Vicious Circle of Poverty

Even Semester (2019-20)
For 4th Semester Major Students specially
Paper-4.2 (Introduction to Development Economics)
Unit: 3

Introduction

The basic ingredient which retards the growth process of LDSc/UDCs is the *poverty*. Because of poverty an economy cannot attain economic development, or in other words poverty leads to underdevelopment. It is because of underdevelopment or economic slump the country fall below the poverty line.

There is a cause and effect relationship between poverty and economic development. There are circular relationships known as the "vicious circle of poverty" that tend to perpetuate the low level of development in LDCs.

Nurkse's View

Ragnar Nurkse explains the idea in these words: "It implies a circular constellation of forces tending to act and react upon one another in such a way as to keep a poor country in a state of poverty. For example, a poor man may not have enough to eat; being underfed, his health may be weak; being physically weak, his working capacity is low, which means that he is poor, which in turn means that he will not have enough to eat; and so on. A situation of this sort relating to a country as a whole, can be summed up in the trite proposition: "*A country is poor because it is poor.*"

The basic vicious circle roots from the fact that in LDCs total productivity is low due to deficiency of capital, market imperfections, economic backwardness and underdevelopment. However, the vicious circles operate both on the demand side and the supply side. This can be explained with the help of the following figures:

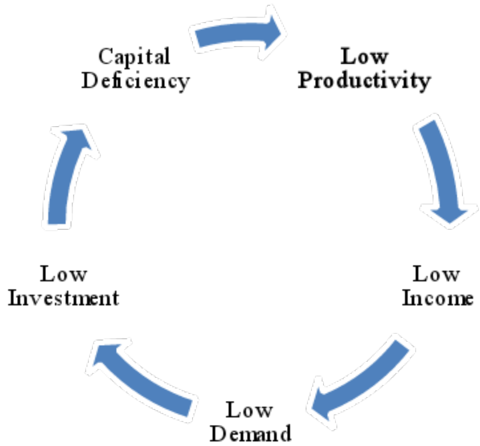

Fig:1.1 Demand Side

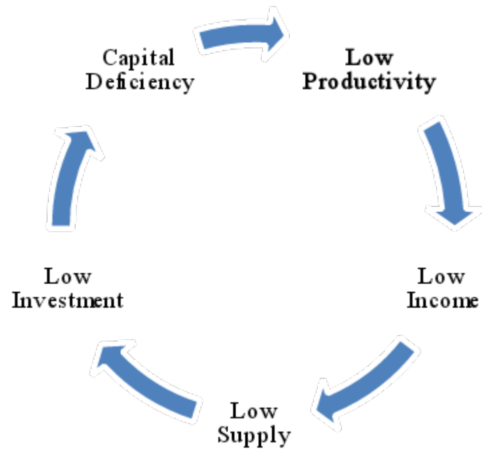

Fig:1.2 Supply Side

The *demand-side* of the vicious circle is that the low level of real income leads to a low level of demand which, in turn, leads to a low rate of investment and hence back to deficiency of capital, low productivity and low income. This is shown in Fig. 1.1. But in case of supply side low productivity is reflected in low real income. The low level of real income means low saving. The low level of saving leads to low investment and to deficiency of capital. The deficiency of capital, in turn, leads to low level of productivity and back to low income. It is depicted in Fig. 1.2. Thus it is cleared, that the low level of real income, reflecting low investment and capital deficiency is a common feature of both the vicious circles.

A third vicious circle surrounds underdeveloped human and natural resources. Development of natural resources is dependent upon the utilization of resources which in turn depends upon the productive capacity of the people in the country. If the people are backward and illiterate, lack in technical skill, knowledge and entrepreneurial activity, the natural resources are bound to remain unutilised, underutilized or even misutilized. On the other hand, people are economically backward in a country due to underdeveloped natural resources. Underdeveloped natural resources are, therefore, both a consequence and cause of the backward people. This is explained in Fig.1.3.

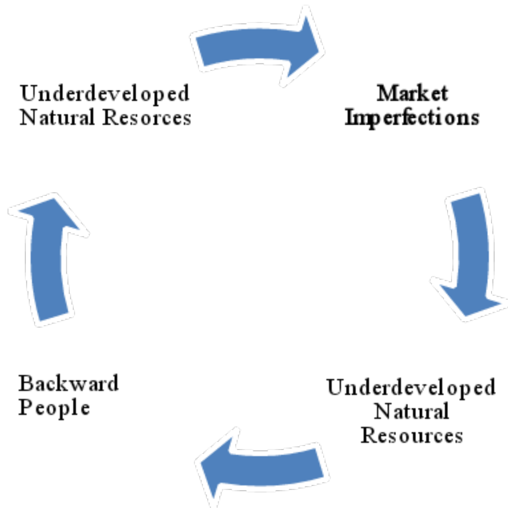

Fig:1.3

Conclusion

It is clear from the above that poverty and underdevelopment of the economy are coincident or synonymic. A country is poor because it is underdeveloped. A country is underdeveloped because it is poor and remains underdeveloped as it has not the necessary resources for promoting development. In fact, poverty is self-perpetuating.