

## **THE VICIOUS CIRCLE OF POVERTY**

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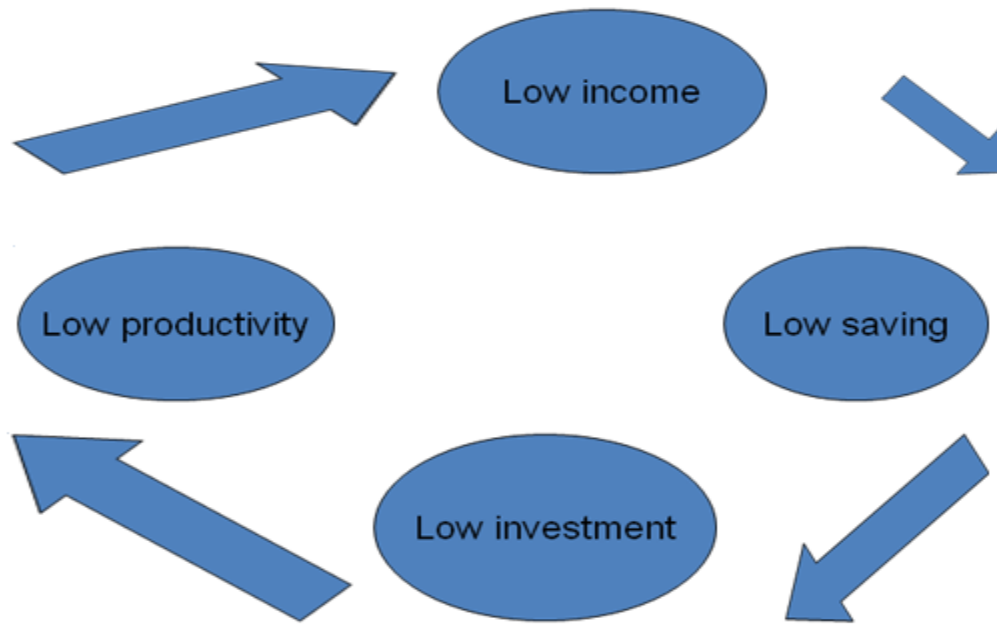
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### **ABSTRACT**

**Prof. Nurkse states**, “A country is poor because it is poor.” It implies that poverty itself creates such condition that an economy remains in the grip of poverty. Vicious circle of poverty is such a circular activity whose beginning is poverty and whose end is also poverty. In these economies poverty is the cause of poverty and poverty is the result of poverty. Accordingly poverty breeds itself. This is illustrated in diagram. This circular relationship is known as the “vicious circles of poverty” that tend to perpetuate the low level of development in low developing countries.

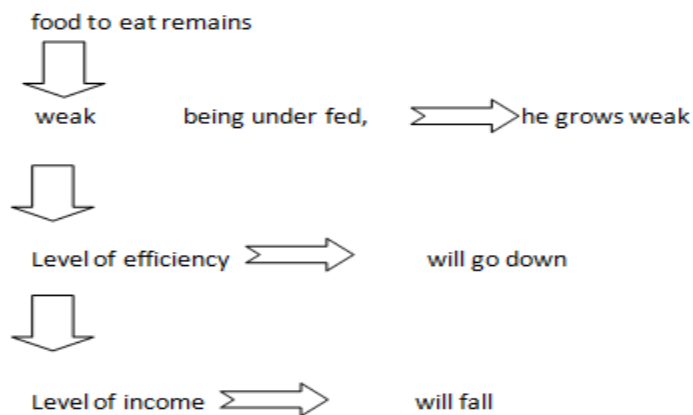
### **Introduction**

Vicious circle of poverty by Prof. Nurkse remarked “A country is poor because it is poor“. It implies that poverty itself creates such condition that an economy remains in the grip of poverty. Vicious circle of poverty is such a circular activity whose beginning is poverty and whose end is also poverty. It is like a patient who is a patient because of his physical weakness and who is physically weak because he is a patient. This theory tells that per capita income is low in underdeveloped economies and the growth rate of population is high. Because of low per capita income, on the one hand there is low level of saving and on the other, there is low level of demand because of low savings, resources available for investment are very little and because of low demand, inducement to invest is very little. Thus, due to low savings and low demand, physical and human investment is low. As a result of it, on the one hand capital per labour is low and on the other, labour has poor health. All this leads to fall in the productivity of labour (Jain & Khanna).



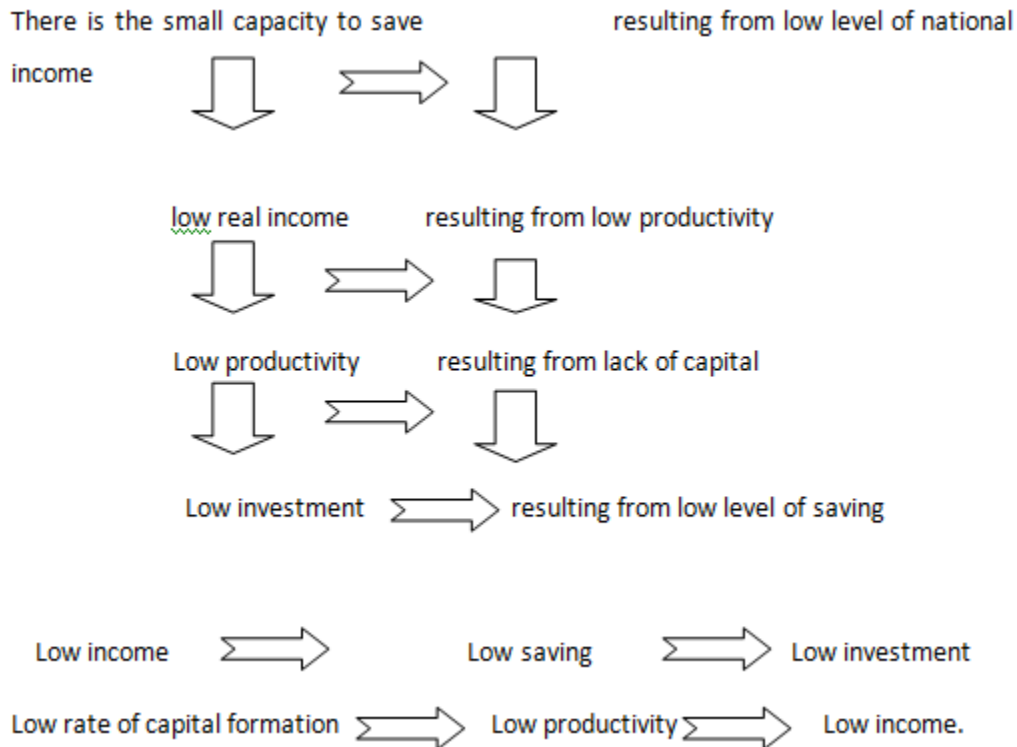
**Figure 1. The Vicious Circle of Poverty**

**Prof. Nurkse** explained vicious circle of poverty by an example : A Poor man who do not get enough



As a poor person, he will remained under-fed and this circle will continue.

**Fig 2. Different aspects of vicious circle of poverty: Supply side of vicious Circle**



Above figure shows that poverty or low level of income is mainly due to low level of saving because of it, low investment takes place in production activities. A person can effect saving only when his real income is more than consumption.

In under developed countries society composed of two classes namely the rich class and poor class. for instance, most of the farmers belong to poor class. Their income is lower because of subsistence farming. Productivity of labor is low on account of out-dated techniques of farming and existence of disguised unemployment. Under these circumstances, large part of the national income is spent on consumption needs. Thus there is a lack of saving in these countries. Although the rich section of the society is in a position to save, yet this section fritters away large part of its saving in buying luxurious and prestigious goods instead of investing it. In other words this section is influenced by the demonstration effect. Rich people prefer foreign goods and spend their income on land, property, gems and jewelers etc. In underdeveloped countries people belonging to middle income group mostly engaged in retail business and other services because of

- Lack of capital for investment in large scale industries.



Poverty of the people means



Demand in these countries is low



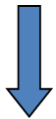
Extent of the market is narrow



Low inducement to invest due to low demand



Entrepreneurs fail to establish large scale industries



Productivity fail to increase



Income fail to rise

**Vicious circle of backwardness:-**

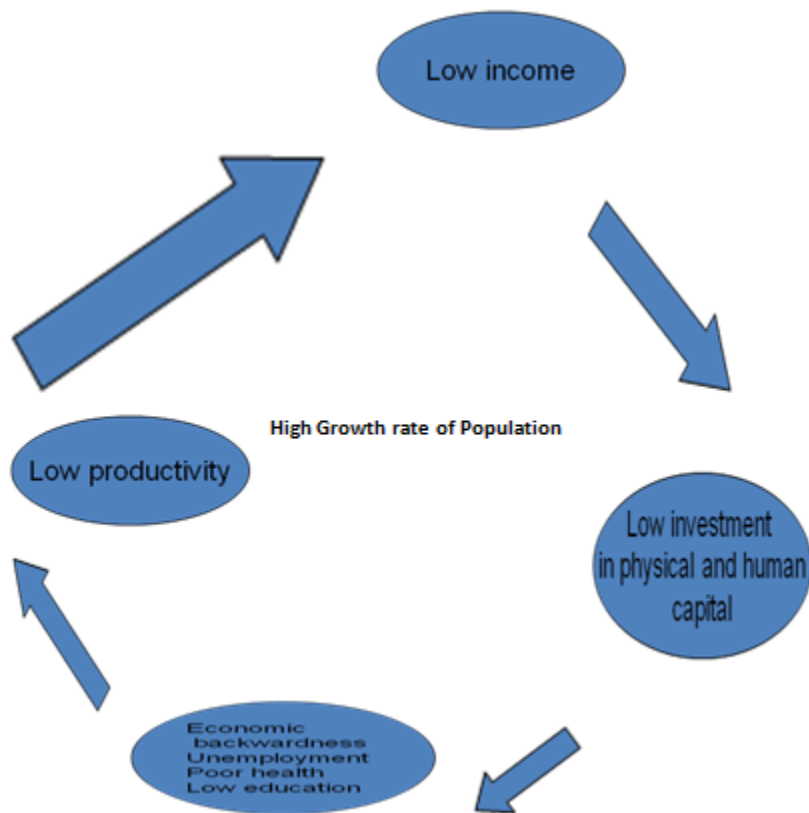
Because of low income, there arises a situation of backwardness in different sectors of the economy. As a result, on the one hand level of literacy is not only low but due to poor health of

the people productivity of labour is also low. On the other hand supply of labor increases under the impact of high birth rate. But, demand for labor remains low due to the low level production.

**Supply of labor > demand for labor**

**SL > DL**

Supply of labour being more than its demand, unemployment and under-employment are inevitable. Poor health of the people, lack of education, unemployment, under-employment etc. are the symbols of the backwardness of the human resources of the economy. Consequently, productivity of labour falls and per capita income remains low.



**Fig 3 Vicious Circle of Backwardness**

**Solution of the vicious circle of poverty:**

- Savings should be increased and invested in productive activities.

- Unnecessary expenditure, such as expenditure on weddings, customs and conspicuous consumption etc. should be reduced to the minimum.
- A suitable fiscal policy by the Government can help increase the saving.
- By imposing high rate of taxes, on luxury goods and higher direct taxes on rental income, consumption expenditure can be brought down.
- In order to get quick returns in the short-period, investment should be made in agriculture and allied activities like irrigation, agricultural implements, fertilizers and consumer goods industries.
- Along with short term investment plans, adequate investment should also be made in long-term plans like multi- purpose river valley projects, setting up of Basic Industries like iron and steel, chemical fertilizers etc.
- In order to encourage investment in underdeveloped countries, appropriate monetary and banking policies should be pursued, so that people may get sufficient incentives and facilities to effect small savings.

#### **Appropriate strategy of investment:-**

Rodan is of the view that to break the vicious circle of poverty, underdeveloped countries should make large scale Investment simultaneously in economic and social overheads with a big push. Prof. Nurkse believes balanced growth while Hirschman has suggested the strategy of unbalanced growth to break the vicious circle of poverty.

On the demand side it is necessary to extend the size of the market, so that the investors may get necessary inducement to invest.

#### **Appropriate strategy of growth**

- Prof. Nurkse has suggested the strategy of balanced growth that investment should be made in all sectors of the economy i.e. agriculture, industry, transport etc. In such a way that the production of one sector is demanded by the other.
- Economists like Hirschman, Singer, Fleming etc. do not consider the policy of balanced growth and suggested the policy of unbalanced growth as it is more practical and beneficial.

In most of the underdeveloped countries the strategy of planned economic development has been adopted. Under this strategy, huge investment is made in the public sector and that leads to increase in the supply of money in the country. With increased money income of the people the extent of the market is widened.

### **Conclusion**

In order to remove the backwardness of human power, it is suggested that arrangement should be made to spread education, technical and managerial training etc. in these countries. Health of the people should be improved so that their efficiency is increased. Communication and transport should be further developed.

### **Source**

- Jain and Khanna, vicious circle of poverty: Development problems and policies, VK publications, New Delhi -110002.