on two postulates:-

a) Ford is necessary for the existence of Man and
b) The passion for sex will remain

He said, that population when unchecked increases in geometrical ratio(1,2,4,8,16,32.....,) and subsistence (food supply) in arthmetical ratio(1,2,3,4,5). Ultimately the economy enters the 'population trap' which renders growth difficult. This made him to conclude that any permanent improvement in the lot of mankind was going to be extremely difficult to attain so long as increased production was accompained by a likely increase in number. He suggested positive and preventive checks to control population growth.

19.3.2 EDWARD CANNON'S (1861-1935) OPTIMUM THEORY OF POPULATION

Edward cannon together with a German economist Karl Winkel Blech classified the countries into three groups depending upon their population growth, namely under populated, over populated and nations with normal population. This, normal population is the so called 'optimum population', which is not only in accordance with the resources available but also ensures greater productivity. He defined optimum population as 'that size of the population which results in the highest percapita income, the highest productivity as measured in different manners or highest level of other less well defined economic indicators such as economic welfare, level of living, real income and in some cases employment'. Similarly, economic optimum population ensures total literacy, good health, longevity, conservation of resources, power defence etc.,.

19.3.3 FRANK.W.NOTENSTEIN'S (1945) - THEORY OF DEMOGRAPHIC TRANSITION

It is a systematic theory which made an attempt to examine the demographic structure in the context of economic growth. He stated that a rapid decline in the population growth in the west was mainly due to the process of modernisation which invloved rising standards of living, rising income and advances in sanitation and medical knowledge. Fertility also registered a decline, although its response to modernisation was not very spectacular. Accordingly, the process of demographic transition in the course of economic development as experienced by todays industrial countries, may be briefly explained as follows. All nations in the modern era which have moved from a traditional agararians based economic system to a largely industrialised urbanised base, have also moved from a condition of high mortality and fertility to low mortality and fertility.

19.3.4 HARVEY LEIBENSTEIN (1957) AND NELSON(1960)

Harvey Leibenstein in his theory of critical minimum effort thesis, examined the relationship between population growth and income growth. The Theory says that after certain level, even if percapita income (PCI) increases, population growth will not increase instead it decreases. Small increase in PCI is of no use and hence only when there is a significant increase in PCI, population growth rate gets reduced.

Therefore, leibenstein's theory calls for a critical minimum effort inorder to increase the level of income substantially. This will neutralise the 'zero sum incentives' and stimulate the 'positive sum incentives' to get out of the low level equilibrium trap.

Similarly, Nelson's Theory of Low Level Equilibrium Trap calls for a significant and increase in PCI to escape from the low level of equilibrium. These two theories, however are based on Malthusian theory. According to Nelson, in LDCs, the rate of growth of PCI is very slow and hence population increases at a rapid speed so that they enter in to low level equilibrium trap. The underlying assumption is that population is an increasing function of PCI upto a certain level, but beyond that level, it is a decreasing function of income.

19.3.5 MICRO-ECONOMIC THEORY OF FERTILITY

This theory is developed by the chicago school. It is based on the neo-classical theory of consumer demand, with similar assumptions but has utilised the functions of economy and optimisation to explain family decisions. When applied to study fertility behaviour, family is regarded as consumer and children, a special type of good. Fertility is a rational economic response to consumers (family) demand for children relative to other goods. The usual income and substitution effects are assumed to apply. This means, if other factors are held constant, the desired number of children can be expected to vary directly with house hold income (This direct relationship may not hold good for poor countries) and inversely with the price (cost) of children and also inversely with the strength of tastes for other goods relative to children. Mathematically this relationship can be expressed as follows: -

$$cd = f(Y, Pc, Px, Tx)\ X = 1 \ldots\ldots\ldots\ldots, n$$

where -

cd is demand for children

Y is given level of house hold children

Pc is the net price of children

Px is prices of all other goods and

Tx is taste for goods relative to children

The implications of this micro economic theory of fertility, to control population growth are -

1. Increase education of women
2. Increase the non-agricultural wage employment of women (which will increase the cost of child rearing)
3. Increase family income levels
4. Reduce infant Mortality.

All these ultimately lead to emergence of small families.

19.4 MAJOR DIMENSIONS OF POPULATION EXPLOSION

The population explosion in the III World countries, has manifested itself in the problem of unemployment, poverty and environmental pollution. These problems have their roots in population

explosion and speak of the magnitude of population explosion in these countries. These tragedies have adversely affected the tempo of development in developing nations. Now, let us have a close look into these three major dimensions of population explosion.

19.4.1 POPULATION EXPLOSION AND UNEMPLOYMENT

Employment is an opportunity to earn income. It is an important macro-economic variable which tells us about the nature and functioning of the economy. Employment implies not only the employment of labour, but also all other factors of production. Therefore, full employment represents prosperity. However, all most all LDC's are suffering from the problem of unemployment which means tragic waste of human as well as other resources. Although it is a universal phenomenon (of course, the extent is low in MDCs). unemployment in developing countries is historically unique and thus subject to variety of unconvensional economic analysis.

There are three major reasons for this

a) Unemployment is a chronic feature
b) It has a much more complex causes and
c) It is identified with abject poverty.

Two major questions that arise in this context are-

1) Why did rapid industrial growth in developing countries has failed to generate more jobs?
2) Why do great number of people continue to migrate from diverse rural areas to crowded cities, despite high levels of urban unemployment?

A close examination of the problem of unemployment in the third world countries clearly reveals that the root cause for unemployment in these countries is population explosion than anything else. Even growth has failed to create more jobs and hence it is dubbed as 'jobless growth'. Employment elasticity in the organised sector has declined and in agriculture, and in most cases it has become negative. This calls for a very cantious empoyment policy which aims at achieving both employment and GDP growth. Therefore, a blind mitation of the employment policy of the west does not lead us any where.

A Study of both employment and population trends in LDCs reveal that they are positively related. In other words, population explosion is invariably associated with higher rates of unemployment.

19.4.2 POPULATION EXPLOSION AND POVERTY

Another significant outcome of population is poverty. Chronic and absolute poverty are a feature of all developing countries. Massive poverty is LDCs a matter of grave concern for **LDCs**. Infact, most of the **LDCs** are identified with vicious circle of poverty and all their policy measures aim at attacking the problem of poverty. Poverty is basically the combined result of the population explosion and unequal distribution of wealth and income. Poverty reflects social injustice and also reveals that benefits of development have not percolated to the poor and the needy.

Poverty implies denial of baisc necessaries of life. However, the Human Development Report (1997) introduced a new concept of poverty called Human Poverty, which is multi dimensional and goes beyond income. Accordingly, poverty means deprivation of basic opportunities and choices for living a tolerable life. Infact, at present Human Poverty Index [HPI] is used to measure both the extent of poverty as well as development. It ranks countries by three variables namely vulnerability to death at an early age, the prevalence of illeteracy and access to health services, safe drinking water and adequate food.

However, measurement of poverty is beset with a number of issues. It invloves deciding what indicators to use, how to aggregate them and how to interpret the number and time trends. These issues are fraught with controversy even among the theorists like whether to use income or consumption whether to use indicators which are distribution sensitive, whether to focus more on non-income indicators etc.,.

The development history of particularly III World countries reveal that growth has failed to ensure distributive justice and hence has failed to tackle the problem of poverty.

On the basis of some empirical findings population - poverty interrelationship can be identified as follows

1) Poor families have large number of children
2) Low investment in children and poor schooling oppurtunities.
3) Given high mortality, parents may feel the need to have many babies to be sure that a few survive.
4) For many poor parents, the need for support in their old age out weighs the immediate cost of children.
5) In some developing countries family system encourage high fertility and
6) Limited information about and access to modern and safe means of contraception encourages high fertility among the poor.

The eradication of poverty ultimately calls for reducing the rate of growth of population. However, the international action plan, has identified six approaches to eradicate poverty. They are Epowerment, Gender equality, Pro-poor growth, mproved management of globalisation, supportive partnership and International support for special proverty situations.

19.4.3 POPULATION EXPLOSION AND ENVIRONMENTAL POLLUTION

Population and environment are very closely interrelated. Environment provides all the resources to satisfy human wants. Population depends on environment for its sustenance. The term environment in a sense may be defined as the surrounding in which man lives and works. Environment not only includes topography(geography) water, rainful, wind, soil and temperatures but also vegetation and animals living in a particular area. Similarly, ecology is defined as the scientific study of the relationship between man and his surrounding. Environment is the base and provides inputs for development. The quality and availability of environmental resources determine the speed with which an economy develops. Development is for people and environment provides water, forest resources flora and fauna, minerals and space to perform all economic activities.

Population explosion is responsible for careless use of environmental resources and there by contributing to environmental pollution. The pressure of population on environment is the cause for all economic activities. The progress of these activites inturn contribute to all types of pollutions. People as producers, consumers, administrators, policy makers or researchers are responsible for pollution. When people fail to live in harmony with nature and demand more than what environment could offer, pollution occurs. Population explosion demands more and more goods and services. More production and more consumption means more pollution. Hence there is a trade off between environmental quality and supply of other goods and services.

The other side of the picture is, as and whern income of the people increases, along with development not only the demand increases but the quality of demand also changes, which may not be eco-freindly. The use of more and more technology and other techincal inputs enhance the severety of environmental pollution. Similarly, as people become richer and richer, their demand for pure environment also increases and people are prepared to pay for better quality environment.

An important dimension of environmental pollution is that, poor people are more adversely affected by pollution. The incidence is more on women and the poorest of the poor. Yet another dimension of the problem is riche countries where there is no pressure of population, contributes more to pollution than the poor nations where actually the pressure of population is very high. Under such case pollution cannot be attributed and only to population explosion, rather it can be related to the level of income.

Man in his struggle for existence is tampering with the eco-sphere for a long time. However, certain reasources are exhaustible and their scarcity has made us to rethink on lines of sustainable development.

The comming generation presents unprecedented challenges and oppurtunities. Between 1990 & 2030, the world population grows by 3.7 billion, food production will need to be doubled and industrial output and energy use will probably triple world wide and increase five fold in developing countries. This growth brings with it the risk of appalling environmental damage.

In brief population explosion, poverty unemployment and environmental pollution are all interconnected . Therefore, to tackle these problems, an integrated and co-ordinated approach becomes essential. Small and isolated policy approach is ineffective. However, it is only recently that the policy approach has been changed to find a feasible solution to all these problems. All said and done population explosion along with reckless use of resources are the root causes for all above discussed evils.

19.5 POPULATION DEBATE

There is a strong opposition to pindown population explosion as the sole cause for all the evils in the developing countries. However, there is also an opinion which believes that population is not the only but also the primary source of low levels of living, erroding self-esteem and limited freedom in the III world countries. On the other hand, it would equally be healthy to thin that the rapid population growth in many countries and regions is not a serious intensifier and multiplier of underdevelopment.

We can identify three general lines of argument on the part of those primarily from III World

countries who assert that -

1) The problem of under development is not of a population growth but rather other issues like underdevelopment, world resource depletion and population distribution.

2) It is a false issue deliberately created by dominent rich country agencies and institutions to keep **LDCs** in their underdeveloped dependent condition.

3) For many developing countries and regions population growth is impart desirable.

A radical neo-classical version of the above argument belives that population problem is a deliberately contrived false issue. It states further that the problem is magnified by the rich in an attempt to hold down the development of the poor inorder to maintain an international satusquo that is favourable to their self interest and are pressuring the poor to adopt aggressive population control programmes. However, at the U.N convention held in Teheran(Iran) in 1968, a resolution was adopted asserting that 'It is a fundamental human right for each person to be able to determine the size of his or her own family. At the same time, it is equally true that population growth intensifies and exacerbates the economic, social and psychological problems associated with the conditions of underdevelopment and therefore, there is the need for population control programmes.

There is a concensus which emerged at the world population conference held at Mexico City August 1984. The major tenets are-

1) Population growth is not the primary course of low levels of living, gross inequalities or the limited freedom of choice that characterise much of the III World.
2) The problem of population is not simply one of numbers but involves the quality of life and material welbeing.
3) Rapid rate of growth of population serve to intensify problems of underdevelopment and make prosperts for development much more remote.
4) Many of the real problems of population arise not from an overall size but from its concentration especially in urban areas.

19.6 POPULATION POLICY IMPERATIVES FOR CONTROLLING WORLD POPULATION GROWTH

There are three major policy approaches to control the rapid growth of world population. They are -

I) Those general and specific policies that developing countries can initiate to influence and perhaps even 'control' their population growth and distribution.

II) Those general and specific policies that developed country governments can initiate in thier own countries to lessen their disproportionate consumption of limited world resources and promote a more equitable distribution of the benefits of global economic progress.

III) Those specific ways in which developed country and thier international assistance agencies can help developing countries to achieve their population policy objectives both in the shorter and longer periods.

In brief, the evil effects of population explosion are wide and varied. Hazards to health, reduction in productivity, loss to amenities and eco-system are significant externalties of rapid population growth. A growing number of diseconomies characterise all the countries suffering from population explosion. Therefore, the policy options for LDC's for controlling population growth include sustainable development, meeting the needs of the poor, alternative technologies, changing the present living pattern, population education along with population control measures etc.,. go a long way in reducing the rate of growth of population. Attacking the problem from various perspectives and a combination of policy measures are desirable to control rapid population growth.

19.7 SUMMARY

Population is an important factor which determines economic development. However, the relationship between these two is quite interesting as well as complex. All economic activities centre around people and development aims at expanding the capabilities of people. Similarly population also influences economic development from both supply and demand perspective. However, population explosion is hindering economic development in most of the LDCs. There is a strong and well defined theoretical frame work to examine the relationship between population and economic development. Population explosion has three serious dimensions in the sense it is the root cause for poverty, unemployment and environmental pollution. Although the adverse impact of population explosion on economic development is very well established, there is a debate which argues altogether on a different line ie.,. all evils of LDC's are not just due to population explosion, but other evils including mal distribution of population. To control the rapid rate of growth of population, not only the concerned countries themselves but also, the so called developed countries and also the international agencies have to work jointly with certain specific and general policies to control the rapid rate of growth of population.

19.8 KEY CONCEPTS

Sustainable Development: It is a new dimension of economic development. It shows the concern of development towards the quality of the environment. It is defined as the ability to satisfy the needs of the prsent generation without geopardising the ability of the future generation to satisfy their own needs.

Full Employment: Employment is an oppurtunity to earn income. Full employment means all those who are able to work, willing to work at the prevailing wage rates are fully employed. It denotes employment of all factor inputs including labour and hence represent an equilibrium position.

Population Explosion: It refers to a situation wherein the rate of growth of population exceeds the rate of growth of food supply and other basic necessaries to support the growing population. It is this situation which reduces growth rate in LDC's.

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CHECK YOUR PROGRESS

1) Examine critically the relationship between population growth and economic development.
2) Outline the theoretical frame work for examining the relationship between population and economic development.
3) 'Population explosion is the root cause of poverty' Elucidate
4) Explain the relationship between population and unemployment
5) Trace the impact of population growth on the environment.
6) Write a note on population debate.
7) Discuss the population policy imperatives for **LDCs**
8) Discuss the different approaches to control world population growth.

UNIT 20 HARRIS-TODARO MODEL OF EMPLOYMENT

20.0 Objectives

20.1 Introduction

20.2 Harris-Todaro Model

20.2.1 Assumptions

20.2.2 Sailent Featuers

20.2.3 H-T Model and LDCs

20.2.4 Merits of H-T Model

20.2.5 Policy implications

20.2.6 Comprehensive migration and employment strategy

20.2.7 Limitations of H-T Model

20.3 Summary

20.4 References

20.5 Check Your Progress

20.6 Key Concepts

20.0 OBJECTIVES

The objectivies of this unit are-

1) To understand the H-T Model in the context of R-U migration and urban -unemployment.
2) To study the assumptions of the model
3) To examine its sailent features
4) To know how H-T Model is superior to other models of unemployment.
5) To draw the policy implications for a developing economy and
6) To identify the limitations of the Model.

20.1 INTRODUCTION

Urbanisation is a significant feature of development. This has led to growth of mega cities on the one hand and rural-urban (R-U) migration on the other. According to one of the stimates of U.N, nearly 66% of the urban dwellers of the world are residing in the less developed countries.

The strategies of development determine R-U migration. A major consequence of rapid urbanisation is expanding supply of job seekers in both the modern (formal) and informal sectors of the urban economy. Moreover, in almost all the developing countries, the supply of workers far exceeds the demand, resulting in extremely high rates of unemployment and underemployment in urban areas.

One of the major dimensions of the unemployment in the III World is related to the so called R-U migration. Several models have been built to study this kind of a situation. However, many of these models have failed to provide either a complete picture or reasonable solution to the problem of, particularly urban unemployment. However, Harris-Todaro Model did make an attempt to study the multi-dimensional problem of unemployment. Hence, it is also known as two-sector model, urban-unemployment model and R-U migration model of development.

20.2 HARRIS-TODARO MODEL

The economic development of western Europe and the U.S was closely associated with and infact this was defined in terms of the Movement and Labour from rural to urban areas. For the most part, with a rural sector dominated by agricultural activities and an urban sector focusing on industrialisation, overall E.D in these countries was characterised by the gradual allocation of labour out of agriculture and into industry through rural-urban (R-U) migration, both internal and international. This historical model served as a blue print for the development of III World nations. During 1960's and 70's, the III World nations witnessed a massive migration of thier rural populations in to urban areas, despite rising levels of unemployment and underemployment. This has lessened the validity of the Lewis two sector model of development. In this background Harris-Todaro (H-T) model attempts to provide a satisfactory explanation for R-U migration on the one hand and urban unemployment on the other.

The H-T model, starts with a primary assumption that migration is an Economic Phenomenon and individual migrants are rational. The model also postulates that migration proceeds in response to R-U differences in expected rather than 'Actual' earnings. The fundamental premise is that migrants consider

the various labour market oppurtunities available to them in the rural and urban areas and chose the one that maximises their 'expected' gains from migration.

Expected gains are measured by the differences in real incomes between R-U work and the probability of a new migrant obtaining and urban job. In essence, the theory assumes that members of the labour force both actual and potential, compare their "expected" incomes for a given time horizon in the urban sector, ie.,. the difference between the returns and costs of migration, with prevailing average rural incomes and migrate if the former exceeds the latter.

20.2.1 ASSUMPTIONS

The implicit propositions and assumptions of the model are-

1) Migration of people is caused by difference in wage rates between regions.
2) Aggregate migration flows between regions are simple sums of individual moves undertaken on the basis of individual cost-benefit analysis.
3) Migration will not occur in the absence of differences in earnings and or employment rates between regions.
4) Migration will occur until expected earnings have been equalised.
5) Migration decisions stem from disequilibria or discontinuities between labour markets and other markets donot directly influence decision to migrate and
6) The way for Governments to control migration flows is to regulate or influence labour markets in the sending and or receiving regions.

20.2.2 SALIENT FEATURES OF H-T MODEL

The sailent festures of the model are as follows:

1) Migration is stimulated by rational economic considerations of relative benefits-costs, mostly financial but also psychological.
2) The decision to migrate depends on "expected" rather than actual R-U wage differentials, where the expected differential is determined by the interaction of two variables, the actual urban-rural wage differential and the probability of sucessfully obtaining employment in the urban sector.
3) The probability of obtaining an urban job is inversely related to the urban unemployment rate.
4) Migration rates in excess of urban job oppurtunity growth rates are not only possible but rational and even likely the face a wide U-R expected income differentials
5) High rates of urban unemployment are an inevitable outcomes of the serious imbalance of economic oppurtunities between urban and rural areas of underdeveloped countries.
6) Migration decisions are made by families or house holds and not by single individuals. In other words, R-U migration is the outcomes of collective decision.
7) R-U migration is guided by not only the maximisation of expected incomes but also minimisation of risks and uncertainties associated with a labour market and a variety of market failures.

20.2.3 H-T MODEL AND DEVELOPING COUNTRIES

In a full employment situation, the decisions to migrate can be based solely on the desire to secure highest-paid job whenver, it becomes available. Single economic theory would thus indicate that such migration should lead to a reduction in wage differentials through interaction of the forces of supply and demand, both in areas of emigration and in points of immigration.

Unfortunatley such an analysis is not realistic in the context of developing countries. Because, these countries are beset with chronic and serious unemployment problem. As a result, a typical migrant cannot expect to secure a high paying urban job immediately. Infact, it is much more likely that on entering the urban labour market, many migrants become totally unemployed or will seek casual and part time employment in urban informal sector where entry is easy. Consequently in deciding to migrate, the individual must balance the probabilities and risks of being unemployed or underemployed for a considerable period of time against the positive U-R real income differential.

20.2.4 MERITS OF H-T MODEL

There are several models starting from classical to H-T Model, which try to examine the problem of employment/unemployment. They emphasise different determinants of employment. For Eg.,. the classical model assures full employment situation and unemployment is only a temporary phenomenon, and price-wage flexibility takes care of the probelm. Where as Keynesian Model calls for state intervention to create more and more jobs. Similarly, the extension of the Keynesian Model, that is the so called Harrod-Domar Model, emphasises savings investment and capital formation as the significant determinants of employment generation. Likewise there are many more models which try to examine the employment issue. However, none of these models did try to explain unemployment situation in the context of R-U migration, expected income, risks and uncertainities, information, collective decision making and regional disparities. The H-T Model has incorporated all these factors. Apart from pure economic and demographic factors, the H-T Model considered even the psychological factors determining R-U migration which inturn influence the magnitude of unemployment in the urban areas. Therefore, it can be stated that the H-T model provides a very broad based approach to understand the problem of unemployment in the III World countries. The model also takes care of the constraints as well as the problems of the developing countries which are characterised by high rate of unemployment.

Growing regional unbalances characterise all developing countries. The H-T model tries to explain the causes and consequences of such disparities. At the same time, it has very strong policy imperatives for the III World countries, whose problem of unemployment is unique compared to developed countries. Hence, the model calls for an integerated and co-ordinated approach to tackle the problem of unemployment in developing countires.

20.2.5 POLICY IMPLICATIONS OF H-T MODEL

1) There is a need to reduce imbalances between urban-rural employment oppurtunities. If this is not done, apart from raising urban unemployment, it gives rise to serious socio-economic problems in cities. Eventually, it may also create problem of labour shortage in rural areas especially during busy seasons.

2) Urban job creation is an insufficient solution to urban unemployment probelm. If more and more jobs are created in urban areas, more and more influx of population from R-U areas take place which keep on stimulating migration and unemployment in urban areas. Because, migration rates are assumed to respond positively to both higher urban wage and higher urban employment oppurtunities.

3) Indiscriminate educational expansion will lead to further migration and unemployment. Urban job creation is definitely lower than expansion of education. The educated rural youths who migrate to urban areas contribute to the expansion of urban unemployment. This further increases competition for urban employment and investment in higher education.

4) Wage subsidies and traditional scarcity factor pricing can be counter productive. Therfore, elimination of factor price distortions by using 'correct prices' perhaps implemented by wage subsidies or direct government hiring.

5) Programmes of integrated rural development should be encouraged. Creation of more alternate employment oppurtunities in rural areas reduce R-U migration. At present there is a strong bias towards urban development at the cost of rural development. To increase the base of rural economy both farm and non-farm income generating activities should be encouraged.

6) The policy implications, however, are not to reverse what some have called 'invitable hisorical trends' rather demands need for 'policy package' that doesnot exacerbate these historical trends towards urbanisation by artificially creating serious imbalances in economic oppurtunities between urban-rural areas.

20.2.6 COMPREHENSIVE MIGRATION AND EMPLOYMENT STRATEGY

According to H-T Model, a comprehensive migration and employment strategy for III World countries includes the following:

1) Creating an appropriate R-U economic balance.
2) Expansion of small scale and rural industries in rual areas.
3) Elimination of factor price distortions.
4) Establishing a direct linkage between education and employment.
5) Choosing appropriate labour intensive technology.
6) Reducing population growth through reductions in absolute poverty and inequality along with the expanded provisions of family planning and rural health services.

20.2.7 LIMITATIONS OF H-T MODEL

The policy implications of H-T model have to be understood very cautiously. Since, the model itself has certain limitations.

1) The model has been criticised mainly on the ground of methodological and the conceptual problems of estimating expected income and their differentials in origin and distination areas.

2) Another weakness is its assumptions that potential migrants are homogenous in respect of skills and attitudes.

3) The assumption that the potential migrants have incomplete information for working out the probability of finding a job in the urban market, doesnot hold good in the present era of revolution in information technology.

4) Reduction of regional and rectoral disparities to reduce urban unemployment, is very very difficult as it is evident from developing countries.

5) Unemployment is more influenced by competition rather than expertations regarding future earnings.

20.3 SUMMARY

Rapid urbanisation, R-U migration and growing urban unemployment characterise all developing countries. Until relatively recently these have been acepted as positive trends of structural transportation in the process of development. However, at present R-U migration and the resultant urban unemployment have posed a big threat to development process in LDC's. H-T model is an attempt not only to explain this phenomenon but also to suggest measures to reduce regional disparities in development. People from rural areas migrate to cities, because of high rates of expected incomes despite the fact that urban areas are charactersied by high unemployment rates. The

model reveals that simply creating jobs in the urban areas is an insufficient solution to the problem. However, what is more practical is creation of more and more employment oppurtunities in rural areas. But certain limitations of the model calls for a careful analysis of the policy implications of the model.

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2) Stuart R Lynn :Economic Development Printice Hall, NJ 2003.

3) Richard Tolly :Rural-Urban migration Dimensions, Causes, Issues and Policies countries University Press 1970.

20.5 CHECK YOUR PROGRESS

1) Explain the Harris-Todaro Model, What are its assumptions?

2) Discuss the sailent features of Harris-Todaro Model and Examine its relevance to developing countries.

3) List the merits and demerits of Harris-Todaro Model.

4) Examine the various policy impications of Harris-Todaro Model.

20.6 KEY CONCEPTS

Migration: It is an important demographic feature. Rapid Population growth, is usually accompained by populations shifts from place to place, which is referred to as 'Migration'. In case of internal migration people migrate from rural to urban areas and in international migration they migrate from one country to another. Both immigration and emigration constitute international migration.

Factor Price Distortion: It is a situations in which factors of production are paid prices that do not reflect their true scarcity values (i.e., thier competitive market prices) because of institutional arrangements which tamper with the free working of market forces of supply and demand. Factor price distortion can lead to the use of "inappropriate" techniques of production.

Labour Intensive Technology: It is a method of production which uses more labour per unit of output. In otherwords, it uses proportionately more labour relative to other factors of production. It is advocated for developing countries, wherever feasible inorder to provide employment to those who are unemployed.

UNIT-21 ECONOMIC DEVELOPMENT AND INSTITUTIONS MARKET FAILURE - STATE AND STATE FAILURE

21.0 Objectives

21.1 Introduction

21.2 Economic Devlopment and Institutions

21.3 Markets and Development

21.3.1 Market failure and its measurement

21.3.2 Areas of Market failure

21.3.3 Limitations of Unregulated markets

21.4 State and Development

21.4.1 Functions of State (in development)

21.4.2 Rationale of State intervention

21.4.3 State and LDCs

21.4.4 State Faliure

21.4.5 State in a Changing World

21.4.6 Rethinking on the role of State

21.4.7 The Agenda for change

21.5 Let us Sum Up

21.6 Key Concepts

21.7 References - Check Your Progress

21.0 OBJECTIVES

The objectives of this unit are-

1) To examine the relationship between economic development and insitutions
2) To examine the role of market forces in economic development
3) To understand the concept of market failure and reasons for the same.
4) To examine the role of State in economic development.
5) To understand the State failure and reasons for the same.
6) To review resurgence of Market mechanism
7) To understand the redifined role of the State.

21.1 INTRODUCTION

Rapid economic development is the ultmiate objective of all countries of the world. The concept Economic Development (economic development) impies the overall development of all sectors of the economy, characterised by an increase in the real income of the people over a period of time. However, over the years, the concept has undergone a tremendous change and now it is regarded as a process of expanding the capability of human beings, expressed in terms of Human Development Index [HDI]. economic development is influenced by a wide variety of factors, namely economic, cultural political, social and institutions. Infact, institutionalisation of economic, cultural, political and social activities exert a tremendous influence on economic development. Institutions are rules, enforcement mechanisms and organisations and are distinct from goals and desired outcomes. They are the rules including behavioural norms by which agents interact with organisations that implement rules and codes of conduct to achieve desired outcomes. economic development is the result of the interactions of all these institutions. Market and State are the two powerful set of institutions which significantly influence economic development.

21.2 INSTITUTIONS AND ECONOMIC DEVELOPMENT

Insitutional factors pertain to the organisation of development process as also the fostering of growth related attitudes and motives. Unlike factor inputs which can be substituted for one another, institutional factors cannot be substituted. Instead, these are complementary to the factor supplies. According to Donglas North, 'the insitutional environment is humanly devised constraints that structure the political economic and social interactions'. They

may be either formal or informal, either public or private. The economic, political, social and international insitutional factors exert a tremendous influence on economic development.

It is very well established that institutions prevailing in an economy, determine the nature and speed of economic development. Infact, there is a specialised branch of economics called "Insitutional Economics" which deals exclusively with this subject matter. Its objective is to understand the chemistry of development, social norms and value, the legal system, bureancracy and political system, which merge together to understand the Chemistry of development. The institutional environment is constituted by fundamental political, social and legal "rules of the game" such as rules governing election, property

rights and contracts. The Institutional arrangement can be thought of as how economic units such as firms and households cooperate with one another and establish procedures for adapting and changing rules of governance. It is in this sense, the structure of governments become crucial both at macro and micro levels.

Standard neo-classical economic theory emphasises the importance of "a set of current prices" that determines an efficient allocation of resources. If prices are right, macro economic policies allow prices to be determined by market forces, then individuals (as consumers and producers) get the best incentives to create income and wealth. Institutional economics goes beyond these. Correct prices are necessary but certainly not sufficient to guarantee rapid growth. Individuals when extract signals from market prices operate within an institutional setup which condtions the signal extraction process. It includes things as diverse as the 'laws of the land' and possibilities of opportunities behaviour. These considerations can be extremely important within a house hold or within a firm, in bureancracy and in local Government institutions such as municipalaties and village panchayaths.

The institutional environment influences the entire hub of economic activities. The movement of macro-economic variables like savings, investment, income, consumption, demand, population, technology etc.,. are all influenced by a wide range of institutional factors. For e.g., State intervention in the form of certain regulatory frame work has its own impact on the above mentioned variables. Similarly, political stablity, social environment also exert a considerable influence on them.

Trade union activities and labour legislations determine economic development. However, these inturn, are determined by market insitutions namely trade unions, Government and Employers associations. Infact, Prof J.R Commons in his Environmental Adaptation Theory of trade unions stated that the entire institutional set up in an economy moulds the labour movement in a country. Likewise, Industrial Estate Programme is a part of the instituional system which promotes the development of small scale industries.

Gunnar Myrdal, the champion of the Institutional approach to economic development, has shown that the type of Government, Social matrix, people's participation in the devlopment activities determine the process of economic development. According to him, man is a product of society and is influenced by the entire institutional setup, and as such man's economic activities cannot be understood in isolation.

Social institutions like caste and religion, customs, family and marriage, Kinship system, social satisfaction, ideology, culture, social change etc.,. influence either directly or indirectly, all types of economic activities. Both the educational and health and medical institutions, the marketing entertainment and media institutions influence significantly the economic development of a country.

With the decline of pervasive influence of walrasian models of economics in recent years, it is now generally recognised that "Institutions Matter" and that the associated incentive structures substantially influence economic performance. But beyond this general agreement there are still many differences among institutional economists on 'which institutions affect the process of development and how'. Infact, different economists sketch the impact of institutions differently and emphasise on the role different institutions as more important. Their analysis of institution impediments also differ. At the same time, "A new institutional approach" to economic development is emerging along with globalisation. This approach belives in market oriented institutional approach to development.

21.3 MARKETS AND DEVELOPMENT:

During 17th and 18th centuries, the Lissezfaire principle of the liberal school dominated the development process. The assumption of perfect market situation, free play of market forces and non-intervention by the state were believed to be the guidelines for maximising welfare. Because this would ensure optimum allocation of resources, equilibrium position and competitive efficiency. Such condition was believed to deliver goods effectively. Price-Wage Flexibility would ensure stability and every supply would create its own demand. Hence the economy would always be in equilibrium, and even if disturbances occur they would be of temporary in nature and equilibrium would be restored automatically. The free and unhampered mechanism of market forces would lead to maximisation of national income according to the liberal classical doctrine.

The classical school, new classical school, Ratex, supply side analysis are all the leading champions of market forces and their impart on development. They believe in market mechanisms as an administrative instrument that is relatively cheap to operate and may, therefore, be efficient inspite of objectionable features of the operations. At the same time they disregarded State intervention as this would adversely affect the free play of market forces. Any conscious, deliberate active economic policy designed to influence the amount and composition of investment coudnt not according to this school, raise national income in the long run. However, price mechanism works under a set of assumptions. But, allmost all assumptions do not hold good.

21.3.1 MARKET FAILURE

Market failure refers to a set of conditions under which a market economy fails to allocate resources effectively. There are many sources of market failure and degree of market efficiency. The implications for the role of the state and the form of public intervention can be quite different in each stage.

How market failure is measured? The following are some of the indicators of market failure.

- Extent of Poverty
- Extent of Unemployment
- Inequalities
- Concentration of Economic Power
- Imperfections in Factor and Product Market
- Regional Imbalance
- Exploitation of Consumer
- Monopoly power and collusive practices
- Inefficency
- Low productivity etc.,.

It can be instructive to consider the state of underdevelopment as being the large measure synonymous with pervasive market failure.

1) The market doesnot function properly- The case of market imperfections.

2) The market result is incorrect - The case of externalities.

3) No market exists for the relevant activity - The case of public goods and

4) The market yields undesirable results - in terms of objectives other than resource allocation.

21.3.2 AREAS OF MARKET FAILURE

1) In case of imperfect competition markets generate situations in which state intervention becomes necessary to ensure co-operation.

2) In case of monopoly market failure, it is obvious that state must intervene to break monopoly.

3) Market failure has also been noticed in public goods like education and health

4) Market failure is also quite visible in areas of economic infrastructure like irrigation, roads, railways, power, telecommunication etc.,.

The individual investment decision under market economy may lead to non-optimum allocation of resources for the following reasons.

- The investor maximises the private and not the social net marginal product. External economies are not sufficiently exploited.
- The life of equipment is long so that the investors foresight is likely to be more imperfect than that of the buyer or seller or of the producer. Also, the risk of the individual investor may be much higher.
- Capital markets though often well organised are natoriously imperfect markets, governed not only by prices but also by institutional or traditional rating quotas.
- Because of indivisibilities in production, a huge investment or a bigpush is required which cannot be fulfilled by individual investors but by only state.

The investment theory is indeed the weakest link in the liberal theory. It is finally recognised by even the strongest advocates of the free economy that an equilibrium between aggregate demand and aggregate supply ie.,. dynamic monetary equilibrium, cannot itself be ensured by entrusting to the automatic responses of a free economy. They donot ensure an optimum allocation, particularly investment field and monetary equilibrium.

In cases of market failure, market prices donot exist, donot reflect the true value or are irrelevant. A variety of market imperfections can reduce the efficiency of private market performances Deficient and inadequat einformation in imperfect market may lead to wrong signalling. Time lags may also impede the efficiency of markets. On account of supply rigidities, Government may have to undertake policies to stimulate supply. After reviewing information about a market oppurtunity, the economic agent must be willing and able to work on this information. To fulfill these conditions, the Government in an underdeveloped country may have to undertake policies to overcome fragmentation/segmentation of markets.

Although market failure may provide a rationale for public policy intervention, this is only a necessary and not a sufficient condtion for policy formulation. The realised inadequacies of market outcomes must be compared with the potential inadequacies of non-market efforts to ameliorate them. Market failure must be weighed against non-market failure.

21.3.3 LIMITATIONS OF UNREGULATED MARKETS

- It encourages unhealthy trade practices like exploitation of public, dishonest practices, taxevasion, labour exploitation, private sector monopoly, black marketing etc.,.
- No incentive to innovation and risk and therefore private corporate sector has not generated much faith.
- There is no guarantee that social output will be optimised and growth may be at the cost of social justice.
- Economic inequalities and concentration of economic power will increase and
- Wide and Violent fluctuations in economic activities.

Private market mechanism can deal with small, piecemeal changes and is too weak to bring about a bigpush. Besides, the structuralists argue that the use of market mechanism, given the institutional imperfections become irrational in the context of developing countries. Even a fairly developed free market may be considered unreliable when the market prices of goods and factors are not a true reflections of their oppurtunity costs to society.

Thus, both market failure and limitations of unregulated markets call for state intervention.

21.4 STATE AND DEVELOPMENT

The limitations of free market mechanism and the resultant market failure has paved the way for state intervention. It is identified with development planning to set right the market imperfection, to stimulate development. It is also believed that this would lead to optimum utilisation and allocation of resources. Since second world war, development planning has become universal and state has been regarded as the best institutional mechanism for overcoming major obstacles to development. Further, the great depression of 1930 created a series of economic problems. Keynes who wrote his general theory in this background recommended state intervention through development planning. State was expected to mobilise resources for development, to control consumption, allocate resources and to manage the economy planning.

Although, Adam Smith is regarded as a Champion of Laissez Faire, he never undermined the role of state. He considered the role of State in automistic capitalism in which every individual was considered to be the best judge of his welfare. Market stands for voluntary exchange under contract for mutual advantage. Although an invisible hand operates, the principal function of the state is to ensure that individual observes the sanctity of the contract or the commercial transactions.

21.4.1 FUNCTIONS OF STATE

The functions of state in the context of development can be classified as follows:

I **a) Addressing Market Failure:** Providing pure public goods, defence, law and order, property rights, macro-economic management public health etc.,.

b) Intermediate Functions: Basic education, environmental protection, regulating monopoly, utility regulation, antitrust policy, overcomming market imperfections, insurance (health, life, pension) financial regulation, and consumer protection.

c) Activist Function: Coordinating private activity, fostering markets, build appropriate institutions, regulations, avoiding monopoly clustering initiatives.

II Improving Quality

a) Protecting the poor, anti-poverty programmes, disaster relief.

b) Providing social insurance, redistributive justice, pension family allowances, unemployment insurance, redistribution and asset redistribution.

III Externalities:

Externalities arise when the actions of one person or firm hurt or benefit others without that person or firm paying or receiving compensation. Example for negative externality is pollution and positive externalilty is benefits of primary education Government should curb negative and promote positive externalities through regulation, taxation and subsidy or outright provision.

IV State's Intervention to Break Monopoly:

Natural monopoly occurs when the unit cost of providing a good or service to an additional user declines over a wide range of output, reducing or eliminating the scope for competetion. But if left to operate freely, monopoly providers may restrict output to increase prices and profits. Governments have to address this problem either by regulating monopoly or by providing good or services themselves.

V Incomplete and Imperfect Information:

Asymetric information are pervasive problems and can result in inefficiency outcomes. Markets are incomplete even when they fail to provide a good or service demanded by people. Imperfect information on the part of consumers can lead to systematic undervaluation of some services. Under such a situtation state intervention becomes all the more important to reduce market imperfections and fill the information gap.

VI State Intervention to Prevent Moral Hazards:

An example is the tendency of health care consumers to seek, as well as providers to provide more treatment than they need. When a III party insurance is paying most cost. Governments have sought to address these problems by ensuring wide spread coverage of holding down costs. They can do this either by regulating private insurance financing or mandating social insurance or providing health care themselves.

21.4.2 THE RATIONALE OF STATE INTERVENTION

The widespread acceptance of State in E.D. through developmental planning rests on a number of fundamental economic and institutional arguments. Of all these, the following are the most important arguments which provide a strong justification for state intervention.

1) The Market Failure Argument:

The free play of market forces has failed to optimise the use of resources and maximise social welfare which amounts to market failure. The commodity and market prices are often badly organised and their prices are distorted. It is, therefore argued that Governments have an important role to play in integrating markets and modifying prices.

2) The Resources Mobilisation and Allocation Argument:

III World countries cannot afford to waste their limited resources on unproductive ventures. Investment projects need to be chosen in the context of our overall development programme that takes into account external economies indirect repercussions and long term objectivies. Moreover, competitive markets direct scarce investment resources into socially low priority areas and disregard the extra benefit to be derived from a planned and coordniated long term investment programme. State's intervention, however, takes care of all these deficiencies.

3) The Attitudinal or Psychological Argument:

It is often argued that states through their development programmes can have an important psychological impact on diverse and often fragmented population. It may succeed in rallying the people behind the Government, in a national campaign to eliminate underdevelopment. This can overcome several inhibiting obstacles to development, otherwise created by fractional groups.

4) The Foreign Aid Argument:

The formulation of detailed development plans with specific sectoral output targets and carefully designed projects has been a neccessary condition for the receipt of bilateral and multilateral foreign aid. Such a thing is very difficult to be done by market forces and therefore, state intervention is essential.

21.4.3 STATE AND LDCs

State has to play a much different role in the development of LDCs. Here, Government is regarded as a 'growth leader', 'growth stabilises' as well as 'growth promoter'. The Government has reemerged as a more prominent and significant economic actor after the late 19th Century, particularly after II World war. Almost all LDCs have accepted unanimously that Government could play siginificant role in promoting rapid E.D. Moreover, the diverse and complex nature of development issues today also warrant the need for Government intervention. The development planning of the III World invariably invloves lot of state intervention. In a mixed economy like India, the State's role is particularly important in areas like

- Agricultural Development
- Trade and Exchange Managment

- Development of Public Sector industries
- Poverty alleviation and
- Employment generation.

21.4.4 STATE FAILURE

Just like free market mechanism failed to deliver goods effectively, even the state also has failed. We have already discussed the limitations of market mechanism and identified the areas of market failure.

To overcome these actually the Government intervention started but even this has failed. Many developing countries which have adopted development planning to achieve rapid economic development have failed to achieve the targets. Failure of development plans is identified with state failure. It is reflected in growing unemployment, poverty, social injustice, low levels of development, regional imbalance, bureaucracy rent seeking behaviour, procedural delays, low productivity, low level of competitive efficiency etc.,. Majority of the state enterprises became white elephant projects and state's intervention has failed because of

- Deficiencies in plans and their implementation
- Insufficient and Unrealistic Data
- Unanticipated economic disturbances, both internal and external.
- Insitutional Weakness
- Lack of Political Stability

State failure has led to a new thinking on the role of state in development. Now the question is not whether to have market or the State. This is our empty dichotomy and no serious school of political economy would today credibly argue for only one or the other. The issue is, however, is one of striking the right balance.

21.4.5 STATE IN A CHANGING WORLD

The disllusionment with the performance of the state has forced the countries to go back to liberal system in the name of globalisation. There is a resurgent preference for markets over planning. In recent years there has began an increased use of market mechanism as a key instrument for promoting greater efficiency and rapid E.D. Among the early converts were some of the latin American Countries and more recently others have joined the free market band wagon including India. In these countries, a shift in development paradigm has minimised state intervention. Among the international organisations preaching the virtues of free market are IMF and IBRD.

What are the reasons behind this sudden 'Market Madness'? At the 'globalisation level' the following factors are responsible.

- The collapse of command and control economies in the former Soviet union and central and Eastern Europe.

- The fiscal crises of the welfare state in most of the established industrial countries.
- The role of the state in the miracle economies of East Asia.
- The collapse of states and the explosion in humanitarian energies in several parts of the world.

At the 'National level' the important reasons for market madness are-

- The poor rates of growth, massive inflation and balance of payment problems, rising burden of public debt experienced by many developing countries.
- The returns to public investment interms of GDP growth has declined in LDC's.
- Wide spread price distortion has slowed down the GDP growth rate.
- Too much of state intervention has adversely affected BOP position.

21.4.6 RETHINKING ON THE ROLE OF STATE

The question is not State vs Market but how both state and market work together to maximise both economic efficiency and social welfare. The revised role of the state is being widely discussed in the context of globalisation. Far reaching changes in the global economy have made the countries to revisit the basic questions about Government, what its role should be, what it can and cannot do and how best to do it. Since the world has experienced both market and state failure, it can very well visualise the appropriate mix of both Market and State.

A rethinking on the role of State centres around the following

- Matching State's role to its capability and using that capability to meet societys demand in an efficient way.
- Building the capacity of the state which implies reinvigorating public institutions and building effective rules and restraints and check arbitrary state actions and combat enhanced corruption, increased corporate governance, subjecting state institutions to larger competion, public sector reforms etc.,.
- Securing economic and social fundamentals like public health, education, infrastructure, good environment, protecting poor etc.,.
- Privatising and liberalising markets in over extended states, paving the way to better and cheaper services.

21.4.7 AGENDA FOR CHANGE

The agenda for changing tole of the state consists of -

- Restarting development with institutional arrangement that foster responsiveness, accountability and the rule of law.
- Focusing on basics in a badly needed first step.
- An active civil society and a competant and professional bureaucracy are the twin pillars of constructive relationship between state and society.
- Improving the delivery of public and collective services will require closer partnership with private sector and civil society.

- Steps to face emerging challenges, modernise public administration and effective decentralisation.
- To eliminate state inefficiency and corruption.
- Reforming the State's role towards "Stearing not Rowing".
- Low State capability is a mounting obstacle to further progress.
- Governments in Latin America are rethinking thier approach to the alleviation of poverty.
- With decentralisation of power and spending, a new model of governing is emerging.

21.5 LET US SUM UP

Institutional factors are related to the organisation of development process which motivates economic development. The institutional environment which is composed of social economic, political institutions, determine the process of development. the classicists believed that free play of market forces ensure rapid and optimum economic development. However, several drawbacks of the unregulated markets led to the so called 'Market Failure' which paved the way for state intervention. State intervention is justified both on accounts of market failure and the need for state intervention to rectify the same. State intervention came to be identified with Development Planning. But the problems prevailing in the developing countries reflect state failure also. In this context, paradigm shift has taken place and the countries worldover, since 1990, started liberalising their economies and reducing state intervention. However, the truth is, development is impossible without state intervention. Therefore, now the Government has to reorient its role in the development context. Rethinking on the role of the state is the need of the hour.

21.6 KEY CONCEPTS

Laissez-Faire: The entire classical thought is based on laissez faire principle. It is an expression often used to represent the notion of free enterprise market capitatism. It assures perfect competition where free play of the market forces determine the prices of all commodities produced and also the prices of factor inputs. It calls for non-intervention by the state in stimulating economic growth.

Price Mechanism: Refers to a process whereby prices of both factors and products are determined by the free play of market forces. Institutional and non-economic forces hardly influence the prices determination. It is a feature of laissez faire.

Externality: External benefits or costs of activities for which no compensation is made. Externalities are also called spillovers. Positive externalities are favourable impacts where as negative externalities are unfavourable effects. Environmental Pollution is a case of negative externality.

RATEX: It is a school of thought which believes in rational expectations. Robert Lucas is one of the Champions of Ratex School. It is a rejuvinated version of classical economics and extention of supply side economics. It assumes that individuals, firms or Governments will make losses if they donot use all available information.

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CHECK YOUR PROGRESS

1) Examine the relationship between institutional environment and economic development.

2) Discuss the role of markets in development

3) What is 'Market Failure'? What are the causes for Market Failure?

4) Bringout the importance of State in development

5) Account for State Failure?

6) Examine the changing role of the state.

UNIT-22 HUMAN RESOURCE DEVELOPMENT AND MANPOWER PLANNING

22.0 Introduction

22.1 Objectives

22.2 Concept of Human Resource Development (HRD)

22.2.1 HRD and Economic Development (E.D)

22.2.2 Scope of HRD

22.2.3 HRD growth models

22.2.4 Approaches to HRD and Human Capital Formation (HCF)

22.3 Concept of Manopower Planning (MPP)

22.3.1 MPP and Human Resource Management (HRM)

22.3.2 MPP and LDCs

22.4 Let us Sum up

22.5 Key Concepts

22.6 Reference Books

22.0 OBJECTIVES

Major objectives of this unit are -

- To understand the concept of HRD and the relationship between HRD and ED
- To throw light on the scope and importance of HRD
- To examine the different approaches and strategies of HRD
- To understand the concept of Manpower Planning, its importance and techniques.
- The know about manopower planning in developing countries.

22.1 INTRODUCTION

Until relatively recently development was treated as synonymous with accumulation of capital and human beings were counted as mere numbers in labour supply. However, now the perception has changed. At present Human Resource Development (HRD) and Human Capital Formation (HCF) have become most potential factors of ED. Infact, ED itself is defined as a 'process of expansion of capabilities of human beings'. This process it self is HRD which results in HCF. Also, an index called Human Development Index is prepared to measure the so called E.D itself. HRD leads to ED which inturn is influenced by E.D itself. Thus, low level of human development is both the cause and effect of underdevelopment. Investment in health, education, skill formation, training etc.,. constitute the strategies of HRD. Similarly, imbibing human values, ethics, right attitude of mind, good habits, discipline, honesty, good aptitudes etc.,. also contribute to personality as well as HRD and HCF. HRD has become an important factor of E.D in recent years as a result of which Human Resource Economics has emerged as a special branch of economic science at present.

22.2 HRD -A CONCEPTUAL CLARIFICATION

Human beings are both ends and means of production. Human resource includes all those who are concerned with various economic activities like production, consumption, distribution and allocation. Human resource development which is the capital dimension of human beings, is the process of increasing knowledge, the skill and capabilities of all people in a country. This inturn, contributes to Human Capital Formation (HCF) which means the process of acquiring and increasing the number of persons who have skills, education and experience which are critical for socio-economic

development. Both HRD and HCF are associated with investment in man and his development. HRD has been so important that a seperate sub-discipline has emerged to deal exclusively with the economics of human resource.

HRD is a process of helping people acquire competitiveness. It is a continuous and planned way to -

- Acquire or sharpen capabilities required to perform various functions associated with the present or expected future roles.
- Develop thier general capabilities as individuals and discover and exploit their potential for their own and or organisational development purposes.
- Develop an organinsational culture to contribute to the professional well being motivation and pride of employees.

- Orienting the human resource as per the requirements of the development process.

HRD process is facilitated by mechanisms like performanance appraisal, training, organisational development, feedback and counselling, career development, potential development, job rotation and rewards.

Human beings also invest in their health education, skill formation, training etc.,. inorder to develop their human capital so as to get a better return for their investment.

HRD is only marginally a concern of individual firms, though social responsibility has of late imposed this upon firms as a matter of moral duty.

HRD is essentially a multidimenstional phenomenon. It cuts across the areas of politics, economics, sociology, biology, psychology and many other social and physical sciences which contribute directly or indirectly to HRD.

22.2.1 HRD AND ECONOMIC DEVELOPMENT

The third five year plan document of the Government of India has pointed out that ultimatelty it is the development of human beings and their personality that counts, although planning involves material investment, even more important is investment in man. Several HRD experts like Theodre.W.Schiltz, Gary.S.Becker, Mary Jean Bowman, Dr.V.K.R.V. Rao, Dennison and a host of others have examined the role of HRD in economic development. They have, infact, build models to explain the relationship between HRD and economic development.All economic activities centre around human beings and the quality of human resource inturn determine quality as well as speed of E.D. HRD fosters a change in development environment. The change is such that it permeate the entire environment and make it development oriented.

Mr.Alan Berg in his study of human capital concluded that investment in human capital has led to siginificant increase in national output. Prof. T.Schultz observed that return to HRD investments are increasing overtime even in many low-income countries. He says that a significant part of economic growth in the US and Western Europe, for instance can be attributed to huge investment in education. Infact, it is this human capacity which can transform the passive national resource into active agents of production. HRD plays a crucial role in modernising the emotional and material environment of a traditional band society.

The role of HRD in economic development can be discussed under the following heads-

- HRD increases productivity of all factors of production.
- Enables efficient and optimum use and allocation of resources.
- It facilitates inventions and innovations.
- It increases competitive efficiency.
- It developes creativity.
- It stimulates R and D activities.
- HRD in all sectors of the economy facilitates rapid economic growth.
- It is responsible for the transformation of society from traditional to modern.

In an organisation HRD performs the following activities.

- It helps in an integrated growth of employees.
- It enables to know their strength and weakness.
- Helps in generating valid data about employees for personal functions like training, placement, selection.

HRD has the following advantages to individuals -

- It increases skill, efficiency and productivity of people
- It is a means of empowering people.
- It changes the aspirations, motivations and attitudes of people for better.
- Facilitates HCF which inturns leads to physcial capital formation.
- It contributes to human development in terms longevity, literacy and income.

Especially in LDC's, HRD has a significant role to play. Most of these countries are over populated, characterised by illiteracy and ignorance. Infact, they have become major obstacles to gorwth. This human potenital can be converted into human capital through the process of HRD. HRD enables the conversion of useless surplus labour to useful productive factors.

22.2.2 SCOPE OF HRD

The scope of a subject tells us not only about the importance but also the extent of its coverage, and its wide applicability. HRD covers all activities wherever human endeavous is involved. It is a multi dimensional and a vast concept. HRD is perasive in-

- Business Organisations
- Administration
- Defence / Military
- R and D activities.
- Academic and training institutions.
- Sports
- Marketing
- Service activities ..... etc.,.

HRD is a dynamic concept and is associated with the following changes -

- Changes in skills [abilities ot perform some acts]
- Changes in Knowledge [or ideas about something]
- Changes in attitudes [or in feelings, emotions, beliefs]
- Changes in awareness of self [or the present way of seeing one's behaviour]
- Changes in motivation to perform [or the desire to act differently]

22.2.3 HRD GROWTH MODELS

Just like there are models which try to explain development interms of either capital, investment or technology, there are also models to examine the role of HRD in the process of growth. The aggregate growth models such as the ones developed by Ramsey (1928) Cass (1965) and Koopmans

(1966) emphsised the importance of longrun growth in which case HRD constitutes an important component. A few important growth models of this type can be identified as follows. All new growth theories emphsise the role of HRD in economic development.

Romer (1986)

In his endogenous, technical long term growth model, growth is primarily driven by accumulation of knowledge. The signiifcant assumption of the model is 'production of goods is a function of the stock of knowledge' unlike, other inputs, the knowledge is not subjected to the law of diminishing returns. The model states that knowledge grows without boundaries.

Lucas (1988)

A major contribution of Lucas model is, the quantification of the sources of economic growth. His first adaptation is to add human capital with externalities in the sense that average level of human capital affects a worker's productivity, in addition to his or her own human capital. He attempted to model development process by considering human capital only to have external effects. The model suggest optional human resource development to maximise growth.

Azariadus and Drazen (1990)

In their threshold externalities in economic development considered spillover from stocks of different types of productive capital and labour augmenting spillovers from human capital investment. They argue that knowledge makes it easier to acquire further knowledge or induce a sharp change in production possibilities. Further, they conclude that countries with higher human capital investment can experience the periods of high sustained growth.

Mrs. Stocky (1990)

Developed, a growth model based on human capital accumulation. She focused on 'human capital', product qulaity and growth'. In the back drop of East Asian experience, accounting for their growth, argues that for their growth neither natural resources nor capital provides sufficient explanation. However, labour with more human capital provides higher quality products and units of labour with different human capital are not substitutable.

Arrau (1989)

Worked on human capital and endogenous growth in a large scale life cycle model. In this context, he developed a model in which the roles of human capital as a possible engine of growth and as a component of life cycle profile of earning and labour supply are treated simultaneously. The latter consideration is one that is neglected most in models of economic growth with their infinite horizons. The assumption of the model is that every individuals as endowed with certain skills.

In a similar fashions Becker, Dennison Schultz, and a host of others have examined the role of HRD in -Changes in motivation to perform [or the desire to act differently].

22.2.4 APPROACHES TO HRD AND HCF

All LDC's are labour surplus economies, but the quality of human resource is far from satisfactory. Infact, underdeveloped human resource is both the cause and effect of econoic underdevelopment.

Therefore, the best solution lies in developing the human resource, leading to HCF. LDC's are adopting different strategies to overcome the problem of underdeveloped human resource. HRD mechanism consists of investment in human health, education, training, skill formation etc.,. For an organisation HRD mechansim consists of performance appraisal, feed back and counselling, potential appraisal, training carrer planning and development, job rotation, job enrichment, transfers, rewards, promotions recreational and cultural activities, educational and sports activities etc.,.

The developing countries in general can overcome the shortage of skilled manpower through the following strategies.

- It may be imported from abroad through a variety of means.
- It may be developed in employment through on the job training, in service programmes of formal training, management development, seminars, part-time adult education classes and many other reasons.
- It is accumulated through formal education in schools, technical training centres, colleges, universities and other institutions of higher learning.
- It may also be developed as a by product of modern military training.
- HRD and HCF also take place through investment in health services and nutrition programmes.
- Similarly, population education and population development programmes contribute to HRD.

HRD is an endless process and should be intune with the requirements of modern economic growth.

In the context, we can draw two tentative generalisations -

The rate of accumulation of strategic human capital must always exceed the rate of increase in the labour force as a whole.

In most of the cases the rate of increase in human capital will need to exceed the rate of economic growth.

T.W. Schultz, a nobel prize winner in economics and an authority in HRD has outlined the following strategies for HRD-

- Health services and facilities broadly concerned to include all expenditures that affect the life expectancy, strength and stamina and vigor and vitality of the people.
- On the job training, including old style apprecticeship, organised education at the elementary, secondary and higher levels.
- Study programmes for adults that are organised by firms including extention programmes notably agriculture.
- Migration of individuals and families to adjust to changing job opportunities.

HRD is a dynamic process and HRD porgrammes are concerned with the followign changes.

- Changes in Skills
- Changes in Knowledge
- Changes in Attitudes
- Changes in Awareness of Self

- Changes in Motivation.

Therefore, HRD administration is a challenging and difficult task and unless it is planned scientifically, development cannot be accelerated.

22.3 MANPOWER PLANNING

For determining HRD a 3 -fold approach can be useful-namely organisational analysis (study of the entire organisation) operational analysis (Adequacy of human resources and manpower inventories) and manpower planning analysis (requirements of educational and training programmes)

Manpower planning (MPP) is an essential pre-requisite for HRD and is an essential component of development planning as well. Just like countries plan for the use of physical resources, they also need to plan for the utilisation of its human resources. Human resource represent an abstract form of capital. If the utilisation of this resource is not properly planned, it is likely to become a liability than an asset.It is in this context that manpower planning assumes special importance. HRD and HCF call for an efficient MPP. It is a means for converting idle manpower into a useful factor of economic development. It includes not only planning for the present with the given human resources, but also projecting the future requirements keeping inview both population growth and the growing requirement of economic development in future. Therefore, MPP needs to be 'perspective' as well as 'prospective'.

MPP is the process of developing and determining objectives, policies and programmes that will develop, utilise and distribute manpower so as to achieve economic and other goals. It includes developing the necessary organisation and institutions required to execute the programme. It involves not only planning for manpower use and even the so called institutional network to execute the MPP. Manpower policy is the result of MPP.

According to Harbison "Manpower Policy should be concerned with Development, Maintenance and Utilisation of actual or potential members of labour force including those who are fully and productively employed as well as those who, experience difficulty in getting work".

'Development of Manpower' in this context refers to acquiring of skills, knowledge and capabilities to work, 'Maintenance of Manpower' refers to preservation and continous renewal of mans capabilities for work and 'Utilisation of Manpower' implies matching men and work, MPP should invariably involve all the above three elements.

MPP is defined as a process by which an organisation or system ensures that it has the right number of people and the right kind of people

at the right places and at the right time doing things for which they are economically most useful. The concept MPP involves anticipating the future by manpower projections and their planning, development and implementing manpower action programmes, largely in the form of education and training, to carryout the implications of the projection.

Shortage of capital equipments and machineries can be met by importing the source, but not manpower. Therefore, manpower should be built within the country itself. Neither there is any shortcut nor alternative for the same. Hence, MPP is of utmost importance. Manpower requirements and MPP

differ from country to country. Similarly even the method and technique of MPP differ. MPP invloves longterm planning and fixing a proper time frame for them becomes difficult. However, any short and medium term programmes can also be built into the system. Both manpower assessment and analysis are essential components of MPP, which facilitates an effective planning for the exact requirement of the type of manpower for the economy. MPP enables an efficient utilisation and management of human resources.

22.3.1 MPP AND HUMAN RESOURCE MANAGEMENT (HRM)

HCF, MPP and HRM are all an integral part of HRD. HRM is defined as the art of getting things done by people. This is of particular importance to organisaions. HRM is the management of employees skills, knowledge, abilities, talents, aptitudes creative abilities etc.,. Employees in HRM is treated not only as an economic man but also as social and psychological man. Thus, worker is viewed as a complete man under this approach. Employee is treated as a resource and as a profit centre and invests capital in his development, which is a part of HRD. Here, human resource is used for the multiple mutual benefit of the organisation, employees and thier family members. HRM is the strategic management function and a means of managing human capital.

MPP invariably involves the art of managing workers at various organisations. It plans for the ways and means of utilising human resource. HRM, in this context simply means employing people, developing their resources, utilising and maintaining and compensating their services in tune with the job and organisational requirements.

22.3.2 MPP AND LDCS

Almost all the developing countries are characterised by population explosion along with poor, ignorant, illiterate, unskilled and unhealthy population. Even their mental make up is not conducive to rapid ED. In such cases, manpower becomes a liability rather than an asset. Therefore, there is an urgent need for LDCs to invest more in their HCF by investing in their health, education, trainning and skill formation. Therefore, the MPP and HRD policy of these countries should formulate such a policy which aims at-

- The transformation of agro-based economy to industry based economy and
- To raise the level of productivity and percapita income.

But these two needs to be very carefully planned and imbibed into the policy of HRD, keeping inview the nature of manpower requirements in developing countries. Hence, a comprehensive manpower planning for LDCs should consists of vocational techincal and cultural dimensions. LDCs need a high level Planners, Adimnistrators, Managers and highly trained technical and scientific personnel. But the non-availability of authentic and adequate data, lack of systematic occupational concepts, absence of trained people required for analysing and interpreting facts. Infact, according to one of the calculations, the availability of such people account for only 3% in the total population of LDCs.

According to A.Lewis, countries differ with regard to their rates of economic growth, on account of differences in the quality of human resources of all the factor inputs, none is so significant than the

efficient and committed manpower. Even a nation with abundant resources will not benefit unless they are put in to efficient use. It is in this context, LDCs need to plan cautionsly for the utilisation of their manpower.

In LDCs on account of defective employment and HRD policies, flaws in recruitment ploicy, corruption, nepotism etc.,. many unqualified and incompetent persons manage to get key positions. Training programmes are inadequate, educational policies are unscientific, health facililties are inadequate, competitive education is not intune with the modern requirements inadequate attention to vocational education, administrators are not properly trained. Added to all these, even the recruitment, selection, placement, job analysis and designing etc.,. are also beset with numerous problems. And hence, MPP in LDCs need to consider all these situations, while planning for HRD. The Government of LDCs need to develop a creative approach to HRD. Development planning in LDCs demands a well trained administrators to carry on the public administration effectively. Therefore, MPP in LDCs need to take care of this special requirement.

A series of technical changes that are taking place in the developing countries have created certain problems with regard to defining the roles of universities and industry in educational and manpower planning. Under such a situation MPP is a primary step in HRD. Although, the need for MPP is Universal, its importance in LDCs is much more crucial. Therefore, MPP, should for an integral part of development planning in these countries.

At the same time, better allocation of resources for HRD is required. However, LDC's are investing a very small proportion of their GDP towards HRD, And hence the rate of growth of these countries is slow.

22.4 SUMMARY

Human capital HRD and HCF, Manpower planning are the buzzwords which occupy a significant place in the economic development of a country. Mere availability of human resource itself is not a sufficient condition for growth. This resource need to be developed not only through education, trainning and skill formation but also through imbibing human values and integrity among them. This calls for proper manpower planning. It differs from country to country depending upon the requirements of the economy and the availability of manpower. MPP and HRD have a strong theory base which examine the relationship between HRD and Economic Development. All new growth theories consider human capital as an endogenous growth factor in Economic Development.

22.5 KEY CONCEPTS

Human Resource Development: It refers to a process whereby human resource is developed through training, education, skill formation, food and nutrition programmes, health facilities etc.,. inorder to form human capital whch is crucial for economic development.

Human Development Index: It is relatively a new measurement index of economic development. Since 1990, when the first Human Development Report was released, this concept has assumed tremendous importance. It is defined as 'a process of enlarging the capabilities of human beings'. It is of

calculated on the basis of longevity, literacy and the level of income. HDI reflects the human dimension economic development.

Manpower Planning: Manpower planning is an important step in Human Resource Development. It is a process of developing and determining objectivies, policies and programmes that will develop, utilise and distribute manpower so as to achieve economic and other goals. Manpower planning is the foundation for manpower policy.

Performance Appraisal: It is a method of evaluating the behavoiur of employees in the workspot, normally including both the quantitative and qualitative aspects of job performance. Performance here refers to the degree of accoplishment of the tasks that make up an individual's job. In indicates howwell an individual is fulfilling the job demands. It is always measured interms of results and not efforts.

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CHECK YOUR PROGRESS

1. Explain the concept HRD.

2. Examine the relationship between HRD and Economic Development.

3. Discuss the different approachs to HRD and HCF

4. What is Manpower Planning

5. Bringout the importance of MPP in LDC's.

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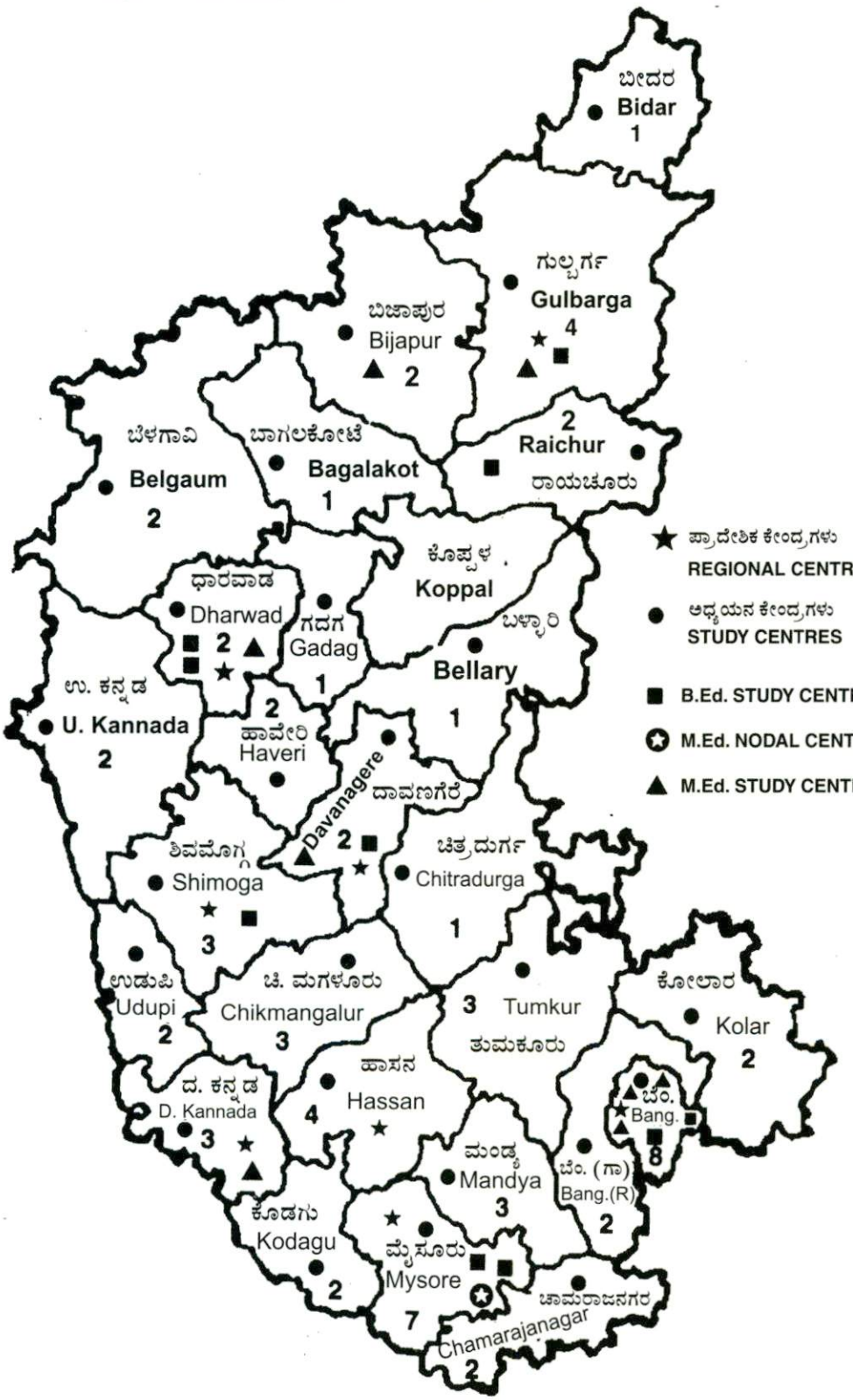

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