Underdevelopment: A Vicious Cycle

Dual Economy: one in which a small, ‘modern’ elite, comprising people who live a consumer lifestyle, exists in a society where the vast majority of the population lives in poverty. The elite is composed primarily of large landowners, high-level government officials, a few business people engaged in international trade and finance, and some professionals such as physicians. A small middle class also exists, made up mostly of schoolteachers, managers, shopkeepers, and midlevel government workers. It remains virtually invisible when contrasted with the wealthy elite and the rest of the population, sometimes as high as 70-80%, who experience a very different way of life. Living in rural areas, most people eat what they grow themselves through backbreaking labor performed without machinery. They lack programs as a fallback in hard times. Economists call this lifestyle subsistence, meaning people produce enough to live on and very little more.

Early economic growth development specialists in the 50s and 60s assumed that modern manufacturing sector would expand in low-income countries as the industrialization process became self-sustaining. As it had in industrialized countries, this process was expected to bring more jobs and educational opportunities for the poor in the subsistence sector. Yet steady growth has not occurred in most of the developing world. On the whole, countries with low per capita GNIs have experienced a few years of some economic growth but not enough to change the structure of their dual economies.

Low Productivity: typical of dual economies (output of goods and services in relation to the number of work hours used to produce them) Low productivity results in low income and little savings because not much extra is produced beyond what people consume. This is the case with those living a subsistence lifestyle. An economy with a large subsistence sector yields very little surplus and, therefore, does not grow. Hence, low productivity limits not only future growth but also the wages workers can earn, contributing in part to what economists call the poverty trap. Industrial development requires substantial economic growth over several years---as much as 7-14% during a 5-10 years period. Such growth allows for a surplus produced as income and savings to be turned back into the economy as investment in capital.

Insufficient Capital: Economies with low per capita GNIs, large subsistence sectors, and low productivity have little capital. Physical capital (infrastructure) includes such things as factories, farms, roads, telephones, banks, and machinery, while financial capital includes bank deposits, earning from international trade, and money. The goods an economy produces for immediate consumption, such as food, cars, and clothes, are not capital. In sum, capital refers to the finances plus the facilities needed to produce wealth. Wealth means goods and more capital.

Dual economy, productivity, and capital are closely related factors. As a result, the problems in low-income economies are interrelated and structural, meaning they are built into their situation. Solutions must have a deep and long-term effect. A subsistence economy with low productivity and little capital thus experiences great difficulty in
generating enough growth to begin self-sustained development. It struggles with the cycles of underdevelopment.

**Lack of Human Services:** low-income economies have little infrastructure and lack the educational and medical care facilities of industrial economies. Yet, human capital is needed for a successful development process. Schools, universities, clinics, and hospitals produce the educated and healthy populations needed for economic initiative and improved productivity. Data reporting on people’s access to education and medical care show severe deficiencies in the world’s poorer states as compared with richer ones. (HDR for data)

A lack of basic human services inhibits development and reinforces the existence of a dual economy. Thus the arrow that completes the cycle of underdevelopment in Figure #4 connects factor 4, ‘few human services’ to factor 1, ‘dual economy.’ Without sufficient educational and employment opportunities, the middle class remains very small, leaving virtually intact the polarized pattern of two main economic and social classes: high-income elites and subsistence farmers. A dual economy lacks the large middle class that characterizes the industrialized world. A middle class is important because it provides not only a substantial domestic market but also new leadership and an educated voting public.

Advocates of both the economic growth and the basic needs development strategies recognize the problems associated with the cycle……but they diverge over what should be done about it. **Economic growth strategists** generally rely on international interventions to begin the development process. Outside aid and investments are designed to make up for the internal lack of productivity and capital. In contrast, the basic-needs approach addresses the problem of a dual economy head on by attempting to change the subsistence lifestyle. Once people produce more food and other essentials of life, so the basic-needs reasoning goes, they can perhaps produce a surplus to invest in human services or even in the industrial sector. Either way, the central problem should not be considered as productivity and capital, but as providing a better quality of life for ordinary people.

**Colonial Legacy:** colonial trained elites……infrastructure that serves imperial interests…..introduction of cash crops, not for food but for income. Sugar, coffee, cotton, tea, tobacco, bananas, etc wanted in Europe and the US. The term cash crops also include natural resources as well as agricultural products, such as tin and tea. Economists use the phrase primary commodities when referring to cash crops because, unlike industrial goods, they are traded unprocessed and in their natural state……massive land grabs and use of native labor……..did not leave existing economic and social systems intact but changed not only the political leadership but also the society’s religious, economic and social status practices.

**Outside Interventions:** economic interactions with other states, international organizations and private corporations can assist in the development process……usually in four categories: trade, aid, private investment, and technical assistance.
Each brings problems of their own but all are part of the dependent relationship the
developing world has with the industrial world.

**Trade: free trade vs. fair trade**

**Aid** (bi-lateral, multi-lateral) grants, etc.

**Private investment**

**Technical:** makes up for the lack of local human resources by bringing in experts from other countries.

**Other Factors:** lack of social cohesion, insufficient natural resources, explosive population growth

**Population Growth:** economists agree that optimum economic growth occurs when population grows slowly and steadily. New markets are thus created at a pace that stimulates new production. Such a balance between economic expansion and population growth is not characteristic of the developing world. Overpopulation is a problem in low-income countries where high population growth rates exist alongside low economic growth rates.

States with higher-income economies have lower population growth rates. They also report relatively low economic growth rates but, since their economies are already industrial, they do not need to sustain economic growth at rates of 7% and above. In the long run, major population growth and stagnant economies pose insurmountable problems for the agricultural and small industrial sectors of a developing economy.

The problem of exploding population growth did not face the already industrialized world. During their first decades of development, the populations of Europe, the US, and Japan grew roughly parallel to increases in the productivity resulting from the new machinery. After achieving advanced stages of industrialization, a **demographic transition** occurred. This transition shows the change in population growth that has occurred in every industrialized country. Whereas before industrialization population growth was checked by a high death rate, not it is held steady by a low birthrate.

Before industrialization, populations generally had high birth and death rates. Thus explosive population growth did not occur. This situation changed during industrial development’s early stages because more food, better sanitation, and wider availability of medical care substantially lowered the death rate. Since birthrates stayed high, the population increased. As industrialization advanced, it produced a higher standard of living based on employment in the manufacturing and service sectors. Having many children became an economic burden rather than a necessity. In a subsistence-agricultural lifestyle, children provide the workforce needed to herd animals, carry wood,
and take care of younger children. Industrial economies provide reasons for having fewer children as well as technologies to achieve this result.

Unlike the population growth trends in the industrialized countries, developing countries find themselves stuck in the middle of the demographic transition with lower death rates but high birthrates……economic growth in developing countries is not enough to absorb their growing populations. Colonial rule and international aid programs have brought lower death rates through increased sanitation and the eradication of some diseases. The humanitarian work of missionaries and aid agencies has produced a long-term problem for the very people they attempted to help….disease was attacked as the most visible cause of human suffering and the one most susceptible to an immediate solution. Long-term development was not the objective……eradicating smallpox was relatively cheaper than building infrastructure.