Development Economics

What is Economic Growth?

- **Economic Growth**
    - It can be defined as an increase in GNP per head without any changes in the structure of society.

- **Advantages of Economic Growth**
    - **Unemployment falls/employment grows**
        - To produce more output more workers are required.
    - **Government revenue increases**
        - The government receives increased revenue, e.g. PAYE on extra workers employed, more indirect taxes from the increase in spending on goods and services.
    - **The standard of living of improves**
        - The government has more money to spend on services such as healthcare from the extra taxes received.
    - **A wider choice of goods and services are provided**
        - As people have more money with which to purchase goods and services, suppliers attempt to meet the demands of consumers.
    - **Increase in immigration/ Irish emigrants returning home**
        - As more jobs are available, Ireland becomes more attractive to migrant workers who bring with them skills and expertise from their own countries. These workers have cost nothing to the Irish taxpayer to educate, yet it is the Irish economy that benefits from their labour. Irish people who emigrated from Ireland in the past may also find it easier to return home and find work.
    - **An improvement in the Balance of Payments**
        - As more goods are produced, some are exported. The money for these exports flows back into Ireland, which is good for our balance of payments.

- **Disadvantages of Economic Growth**

  Increased economic activity brings with it many advantages. However, some of the negative economic effects which Irish society has experienced in the past 15 years are outlined below.

  - **Increased Pollution**:
    - As more output is produced and as consumption rises, more waste is produced. Alternatives to landfill are being developed in recent times to deal with this problem. The level of emissions rises as more is produced and consumed. Irish water and air quality have deteriorated in the past 15 years.
  - **Increase in property prices:**
    - One of the contributory factors to rising house prices in Ireland in recent years has been economic growth and the rise in incomes. While increasing property prices benefit homeowners, it can make getting on the property ladder very difficult for first-time buyers.
  - **Rapid Growth of Urban Centres:**
    - Urban centres tend to be centres for economic growth. As a result, they grow in size, sometimes too fast, resulting in traffic chaos, urban sprawl and crime. As these population centres grow, necessary infrastructure and services are often not provided at a pace that matches the expansions.
  - **Welfare may not improve:**
    - Welfare refers to the overall well-being of an individual or a group of people. Some people may have material well being but their standard of living and quality of life may not be improved. For example, commuting times and distances to work have had a major impact on the welfare of workers. Also, more and more people are suffering from stress due to working long hours, taking shorter breaks and holidays, etc.
  - **Benefits of Economic Growth Not Evenly Distributed**:

        - Despite our economic growth there are over 90,000 people in Ireland who can not find work. Homelessness and poverty are still huge problems despite our economic successes.

What is Economic Development?

Economic development refers to increases in output per worker with changes in the structure of society.

An example of changes of structures to society would be a large decrease in employment in the agricultural sector. This can be accompanied by greater development of manufacturing industry or an increased urbanisation of a country as it develops, resulting in huge decreases in rural dwellers.

- **What Are Some Of The Features/Problems of /facing Less Developed Countries?**
    - **High rate of population growth**:
        - Rates are very high resulting in economic problems which the government finds hard to resolve.
    - **Famine**:
        - Too frequently famine occurs in LDCs resulting in disease; deaths at an early age; high medical costs.
    - **Foreign Debts:**
        - These are very high. Their repayment uses up government revenue and their repayments can cripple the economy.
    - **Uneven distribution of wealth:**
        - In some LDCs, a minority may control a large part of the country's wealth resulting in widespread poverty.
    - **Over-dependence on one crop**:
        - Some LDCs are over-dependent on one crop. The country may be subject to crop failure.
    - **High percentage of the population engaged in extractive/primary industries:**

    - This results in not enough workers in secondary & tertiary sectors, resulting in low standards of living.
- **Poor Terms of Trade:**
    - LDCs may suffer from low export prices and high import prices and hence the gains from trade are reduced.
- **Poor living conditions / Inadequate infrastructure:**
    - A large percentage of the population live in shanty towns with no water and poor sanitation.
- **Lack of capital**:
    - LDCs may lack the capital which is essential for economic development & employment generation.
- **Low per capita income for the majority of the population:**
    - This results in a poor standard of living and as a consequence low demand for goods and services.
- **Poor levels of education/literacy:**
    - This will act as an impediment to economic development, resulting in high unemployment.
- **Political corruption**:
    - Some LDCs spend a lot on bureaucratic administration / military spending which can result in civil unrest.

- **How Can Governments Promote Economic Development?**

  In recent times much more attention is being brought to the problems being suffered by LDCs and to the important role that western countries have in solving these problems. Musicians Bob Geldof and Bono in particular with their Live 8 campaign aimed to put pressure on the G8 leaders – leaders of the 8 largest economies in the world - into doing more to solve these problems, such as ending huge debt repayments and providing more aid.

- **Governments Of Less Developed Countries Can Encourage Development In The Following Ways:**
  - **Promote population control**
    - Governments could encourage a reduction in population by various measures including: educating the population [in methods of family planning]; improving the welfare of its citizens; providing better social services for its citizens
  - **Improve basic infrastructure**
    - Provision of clean water & proper sanitation. Development of public housing. Development of roads, power supplies etc.
  - **Promote land/ agricultural reform:**
    - Decrease emphasis on one crop – diversify production. Try to spread ownership of land. Improve production methods - modernise the agricultural industry.
  - **Improve education**
    - Start with a basic literacy programme to improve literacy skills. Provide technical skills to the population. Provide primary education. Develop the secondary sector and initiate further education programmes.
  - **Incentives for development of enterprise**
    - Try to foster a movement away from a dependency culture and encourage enterprise. Use borrowings to encourage enterprise so as to create sustainable employment.
  - **State bureaucracy / corruption/ Spending on arms**

        - Try to reduce bureaucracy within state institutions. Eliminate corruption - so that aid flows to those who it was intended for. Divert funds from arms spending to more urgent current requirements.

- **Foreign Governments / Agencies Can Encourage Development In The Following Ways:**
    - **Direct financial aid by governments**
        - This is also known as official development assistance, grants and loans. Governments may provide aid to help in emergency situations. They can also assist with the development of infrastructure and the provision of education, health programmes etc.
    - **Financial aid through voluntary agencies**
        - Various international voluntary agencies provide direct aid to LDCs on a permanent basis or in times of emergency.
    - **Aid (other than financial aid) by foreign citizens**
        - Foreign citizens could work in LDCs and provide a necessary service e.g. teach, build or provide healthcare etc. Foreign citizens can help by buying 'fair trade' products which ensure higher prices for producers and hence a better standard of living for citizens in LDCs. Foreign citizens could donate food, clothes, livestock etc so as to improve the standard of living of citizens in LDCs.
    - **Assist peace measures and promote political stability.**
        - Economic development requires a peaceful environment. Foreign countries could provide peacekeeping troops and encourage the movement towards political stability.
    - **Multinationals setting up in LDCs**
        - Multinationals, by providing employment opportunities, provide workers with skills. The fair wages received could help boost domestic demand, provide tax revenue for the state and boost employment.

- **Improve trade terms with LDCs**
    - Most LDCs suffer from unfavourable terms of trade. If access to markets in the developed world was improved and /or the terms of trade available were more favourable then LDCs could increase exports and/or obtain higher prices for their exports boosting their national incomes.
- **Assist LDCs with skills and technologies**
    - Governments or voluntary agencies could provide skills and technologies to the LDCs so that living standards could improve and this could boost their productive capacity.
- **Restructuring of national debts**
    - If national debts of LDCs are cancelled or re-structured more funds would become available for the LDCs to use for economic development in their countries.
        - **Abolish the outstanding debt**: The quickest and simplest way to solve the debt crisis is to 'write-off' the existing debts of these countries and start afresh.
        - **Re-schedule the capital repayments:** Allow these countries to extend the length of the repayment period, allowing payment at a time more suitable / reducing the annual repayments charges.
        - **Lower the annual interest repayments**: Reduce the interest repayments on the existing debt.
        - **Replace existing 'dear' debt**: By replacing existing debts with new loans carrying lower rates of interest the annual interest charges and capital repayments will fall.
        - **Place a limit on interest repayments**: The amount of interest to be paid could be limited to a percentage of export earnings by that country.
        - **Barriers to prevent the flight of capital**: Governments in LDC's could erect barriers to prevent those wealthy enough to do so, from moving their wealth to bank accounts in other countries.

- **Debt swaps** : Change debt for investment in firms in the debtor countries / or for the right to conserve large areas of habitat in danger i.e. the Tropical Forests
- **Debt buybacks**: When a debt is bought back by the debtor country at a discount.
- **Reform of IMF / World Bank**: Critics of IMF / World Bank policies say that their decisions are too much influenced by US Policy. If these institutions were reformed and their lending policies adjusted – it might go so way towards alleviating the debt problems of LDC's.

- **Why Foreign Aid may not result in Development**
  - **Unfair distribution of benefits / Widening poverty gap / trickle down effects**
    - The increased wealth may not trickle down to the people who most need it and economic growth may not result. Any wealth that exists in the poorest countries is often concentrated in the hands of a small ruling elite. In many cases military dictatorships are the norm and they wish to maintain the status quo. The money may be used for the purchase of armaments and other non-essential projects.
  - **Costs to the environment**
    - Increased pollution, disfigurement of the landscape/environment, large scale urban sprawl may negate any positive effects from the foreign aid.
  - **Rapid population growth / standard of living**
    - In LDCs there are rapidly rising populations and the implications of such population growth is that any economic growth is completely outweighed by an increase in population. The impact of the foreign aid may be hard to discern as it may not improve the standard of living.
  - **Culture of dependency rather than improvement of local economy**

- In some LDCs, a culture of dependency may exist and this may prove to be a major barrier to promoting economic growth and development. Entrepreneurship demands ingenuity and inventiveness. A culture of dependency reduces the desire for risk taking ventures and ultimately profit making.

- **Food aid dependency/ reduced incentive for production / growth**
  - In order for economic growth to be sustained, economic projects must be undertaken and the focus on provision of food aid exclusively must be reduced. The whole notion of subsistence must be replaced by a desire for excess production and a move away from the primary production area. Secondary and tertiary sectors should be encouraged.
- **High profile projects**
  - In some LDCs, the provision of adequate infrastructure together with land drainage and irrigation schemes, roads, housing, factories and communication facilities are bypassed in favour of 'high profile' projects. Governments need to prioritise those projects which will ultimately lead to economic self-sufficiency and increase the productive capacity of LDCs. The provision of skills and technologies will ultimately help with improving standards of living and increasing productive capacity.

- **Advantages for the Irish economy of increased growth rates in developing countries**
    - **Increased exports / larger market**
        - With higher incomes people in LDCs may be able to buy more exports resulting in increased economic growth in Ireland.
    - **Lower Irish consumer prices**
        - LDCs may be able to sell their commodities in Ireland at cheaper prices than domestically produced goods.
    - **Employment**
        - If exports increase then the opportunities for jobs in Ireland increases.
    - **Less need for Irish state aid / opportunity cost**
        - If LDCs experience growth then this may reduce the need for the Irish government to fund development / the government can use this money for something else.
    - **Disposable incomes in Ireland**
        - There may be less need to give financial aid and so Irish citizens may have increased disposable income.
    - **Economies of Scale**
        - If Irish firms increase production to supply the LDCs they may benefit from economies of scale.

- **Disadvantages for the Irish economy of increased growth rates in developing countries**

    - **Re-location of companies**
        - Some MNCs / Irish firms may re-locate to LDCs resulting in unemployment in Ireland.
    - **Greater import bill**
        - If the goods from LDCs are cheaper it may result in increased imports, a higher import bill, job losses in Ireland
    - **Increased demand for resources**
        - LDCs will be increasing their demand for scarce resources and this may increase prices e.g. oil prices.
    - **Increased world pollution**
        - Economic growth may cause increased pollution with the consequent necessity of Ireland having to address this / increased carbon emissions.

Role of the International Monetary Fund and the World Bank

- **The International Monetary Fund**
    - **Expansion of World Trade**
        - The IMF encourages expansion in trade by encouraging member countries to adopt sound economic policies. It monitors economic and financial developments in member countries and gives advice to its members.

- **Promote exchange rate stability.**
  - The IMF promotes international monetary co-operation. It provides a forum for consultation on international monetary problems. It tries to maintain orderly exchange arrangements among countries and aims to avoid competitive devaluations.
- **Orderly correction of balance of payments problems.**
  - The IMF lends to member countries with balance of payments problems to provide temporary financing and to support reform policies aimed at correcting the underlying problems.
- **Operation of a multilateral system of payments.**
  - The IMF operates this system in respect of current transactions between members and aims to eliminate foreign exchange restrictions which may hamper the growth of world trade.
- **Provision of technical assistance and training.**
  - Where a member needs help the IMP will provide this assistance and training. When the Soviet Union collapsed the IMF stepped in and set up treasury systems for their central banks to help the transition from centrally planned to market based economic systems.

- **The World Bank**
  - **Encourage investment funds to LDCs**
    - Obtains funds from world's advanced countries and uses these resources to provide loans to LDCs so they can invest in roads, schools etc.
  - **Finance capital projects in member countries.**
    - The World Bank gives loans to member states and to private businesses in these countries to assist capital projects. Examples in Ireland in the past included the building of the original community schools by the DES.
  - **Debt relief for LDCs**
    - The World Bank helps LDCs reduce their debt burden by extending the term of loans and /or renegotiating interest rates.