COURSE GUIDE

DES 424
COMPARATIVE DEVELOPMENT

Course Team

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NATIONAL OPEN UNIVERSITY OF NIGERIA

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Printed 2022

ISBN: 978-978-058-191-6

CONTENTS

INTRODUCTION

Welcome to DES 424: Comparative Development
DES 424: Comparative Development is a 2-credit and one-semester undergraduate course for developments studies students. The course is twelve units spread across fourteen lectures week. This course guide provides you with an insight into the study of Comparative Development, and all that it will take you to complete and walk through your way in understating issues in the study of Comparative Development. Some general guidelines are suggested for the amount of time required of you on each unit in order to successfully achieve the aims and objectives of the course. Answers to your tutor marked assignments (TMAs) are therein already.

COURSE COMPETENCIES

The focus of the course is on the basic but broad issues in Comparative Development and these are critical and important areas of the study of development. Your application of the knowledge derived herein will provide you a wider view of issues in Comparative Development. The areas covered in this guide include: Definition of Economic Growth and Economic Development, Conceptualizing Economic Growth and Economic Development, the Major Theories of Economic Development, the role of Institutions in Economic Development, Various Economic Systems of Development including; Capitalism, Socialism and Mixed Economic Systems, Comparison of the various Economic Systems of Development, Influence of Economic Systems on Development Indices, Trends Transforming the Global Economic System, Sustainable Development, Economic Globalization and Economic Development.

COURSE OBJECTIVES

To achieve the aims of this course, there are overall objectives which the course is out to achieve, though, there are set out objectives for each unit. The unit objectives are included at the beginning of a unit; you should read them before you start working through the units. You may want to refer to them during your study of the unit to check on your progress. You should always look at the unit objectives after completing a unit. This is to assist the students in accomplishing the tasks entailed in this course. In this way, you can be sure you have done what was required of you by the unit. The objectives serves as study guides, such that student could know if he is able to grab the knowledge of each unit through the sets of objectives in each one. At the end of the course period, the students are expected to be able to:

a) Have a clear understanding of the concepts and the definition of economic growth and economic development.

b) Understand and describe the various theories of economic development.
c) Discuss the various types of institutions and their roles in economic development.
d) Understand and explain the various types of economic systems
e) Be able to draw a comparison of various economic systems
f) Know the influence of economic systems on development indices
g) Know, understand and discuss trends transforming the global economy
h) Understand and discuss sustainable development.

WORKING THROUGH THIS COURSE

To successfully complete this course, you are required to read the study units, referenced books and other materials on the course.

Each unit contains self-assessment exercises called Student Assessment Exercises (SAE). At some points in the course, you will be required to submit assignments for assessment purposes. At the end of the course there is a final examination. This course should take about 15weeks to complete and some components of the course are outlined under the course material subsection.

STUDY UNITS

There are 12 units in this course which should be studied carefully and diligently.

Module 3 Influence of Economic Systems on Development Indices, Trends Transforming Global Economy, Sustainable Development, Globalization and Economic Development

Each study unit will take at least two hours, and it include the introduction, objective, main content, self-assessment exercise, conclusion, summary and references. Other areas border on the Tutor-Marked Assessment (TMA) questions. Some of the self-assessment exercise will necessitate discussion, brainstorming and argument with some of your colleges. You are advised to do so in order to understand and get acquainted with economic growth and development.

There are also textbooks under the reference and other (on-line and off-line) resources for further reading. They are meant to give you additional information if only you can lay your hands on any of them. You are required to study the materials; Tutor-Marked Assignment (TMA) questions for greater and in-depth understanding of the course. By doing so, the stated learning objectives of the course would have been achieved.

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PRESENTATION SCHEDULE

The presentation schedule included in your course materials gives you the important dates for this year for the completion of tutor-marking assignments and attending tutorials.

Remember, you are required to submit all your assignments by due date. You should guide against falling behind in your work.

ASSESSMENT

There are two types of the assessment of the course. First are the tutor-marked assignments; second, there is a written examination.

In attempting the assignments, you are expected to apply information, knowledge and techniques gathered during the course. The assignments must be submitted to your tutor for formal Assessment in accordance with the deadlines stated in the Presentation Schedule and the Assignments File. The work you submit to your tutor for assessment will count for 30 % of your total course mark.

At the end of the course, you will need to sit for a final written examination of three hours' duration. This examination will also count for 70% of your total course mark.

HOW TO GET THE MOST FROM THE COURSE

In distance learning the study units replace the university lecturer. This is one of the great advantages of distance learning; you can read and work through specially designed study materials at your own pace and at a time and place that suit you best.

Think of it as reading the lecture instead of listening to a lecturer. In the same way that a lecturer might set you some reading to do, the study units tell you when to read your books or other material, and when to embark on discussion with your colleagues. Just as a lecturer might give you an in-class exercise, your study units provides exercises for you to do at appropriate points.

Each of the study units follows a common format. The first item is an introduction to the subject matter of the unit and how a particular unit is integrated with the other units and the course as a whole. Next is a set of learning objectives. These objectives let you know what you should be able to do by the time you have completed the unit.

You should use these objectives to guide your study. When you have finished the unit you must go back and check whether you have achieved the objectives. If you make a habit of doing this you will significantly improve your chances of passing the course and getting the best grade.

The main body of the unit guides you through the required reading from other sources. This will usually be either from your set books or from a readings section. You will be directed when you need to embark on discussion and guided through the tasks you must do.

The purpose of the practical overview of some certain historical economic issues are in twofold. First, it will enhance your understanding of the material in the unit. Second, it will give you practical experience and skills to evaluate economic arguments, and understand the roles of institutions and their influence on current economic policies regarding development, how to apply theories on contemporary economic development issues within as well as other debates outside your studies. In any event, most of the critical thinking skills you will develop during studying are applicable in normal working practice, so it is important that you encounter them during your studies.

The following is a practical strategy for working through the course. If you run into any trouble, consult your tutor. Remember that your tutor's job is to help you. When you need help, do not hesitate to call and ask your tutor to provide it.

1. Read this Course Guide thoroughly.
2. Organize a study schedule. Refer to the `Course overview' for more details. Note the time you are expected to spend on each unit and how the assignments relate to the units. Important information, e.g. details of your tutorials, and the date of the first day of the semester is available from study centre. You need to gather together all this information in one place, such as your dairy or a wall calendar. Whatever method you choose to use, you should decide on and write in your own dates for working breach unit.
3. Once you have created your own study schedule, do everything you can to stick to it. The major reason that students fail is that they get behind with their course work. If you get into difficulties with your schedule, please let your tutor know before it is too late for help.
4. Turn to Unit 1 and read the introduction and the objectives for the unit.
5. Assemble the study materials. Information about what you need for a unit is given in the `introduction' at the beginning of each

unit. You will also need both the study unit you are working on and any of your relevant books or other reading materials at the same time.

6. Work through the unit. The content of the unit itself has been arranged to provide a sequence for you to follow. As you work through the unit, consult relevant set books or other articles to guide your reading and enhance your understanding of the unit.
7. Up-to-date course information will be continuously delivered to you at the study centre.
8. Work before the relevant due date (about 4 weeks before due dates), get the Assignment File for the next required assignment. Keep in mind that you will learn a lot by doing the assignments carefully. They have been designed to help you meet the objectives of the course and, therefore, will help you pass the exam. Submit all assignments no later than the due date.
9. Review the objectives for each study unit to confirm that you have achieved them. If you feel unsure about any of the objectives, review the study material or consult your tutor.
10. When you are confident that you have achieved a unit's objectives, you can then start on the next unit. Proceed unit by unit through the course and try to pace your study so that you keep yourself on schedule.
11. When you have submitted an assignment to your tutor for marking, do not wait for it return `before starting on the next units. Keep to your schedule. When the assignment is returned, pay particular attention to your tutor's comments, both on the tutor-marked assignment form and also as written on the assignment. Consult your tutor as soon as possible if you have any questions or problems.
12. After completing the last unit, review the course and prepare yourself for the final examination. Check that you have achieved the unit objectives (listed at the beginning of each unit) and the course objectives (listed in this Course Guide).

ONLINE FACILITATION

Comparative Development (DES 424), as a course, exposes you to critical thinking in the areas of the definitions and meaning of Economic Growth and Development. You will be vast in various Theories of Economic Development, role of Institutions in Economic Development, Various Economic Systems and their Influence on Economic Development Indices. Other areas this study guide will expose you, a comparative analysis of these Economic Systems and Tend Transforming Global Economy. You will also be exposed to further areas such as the meaning and definition of Sustainable Development, Economic Development.

COURSE INFORMATION

Course Code:	DES: 424
Course Title:	**COMPARATIVE DEVELOPMENT**
Credit Unit:	2 units
Course Status:	
Course Blub:	
Semester:	First Semester
Course Duration:	13 weeks
Required Hours for Study	

MAIN COURSE

CONTENTS

MODULE 1 DEFINITION OF ECONOMIC GROWTH AND DEVELOPMENT

Unit 1 Definition and Meaning of Economic Growth and Development

Unit Structure

1.1 Introduction

This section introduces the central theme of the module to the students. It defines and discusses various themes selected for this unit. The unit will expose the students to various definitions of the economic growth and development. Through these definitions, students will also be exposed to the distinction, connection and relationship between economic growth and economic development and why they are treated together under this theme. They will also be exposed to the major global determinants of economic growth and development. Students will also learn about the various types of economic growth and development. At the end of the lecture, students will be able to define economic growth and development from different scholars. Students will also be familiarizing with the general knowledge of the concept of economic growth and development. This level of exposure is intended to enable students learn and freely discuss the concept of economic growth and development.

1.2 Intended Learning Outcomes

The major objective of this unit is to acquaint you with the concepts of economic growth and development.

By the end of this unit, you will be able to:

- Understand the meaning of economic growth
- Define the concept of economic growth
- Know the various types/classification of economic growth.

1.3 Conceptualizing Economic Growth

Economic growth is a necessary prerequisite for the advancement of any nation. According to Boldeanu and Constantinescu (2015) economic growth refers to that increase in real GDP or better still the GDP per capita. It is an increase of national product only measured in constant prices. It implies that the concept of economic growth is directly influenced by certain factors such as human resources including, increasing the active population, investing in human capital; natural resources including land, and underground resources as well as an increase in the capital employed or advancement in technology.

Boldeanu and Constantinescu further opined that there are also notable indirect factors that equally influence economic growth. These include institutions such as financial institutions, private administration among others. There are also the size of the aggregate demand, saving rates and investment rates, the efficiency of the financial system, budgetary and fiscal policies, migration of labour and capital and the efficiency of the government (Boldeanu & Constantinescu, 2015: 330).

Self-Assessment Exercises 1

What do understand by Economic growth?

1.4 Definitions of Economic Growth

Broadly speaking, the definition of economic growth is anchored on the expansion in the real output of any nation. This is perhaps why some economics would wish to define economic growth as an expansion in the capability of a nation to produce necessary goods and services needed by its citizens. It denotes that economic growth represents that increase in aggregated output (real GDP) replicated in increased real per capita income. Countries are said to be experiencing or enjoying economic growth when the increase in their output (real GDP) and per capita income is sustained over time. The measurement of economic growth is done through the percentage of increase in the real GDP over time.

Adam Smith, who is regarded as the father of economics, defined economic growth *inter alia* as consisting of "a rise in the productivity of labour by means of the division of labour, and an increase in productive labour by way of capital accumulation." On his part, David Ricardo defines economic growth in his Theory of Economic Growth as "a null variable and distribution of income being the active variable". According to Ricardo, this is "conditioned by the availability of the fertile land."

Cornwall (nd) defines it as "the process by which a nation's wealth increases over time." "Economic growth is the increase in the goods and services produced by an economy, typically a nation, over a long period of time" (Wells, 2021). Wells went ahead to indicate that economic growth is measured "as percentage increase in real gross domestic product (GDP) which is gross domestic product (GDP) adjusted for inflation. GDP is the market value of all final goods and services produced in an economy or nation."

According to the National Institute of Open Schooling (NIOS) India, economic growth is defined as "the process whereby the country's real national and per capita income increases over a long period of time". NIOS went ahead to indicate that their own version of the definition of economic development is based on four basic features.

Firstly, economic growth it is measured in real National Income rather than rise in monetary income or nominal national revenue. This implies that economic growth should be measured in terms of surge in output of goods and services rather than as a result of increase in the prizes of existing goods in the market.

Secondly, they stated that economic growth means a process of increased National Income as well as Per-Capita Income. For the fact that economic growth reflects increase in the standard of lives of people, it is better to measure the increase in economic growth in Per-Capita income.

Thirdly, the increase in Real Income must be over a long period of time. This implies that sustenance of both the national and per-capita incomes must take a long period of time. It does not run within a short time frame or be based on a temporary increase in income. Such an increase should not be confused with economic growth when it occurs.

Fourthly, increase in income is based on increased productive capacity. This means that sustained increase in income only occurs as a result of sustained and durable increase in productive capacity of the economy. For instance, it could mean the modernization or use of new technology to enhance production. It could also mean consolidation of infrastructural facilities such as transport network or the improvement of electricity generation etc.

Self-Assessment Exercises 2

Outline and discuss various types of economic growth.

1.5 Classifications and Types of Economic Growth

According to Poliduts and Kapkaev (2015), there are two basic types of economic growth in economic theory and they are intensive and extensive types of economic growth. The authors also indicated that there is also another form of growth known as innovative growth which is part of intensive economic growth. Intensive economic growth generally encompasses increased effectiveness, quality, or efficiency of inputs such as labour, capital and natural resources. In other words, intensive growth arises from more and effective use of inputs for increased production. Intensive economic development is usually measured as the growth of total factor productivity. Intensive economic growth, especially on per capita basis, is used to sustain economic growth in the long run.

The Encyclopedia explanation of extensive economic growth states that it emanates from the growth of normal inputs of labour, reproducible capital (i.e., machines and livestock) and natural resources. One of the major characteristics of extensive type of economic growth, according to Poliduts and Kapkaev, is that there is quantitative increase in the use of more factors of production. The extensive economic growth thus, has three sub types of labour, capital and resource sub types of extensive economic growth.

When GDP growth is triggered by rise in population or territory, it is regarded as extensive growth. This type of growth could be subject to diminishing returns but, it does not have any serious impact on the magnitude of per-capita income in the long-run. It is equally undesirable to rely completely on extensive type of economic growth especially in the long run, because it exhausts resources.

Self-Assessment Exercises 3

Give at least five definitions of economic growth as postulated by various scholars.

1.6 Summary

Major themes outlined and discussed under this unit included the numerous definitions of economic growth, its meaning from a contextual perspective and the various types/classification of economic growth.

The unit discussed economic growth and within it stated that economic growth occurs when there is an increase in GDP as well as an increase in national product measured in constant prices. Major definitions and types of economic growth were also presented. The central take away of the unit is that economic growth the any economy is said to have grown whenever there is an increase in its GDP.

1.7 References/Further Readings/Wen Resources

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1.8 Possible Answers to SAEs

Answers to SAEs 1
Economic growth refers to that increase in real GDP or better still the GDP per capita. It is an increase of national product only measured in constant prices.

Answers to SAEs 2
Intensive economic growth generally encompasses increased effectiveness, quality, or efficiency of inputs such as labour, capital and natural resources.

Extensive economic growth states that it emanates from the growth of normal inputs of labour, reproducible capital (i.e., machines and livestock) and natural resources.

Answers to SAEs 3

Adam Smith, who is regarded as the father of economics, defined economic growth *inter alia* as consisting of "a rise in the productivity of labour by means of the division of labour, and an increase in productive labour by way of capital accumulation.

Cornwall (nd) defines it as "the process by which a nation's wealth increases over time." (Wells, 2021). "Economic growth is the increase in the goods and services produced by an economy, typically a nation, over a long period of time"
According to the National Institute of Open Schooling (NIOS) India,

economic growth is defined as "the process whereby the country's real national and per capita income increases over a long period of time".

Unit 2 Conceptualizing Economic Development

Unit Structure

2.1 Introduction

In this unit, economic development will be discussed. Economic development will be discussed under various themes including: conceptualization of the concept of economic development, definitions, types, Characteristics, determinants of economic development, and comparison between economic growth and economic development. The unit also has a summary, conclusion and reference section.

2.2 Intended Learning Outcomes

By the end of the unit, you will be able to:

- understand the concept of economic development
- define economic development from various authors and school of thought
- list and explain the various types of economic development
- outline and discuss the basic determinants of economic development as well as understanding the major differences between economic growth and economic development.

You should also be able to answer raised questions from these topics.

2.3 The concept of Economic Development

Economic development is not the same as economic growth. Economic development, on the other hand, implies different things to different people. From a general perspective, economic development implies anything done by a community or people intended to foster and create a healthy economy, is regarded as economic development. Economic growth is an essential, nonetheless not adequate, condition for economic development. This becomes a clear indication that there is more to economic development. In this regard, economic development refers to a continued increase in real GDP, which also means increased real per capita income, improved education and health and ecological protection, legal and institution restructurings etc. as well as an effective manufacturing and supply arrangement for goods and services.

However, contemporary economic development professionals and experts have tried to put forward definitions of the field in terms that could suit the interest of policymakers, other professionals and the general public. It implies that professionals are trying harder to define economic development in more concrete, apt and salient terms for those who make use of it.

2.3.1 Definition of Economic Development

There are perhaps as many definitions for economic development as there are people who practice it. To this end, the California Association for Local Economic Development (CALED) adduced three definitions of economic development developed as published in their Economic Development Handbook:

"From a public perspective, local economic development involves the allocation of limited resources – land, labour, capitol and entrepreneurship in a way that has a positive effect on the level of business activity, employment, income distribution patterns, and fiscal solvency".

The Advanced Learners Dictionary defines economic development as "an increase in the amount of goods and services produced per head of the population over a period of time." "It is a process of deliberate intervention in the normal economic growth by making it easier or more attractive. Today, communities in California are giving attention to what they can do to promote fiscal stability and greater economic development".

"Economic development is a concerted effort on the part of the responsible governing body in a city or county to influence the direction of private sector investment toward opportunities that can lead to sustained economic growth". The Loughborough University defines "economic development is the increase in the amount of people in a nation's population with sustained growth from a simple, low-income economy to a modern, high-income economy."

The British Columbia defines Economic Development as "programs, policies or activities that seek to improve the economic well-being and quality of life for a community".

Thus, economic development could be seen as a process of wealth creation from which the benefits of a community are attained. It is therefore an investment which aims to develop the economy to improve the prosperity and quality of life for all inhabitants.

There are only three approaches used to enhance local economic development. They are:
1. Business Retention and Expansion – enhancing existing businesses
2. Business Expansion – attracting new business
3. Business Creation – encouraging the growth of new businesses

2.3.2 Types of Economic Development

There are many types of economies around the world. Each has its own distinguishing characteristics, although they all share some basic features. Each economy function based on a unique set of conditions and assumptions. Economic systems can be categorized into four main types: traditional economies, command economies, mixed economies, and market economies.

i) Traditional economic system

The basic conventional inclinations followed by the traditional system are services, goods and work. In this system, there is minimal level of division of labour and specialization which compels the system to rely more on people for production. The subsisting circumstance thus portrays the traditional economic system as a very basic system and the most ancient. Some rural areas of the global community still function at the level of traditional economic system contemporarily. These rural settings are mostly found existing among the second and third world countries. Farming is the predominant economic activity of such areas. They also engage in other traditional income generating economic activities to sustain their livelihood.

In most cases, the use certain natural resources in these traditional economic communities is restricted either because they are few or the means of exploitation is slim. Thus such traditional system usually lacks the capacity to generate surplus, expand or increase production. Though wastage is controlled in the traditional system, due to its small size, the system is equally high sustainable because of its primitive nature.

ii) Command economic system

The command system is also known as the planned system which is usually found in communist controlled economies, governments and societies. This system encourages what is known as 'the dominant centralized authority of government'. It is the responsibility of the government to control a substantial portion of the economic structure of the state. It is equally the exclusive preserve of the government to take decisions regarding production. In other words, it is the inalienable right of the government to control the means of production. It implies that such right to take production decisions is the exclusive reserved of the government. However, under this system, the government tends to be more interested in the control of important valuable resources such as oil, gold and diamond production, while the people are, in rare cases, are allowed to control minor sectors like agriculture.

It is believed that this system always has the interests of the citizens at heart because the central control system used by the authorities works well to the advantage of the masses. However, command systems have been criticized for some reason. Such systems tend to react slowly to changes because of the centrality of power. Again, their system is often rigid when compared to other systems. They are slow to changes especially to emergencies arising from economic crises.

iii) Market economic system

Markets economic system is mostly regarded as a theoretical system because of the non-existence of a pure market. In other words, this system exists more as a theoretical phenomenon than physical. This system is also regarded as the free market system. The reason remains that the basic principles of the system revolve around the free market economic system. What this assertion implies is simply little or no government control of resources or the means of production. It also means that the government does not directly interfere or influence what happens in other very important segments of the economy. The people rather control the relationship between demand and supply.

However, the government exerts some kind of control of this system through control laws which are enacted to regulate fair trade and control monopolies. Such interference is however minimal and usually not very forceful or coercive. This system also facilitates economic growth because it gives room for free trade and healthy competition. However, one of the greatest disadvantages of this system stems from the fact that it gives room for private entities and individual to freely amass wealth and economic power, particularly when they are allowed to own and control resources of great value. The system suppresses equitable distribution of resources because entities that control resources of great value are wealthy and also control the economy.

iv) Mixed system

The mixed system is the combination of the characteristics of the market and command economic systems. It is believed to also have a combination of the characteristics of both the free market and command systems. For this reason, mixed system is equally referred to as the dual system. Occasionally, mixed system is used to refer to a market system under stringent regulatory control. Numerous developed countries of the western hemisphere follow a mixed system. In many of these countries, most industries are privately owned, while the remaining are comprised predominantly of public services, are controlled by the government.

However, in practical terms, mixed economies faced with the challenge of finding the correct balance between free markets and government regulation. The government tends to exercise much more control than required under this system.

Self-Assessment Exercises 1

What is economic development? Give at least five definitions from various scholars

2.3.3 Characteristics of Economic Development

There numerous characteristics/features of economic development and many of these are discussed hereunder.

i) Economic Development is a continuous process

To ensure consistency in economic growth and development, countries ensure that strategic but critical economic plans and programs for their economic development are put in place. This strategy demonstrates that economic development is a continuous process usually for long term purposes. The process is aimed at achieving better usage of financial and human resources including to ensure a befitting quality of life, increase supply and demand of goods and services and growth in national income.

ii) Economic Development boosts national income

It is equally pertinent to note that economic development helps in raising per capita income which often leads to boosting national income. Basically, it is a knowledgeable indication that an increase in individual income of persons usually precipitates an increase in national income of countries. In this way, national income is directly and or indirectly boosted.

iii) Economic Development improves the standard of living

It is also a fact that an increase in per capita income would result in a rise in purchasing power of individuals or persons so affected. It thus becomes imperative to economic development that better or increased consumption of products and services replicate in a better or improved quality of life and improved standard of living of the people. It would equally lead to expansion in businesses, growing of industries and the general economy of the country.

iv) Economic Development helps to utilize national resource property

Any economy that intends to stay economically developed or believes in remaining an economically developed country must ensure the full and comprehensive exploitation and harness of its natural resources for the development of that country. Apart from effective use of natural, human and physical resources for economic development, a country must also ensure that all basic incentives and opportunities are available to its citizens. Such incentives and opportunities include: best education, business expansion job availability, labour support incentives etc.

v) Economic Development results in structural changes

Economic development as a continuous process often leads to structural changes such as creating more opportunities in the manufacturing and agricultural sectors of the economy. In countries where their economies are controlled by new job opportunities and businesses and production is increased, their service sector will boom and will have positive effects which will make meaningful contributions to the national income and economy.

vi) Economic Development leads to social-economic equality

Development in any economy would always lead to both social and economic equality in income, wealth, status, quality of life and standard of living of people.

Self-Assessment Exercises 2

Mention and explain the non-economic determinants of economic development.

2.4 Major Determinants of Economic Development

Broadly speaking, there are two types of determinants or factors that influence the economic growth and development of any nation. These are the economic and non-economic determinants or factors of economic development. While the economic determinants/factors include capital formation, natural resources, market surplus of agriculture, conditions in foreign trade, economic system, non-economic determinants/factors include human resources, the know-how and general education, political freedom, social organization, corruption, and desire to develop. These are represented in figure 1.

a) Determinants of Economic Development

i) Natural Resources
The primary factor that determines the development of the economy of any country is natural resources. These include land expanse, forest wealth, good river system, quality of soil, oil and other mineral resources and good climate, etc. Natural resources therefore, comprise everything that exists in nature which could be exploited for economic gains.

The rate of increase in economic growth of any country is tied to an increase in the quantity and quality of its natural resources. Therefore, for any country to achieve reasonable level of economic growth, it is essential for abundant existence of natural at its disposal. It also implies that any country that lacks in natural resources is most likely deficient to be positioned for any meaningful or rapid economic development.

It is not enough to maintain that the economic growth of a country is dependent on availability of rich natural resources however it is a necessary condition for it. The reason is that while many less developed countries have not been able to attain sufficient level of economic growth despite the abundance of natural resources inherent in them, other countries such as Japan, Singapore, China, etc, with little or no natural resource have been able to attain rapid economic development. Unfortunately, it became a source of underdevelopment and backwardness among them because natural resources in most of the less developed countries are unutilized or underutilized.

ii) Capital formation
Capital formation is a very important factor in economic growth and development. Because of its strategic role in business and the raising of the level of production, capital formation is traditionally acknowledged as indispensible in economic development. According to "capital formation is the process by which a community's savings are channeled into investments in capital goods such as plant, equipment and

machinery that increases nation's productive capacity and worker's efficiency thus ensuring a larger flow of goods and services in a country." Capital formation comes with a lot of savings. The process of capital formation suggests that countries should not spend all of its income on goods for immediate depletion, but should save part of it and use it to increase production or to procure more capital goods that would significantly increase and enhance the productive capacity of such nations.

The economic system notwithstanding, countries may not be able to achieve economic progress except they engage in saving of certain minimum rate of capital to actualize its accumulation. Thus, ensuring a high ratio saving of the income of any country is imperative to capital formation which will have an underlying objective of increasing the level of investment.

It is however risky to rely heavily on foreign aid. This should be discouraged and avoided. Economists correctly emphasize that lack of capital is the foremost impediment to growth and development. Thus, it becomes very difficult for any development strategy to succeed without adequate supply of capital. Though, if any country desires to achieve remarkable strides in development, it will have to increase her rate of capital formation.

iii) Market surplus of agriculture

It is vital to development when there is an increase in productivity occasioned by a rise in agricultural production. What this means is that market surplus of agriculture to central to economic development. Basically, what marketable surplus represents in agriculture is the surplus of a harvest which could be sold by the farmer for profit after sells to cover the costs of maintenance and operation of their farm. Marketable surplus is vital because it stems from the fact that the urban industrial population survives on it in an emerging economy.

iv) Conditions in foreign trade

The classical theory of trade has been used by economists for a long time to argue that trade between nations is always beneficial to them. In the existing context, the theory suggests that the presently less developed countries should specialize in production of primary products as they have comparative cost advantage in their production. The developed countries, on the contrary, have a comparative cost advantage in manufactures including machines and equipment and should accordingly specialize in them.

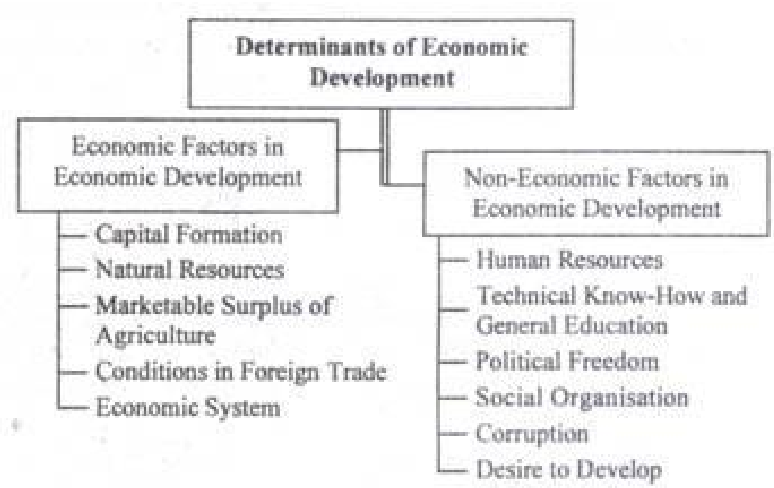

Figure 2.1: Determinants of Economic Development
Source: Chand (nd). Factors that Influence the Economic Development of a Country. Available online at: https://www.yourarticlelibrary.com/economics/factors-that-influence-the-economic-development-of-a-country/5942.

v) Economic System

The prospective development of countries most time depends on their historical setting and economic system. Basically, it will be very difficult for a country with a laissez faire economy to develop in the contemporary economic system. Conservative economies would find it difficult to develop today considering the economic situation. However, for developing countries to actually attain reasonable economic development, they have to adopt the right economic system that will speed up their development. For the fact that they cannot raise essential resources requisite for proper development, it would be difficult for them to develop. However, two choices are available for them which include:

i) To tow a capitalist path to development and this will necessitate a well-organized market system sustained by a rational interventionist involvement of the State.
ii) To develop strategic economic development plan and ensure its effective implementation.

b) Non-economic determinants/factors of economic growth and development

i) Human Resources

Human resources represent an essential element of economic development. This is so because when the accessible human resource of any country has been developed in quality and quantity, it tends to affect the economic growth of such countries. The development of the quality of human resource is usually through quality education which inculcates and increase skills, training and creative abilities in humans. The development of a country is most times dependent on the human resource of that country. Thus, if the human resource of a country is well developed through skills and training, the output of such a country would arguably be of very high quality. For the fact that human resource is the source of labour power for production, it is imperative for countries to develop an efficient and skilled labour force so as to increase their capacity and extract fully their competent contribution toward production for economic development.

On the contrary, the economic development of any country would be retarded if the human resource is unutilized or underutilized or where the manpower management is defective. Its implication is that potential human resource which could have made positive contributions to economic growth and development only become a burden to the economy due to defective manpower management.

ii) Technical Know-How/Technological development

Technology has always been very central in economic growth. There is no doubt that the level of technical know-how and technological advancement has a direct connection with the pace of economic development of countries. It should be noted that the industrial revolution was started because of technological advances and mankind has never looked back since then.

Today, the applications of technology have changed the globe over the years. Contemporarily, technology has become highly sophisticated yet; nations give greater attention for Research and Development for further advancement. Consequently, with the advancement in knowledge in science and technology, man continues to discover and rediscover more and more sophisticated methods of production that sustain consistent rise in productivity and output levels.

Across the globe today, technology remains one of the foremost drivers of employment and business growth in various facets economies of countries. Employment in businesses such social media, services and even manufacturing companies, are globally driven by technology. For the singular reason of technology and its advancement, many countries stride to develop technological expertise to accelerate their economic development.

iii) Political Freedom

The underdevelopment of many colonized countries continues to have direct link to the history of colonialism which ensured the reckless exploitation of the colonized. Thus, the underdevelopment of these countries through colonial exploitation was possible because of lack of political freedom linked with colonialism. In other words, the lack of political freedom brought about by colonialism hampered the proper and effective and proper economic development of many such colonized countries. Due to lack of political freedom, they were subjected to an unequal trade relationship with the colonial masters, which left them exploited and underdeveloped to the development of their colonial exploiters. With large portions of economic exploitation occasioned by lack of political freedom emanating from colonialism, it was difficult for any reasonable economic development to occur within these territories.

iv) Social Organisation

When the masses massively involve themselves in government developmental programmes, it helps in development of economies because this process is regarded as the pre-condition for accelerated growth. Where there is a defective social organization, it gives room for elites to hijack the system and appropriate the benefit of growth to themselves. This develops apathy among the masses toward the state and its development programmes. It implies that a defective social organisation or system is inimical to reasonable economic development and therefore must be understood as a very fundamental factor of economic development.

v) Corruption

Across many global governments today, corruption remains a negative experienced. In most economies of developing countries of Africa, Asia and Latin America, corruption has sustained its place as a negative factor against their rapid economic development. For this reason, the growth process of most of these developing economies dwindles in the sight of corruption. The only way for any meaningful and rapid economic development to take place within these developing countries is to eradicate corruption from their administrative system. Where corruption extensively exists, such as in developing countries, there is always the tendency of the powerful economic class and capitalists continued exploitation of national resources for their individual interests. Heavy tax evasion related corruption, which is equally inimical to economic development, is inherent among developing countries.

vi) Desire to Develop

The economic development of any country or countries is equally dependent, to a large extent, on the desire of the people to develop. If the people or citizens are not willing to develop, it most often poses a herculean challenge on the development efforts of a country. Also where people or citizens have negative influence of poverty among them, it challenges developmental strides because likelihood that the level of consciousness would be low. If this happens and people have accepted poverty as a way of life and fate, then it will be difficult for them to follow the set strides towards development.

Self-Assessment Exercises 3

Clearly outline and discuss the economic determinants of economic development.

2.4.1 Types of Economic Development Indicators and Indices

A publication by the Loughborough University in 2017 outlined and discussed the following general indicators of economic development: Gross Domestic Product (GDP), Gross National Product (GNP), National debt, Trade balance, credit rating and distribution of wealth.

i) Human development Index (HDI)

After its introduction by the United Nations Development Programme (UNDP) in 1990, the HDI is regarded as the most important and popular types of economic development indices and indicator. During its adoption, the UNDP considered three basic variables that are directly liked to human development standard to measure HDI. These basic variables of human development related standards include standard of living, longevity and knowledge. These variables are referred to as the three basic features or characteristics of HDI. To measure standard of living, the HDI uses the per capita income. In knowledge, HDI combines rate of literacy of adults, total number of tertiary, secondary and primary gross enrolment ratio as well as longevity through life expectancy at birth to measure both longevity and knowledge. The most important reason for the use of this composite indicator is that it helps countries to keep track of changes especially, in the level of economic development of that country over a period of time.

ii) Gross Domestic Product (GDP)

The Gross domestic product is referred to a measure of economic activities within a country. To calculate the GDP of any country, the total value of the annual output of goods and services of such a country must be added together. The formula for calculating GDP is: GDP = private consumption + investment + public spending + the change in inventories + (exports - imports).

iii) Gross national Product (GNP)

GNP is calculated by adding to GDP the income made by inhabitants from investments abroad, less the corresponding income sent home by foreigners who reside in that country.

iv) National debt

National debt is referred to as the total outstanding borrowing of the government of any country. This generally includes borrowing at national and local government levels. It is therefore regarded as a burden, even though public debt may posse economic benefits. However, when borrowed debts are properly utilized and wisely invested by one generation, it could become a heavy burden for later generations who may not be able to repay.

The total of all the money raised by the government of any country, which are yet to be repaid or paid off, is regarded as the national debt of that country. In other words, national debt is the sum-total of all the money a country owes in debt. This is not the same thing as the annual public-sector budget deficit.

v) Trade balance

The balance of trade is also referred to as net exports, occasionally represented as NX, is the difference between the monetary value of exports and imports of output in an economy over a period of time.

Trade balance also symbolizes that connection between the imports and exports of a nation. So when a trade relationship is a positive or favorable balance of trade, it is recognized as a trade surplus if it comprises of exporting more than is imported. While a trade relationship is said be negative or unfavorable balance it is equally mentioned as a trade deficit or a trade gap.

Sometimes, balance of trade is divided into a goods and a services balance. But, it is often challenging measuring balance of trade because of the difficulty associated with the collection and recording of data.

vi) Credit rating

The credit worthiness of any country, individual or organization is estimated trough credit rating. Credit rating thus, evaluates the overall credit history conducted through the credit bureaus of borrowers. The credit bureau, at the lenders request, prepares a credit rating through which a potential borrower's capacity to repay debt is evaluated. In other words, the credit rating furnishes the lender with information on the suitability and possibility of the subject being able to repay his/her debt. The calculation of credit ratings is done from financial history as well existing assets and liabilities.

vii) Distribution of wealth

This is used to compere the distribution of wealth various indigenes or group of people in a society. This should not be misconstrued to mean the distribution of income. This is so because the distribution of ownership of the assets within a system, rather than the existing income of members of the society. Nonetheless, wealth remains an individual net worth express or calculated as: Wealth = Assets – Liabilities.

2.5 Comparing Economic Growth and Economic Development

Table one presented a comparison between economic growth and economic development. From the table, it could be deduced that economic growth means increase in income over time while economic development means changes in income and savings including progressive change in the socio-economic structure of the country.

Table 2.1: Comparison Chat: Economic Development vs Economic Growth

	Economic Growth	**Economic Development**
Meaning	Economic growth refers to an increase in the real output of goods and services in the country.	Economic development implies changes in income, savings and investment along with progressive changes in socio-economic structure of country (institutional and technological changes).
Factors	Growth relates to a gradual increase in one of the components of Gross Domestic Product: consumption, government spending, investment, net exports.	Development relates to growth of human capital, decrease in inequality figures, and structural changes that improve the quality of life of the population
Measurement	Economic Growth is measured by quantitative factors such as increase in real GDP or per capita income	The qualitative measures such as HDI (Human Development Index), gender- related index, Human poverty index (HPI), infant mortality, literacy rate etc. are used to measure economic development.
Effect	Economic growth brings quantitative changes in the economy.	Economic Development leads to qualitative as well as quantitative changes in the economy.
Relevance	Economic growth reflects the growth of national or per capita income.	Economic development reflects progress in the quality of life in a country.

Source: National Institute of Open Schooling (NIOS) India (nd). Available online at: https://nios.ac.in/media/documents/SrSec318NEW/318_Economics_Eng/318_Economics_Eng_Lesson3.pdf, p. 29.

2.6 Summary

The unit has the definitions of economic development under the theme definitions of economic development, types of economic development. Determinants of economic development, as well as table 1, which illustrated the differences between economic growth and economic development were also presented.

One of the major definitions of economic development given in this unit defines it as “programs, policies or activities that seek to improve the economic well-being and quality of life for a community”. Its implication is that economic development of an all-encompassing economic concept that tends towards positive having influence on the people. There were also other definitions provided in the unit. In addition, the unit equally discussed major determinants of economic development which were broadly divided into two: economic and non-economic determinants of economic development. The unit also discussed the various types of economic development and ended with a table of comparison between economic growth and economic development.

2.7 References/Further Readings/Wen Resources

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2.8 Possible Answers to SAEs

Answers to SAEs 1

- economic development implies anything done by a community or people intended to foster and create a healthy economy, is regarded as economic development.
- The Advanced Learners Dictionary defines economic development as "an increase in the amount of goods and services produced per head of the population over a period of time."
- The British Columbia defines Economic Development as "programs, policies or activities that seek to improve the economic well-being and quality of life for a community".

Answers to SAEs 2

The non-economic determents are:

Human Resources: Human resources represent an essential element of economic development. This is so because when the accessible human resource of any country has been developed in quality and quantity, it tends to affect the economic growth of such countries

Political Freedom: The underdevelopment of many colonized countries continues to have direct link to the history of colonialism which ensured the reckless exploitation of the colonized

Answers to SAEs 3

The economic determinates are:

Natural Resources: The primary factor that determines the development of the economy of any country is natural resources. These include land expanse, forest wealth, good river system, quality of soil, oil and other mineral resources and good climate

Capital formation: is a very important factor in economic growth and development. Because of its strategic role in business and the raising of the level of production, capital formation is traditionally acknowledged as indispensible in economic development.

Unit 3 Major Theories of Economic Development

Unit Structure

3.1 Introduction

This unit presents the major theories of economic development. The theories that will be discussed hereunder include the Mercantile, Nationalism, Linear Stages of Growth and Structural Change theories of economic development. These theories are discussed from divergent views of scholars. The basic assumptions and general critics of these theories are outlined and discussed.

3.2 Learning Outcomes

The central objective of tis unit is to expose learners to the various indicated theories of development. Through the knowledge of these theories, learners are expected to understand the theoretical underpinnings of development and how these can be applied to real and practical situation to measure and analyse economic growth and development.

3.3 Main Content

3.3.1 Mercantilism Theory of Development: An Overview

Mercantilism originated from the term 'mercantile', which denotes merchants and trade. Mercantilism as an economic system originated in Europe in the 16th century and lasted up to the 18th century. It actually began as when nation states started emerging in Europe. It was an economic policy which supported government control and regulation of the economic life of the nation with the aim of supplementing state power at the detriment of contending national powers. Although, the Mercantile Ideology was initially published by notable scholars like Thomas Mun in England, Jean-Baptiste Colbert in France and Antonio Serra in Italy, who never themselves used the term, it was populated by the publication of a renowned Scottish scholar known as Adam Smith in his book Wealth of Nations in 1776.

Mercantilism could be likened another economic system known as political absolutism because of its nature. It was also a dominant theory based on the assumption that the supply of global wealth if limited and it would always be the interest of countries to accumulate as much wealth as it possibly can. Wealth of nations at that time was measured by the quantity of silver and gold owned by each country in Europe. These wealth need to be accumulated. To do this, some European countries such as Britain and France focused on maximizing their exports and minimizing the imports. The obvious aim was to achieve a favorable balance of trade which the policy actually secured for them. However, some countries had unfavorable balance of trade with mercantilist countries. The countries that had a negative balance of trade with any Mercantile country were made to paid back the in gold and silver.

Many mercantile countries in Europe enacted imperialist, tariff and subsidy policies in order to sustain a favorable balance of trade. The imperialist policies allowed them to establish colonies in smaller nation around the globe. The central aim of establishing these colonies was to extract and exploit raw material which would be sent back to Europe their home country. They would then be refined and produced as goods and resold to the colonies. While the implementation of tariffs and subsidies policies gives them that advantage over other countries to boost their exports and make international importation to became more expansive. Thus, allowing the mercantile countries to sustain its wealth accumulate policy through this dubious balance of trade strategy.

Generally speaking, the ideology of mercantilism was related to policies which restrict imports, increase stocks of gold and protect domestic industries. By extension, mercantilism is both a philosophy and a belief, by many European countries, that the regulations of trade with other contending nations world, should be done through a term known as ‘protectionism’.

a) Definitions of Mercantilism

Mercantilism is an economic theory where the government seeks to regulate the economy and trade in order to promote domestic industry – often at the expense of other countries. “Mercantilism is an economic policy whereby a nation aims to maximize exports and minimize the imports." "Mercantilism is an economic theory that advocates government regulation of international trade to generate wealth and strengthen national power." "Mercantilism is an economic policy under which nations sought to increase their wealth and power by obtaining large amounts of gold and silver and by selling more goods than they bought."

b) Characteristics or principles of mercantile theory

There are about seven main characteristics of mercantilism including: Desire for accumulation of gold, belief that wealth is static, desire for large population, positive balance of trade, reliance on colonies, state monopoly, and trade barrier. These points are discussed hereunder.

i) Desire to accumulation of gold

During this period, gold was a valuable commodity which has direct connection with wealth and power. In other words, possession of wealth and power by any nation was measured through the quantity of gold and silver such a country had in their kitty. Such accumulation of wealth was a symbol of wealth which enabled these countries to pay both for services of soldiers and to expand their empires. Because gold was also seen as a protection against external invasion, it increased the desire for its accumulation across Europe, while the lack of it in any nation, meant an inevitable demise of such a nation.

ii) Belief that Wealth is Static

One of the fundamental beliefs of mercantilism was that wealth is static. This ideology originate from the understanding that limited supply of gold, which occasioned its rare status, was an inhibition to wealth growth except where there was a consistent or sustained accumulation of the valuable commodity implying that one nation could only benefit at the expense of another, possibly, a weaker nation.

iii) Large Population

Having a large population was at the nexus of mercantilist theory because they believed it was a veritable avenue for the effective supply of army to the nation and labour for its markets. In other words, the larger the country, the more soldiers for its army and the more wealth it accumulates. The simple inference from this position was that lager population was associated with an increase in the prosperity of a country.

iv) Positive Balance of Trade

Mercantilism believed in the ideology of exporting more and importing less. The ideology was aimed at ensuring that mercantilists would be able to attain a maximum accumulation of wealth from other weaker countries of the globe against rivalries. Therefore, sustaining a positive balance of trade would sufficed wealth of a nation and increased the attendant desire for its accumulation. It simply implies that a favorable balance of trade was imperative not only in gaining wealth but also in keeping it.

v) Reliance on Colonies

There was an inalienable reliance on the colonies by their colonists both for raw materials and for the complete transfer of gold and wealth from colonies to colonist countries. After a while, proceeds from this trade arrangement and process was not only helpful for further expansion of colonies globally but also assisted mother nations or the colonists to grow their economies and thereafter, became self-reliant.

vi) State Monopolies

As the name suggests, the colonizing state or colonist was the only nation or entity with the sole powers of supplying goods to her colonies. In other words, the colonist was only allowed to import and export goods between her colonies and mother country. This was part of the protectionist policy which secures the monopoly right for the sourcing of raw materials from the colonies by the mother colonist country. These raw materials, which were converted into finished goods, were brought back into the colonies by the colonists and sold at a huge profit to the detriment of the colonized country. The consequence to achieve this feat was the net expropriation, exploitation and transfer of gold from the colonies, to the colonists. Generally speaking, it is expected for any mercantilist country to have its own source of raw material to avoid dependence or reliance on others.

vii) Trade Barriers

To secure a favorable balance of trade, and ensure deliberate implementation of protectionism, many colonizing countries banned any form of trade between their colonies and empires with other colonies and empires. Similarly, many other nations enacted and enforced tariffs to ensure more expensive and uncompetitive imports. It was aimed at subduing imports without totally excluding goods it wanted.

c) Criticisms of Mercantilism

a) Adam Smith's "The Wealth of Nations" (1776), argued for benefits of free trade and criticised the inefficiency of monopoly.
b) Theory of comparative advantage by David Ricardo showed that
c) Mercantilism is a philosophy of a zero-sum game. This is where some people take advantage of others or where some countries survive at the expense of other countries especially rivals and weaker countries.
d) It is not a philosophy for increasing global growth and reducing global problems but of monopoly and self-protection.
e) Mercantilism led to inefficiency and corruption because its

policies supported government regulation, monopoly and total control of the means of production.

f) Mercantilism was a support for the building of Empires as well as a justification for the poverty of colonies as a consequence of their exploitation for the enrichment of the Empire country.

g) Mercantilism was more of a tit for tat or retaliatory policy of which high tariffs on imports was considered as retaliation.

h) The development and advancement of globalisation and free trade in the post-war era disclosed potentials from establishing markets and respecting the rights of equality of other nations and players of the international market.

i) Economies of scale from specialisation was possible under free trade.

Self-Assessment Exercises 1

Define and give a historical overview the concept of Nationalism.

3.3.2 Nationalism

a) Historical Overview

Nationalism started emerging in Europe after the signing of the Treaty of Westphalia in 1648. As a consequence, many theories of nationalism assumed a European origin of the nation-state. The Westphalia treaty created system of states which ensures the recognition of the sovereignty and territorial integrity of other nations. Before this time, people had their loyalty directly attached to local, regional, or religious inclinations, but not to any nation because there was no idea of nationhood or any established nation at that time. The typical state in Europe prior to the signing of the Treaty of Westphalia was a dynastic state, which was ruled by a monarch and the royal house.

This major transition of many states into nations-states marked the beginning of nationalism and nationalist movement across Europe. The effect influenced the some separatist movements and revolutions. Notable among these were the French Revolution and the fall of Napoleon Bonaparte, and the Greek Revolution. It was also the beginning of some sort of unification process which led to the Italian unification during the reign of Piedmont Sardinia. These movements were regarded as liberal movements because of their liberal demands which were associated with national identity and culture. Even the collapse of both the Ottoman Empire and the Austro-Hungarian Empire in the post WW1 period hastened the formation of new states across Europe. Thereafter, people began to identify themselves with nations since the division of Europe into nations became obvious. By the 19th century, the ideology of nationalism started spreading to Asia with the call for an end to British rule in India and across the globe.

b) Definitions

In very simple terms, nationalism is an "ideology based on the premise that the individual's loyalty and devotion to the nation-state surpass other individual or group interests." According to Motyl (2001), nationalism has a range of connotations but is commonly used to describe two phenomena:

i) the attitude that the members of a nation have when they care about their national identity, and,
ii) the actions that the members of a nation take when seeking to achieve (or sustain) self-determination.

"Nationalism is an ideology that holds that a nation is the fundamental unit for human social life, and takes precedence over any other social and political principles."

The typical concern of nationalism is its claim that the "nation is the only legitimate basis for a state, that each nation is entitled to its own state, and that the borders of the state should be congruent with the borders of the nation". Nationalism therefore is both a political dogma as well as any group political and social movement on behalf of any nation. Because of the enormous influence nationalism since its inception, huge global populations contemporarily live in nation-states. Moreover, nationalism is equally used by historians to denote advent of nationalist movement and ideology.

Self-Assessment Exercises 2

Attempt a description on the various stages of economic development as propounded by Rostow

3.3.3 Linear Stages of Growth Theory of development

a) Linear Stages of Growth Theory: An Overview

This economic model was a growth model developed and used for the revitalization the economy of Europe after the World War II. The general assumption of the model suggests that industrialization is the way to economic growth of any country. There are many scholars of this model of theory such as Walt Rostow, Harrod and Domar, Paul Rosenstein-Rodan, Ragnar Nurkse etc. The theories propounded by these scholars are generally referred to modernization theories and are also regarded and the growth models. These theories developed have all attempted to give both predictive and narrative explanations on the best way for the economic development of a nation.

One of the most widely accepted theories of development is the Linear Stages of Growth Model developed by Rostow in the 1960s. Rostow who is an American Economic Historian, strongly advocated for free market capitalism. He argued that the development of economies is a process through a number of developmental stages towards higher economic growth which must follow a logical sequence to occur. He however stressed that each stage could only be achieved after the completion of the preceding stage.

b) Stages of economic development according to Rostow

The model by Rostow postulates five stages of development: the traditional society, the pre-conditions of take-off, the take-off, the drive to maturity, and the age of mass consumption. These stages are further discussed below:

Stage 1: The traditional society

This stage is dominated by subsistent type of agriculture where the output is consumed by the producer and barter in which goods were exchanged directly for other goods. The most important industry at this stage is the industry of agriculture. At this level, agricultural production was purely labour intensive which used only limited quantities of capital. Also, the allocation of resources was determined by the traditional methods of production. It is also a stage in which science and technology were limited and were not understood or exploited.

Stage 2: Pre-take-off stage (Preconditions to take off stage)

At this stage, specialization is increased with the development of education and science, and its application transport infrastructure and technology, support trade and culminate into surpluses for trading. In this sense also, entrepreneurs emerge even as income, savings, encouraged by simple banking system and investment continue to grow. External trade equally happens and at this stage, it has its concentration on primary products.

Stage 3: Take-off stage

This stage come with increased industrialization and therefore it sees workers or the work force migrating from the agricultural sector to the manufacturing sector. Positive growth rates become possible in the manufacturing sector more than the agricultural sector because of the organized system of production, especially of machines, which replaced the traditional norm and methods of production.

The further implication of this stage is that growth is concentrated growth will one sided depending on areas with localization of industries or where there are larger concentrations of industries. The system also supports economic evolutions which are accompanied by the development of novel socio-political institutions that back industrialization. Growth at this stage is basically self-sustaining and this encourages savings for more finance for further investment.

Stage 4: The drive to maturity
At this level, the economy continues its movement towards diversification with visible growth in many sectors of the economy. In other words, it is a stage where the economies of countries diversify into new areas. Also, because of the innovative developments in technology, a wide range of investment opportunity becomes available for production of goods and services. This reduces reliance on importation and increases domestic consumption which is significant for economic development.

Stage 5: The stage of mass consumption
This stage characterizes high and rising pattern of per head consumption among the people. It is a stage where the economy is driven by mass consumption of goods and high economic activity. There is extensive use of technology however its expansion is slow while the service sector dominates. Urbanization is also completed. The multinationals begin to emerge and basic necessities of life such as food, clothing and shelter become less important as income for large number of persons increases

Major criticisms of Rostow's model
a) Although saving is observed as increasingly substantial, modern growth theory considers a broader array of growth factors.
b) The model is also criticized based on the general weakness of its idealistic assumptions. These include steady exchange rate, flawless knowledge, and continuous terms of trade.
c) Most its assumptions were based on the rebuilding of Europe after World War II, however, many developing countries lack institutions, attitudes, financial markets, levels of education, and desire to succeed as were found in Europe.
d) The inclination of modern theorists perceives savings as a essential but not adequate condition for growth.

Self-Assessment Exercises 3

Outline the basic assumptions of the Lewis model and the major criticisms of economic development Rostow model of economic development.

3.3.4 Structural Change Theory of Development

a) An Overview
The Lewis model of the Structural Change Theory was the most acceptable model across Europe from 1955, when it was presented. From the 1960s and 1970s, the model became a dominant development theory referred to as the surplus model and the two sector model. The

model emphasized the significance of structural transformation among countries which will generate a shift from agriculture, with low productivity of labour, to a more industrialized activity with increased productivity of labour. In other words, its focus was on the transformation of domestic economies within developing countries, through mechanisms, from a highly important traditional subsistent agricultural economy into a modern manufacturing and service providing economy.

b) Basic assumptions of the Lewis model

i. The beginning of any economy is two-sectored as follows: a rural agricultural sector and an urban industrial sector. Under-employment is commonly associated with agriculture hence; the marginal productivity of agricultural labour is practically zero.
ii. Moving workers away from agriculture is not tantamount to reduction in productivity in the entire economy.
iii. Labour is free and unrestricted to work in the more productive, urban, industrial sector.
iv. Industrialisation becomes possible as a result of the increase in the supply of labour that moved from agriculture.
v. Industries will begin to make profits, which they can re-invest to increase industrialization and capital accumulation.
vi. Capital accumulation will eventually lead to further self-sustained economic development.

c) Criticisms of the Lewis model

i) Profit leakage out of the developing economies is possible and capital flight is a possible avenue for such leaked profits to find their way into developed economies.
ii) There is a possibility of reduction in the need for works in urban industries due to capital accumulation.
iii) The assumption of competitive labour and product markets adopted by the model is more of an idea than a reality.
iv) Urbanisation might generate glitches, such as poverty, squalor and shanty-towns, with unemployment substituting underemployment.
v) The financial benefits and impacts of industrialisation may not be enjoyed by the majority of the populace.

3.4 Summary

In this unit, you have been able to study and learn the following:

i) The meaning of Mercantilist theory of development
ii) The definition of Mercantilism
iii) The characteristics, critics of the theory
iv) The meaning of Nationalism
v) The meaning of linear stages of growth theory of development, its stages various of development, criticisms etc
vi) The meaning of structural change theory as propounded by Lewis.

This unit discussed the major theories of economic development which included the following: the Mercantile theory of development, Nationalism, Linear stages of growth theory of development, and the Structural change theory of development. These theories were treated under themes which highlighted critical areas of the theories such as their definitions, basic assumptions, characteristics, criticisms among other areas.

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3.6 Possible Answers to SAEs

Answers to SAEs 1

Nationalism started emerging in Europe after the signing of the Treaty of Westphalia in 1648. As a consequence, many theories of nationalism assumed a European origin of the nation-state. The Westphalia treaty created system of states which ensures the recognition of the sovereignty and territorial integrity of other nations. Before this time, people had their loyalty directly attached to local, regional, or religious inclinations, but not to any nation because there was no idea of nationhood or any established nation at that time.

Answers to SAEs 2

Description on the various stages of economic development as propounded by Rostow
Stage 1: The traditional society
Stage 2: Pre-take-off stage (Preconditions to take off stage)
Stage 3: Take-off stage
Stage 4: The drive to maturity
Stage 5: The stage of mass consumption

Answers to SAEs 3

Basic assumptions of the Lewis model

i. The beginning of any economy is two-sectored as follows: a rural agricultural sector and an urban industrial sector. Under-employment is commonly associated with agriculture hence; the marginal productivity of agricultural labour is practically zero.
ii. Moving workers away from agriculture is not tantamount to reduction in productivity in the entire economy.
iii. Labour is free and unrestricted to work in the more productive, urban, industrial sector.
iv. Industrialisation becomes possible as a result of the increase in the supply of labour that moved from agriculture.

Criticisms of the Lewis model

i) Profit leakage out of the developing economies is possible and capital flight is a possible avenue for such leaked profits to find their way into developed economies.

ii) There is a possibility of reduction in the need for works in urban industries due to capital accumulation.

iii) The assumption of competitive labour and product markets adopted by the model is more of an idea than a reality.

Unit 4 The Role of Institutions in Economic Development

Unit Structure

4.1 Introduction

This unit shall present the role of institutions in the economic development of countries across the globe. In this regard, the discussion will be divided into themes carefully selected to cover the scope of the unit. The selected themes shall include the definitions and classification of institutions, the role of political institutions in economic development, the role of economic institutions to development, and the role of other components in economic development. Under each of these themes, the role of each identified institution to economic development shall be discussed.

4.2 Learning Outcomes

By the end of this unit, you will be able to:

- Give the meaning and definition of institutions
- Explain the various types of institutions
- Discuss the role of institutions on economic development of countries.

4.3 Main Content

The main contents of this course shall include the following; definition and classification of institutions, the role of political and economic institutions as well as other components to economic development. It will also contain a conclusion, summary and reference/further reading section.

4.3.1 Definitions and Classification of Institutions

a) Definitions of Institutions

Economists and political scientists offered various definitions for the notion of institutions. North's (1990) pioneering analysis defined institutions as "the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction." Greif (2000) also defined institutions as "a structure of societal features, like organizations, codes, faiths, and criteria". These features direct, empower, and restrain the activities of persons (Dixit, 2004). Institutions are also considered as policies to be chosen by persons (Dixit, 2004). According to Schotter (1981), institutions are seen as "uniformity in societal conduct that is acceptable to every constituent of the community. This conduct is controlled either by the self or by a foreign power".

b) Classification of institutions

Basically, the economic development of any country is highly dependent on political and economic institutions of that country. Although social institutions are equally relevant, the differences in institutions are determined by several factors as noted by Samarasinghe (2019), as follows:

1. Type of governing mechanisms such as democracy or dictatorship.
2. Type of economic institution (property right, entry barriers, and contracts available for private sector).
3. Decentralized or centralized democratic system (whether power has been divided among different group of the society or not?) (Samarasinghe, 2019: 4).

4.3.2 The role of Economic Institutions in Economic Development

Generally, institutions are, for numerous reasons, situated as the most important determinant factor any economic outcome. In other words, institutions are central to the economic development of any economy. One of the reasons is that institutions safe-guard investors and also give them opportunity and suitable environment for competition and growth. Another reason is that research has also shown the relevance and centrality of institutions to economic growth of many economies. Lastly, the influence of institutions when used as a tool in fighting corruption, showed a remarkable reduction in corruption and by extension having a positive influence on economic development.

Because they affect the incentives of major economic players in society, economic institutions are important for economic growth. They have an impact on investments in physical and human resources, as well as technology and production organization. Economic institutions also determine not only the economy's aggregate economic growth prospective, but also how resources are shared in society, which is part of the problem. However, different institutions will be associated with different degrees of efficiency and potential for economic growth, as well as different distributions of gains among individuals and social groups.

Although different elements, such as history and chance, play a part, economic institutions are, at the end of the day, collective decisions made by society. Not all individuals and groups desire the same set of economic institutions because of their impact on the distribution of economic rewards. As a result, there will be a conflict of interest among diverse organizations and individuals over the choice of economic institutions, with the political strength of the various factions choosing the outcome.

Self-Assessment Exercises 1

What are economic institutions? Attempt an explanation of the role of economic institutions to the economic development of countries.

4.3.3 The Role of Political Institutions in Economic Development

Political institutions, like economic institutions, govern the limitations and incentives faced by major players, but in the political realm. The kind of governance, such as democracy vs dictatorship or autocracy, and the level of restraints on politicians and political elites are examples of political institutions. Equally, a country's political system and constitution are regarded as a very significant element of any political institution.

The economic institution of any country is determined by their political institutions. Because a state is administered by its political institutions, such institutions must have the ability and competence to manage society. Because authoritarian authority is concentrated in political institutions, economic progress is primarily dependent on the actions of the country's political leaders. The political system will determine the majority of economic interventions, such as growth, distribution of economic advantages, openness of the market, safety net programs, health, and education.

Extractive and inclusive political institutions are two types of political institutions. In places like North Korea and Colonial Latin America, extractive political systems may be seen. They utilize political power to benefit a tiny number of people rather than the mass of the population. Power will not be concentrated because inclusive political institutions select inclusive economic institutions. In general, industrialized countries are controlled by inclusive political structures that are constrained by high levels of democracy.

People participate actively in the decision-making process in such nations, and political elites' decision-making authority is limited by strong political institutions. The majority of the world's least developed countries lack a sophisticated political structure. Underdevelopment is connected to a lack of democracy, issues with the electoral process, and high levels of corruption, civil conflicts, and political instability.

Self-Assessment Exercises 2

Discuss the role of political institutions on the economic development of a country.

4.3.4 The Role of Other Components of Economic Development

The complexity of determining the reasons of economic advancement have resulted in a dizzying array of hypotheses that are difficult to categorize. However, it appears that, at the most fundamental level, extant ideas range from emphasizing the importance of environmental factors—the geography hypothesis.

The geography hypothesis is based on the fact that there is a positive correlation between access to natural resources and economic performance. The presence of some environmental components is regarded as a precondition for economic growth, while their absence is said to impede or even prevent advancement. Endowments—the components essential to agriculture (a good climate, availability to water, soil fertility, and a diverse flora and fauna)—and energy sources such as coal, iron, and hydrocarbons are the two sorts of resources most commonly mentioned.

Demographic change can have an impact on the economy's underlying growth rate, structural productivity growth, living standards, savings rates, consumption, and investment; it can also have an impact on the long-run unemployment rate and equilibrium interest rate, housing market trends, and financial asset demand.

4.4 Summary

This unit gave a description on the role of institutions in the development of economies globally. The discussion was presented under themes including; the definitions and classification of institutions, the role of political institution in economic development, the role of economic institutions to economic development of countries and the role of other components of economic development.

Human development is a constant process that expands the range of options open to them. People will make better choices, which will improve the quality of their lives. There is, nevertheless, a significant gap between some nations and areas. The institution hypothesis examines the impact of political and economic institutions on economic growth and how institutions contribute to regional disparities. Economic institutions are determined by political institutions, which include the political system and constitution. Finally, the country's economic development is shaped by both political and economic institutions. In general, excellent institutions promote development, whereas bad institutions cause the economy to decline or stagnate.

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4.6 Possible Answers to SAEs

Answers to SAEs 1

Economic institutions also determine not only the economy's aggregate economic growth prospective, but also how resources are shared in society, which is part of the problem. However, different institutions will be associated with different degrees of efficiency and potential for economic growth, as well as different distributions of gains among individuals and social groups.

Answers to SAEs 2

Political institutions, like economic institutions, govern the limitations and incentives faced by major players, but in the political realm. The kind of governance, such as democracy vs dictatorship or autocracy, and the level of restraints on politicians and political elites are examples of political institutions.

MODULE 2 VARIOUS ECONOMIC SYSTEMS OF DEVELOPMENT

Unit 1 Capitalism
Unit 2 Socialist Economic System
Unit 3 Mixed Economy
Unit 4 Comparison of various Economic Systems

Unit 1 Capitalism

Unit Structure

1.1 Introduction
1.2 Learning outcomes (LOs)
1.3 The Concept of Capitalism
  1.3.1 Types of Capitalism
  1.3.2 Features of Capitalism
  1.3.3 Advantages of Capitalism
  1.3.4 Disadvantages of Capitalism
1.4 Summary
1.5 References/Further Readings/Web Resources
1.6 Possible Answers to Self-Assessment Exercise(s)

1.1 Introduction

The unit will give a descriptive account of capitalism as an economic system. Also, the various features, types, advantages and disadvantages of capitalism shall be discussed. In such a manner, relevance of capitalism to economic development will also be explained.

1.2 Learning Outcomes

By the end of this unit, you will be able to:

- define and understand the meaning of capitalism
- explain the fundamental features of capitalism
- explain the advantages and disadvantages of capitalism
- discuss the relevance of capitalism to development.

1.3 The Concept of Capitalism

a) Understanding Capitalism

In general, capitalism is one method for resolving issues related to economic production and resource allocation. Unlike socialism or feudalism, which use centralized governmental techniques to organize economic decisions, capitalism uses decentralized and voluntary decisions to plan economic decisions.

b) Definitions of Capitalism

Capitalism is an economic system in which capital commodities are owned by private persons or enterprises. A market economy is one in which products and services are produced based on supply and demand in the general market, rather than through central planning, as in a planned or command economy. Free market or laissez-faire capitalism is the purest form of capitalism. Private persons are unrestricted here. They may decide where to invest, what to create or sell, and at what rates commodities and services are exchanged. There are no checks or regulations in place in a laissez-faire market.

According to Jaha and Mahmud (nd), "capitalism is often thought of as an economic system in which private actors own and control property in accord with their interests, and demand and supply freely set prices in markets in a way that can serve the best interests of society."

Self-Assessment Exercises 1

Explain any types of capitalism of your choice.

1.3.1 Types of Capitalism

There are many different types of capitalism, each with its own characteristics that vary by country and location. They differ in terms of institutional makeup and economic policy. The unifying aspects of all types of capitalism are that they are primarily founded on private ownership of the means of production and profit-oriented production of goods and services; market-based resource allocation; and capital accumulation.

Examples of capitalism include the following: Advanced capitalism, corporate capitalism, finance capitalism, free-market capitalism, mercantilism, social capitalism, state capitalism, and welfare capitalism. There are also other forms of capitalism which are mentioned, for knowledge, sake but may not form part of this discussion and these include; the Anarcho-capitalism, community capitalism, humanistic capitalism, neo-capitalism, state monopoly capitalism, and technocapitalism.

i) The free market capitalism

A capitalist free-market economy is an economic system in which prices for goods and services are determined purely by supply and demand dynamics and are anticipated to attain equilibrium without government interference, according to its advocates. It usually implies support for highly competitive marketplaces as well as private ownership of industrial assets. Laissez-faire capitalism is a broader kind of free-market capitalism in which the involvement of government is confined to defending property rights.

ii) Finance Capitalism

The subordination of production processes to the growth of money profits in a financial system is known as finance capitalism. Marxism and Leninism both emphasize the role of financial capital as the deciding and ruling-class interest in capitalist society, particularly in its latter stages, in their critiques of capitalism.

iii) Advanced capitalism

Advanced capitalism refers to a society in which the capitalist model has been profoundly and widely incorporated and developed over a lengthy period of time. Even though he did not coin the phrase, Antonio Gramsci is regarded as an influential early thinker of advanced capitalism by a number of scholars. Gramsci's theories attempted to explain how capitalism had evolved to escape the revolutionary upheaval that seemed imminent in the nineteenth century. The decrease of brute force as an instrument of class power, replaced by the employment of civil society organizations to mold public thought in the capitalists' favor, was at the crux of his theory.

iv) Mercantile capitalism

Mercantilism is a sort of early capitalism that originated in the late 16th century as a nationalist movement. The merging of national commercial interests with state interests and imperialism characterizes it. As a result, the governmental machinery is used to promote national corporate interests in other countries. Mercantilism was based on the concept that a country's wealth is improved by maintaining a favorable trade balance with other countries.

v) Social market economy

A social market economy is a free-market or mixed-market capitalist system, sometimes referred to as a coordinated market economy, in which the state provides significant services in areas such as social security, health care, unemployment benefits, and the recognition of labor rights through national collective bargaining agreements. This type may be found throughout Western and Northern European countries, as well as Japan, in somewhat varied forms. In this economic arrangement, the great majority of businesses are privately held.

vi) Corporate capitalism

A capitalist market economy dominated by hierarchical and bureaucratic firms that control the factors of production and the profits they create is known as corporate capitalism. These businesses are either owned by a single person or a group of individuals who are in danger of going bankrupt.

vii) State capitalism

State capitalism is a capitalist market economy dominated by state-owned corporations organized as commercial, profit-seeking organizations. It is also a system of economics in which private capitalism is influenced by variable levels of government ownership and control. State capitalism, according to Aldo Musacchio, a Harvard Business School professor, is a system in which governments, whether democratic or dictatorial, have broad economic control through direct ownership or different subsidies. Merriam-Webster equally defines state capitalism as "an economic system in which private capitalism is modified by a varying degree of government ownership and control"
Throughout the twentieth century, the term was used to describe a variety of economic formations, ranging from state-owned enterprises in market economies to the former Eastern Bloc's command economy. The state's domination over corporatized government agencies (agencies structured according to business-management methods) or public firms (such as publicly traded corporations in which the state owns controlling shares) can also be included in the term.

viii) Welfare capitalism

Welfare capitalism is capitalism that includes social welfare policies and/or the practice of businesses providing welfare services to their employees. Welfare capitalism is a business-friendly philosophy that assumes the private sector can deliver social welfare services more efficiently than the government.

Welfare capitalism is defined as capitalism with social welfare measures which can thrive within a mixed economy in some situations, but welfare states can and do exist independently of mixed economy policies like state interventionism and excessive regulation.

ix) Sustainable capitalism

Sustainable capitalism is a theoretical kind of capitalism based on environmentally friendly methods that aim to protect people and the environment while lowering externalities and resembling capitalist economic policy.

x) Eco capitalism or environmental capitalism or green capitalism

Green capitalism is an environmental ideology that stresses the economic worth of ecosystems and biological variety while also attempting to limit human environmental impacts by ensuring that the value of environmental services is represented in the way markets work. This school of thought holds that capital exists in nature as "natural capital" (ecosystems that produce ecological yield), on which all wealth is based. As a result, governments should handle environmental issues using market-based policy tools (such as a carbon tax).

xi) Techno Capitalism

This refers to changes in capitalism related with the rise of new technological sectors, corporate power, and new forms of organization. Techno capitalism is propounded by Lusi Suare-Villa in his 2009 book Techno capitalism: A Critical Perspective on Technological Innovation and Corporatism. He argues that it is a new type of capitalism that develops new forms of corporate arrangement to exploit intangibles like creativity and new knowledge. In contrast to industrial and service production, the new organizations, which he called the experimentalist organizations, are profoundly rooted in technical research. They also rely significantly on corporations appropriating academic findings as intellectual property.

1.3.2 Features of Capitalism

Capitalism is established on the following features:

i) People can possess real goods like land and houses, as well as intangible assets like stocks and bonds, thanks to private property.
ii) Customers can buy alternative items, investors may explore more lucrative projects, and employees can leave their professions for higher compensation if they have the freedom to choice in terms of consumption, production, and investment.
iii) Self-interest is defined as people acting in their own best interests, regardless of societal pressure. Nonetheless, these disorganized individuals help society as if they were led by an invisible hand, as Smith put it in his Wealth of Nations in 1776.
iv) A decentralized market process that decides prices via interactions between buyers and sellers—prices, in turn, allocate resources, which naturally seek the maximum reward, not just for goods and services but also for salaries.
v) Competition increases social welfare, or the welfare of both

producers and consumers, by allowing enterprises to enter and exit markets freely.

v) The government's responsibility is confined to protecting private persons' rights and maintaining an orderly atmosphere that allows markets to function properly.

vii) Customers can buy alternative items, investors may explore more lucrative projects, and employees can leave their professions for higher compensation if they have the freedom to choice in terms of consumption, production, and investment.

Self-Assessment Exercises 2

Define capitalism? List and explain advantages of capitalism.

1.3.3 Advantages of Capitalism

i) Greater efficiency to the economics

Capitalism focuses on the production of goods and services based on the amount of customer demand for the thing. Because they know what is needed, at a specified quality, and with a precise inventory quantity in mind, this advantage helps a corporation to save money. It creates the capacity to discover new cost-cutting incentives, making pricing a competitive element in the minds of consumers.

ii) It provides consumers with choices

Consumers have the freedom to choose what they wish to consume within capitalism's structure. Competition emerges in the private sector to deliver the best possible goods or services due to the availability of choice. Because the average person will buy the greatest item they can afford, this advantage leads to increased levels of innovation.

iii) Marketplace to set prices instead of the government

Based on the necessity for a reaction, inventories are pushed higher or lower. Rather of allowing the government to meddle with product pricing and availability, capitalism focuses products and services on individual needs. The demand for a product or service is the driving force behind price in the economy.

iv) Economic growth

When capitalism is prevalent in the economy, GDP rises because innovation leads to more demand, which leads to more purchases. Private enterprise can make better use of economic resources than the government, which means earnings may be reinvested in the system to benefit everyone at the end of each cycle. This feature leads to growth, more jobs, and finally more wealth over time.

v) Capitalism attempts to limit government spending

The purpose of capitalism is to lower the amount of regulation that exists in every industry. Although it is acknowledged that defense and infrastructure are common necessities, this strategy prioritizes the smallest amount of money feasible. Accountability for the money spent is also required to guarantee that it is successful.

1.3.4 The Disadvantages of Capitalism

i) Lack of regulation may lead to ineffective economic system

The most dominant firm in any industry will eventually win control over the rest of its competitors due to the nature of capitalism. Those with the most money and resources have the ability to conduct the most advanced research and development. This implies they have more control over the manufacturing cycle if growth prospects arise. If there are no controls in place to manage results, this might lead to a monopoly of power. A monopolistic corporation can take advantage of its economic position by charging whatever it wants for goods or services.

ii) Lack of specific pattern of growth

Whenever a capitalist economy contracts or there is a contraction in any capitalist economic system, it often result in increased unemployment, more people relying on social safety net services, and a drop in producer earnings. Those who are wealthy can weather the storm because they can draw on their reserves to maintain their standard of living.

iii) No attention is paid to adverse external outcomes

In a capitalist system, profit is the sole motivator. Even if this strategy allows for higher levels of creativity, it comes at the expense of everything else. There is no environmental consideration unless it benefits the bottom line in some manner.

iv) Capitalism cannot survive without consumption

Only when customers choose to spend their discretionary funds can capitalism function well. If they choose to conserve it rather than sell it, capitalism struggles to exist because profit is its fundamental motivation. Capitalists despise the notion of income redistribution because it implies that some people would be able to meet their basic necessities without having to work. A firm can no longer operate if no purchasing or selling activities are taking place. Each member of society contributes to the employment of others by making a purchase.

v) Governments use taxation as a way to fund their operations

Because the government in a capitalist society remains out of the market, taxes are required to keep it running. Businesses and people must contribute their "fair share" in order to use public resources. Because labor is the most expensive part of most organizations' budgets, money is constantly channeled toward new ideas while labor costs are reduced wherever feasible. As a result, workers bear the lion's share of the risk under this strategy.

1.4 Summary

Discussions under this unit show that capitalism is an economic system in which the means of production are controlled by private individuals. It also show that capitalism has about many types including: free market, finance, advanced, mercantile, welfare, corporate, state, social market economy, sustainable, eco/green/environmental and techno capitalisms. The features, advantages and disadvantages of capitalism were equally outlined and explained.

The focus of this unit was capitalism. As such, the unit presented discussions on the meaning, types, features, advantages and disadvantages of capitalism.

1.5 References/Further Readings/Web Resources

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1.6 Possible Answers to SAEs

Answers to SAEs 1

The free market capitalism: A capitalist free-market economy is an economic system in which prices for goods and services are determined purely by supply and demand dynamics and are anticipated to attain equilibrium without government interference, according to its advocates.

Answers to SAEs 2

Capitalism is an economic system in which capital commodities are owned by private persons or enterprises. A market economy is one in which products and services are produced based on supply and demand in the general market, rather than through central planning, as in a planned or command economy.

ii) It provides consumers with choices :Consumers have the freedom to choose what they wish to consume within capitalism's structure.
iii) Marketplace to set prices instead of the government: Based on the necessity for a reaction, inventories are pushed higher or lower.

iv) Economic growth: When capitalism is prevalent in the economy, GDP rises because innovation leads to more demand, which leads to more purchases.

Unit 2 Socialist Economic System

Unit Structure

2.1 Introduction

Under unit two, we shall discuss socialism as an economic system. This discussion will be presented under some selected themes designed for the unit. Some of the themes include; the concept of socialism, definitions of socialism, features of socialism, types of socialism, advantages and disadvantages of socialism. The unit will also have the conclusion, summary and reference/further reading sections.

2.2 Learning Outcomes

By the end of this unit, you will be able to:

- define socialism
- outline and discuss the various types of socialism
- explain the features, advantages and disadvantages of socialism.

2.3 Main Content

This unit shall contain the flowing themes as follows: the concept of socialism, definitions of socialism, the features of socialism, types of socialism, the advantages and disadvantages of socialism as well as the conclusion, summary and references/further reading sections.

2.3.1 The Concept of Socialism

A cooperative system, in which each member of the community owns a portion of communal resources, has also been used to show socialism. In a socialist system, the rule of engagement is that each individual gets and gives according to his or her capacity. Agreeing with the socialist take, individuals do not work nor live in seclusion, they instead engage in collaboration with one another. Furthermore, everything that people create is a social product in some way, and everyone who contributes to the creation of a good is entitled to a portion of it. Therefore, society as a whole should own or at the very least regulate property for the benefit of all of its members. Consequently, people in a socialist society are more likely to work very hard. After a proportion is taken off for communal development, members of the community receive a part of the national pie.

In terms of origin, socialism arose in response to liberal individualism's and capitalism's excesses and abuses. Western European countries saw tremendous industrial output and compound economic expansion under early capitalist economies in the late 18th and 19th centuries. Some people and families became wealthy rapidly, while others fell into poverty, resulting in income disparity and other societal issues.

In their Manifesto of the Communist Party (1848), Karl Marx and Friedrich Engels said that in a socialist society, "the prerequisite for the free development of each is the free development of all." Robert Owen and Henri de Saint-Simon, as well as Karl Marx and Vladimir Lenin, were among the most notable early socialist philosophers. After the 1917 Bolshevik Revolution in Russia, it was principally Lenin who expanded on the concepts of earlier socialists and helped bring socialist planning to the national level.

2.3.2 Definitions of Socialist Economic System

Kenton defines socialism as “a populist economic and political system based on public ownership (also known as collective or common ownership) of the means of production. Those means include the machinery, tools, and factories used to produce goods that aim to directly satisfy human needs.” According to Corporate Finance Institute (CFI), “Socialist means the system under which economic system is controlled and regulated by the government so as to ensure welfare and equal opportunity to the people in a society.” The CFI again defines socialism “as a system in which every person in the community has an equal share of the various elements of production, distribution, and exchange of resources. Such a form of ownership is granted through a democratic system of governance.” According to Samuelson, “Socialism refers to the government ownership of the means of production, planning by the government and income distribution". Samuelson, "Socialism refers to the government ownership of the means of production, planning by the government and income distribution".

2.3.3 Features of Socialism

There are many features of socialism as propounded by scholars of the system. These include, collective ownership of means of production, economic, social and political equality, economic planning, no competition, positive role of government, work and wages according to ability and needs, and Maximum social welfare.

a) Collective ownership

In socialism, the society, which also implies the government, owns the means of production, and no person can own private property above a specified extent. As a result, it is the government that makes use of these resources for the sake of social welfare. According to socialists, common ownership guarantees that the interests of the many take precedence over the demands of the few, and that the public sector can allocate finite resources in a far more equal manner than the market.

b) Economic, social and political equality

The rich and the poor are almost equal under socialism. There is no issue with class conflict. When it comes to equality, it's critical to distinguish between the many strands of socialism once again. Socioeconomic democrats like Anthony Crosland believe that we are all of equal worth, regardless of our social status. A more equal society is achieved by a more fair distribution of income through progressive taxes, a welfare state based on universal benefits, and a system of comprehensive education. This moderate type of socialism aims to liberate individuals from the burdens of capitalism. Socialists also agree that the government can better administer resources than the private sector.

c) Economic planning

Here, the government establishes some goals under socialism. Economic planning is used by the government to attain these goals. In economic planning, many kinds of decisions about an economy's key concerns are made. The economy is planned by the Central Planning Authority.

d) No competition

There is no savage competition. It denotes a lack of competition because the government is the single entrepreneur. In a communist regime, there is essentially no competition, at least not economic rivalry. In a communist economy, enterprises are frequently controlled by a large number of bureaucrats who make competing demands.

e) Positive role of government

The government has a crucial role in decision-making in socialism. In a truly socialist society, the government makes all legal production and distribution choices, and citizens rely on the state for everything from food to healthcare. As a result, the government has entire control over economic activities such as distribution, exchange, consumption, investment, and international commerce, among others. The output and pricing levels of various commodities and services are determined by the government.

f) Work and Wages According to Ability and Needs

Work is based on ability, and wages are based on necessity in a socialist economy. "From everyone according to his capacity to each according to his needs, is socialism," it is claimed of socialism. Karl Marx popularized the slogan "from everyone according to his capacity, to each according to his needs" in his 1875 Critique of the Gotha Programme. The idea refers to unrestricted access to products, capital, and services, as well as their distribution. Simply said, each worker in a socialist society is compensated and receives rewards in proportion to the quantity and worth of labour they contribute.

g) Maximum Social Welfare

The only goal of socialism is to maximize social welfare of society. It means that there is no way for the working class to be exploited. In other words, socialism makes any form of exploitation of the working class impossible. Thus, while formulating programs, the government takes time to carefully articulate the needs of the poor and also ensure they are adequately provided.

Self-Assessment Exercises 1

Explain the various features of socialism.

2.3.4 Types of Socialist Economic System

There are many different types of socialism across the world, and they all have different beliefs on how to effectively incorporate capitalism into a socialist system. Furthermore, the many varieties of socialism highlight the various characteristics of social democracy. They are as follows:

a) Democratic Socialism

Democratic socialism is a political concept that advocates for political democracy within a socially owned economy, with a focus on economic democracy, workplace democracy, and worker self-management, whether in a market socialist economy or a decentralized planned socialist economy. In other words, important commodities and services are allocated through centralized planning, whereas consumer items are dispersed through a free market system. Factors of production are also managed by an elected administration in democratic socialism.

b) Revolutionary Socialism

Revolutionary socialism is a political theory, doctrine, and tradition within socialism that emphasizes the belief that structural changes in society require a social revolution. It is the belief that revolution is an essential precondition for moving from a capitalist to a socialist mode of production. Revolutionary socialism maintains that only the overthrow of current political and socioeconomic systems can bring about socialism. However, such a revolution does not have to be a violent insurgency; it may be described as the taking of political power by mass movements of the working class, such that the state is directly controlled or eliminated by the working class, rather than the capitalist class and its interests.

The core tenet of revolutionary socialism is that a socialist regime cannot exist while capitalism exists. Revolutionaries think that achieving a totally socialist government will need a great deal of fight. Workers own and operate the factors of production under such a system, which has a well-developed and centralized structure.

c) Libertarian socialism

People are always intelligent, self-determining, and independent, according to libertarian socialism. People will naturally turn to a socialist society if capitalism is removed because it can satisfy their wants. Within the socialist movement, libertarian socialism is an anti-authoritarian, anti-statist, and libertarian political theory that opposes the state socialist idea of socialism as a statist form in which the state retains centralized control of the economy.

The word libertarian has been traditionally applied to socialists who reject authoritarianism and state socialism, such as Mikhail Bakunin, and it primarily overlaps with social anarchism, while individualist anarchism is also a libertarian socialist.

d) Market socialism

Here, the manufacturing process is under the hands of regular workers in market socialism. Workers make decisions on how resources should be divided. The surplus is sold or given to members of the society, who subsequently allocate resources according to a free market system. In other words, employees are not the proprietors of their equipment or businesses, but they are seen as types of employee capitalism by this system, which supports cooperative ownership.
According to British political scientists Julian Le Grand and David

Miller, the central premise is that market socialism preserves the market process while socializing capital ownership. The key tenet of this social-democratic approach is that markets enhance not only efficiency but also freedom and democracy, making them politically appealing.

e) Green Socialism

Natural resources are protected by green socialism. In a green socialist society, large enterprises are owned and governed by the general population. Eco-socialism, also known as green socialism or socialist ecology, is a political philosophy that combines elements of socialism with those of green politics, ecology, and anti-globalization.

Green socialism also encourages the growth and use of public transportation, as well as the processing and sale of locally farmed food. The manufacturing process is geared on ensuring that every member of the community has sufficient access to basic necessities. Furthermore, the general population is guaranteed a living wage.

Self-Assessment Exercises 2

Outline and explain the various types of socialist economy?

2.3.5 Advantages and Disadvantages of Socialist Economic System

i) Advantages of Socialist Economic system

The socialist system broadly has two advantages. First, there is absence of exploitation and second, the system abhors discrimination. Further discussions on these are provided below:

a) Absence of exploitation

One thing a socialistic system ensures is non-exploitation of workers. It means that workers are regarded as equal stakeholders with regards to the management of resources. In this regard, individual give and receives based on their personal potentials. However, everyone, including those who are unable to contribute, is guaranteed access to basic goods under the communist system. As a result, the system contributes to the reduction of poverty in society. Furthermore, everyone has the equal right to health care and other key social services like education.

b) Rejection of discrimination

Discrimination is not tolerated in the system, and everyone does what he or she is excellent at or likes the most. If there are jobs that need to be done but no one is available to do them, a greater wage is offered. Natural resources are preserved for future generations.

ii) Disadvantages of Socialist economy

The disadvantages of socialist economy are also broadly categorized into two. One, that there is dependency on cooperative pooling and two there is lack of competition and innovation. These two factors are also discussed below.

a) Dependence on cooperative pooling

The need on cooperative pooling to get things done is perhaps the greatest drawback of a socialist government. People who are competitive in their communities are also seen negatively. Cooperation, not competition, is what society expects. Individuals who are competitive are likely to discover methods to provoke societal turmoil for personal benefit, according to socialism.

b) Lack of competitiveness and innovation

Entrepreneurial endeavors and competition are not rewarded in socialism. As a result, a socialist society does not foster innovation as much as a capitalist economy does.

Self-Assessment Exercises 3

Attempt a discussion on the advantages and disadvantages of socialist economic system.

2.4 Summary

A cooperative system, in which each member of the community owns a portion of communal resources, has also been used to show socialism. In a socialist system, the rule of engagement is that each individual gets and gives according to his or her capacity. It is an economic system in which there is public ownership and control of the means of production. Some of its features include; collective ownership of means of production, social and economic equality, absence of competition, economic planning, and maximum social welfare. Types of socialism such as democratic, revolutionary, libertarian, market and green socialism were also provided and discussed. Finally, the advantages and disadvantages of socialism were equally expounded.

The unit presented a comprehensive discussion of socialism as an economic system. The explanation covered various areas of the economic system ranging from its conceptualisation, definitions, types, features, advantages and disadvantages.

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2.6 Possible Answers to SAEs

Answers to SAEs 1

Features of socialism

a) Collective ownership: In socialism, the society, which also implies the government, owns the means of production, and no person can own private property above a specified extent.

b) Economic, social and political equality: The rich and the poor are almost equal under socialism. There is no issue with class conflict.

c) Economic planning: Here, the government establishes some goals under socialism. Economic planning is used by the government to attain these goals. In economic planning, many kinds of decisions about an economy's key concerns are made.

Answers to SAEs 2

Types of socialism

a) Democratic Socialism: Democratic socialism is a political concept that advocates for political democracy within a socially owned economy, with a focus on economic democracy, workplace democracy, and worker self-management, whether in a market socialist economy or a decentralized planned socialist economy.

b) Revolutionary Socialism: Revolutionary socialism is a political theory, doctrine, and tradition within socialism that emphasizes the belief that structural changes in society require a social revolution.

c) Libertarian socialism: People are always intelligent, self-determining, and independent, according to libertarian socialism.

Answers to SAEs 3

Advantages of Socialist Economic system

a) Absence of exploitation: One thing a socialistic system ensures is non-exploitation of workers. It means that workers are regarded as equal stakeholders with regards to the management of resources. In this regard, individual give and receives based on their personal potentials.

b) Rejection of discrimination: Discrimination is not tolerated in the system, and everyone does what he or she is excellent at or likes the most

Disadvantages of Socialist economy

a) Dependence on cooperative pooling: The need on cooperative pooling to get things done is perhaps the greatest drawback of a socialist government.

b) Lack of competitiveness and innovation: Entrepreneurial endeavors and competition are not rewarded in socialism. As a result, a socialist society does not foster innovation as much as a capitalist economy does.

Unit 3 Mixed Economy

Unit Structure

3.1 Introduction

Under this unit, the main discussion will focus on the mixed economic system. The economic system will be defined from perspectives of various scholars, its characteristics; advantages and disadvantages will also be outlined and discussed. The unit will also have a summary, conclusion as well as references/further reading sections as the closing part of the unit.

3.2 Learning Outcomes

By the end of this unit, you will be able to:

- understand the meaning of mixed economic system
- define mixed economic system
- outline and discuss the advantages, disadvantages and characteristics of mixed economy.

3.3 Main Content

The major contents of the unit will include: definitions of mixed economy, its advantages and disadvantages as well as its characteristics. It also will have a conclusion, summary and references and further reading sections.

3.3.1 Definitions of Mixed Economic System

Before the various definitions of a mixed economy are presented, certain salient points about the system that we need to know. One of such point is that a mixed economy is one that is organized with some free-market characteristics and some socialist components, and falls somewhere in the between of pure capitalism and pure socialism. The second point is that private ownership and control of most of the means of production are common in mixed economies, although they are frequently regulated by the government. The third point is that select industries that are deemed important or that create public goods are socialized in mixed economies. The fourth point is that despite the fact that some economists have criticized the economic impacts of various sorts of mixed economies, all known historical and present economies are instances of mixed economies.

Bearing these in mind, we can now define mixed economy. The first definition by Borkar (2022) says that it is “A mixed economic system is a combination of both capitalist and socialistic ideals allowing protection of private assets; while simultaneously allowing liberty in the use of capital together with federal intervention in economic decision making to achieve social objectives involving trade protection, fiscal stimulus in the form of trade subsidies, tax credit being common illustrations of federal influence thereby allowing public-private partnership treaty.”

Another one according to the Investopedia Team defines mixed economic system as follows “A mixed economic system is a system that combines aspects of both capitalism and socialism”. The team also added that a mixed economic system protects private property and permits some economic freedom in capital allocation, but it also allows governments to intervene in economic activity to achieve social goals.
According to Mattick (2020), a mixed economic system is “A mixed economy combines the best features of capitalism and socialism”. As a consequence, a mixed economy contains characteristics of both a free-market or capitalism economy and a government-controlled socialist economy. In mixed economies, the public and private sectors coexist.
According to Nelson (2012) “mixed economic system is a framework that incorporates both capitalist and socialist elements”. The scholar went on to buttress that a mixed economic system protects private property and allows for some economic freedom in capital allocation, while also allowing governments to interfere in economic activity to achieve social objectives.

3.3.2 Characteristics of Mixed Economic System

The main characteristics of a mixed economy are as follows:

i) Co-existence of public and private sectors.

The private sector consists of production units that are owned privately and work on the basis of profit motive. The public sector consists of production units owned by the government and works on the basis of social welfare. These two sectors co-exist together in a mixed economic system. However, the areas of economic activities of each sector are generally demarcated. Government uses its various policies e.g. licensing policy, taxation policy, price policy, monetary policy and fiscal policy to control and regulate the private sector.

ii) Individual Freedom

As the name implies, individuals are free to engage in economic activities in order to increase their own earnings. That is to say that they have complete freedom to select any vocation and consume whatever they want. Producers, on the other hand, are not allowed to exploit customers and workers. The government imposes various limits to protect the wellbeing of the people. The government, for example, may impose limitations on the manufacture and consumption of dangerous items. However, within the confines of the government's laws, regulations, and limits, the private sector enjoys total freedom for the benefit of society.

iii) Price Mechanism

The influence of prices is fundamental in resource allocation. Thus, it becomes the reason why policies are administered to control and regulate pricing various areas. In order to assist the target group, the government also gives price subsidies. The goal of any government is to maximize the welfare of the people. For people who cannot afford to buy items at market rates, the government provides them either for free or at below-market (subsidized) costs. In a mixed economy, people have individual freedom but the government protects the interests of the weaker members of society.

3.3.3 Advantages of Mixed Economy

i) There private sector freedom, particularly, with reference to economic freedom of property ownership and the choice of products and services are encouraged. The presence of competition in the mixed economy reduces the likelihood of organizations forming monopolies. Government rules frequently prohibit this, when a pure capitalist approach would not. As a result, a mixed economy encourages greater production efficiency.

ii) The presence of private producers and their ownership increases capital formation in the country. There is a strong motivation to improve and innovate. In most mixed economies, the private sector is in charge of the activities that create products and services. The private sector produces items in line with government restrictions. That is to say, regulation is the responsibility of the government while production is a private sector responsibility.

iii) The price system is in charge. As a result, resource distribution is more scientific and advantageous to the economy. The mixed economic structure allows for competition rather than establishing a single price for each item required. Although the government may regulate a sector, it is up to the individual participants to innovate. This competitive motivation fosters a supply and demand system, which has an influence on price. When there are few available items or services that are in great demand, the cost of acquiring those rises. If the contrary happens, the price will fall.

iv) It also benefits from central economic planning. This will assist the economy in expanding quickly and in the right way.

v) In the market, there is healthy competition. Due to government control, there is no cutthroat rivalry or defamatory methods. Furthermore, there is no total lack of rivalry, which is unfavorable.

vi) When opposed to pure capitalism, the enlarged involvement of the state in the mixed economy provides more protection for the minority in daily activities. Companies are prohibited from abusing their employees or creating hazardous working circumstances by regulations. People cannot get together to oppress others or influence pricing schemes because there are protections in place that force them to separate.

v) The mixed economy tries to strike a balance between the need for private innovation and the need for government support. Small enterprises have limited purchasing power, but the government has enormous purchasing power. The state may aid individual businesses by implementing subsidies and enforcing laws that encourage desirable customer behaviour. This method permits the mixed economy to continually balance the benefits of capitalism and socialism for the majority of people.

vi) Producers in the mixed economy are encouraged to seek out new methods as a result of competition. Consumers have the freedom to purchase any goods or services they choose, but the typical individual will choose the item that offers them the best value. This means that the approach's structure automatically provides the most resources to the groups that produce the best results. When inventive producers obtain this inflow of funds, it allows them to invest in more businesses that perform similarly. This advantage naturally motivates more individuals to seek for the greatest things at the most affordable prices.

vii) In a mixed economy, if you are extremely productive, you have the chance to define your own definition of success. Even if your company doesn't appreciate your efforts, you may become an entrepreneur and build a self-employment resource that pays you what you desire. You have the choice of working or not working, and you have the freedom to pursue whatever goals you want. That means you may work a job that allows you to spend more time with your family, concentrate on a high-income scenario, or work part-time to pursue a passion. The highest-profit-generating manufacturers gradually ascend to the top. As a result of this advantage, cash is generated, allowing for improved pricing strategies.

viii) Purist capitalism gives producers complete control over the procurement of products and services. The government is placed in this situation by the pure socialist stance. Both of these factors come together with cohesion only in the frameworks of a mixed economy. This fusion necessitates the coordination of tasks within the marketplace in order for it to continue to expand. It implies that there is a level of distribution that is equal.

ix) People may push the mixed economy forward by pursuing their own individual self-interests. To carve out their chosen life, each individual and organization can pursue any incentives they like. Although the government can control these activities, the frameworks frequently prohibit the state from interfering with a person's own pursuit of pleasure.

Self-Assessment Exercises 1

Explain the advantages and disadvantages of mixed economic system.

3.3.4 Disadvantages of Mixed Economy

i) **The system does not completely eliminate the possibility of monopolies**. When the government has the ability to centrally plan in certain industries while they function within a mixed economy, oligarchies or monopolies can arise. This is a common problem, for example, among defense firms that assist the military in producing military wears. When subsidies are required to assist consumers afford products or services, the state is left with greater debt to handle. This process inhibits long-term economic growth, which short-term benefits cannot compensate for.

ii) **Possibility of no support for the less competitive members of society without support**. Because it is a blend of capitalism and socialism, the mixed economy may absorb all of the problems that other models provide. That is, the people of society who are unable to achieve the same levels of innovation or competitiveness are its major challenge. When the market has too much freedom, these at-risk individuals and businesses may find themselves without government assistance. For the reason of this minus, the affluent gets more and the poor gets less. People seek to solidify their positions as they obtain greater authority over others so that they do not lose it. It produces a wealth distribution that makes it difficult for the middle class to survive in a mixed economy.

iii) **The government enjoys the benefits of the diverse economy.** Officials have the option to alter their thoughts about this strategy, moving it toward a pure state if they so want. This disadvantage is especially pronounced in nations whose activities are conducted under the auspices of an unwritten constitution.

iv) **Possibility of high tax responsibilities**. The state is in charge of public-sector services that enable consumers and producers to enter the marketplace. That implies it will require financial assistance from the two organizations. Taxation is the most popular technique for reaching this goal. Companies and people will be taxed at varying degrees in the mixed economy, with more government engagement frequently implying a higher level of accountability. Everyone benefits from social services and infrastructure demands, but a high tax rate may sometimes be a negative. People must be able to perceive the advantages of such an investment. If people perceive the government is squandering their money, they will be less motivated to look for work.

v) **The system encourages agencies and people to go into debt.** Overdevelopment is one of the most glaring hazards of the mixed economy. This disadvantage is most common in the public sector's centralized planning, but it may also happen to people and businesses. Government-run enterprises can quickly devolve into sponsored mergers that need large sums of money. The state then diverts funds from other parts of the budget to pay the costs, resulting in additional commitments in a never-ending cycle.

Self-Assessment Exercises 2

What are the fundamental characteristics of mixed economic system?

3.4 Summary

One of the definitions of the economic system states that a mixed economic system is a combination of both capitalist and socialistic ideals allowing protection of private assets.

Mixed economy has three major characteristics are the following: public and private coexistence, individual freedom, price mechanism.

Mixed economy also has advantages and disadvantages. Advantages include; private sector freedom, presence of private producers, price system, central economic planning system, and healthy competition.

Some of the disadvantages include; the possibility of monopolies, benefits of diverse economies, possibility of high tax responsibilities and possibility of high debt.

This unit discussed missed economic system. In the discussions, the mixed economic system was defined. Also, its advantages, disadvantages and characteristics were discussed.

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3.6 Possible Answers to SAEs

Answers to SAEs 1

Advantages of Mixed Economy

i) There private sector freedom, particularly, with reference to economic freedom of property ownership and the choice of products and services are encouraged

ii) The presence of private producers and their ownership increases capital formation in the country. There is a strong motivation to improve and innovate

iii) The price system is in charge. As a result, resource distribution is more scientific and advantageous to the economy.

Disadvantages of Mixed Economy

i) Possibility of no support for the less competitive members of society without support

ii) The government enjoys the benefits of the diverse economy. Officials have the option to alter their thoughts about this strategy, moving it toward a pure state if they so want.

iii) Possibility of high tax responsibilities

The state is in charge of public-sector services that enable consumers and producers to enter the marketplace.

Answers to SAEs 2

The main characteristics of a mixed economy are as follows:

i) Co-existence of public and private sectors: The private sector consists of production units that are owned privately and work on the basis of profit motive.

ii) Individual Freedom: As the name implies, individuals are free to engage in economic activities in order to increase their own earnings.

iii) Price Mechanism: The influence of prices is fundamental in resource allocation. Thus, it becomes the reason why policies are administered to control and regulate pricing various areas. In order to assist the target group, the government also gives price subsidies.

Unit 4 Comparison of various Economic Systems of Development

Unit Structure

4.1 Introduction

This unit will explain the relationship and differences between two economic systems namely; capitalism and socialism as well as conclusion and summary sections. It will end with a reference and further reading section.

4.2 Learning Outcomes

By the end of this unit, you will be able to:

- understand economic system such as capitalism, socialism and mixed economy.
- know the definitions of these economic systems.
- know the differences and connections between and among the economic systems.

4.3 Main Content

The main contents of this unit will include the following: Capitalism vs Socialist economy, Capitalist vs Mixed Economy and Socialist vs mixed economy.

4.3.1 Capitalism vs Socialism

In terms of political economy, capitalism is often pitted against socialism. The fundamental difference between capitalism and socialism is the ownership and control of the means of production. In a capitalist economy, property and businesses are owned and controlled by individuals. In a socialist economy, the state owns and manages the vital means of production. However, other differences also exist in the form of equity, efficiency, and employment. Table 4.1 also shows the differences between Capitalism and socialism.

i) Equity

The capitalist economy is indifferent with fair distribution of wealth. According to the concept, inequality is the driving force for innovation, which subsequently propels economic progress. The socialist model's fundamental aim is the equitable transfer of income and resources from the wealthy to the poor, as well as ensuring equality of opportunity and result. Equality is regarded as more important than great performance, and the common good is prioritized over individual advancement.

ii) Efficiency

The capitalist argument is that the economic motive motivates businesses to create inventive new items that consumers want and that are in high demand. It is believed that state ownership of the means of production leads to inefficiency since managers, employees, and innovators are less likely to put out the extra effort needed to promote new ideas or goods if they don't have a financial incentive to do so.

iii) Employment

The state is not a direct employer of labour in a capitalist economy. During economic downturns and depressions, the lack of government-run jobs can lead to unemployment. The state is the major employer in a socialist economy. During times of economic distress, the socialist state has the power to order hiring, ensuring that all workers are employed. In addition, in communist institutions, there is a stronger "safety net" for employees who are injured or permanently crippled. In capitalist countries, those who are unable to work have fewer possibilities for assistance.

Self-Assessment Exercises 1

What do you understand by Capitalist economy

Table 4.1: Major differences between a Capitalist and a Socialist Economy

Capitalist economy	**Socialist Economy**
Definition	
A Capitalist Economy is a system where private entities control the factors of production like labour, natural resources or capital goods.	A Socialist Economy is an economic system where the factors of production like labour, natural resources or capital goods are under the control of the government.
Determination of price	
In a Capitalist Economy, the demand and supply forces influence the price of goods and services.	In a Socialist Economy, the price of goods and services is under the government's supervision and control.
Motive of Production	
The main motive of the production of goods and services in a Capitalist Economy is to earn profit.	The main motive of producing goods and services in a Socialist Economy is the welfare of the general public.
Role of Government	
There is minimal or no role of the government in a Capitalist Economy when it comes to the production and distribution of goods and services.	In a Socialist Economy, the government has complete control over the production and distribution of goods and services.
Role of Private Sector	
The private sector completely dominates the production of goods and services and the distribution within a Capitalist Economy.	The private sector has no role in the production of goods and services and the distribution within a Socialist Economy.
Competition	
The private sector has no role in the production of goods and services and the distribution within a Socialist Economy.	In a Socialist Economy, there is no competitor to the government.
Distribution of Income	
The distribution of income is unequal in a Capitalist Economy.	The distribution of income is more or less equal in a Socialist Economy.

Source: https://byjus.com/commerce/differences-between-capitalist-and-socialist-economy/

4.3.2 Capitalism vs Mixed Economic System

When the government owns some but not all of the means of production, but government interests may legally circumvent, replace, limit, or otherwise regulate private economic interests that is said to be a mixed economy or mixed economic system. A mixed economy respects property rights, but places limits on them.

Property owners are restricted with regards to how they exchange with one another. These restrictions come in many forms, such as minimum wage laws, tariffs, quotas, windfall taxes, license restrictions, prohibited products or contracts, direct public expropriation, anti-trust legislation, legal tender laws, subsidies, and eminent domain. Governments in mixed economies also fully or partly own and operate certain industries, especially those considered public goods, often enforcing legally binding monopolies in those industries to prohibit competition by private entities.

In contrast, pure capitalism, also known as laissez-faire capitalism or anarcho-capitalism, (such as professed by Murray N. Rothbard) all industries are left up to private ownership and operation, including public goods, and no central government authority provides regulation or supervision of economic activity in general. The standard spectrum of economic systems places laissez-faire capitalism at one extreme and a complete planned economy—such as communism—at the other. Everything in the middle could be said to be a mixed economy. The mixed economy has elements of both central planning and unplanned private business.

By this definition, nearly every country in the world has a mixed economy, but contemporary mixed economies range in their levels of government intervention. The U.S. and the U.K. have a relatively pure type of capitalism with a minimum of federal regulation in financial and labor markets—sometimes known as Anglo-Saxon capitalism—while Canada and the Nordic countries have created a balance between socialism and capitalism.

Many European nations practice welfare capitalism, a system that is concerned with the social welfare of the worker, and includes such policies as state pensions, universal healthcare, collective bargaining, and industrial safety codes.

Self-Assessment Exercises 2

Discuss the difference between and capitalist and socialist economic systems.

4.3.3 Socialism vs Mixed Economic System

Mixed economy and socialism are two economic systems that are based on a mix of capitalism and socialist policies. However, some of the differences are depicted in table 4.2.

Table 4.2: The differences between socialism and mixed economy

Socialism	Mixed Economy
Government and private ownership of companies are involved in the economic sphere. But government play bigger role in a Socialist economy.	Government and private ownership of companies are involved in the economic sphere. However, government play minor role in mixed economic system
Government involvement and interference in promoting social equality is very high.	Government involvement and interference in promoting social equality is very minimal.
Government properties are more protected despite that both private and public sectors work together.	Private properties are more protected even though private and public sectors work together.
Government can interfere with subsidies and can nationalize private enterprises	
Government acts to prevent monopoly and protect	

Source: Locke, E. A. (2017). Performance appraisal under capitalism, socialism, and the mixed economy.

Socialism and the mixed economy are economic concepts that combine aspects of capitalism and socialism. The capitalist viewpoint places a premium on private property and argues for a free market in which capital can freely move. Socialism, on the other hand, aspires to a government-controlled economic structure.

Self-Assessment Exercises 3

Highlight the differences and similarities between the capitalist and mixed economic system.

4.4 Summary

This unit treated interconnection between various economic systems such as capitalism, socialism and mixed economies. In the discussions, the differences and similarities were highlighted and discussed.

The unit introduced and explained various differences and similarities that exist between economic systems. The unit focused its discussions on x-raying the differences there are between systems such as in capitalism vs socialist economy, capitalism vs mixed economic system, and socialist vs mixed economic system. The differences within some of these systems were also illustrated in tables 4.1 and 4.2

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4.6 Possible Answers to SAEs

Answers to SAEs 1

A Capitalist Economy is a system where private entities control the factors of production like labour, natural resources or capital goods.

Answers to SAEs 2

In a Capitalist Economy, the demand and supply forces influence the price of goods and services. While In a Socialist Economy, the price of goods and services is under the government's supervision and control.

Answers to SAEs 3

The main motive of the production of goods and services in a Capitalist Economy is to earn profit. While mixed economic system Government involvement and interference in promoting social equality is very minimal.

MODULE 3 INFLUENCE OF ECONOMIC SYSTEMS ON DEVELOPMENT INDICES, TRENDS TRANSFORMING GLOBAL ECONOMY, SUSTAINABLE DEVELOPMENT, GLOBALIZATION AND ECONOMIC DEVELOPMENT

Unit 1 Influence of Economic Systems on Development Indices
Unit 2 Trends Transforming Global Economy
Unit 3 Sustainable Development
Unit 4 Economic Globalization and Economic Development

Unit 1 Influence of Economic Systems on Development Indices

Unit Structure

1.1 Introduction
1.2 Learning Outcomes (LOs)
1.3 Main Contents
    1.3.1 Understanding Economic Systems
    1.3.2 The basic needs of life Approach
    1.3.3 Life Expectancy
    1.3.4 Literacy Level
    1.3.5 Infant mortality
1.4 Summary
1.5 References/Further Readings/Web Resources
1.6 Possible Answers to Self-Assessment Exercise(s)

1.1 Introduction

The discussions of this unit will focus on the influence of economic systems on development indices. As such, the unit will provide discussions in this area under different theme such as understanding economic system, types of economic systems, the Basic Needs Approach (BNA), life expectancy rate, literacy level and infant mortality rate. The unit will equally have a conclusion, summary and reference sections. These themes are fashioned to as much as possible; give robust discussions on the unit topic.

1.2 Learning Outcomes

By the end of this unit, you will be able to know the following:

- The meaning of economic system.
- The meaning of basic needs and the Basic Needs Approach (BNA) system to economic development.
- The meaning of infant mortality rate and literacy level as it connects to or influences economic development.
- the basic features of BNA to economic development.

1.3 Main Content

The main contents of this section are as follows: understanding economic systems, the basic needs approach, life expectancy rate, literacy level, infant mortality rate.

1.3.1 Understanding Economic Systems

The study of economic systems entails looking at how these many agencies and organizations are connected, how information travels between them, and the social interactions that exist within the system, such as property rights and management structure. The traditional focus of economic system analysis has been on the contrasts and parallels between market and planned economies, as well as between capitalism and socialism. Following that, the classification of economic systems was broadened to cover new issues and models that did not fit well into the old dichotomy. The fact that millions of people come together in the market to drive supply and demand makes economic systems complicated. An economic system is made up of a variety of organizations, agencies, companies, decision-making processes, and consumption patterns that make up a community's economic structure. The components of production, such as land, capital, labor, and physical resources, are regulated by economic systems.

According to encyclopedia "An economic system or economic order is a system of production, resource allocation and distribution of goods and services within a society or a given geographic area. It includes the combination of the various institutions, agencies, entities, decision-making processes and patterns of consumption that comprise the economic structure of a given community." Boyce (2021) defines economic system as "a network that forms the economic relationships between individuals in society". The Corporate Finance Institute defines economic system as “a means by which societies or governments organize and distribute available resources, services, and goods across a geographic region or country.”

In general terms, an economic system demonstrates how citizens of a country work together to form a complex whole and perform economic transactions. A social system is a form of economic system. A similar idea is the mode of production. The four fundamental economic challenges must be addressed and solved by all economic systems:
a) What kinds and quantities of goods shall be produced?
b) How goods shall be produced.
c) How the output will be distributed.
d) When to produce

1.3.2 Basic Needs of Life Approach

To be able to understand this approach, it would be better to first of all understand what are the basic needs of life? The typical list of immediate basic necessities includes food, water, shelter, and clothes, while many agencies use alternative lists. Many current lists stress the need of meeting basic requirements such as food, water, clothes, and shelter, as well as sanitation, education, and healthcare. Various agencies utilize various lists as may suit the target of their approach.

Based on the above, the basic needs approach (BNA) to development is one that prioritizes addressing all the fundamental requirements of people. The actual substance of BNA has been defined in a variety of ways, but it always includes the achievement of specific nutritional requirements (food and water), as well as the universal supply of health and education services. The fundamental needs idea of development focuses on the development's goals. This entails a direct attack on poverty by satisfying the most fundamental human needs of the poorest members of society.

The BNA was founded during the World Employment Conference of the International Labour Organization (ILO) in 1976. This meeting resulted in the publication of a report titled Employment, Growth, and Basic Needs: A One-World Problem, which momentarily elevated the BNA to the forefront of global development policy. Food, clothes, shelter, housing, water, and sanitation were all highlighted in the study. Food and nutrition, basic educational services, basic health care, sanitation, water supply, and housing are among the six sorts of requirements identified by Streeten (1979). Streeten and Burki (1978) define a hierarchy of fundamental requirements as bare survival, continuing survival, and productive survival, all of which are grouped together as 'core basic needs.' They advocate for the supply of certain

products and services, with a focus on accessibility and delivery.
Where there is a lack of basic needs, the immediate and simple interpretation is poverty. Therefore, the provision of basic needs to any society becomes paramount policy issue to the government of nations. According to an International Monetary Fund (IMF) publication in 2021, the provision basic needs is “the ultimate objective of economic development which should shape national planning for investment, production, and consumption”. This assertion portrays the centrality of provision of basic needs to the economic system of any nation. Table 3 shows the key features of the basic needs approach

Table 1.1: The key features of Basic Needs Approach

Basic Needs Approach	**Features**
Conceptual Basis	People must have minimum subsistence
Poverty Definition	Deprivation of consumption
Poverty Reduction	Ensures adequate access to consumption
Policy Objective	Subsistence
Power Relationship	Paternalistic; little scope for voice of the poor
Level of Application	Generalized, but allows regional diversities

Source: Reinert, K.A. (2018), No Small Hope: Towards the Universal Provision of Basic Goods, New York: Oxford University Press

Thus, the basic needs method strives to meet the poor's unmet basic requirements. People who are unable to satisfy their fundamental human needs are living in poverty, which can be severe or even fatal. It works by recognizing a set of fundamental human needs, such as food, housing, clothes, clean water, and sanitation, and ensuring that the poor have access to these. Such a package provides crucial assistance to the poor who are struggling to make ends meet, and once subsistence is ensured, the poor are in a better position to improve their lives and break free from poverty.

Self-Assessment Exercises 1

1a) Explain the BNA in relation to the provision of fundamental basic needs of life.
1b) Outline the basic features of the BNA.

1.3.3 Life Expectancy

The amount of years a person may anticipate to live is referred to as life expectancy. By definition, life expectancy is based on a prediction of the average age at which members of a demographic group would die. In economics, lifer expectancy is based on actuarial statistics.

It is therefore, regarded as the statistical age at which a person is projected to live. In most countries, the estimates for this actuarial age are based on huge quantities of data and are produced from a national statistics agency. Your life expectancy is influenced by a number of factors, the two most important of which are when you were born and your gender. Other variables that may affect your life expectancy include:

- Your race is unique.
- Medical history of yourself and your family
- Whether you smoke cigarettes or engage in other dangerous behaviors.

However, life expectancy should not, of course, be used on its own to describe these things. Key indicators that are considered as objective measures of well-being, such as lifespan, infant survival, body mass index, educational achievement, and so on, are the focus of basic needs methods. This simple statistic can be used as an indicator of the:

i) Healthcare quality in a country or province
ii) Level of sanitation
iii) Provision of care for the elderly

The basic needs approach to development is a reaction to the flaws of growth-oriented policies. Its focus is directly how to improve the living conditions of impoverished people, particularly their demand for basic commodities and services. In other words, the life in trying to meet up with providing the basic needs of life, life expectancy and literacy levels are improved. It therefore the performance effect of basic needs that has its ripple effect. However, it is crucial to note that life expectancy varies throughout time. Because actuaries employ sophisticated formulae to figure out those who are younger than you but have died as you get older, this is the case.

1.3.4 Literacy Level

The rate (or percentage) of individuals who can read is a helpful measure of educational status of a country. The World Health Organization (WHO) defines literacy rate as “the proportion of the adult population aged 15 years and over which is literate, expressed as a percentage of the corresponding population, total or for a given sex, in a given country, territory, or geographic area, at a specific point in time, usually mid-year." The United Nations Educational, Scientific and Cultural Organization (UNESCO) Institute for Statistics states that "the literacy rate is defined by the percentage of the population of a given age group that can read and write." The adult literacy rate applies to those aged 15 and up, the adolescent literacy rate to those aged 15 to 24, and the elderly literacy rate to those aged 65 and above. It's usually tested by how well you can understand a brief, uncomplicated statement about everyday life. Literacy covers numeracy in general, and measuring may include a basic arithmetic skill test.

Self-Assessment Exercises 2

Discuss literacy rate/level and infant mortality as they relate to economics.

1.3.5 Infant Mortality

According to the New Jersey Department of Health (NJDH), infant mortality is "the number of resident newborns in a specified geographic area (country, state, county, etc.) dying under one year of age divided by the number of resident live births for the same geographic area (for a specified time period, usually a calendar year) and multiplied by 1,000." The Organisation for Economic Co-operation and Development (OECD) indicates that "infant mortality rate is the number of deaths under one year of age occurring among the live births in a given geographical area during a given year, per 1,000 live births occurring among the population of the given geographical area during the same year."

According to the NJDH, infant mortality rate is calculated as follows: (Number of resident infant deaths/number of resident live births) x 1,000

$$\frac{\text{Number of Resident Infant Deaths}}{\text{Number of Resident Live Births}} \quad \text{X } 1000$$

If subjected to age-specific mortality rates of that era, the likelihood of a child born in a given year or period dying before reaching the age of one is defined as the probability of a kid born in that year or period dying before reaching the age of one.

1.4 Summary

This unit discussed the economic system as it influences development of an economy. It was explained that the basic needs of life, life expectancy, and infant mortality rate and literacy level of any society or economy are economic indicators used to measure the level and rate of development of any economy. The BNA was used to interpret the influence as well as the centrality of basic needs to the level or rate of development of an economy. Key features of the BNA were also demonstrated in table 1.1.

One of the foremost conclusions easily systems influence the development rate and status of an economy. It could also be deduced that systems affect life expectancy rate, literacy level, and infant mortality/morbidity rate. The level of influence by the system is based on the functionality of the system. In other words, the economic system is determined and measured by factors such as life expectancy rate, mortality rate and literacy level which are economic indicators of the system.

1.5 References/Further Readings/Web Resources

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1.6 Possible Answers to SAEs

Answers to SAEs 1

The BNA was founded during the World Employment Conference of the International Labour Organization (ILO) in 1976. This meeting resulted in the publication of a report titled Employment, Growth, and Basic Needs: A One-World Problem, which momentarily elevated the BNA to the forefront of global development policy. Food, clothes, shelter, housing, water, and sanitation were all highlighted in the study. Food and nutrition, basic educational services, basic health care, sanitation, water supply, and housing are among the six sorts of requirements identified by Streeten (1979).

The key features of Basic Needs Approach

Basic Needs Approach	**Features**
Conceptual Basis	People must have minimum subsistence
Poverty Definition	Deprivation of consumption
Poverty Reduction	Ensures adequate access to consumption

Answers to SAEs 2

The rate (or percentage) of individuals who can read is a helpful measure of educational status of a country. The World Health Organization (WHO) defines literacy rate as "the proportion of the adult population aged 15 years and over which is literate, expressed as a percentage of the corresponding population, total or for a given sex, in a given country, territory, or geographic area, at a specific point in time, usually mid-year."

Unit 2 Trends Transforming the Global Economy

Unit Structure

2.1 Introduction

This unit will discuss technology innovation as the trends transforming the global economic system. Selected themes, such as the meaning of technology and innovation, the role of technology and innovation in economic development, the effects of technology and innovation in economic development, shall be adopted for the discussion.

2.2 Learning Outcomes

By the end of this unit, you will be able to:

- Explain the meaning technology and innovation
- Discuss the role of technology and innovation in economic development
- Explain the effects of technology and innovation on economic development.

2.3 Main Content

2.3.1 Meaning of Technology and Innovation

The proliferation of new technology is both a blessing and a curse: it will become the dominant driver of economic development, promising to enhance our lives and the globe, but it will also be the primary source of disruption and dislocation. In broader economic expressions, technology and innovation, refers to the creation and implementation of ideas and technologies that enhance goods and services or make their production more efficient.

Self-Assessment Exercises 1

What do you understand by Technology and Innovation?

2.3.2 The Role of Technology and Innovation in Economic Growth and Development

Generally speaking, there lots of benefits which accrue as a result of technological advancement. It improves overall standard of living of residents by increasing production and bringing new and better goods and services to them. The advantages of innovation sometimes take a long time to manifest. They frequently affect a large portion of the population.

Broughel and Thierer (2019) indicate that innovation and technology play a major role in the economic development of countries across the globe. According to them, one of the most significant roles, which also are advantage of innovation, is the contribution it makes to economic growth. Simply defined, innovation may lead to increased productivity, which means that the same amount of input produces more output. More commodities and services are created as productivity rises, implying that the economy expands.

According to an online publication by the European Central Bank 27 June 2017 technology and innovation consumers and companies gain greatly from increased productivity arising from the use of technology and innovation. Workers earnings rise according to their production and as a result, they have more money in their pockets and are able to purchase more products and services. Businesses become more lucrative at the same time. This growth usually prompts an increase investment and recruitment of more staff within industries.

Self-Assessment Exercises 2

Discuss the various roles of Technology and Innovation in economic development of countries.

2.3.3 Effects of Technology and Innovation in Economic Development

i) The effects of innovation sometimes take a long time to manifest. They frequently affect a large portion of the population. The poor and future generations, who stand to profit the most, have little or no political clout.

ii) Short-term disruptions are caused by innovation. As some old company models collapse and some people lose their employment, these upheavals may be upsetting.

iii) Change may be resisted by entrenched interests. The people who are impacted are frequently well-organized and powerful. They could try to sabotage prospects for innovation and entrepreneurship, which might contribute to longer-term growth and prosperity.

iv) Policymakers have notoriously limited time frames for making decisions. They are also more likely to hear from communities and interests who have been hurt by new technology in disproportionate numbers. This might result in:
  (1) lawmakers resisting change and
  (2) policy measures that hinder entrepreneurship and shield incumbents from new rivals (Broughel & Thierer, 2019).

Self-Assessment Exercises 3

Explicate on the effects of innovation on development.

2.4 Summary

By the end of this unit, you will be able to:

- Explain the meaning of Technology and Innovation
- Discuss the role of Technology and Innovation in Economic Development
- Explain the Effects of Innovation on Economic Development.

Selected themes under this unit treated issues on the meaning of technology and innovation. The theme shows that technology and innovation refers to the creation and implementation of ideas and technologies that enhance goods and services or make their production more efficient.

While discussing the role of technology and innovation in economic development, it was indicated that the use of technology and innovation improves overall standard of living of residents by increasing production and bringing new and better goods and services to them.

It was also specified in the discussions under the role of technology and innovation in growth and development of countries that technology and innovation, when used in production, may to lead to increased productivity and thus, contribute immensely to economic growth.

Lastly, the effects of innovation on economic development was also outlined and discussed.

2.5 References/Further Readings/Web Resources

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2.6 Possible Answers to SAEs

Answers to SAEs 1

Technology and innovation, refers to the creation and implementation of ideas and technologies that enhance goods and services or make their production more efficient.

Answers to SAEs 2

- innovation and technology play a major role in the economic development of countries across the globe.
- technology and innovation consumers and companies gain greatly from increased productivity arising from the use of technology and innovation.

Answers to SAEs 3

- The effects of innovation sometimes take a long time to manifest. They frequently affect a large portion of the population. The poor and future generations, who stand to profit the most, have little or no political clout.
- Short-term disruptions are caused by innovation. As some old company models collapse and some people lose their employment, these upheavals may be upsetting.

Unit 3 Sustainable Development

Unit Structure

3.1 Introduction
3.2 Learning Outcomes (LOs)
3.3 The Concept of Sustainable Development
  3.3.1 The Goals of Sustainable Development
  3.3.2 Relevance of Sustainable Development
3.4 Summary
3.5 References/Further Readings/Web Resources
3.6 Possible Answers to Self-Assessment Exercise(s)

3.1 Introduction

The unit shall be used to provide discussions on sustainable development. Here, the meaning of the concept of sustainable development shall be explained. It will also provide discussions on the goals and relevance of sustainable development.

3.2 Learning Outcomes

By the end of this unit, you will be able to:

- explain the meaning of sustainable development
- understand the role of sustainable development.
- discuss the relevance of sustainable development.

3.3 The Concept of Sustainable Development

In trying to understand the concept of sustainable development for any society or system, one must know that the underlying targeted outcome is that living conditions and resources are utilised to sustain provision of human needs without jeopardizing the natural integrity and stability of that system. It means that sustainable development entails the sustenance of consistent supply or provision of human needs making use of existing conditions and available resources.

These factors must be used without compromising the integrity and stability within that system. Sustainable development, in particular, is a method of arranging society in such a manner that it can sustain its existence for long period of time or in the long run. This specifically entails taking into account both current and future imperatives, such as environmental and natural resource protection, as well as social and economic equality.

Historically, sustainable development derives from the Brundtland Report of 1987 which is largely responsible for the present notion of sustainable development. It also has roots in older notions about sustainable forest management and environmental concerns from the twentieth century. As the notion of sustainable development evolved, it switched its attention to economic progress, social development, and environmental conservation of the future generations. This aligns with the United Nations perspective of sustainable development as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

According to the UN, Sustainable development has four dimensions: society, environment, culture, and economics, all of which are interwoven rather than distinct. Sustainability is a way of thinking about the future that balances environmental, sociological, and economic concerns in the quest of a higher standard of living. As such, the concept of sustainable development remains a philosophy that aims to accomplish human development goals while simultaneously preserving the ability of natural system to sustain supply of the natural resources and ecosystem services that the economy and society rely on.

By way of definition, the United Nations describes sustainable development as "The Sustainable Development Goals are the blueprint to achieve a better and more sustainable future for all. They address the global challenges we face, including poverty, inequality, climate change, environmental degradation, peace and justice. Learn more and take action." According to Wikipedia;

> "sustainable development is the organizing principle for meeting human development goals while simultaneously sustaining the ability of natural systems to provide the natural resources and ecosystem services on which the economy and society depend. The desired result is a state of society where living conditions and resources are used to continue to meet human needs without undermining the integrity and stability of the natural system. Sustainable development can be defined as development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

The general deduction from the above is that sustainable development is about increasing well-being of everyone, no matter where they are, and reaching this goal as a group. It also means meeting the varying needs of individuals in different communities, social cohesiveness, and equitable opportunity to promote a robust and healthy society are all part of sustainable development. It also emphases on discovering better methods of accomplishing things that do not negatively impact on the quality of our life.

Self-Assessment Exercises 1

Critically discuss the concept of sustainable development.

3.3.1 Goals of Sustainable Development

According to a publication by Conserve Energy Future in 2022, there three main goals of sustainable development which include;

i) To minimize the depletion of natural resources when creating new developments.
ii) To create a development that can be maintained and sustained without causing further harm to the environment.
iii) To provide methods for retrofitting existing developments to make them environmentally friendly facilities and projects.

However, other global NGO such the UN, government and Aid Organisations have added some other most important sustainable development goals set by these bodies to include:

i) Poverty eradication across the globe
ii) Promotion of good health and well being
iii) Provision of Quality Education for all
iv) Provision of Clean Water and Sanitation
v) Building up Strong Infrastructure, Supporting Inclusive and Sustainable Industrialization and Incubating Innovation
vi) Enabling Access to Affordable and Clean Energy
vii) Achieving Gender Equality

Self-Assessment Exercises 2

State and explain the goals of sustainable development.

3.3.2 Relevance of Sustainable Development

Sustainable development is relevant because its objective aims to establish balance between environmental, economic, and socio-political sustainability. In other words, sustainable development constantly urges us to conserve and increase our resources by progressively altering how we produce and use technology. Therefore for sustainable development to ensure a healthy, safe, and clean environment for everyone and to sustain its relevance in the economic development of countries across global, it must meet the following conditions;

i) Providing Essential Human Needs

People will have to compete for scarce life necessities such as food, housing, and water as a result of the population expansion. Adequate supply of these fundamental necessities is nearly completely dependent on infrastructure that can support them for an extended period of time.

ii) Manage Climate Change

Sustainable development techniques can help to prevent climate change. The goal of sustainable development is to limit the usage of fossil fuels such as oil, natural gas, and coal. Fossil fuel energy sources are unsustainable since they will dwindle in the future and are responsible for greenhouse gas emissions.

iii) Financial Stability

Sustainable development strategies have the potential to help economies throughout the world become more financially stable. Developing countries without access to fossil fuels may power their economy with renewable energy sources. These nations can produce long-term jobs through the development of renewable energy technology, as opposed to limited jobs based on fossil fuel technologies.

iv) Agricultural Requirement

Agriculture must keep up with the expanding population. It is difficult to imagine how to feed more than 3 billion people. Sustainable development focuses on agricultural strategies that generate high yields while protecting the integrity of the soil, which provides food for a large population, such as effective seeding techniques and crop rotation.

v) Sustain Biodiversity

Biodiversity is highly impacted by unsustainable development and overconsumption habits. The ecology of life is built in such a manner that species rely on one another for existence. Plants, for example, create oxygen, which humans require for breathing. Plants require carbon dioxide for growth and production, which humans exhale. Unsustainable development methods such as the release of greenhouse gases into the atmosphere destroy many plant species, reducing the amount of oxygen in the atmosphere.

3.4 Summary

After the study of this unit, it is expected that you have learnt the following:

i) The meaning of Sustainable Development
ii) The goals of Sustainable Development
iii) Relevance of Sustainable Development

This unit discussed the meaning of sustainable development as a method of arranging society in such a manner that it can sustain its existence for long period of time or in the long run. It also discussed the three major and seven other goals of sustainable development. The unit also outlined and explained the relevance of sustainable development.

3.5 References/Further Readings/Web Resources

Conserve Energy Future (2022) What is Sustainable Development?. A Conserve Energy Future online publication. Available online of: https://www.conserve-energy-future.com/what-is-sustainable-development-and-its-goals.php. Accessed 01/04/2022

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3.6 Possible Answers to SAEs

Answers to SAEs 1

sustainable development is the organizing principle for meeting human development goals while simultaneously sustaining the ability of natural systems to provide the natural resources and ecosystem services on which the economy and society depend. The desired result is a state of society where living conditions and resources are used to continue to meet human needs without undermining the integrity and stability of the natural system. Sustainable development can be defined as development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

Answers to SAEs 2

i) To minimize the depletion of natural resources when creating new developments.
ii) To create a development that can be maintained and sustained without causing further harm to the environment.
iii) To provide methods for retrofitting existing developments to make them environmentally friendly facilities and projects.

Unit 4 Economic Globalization and Economic Development

Unit Structure

4.1 Introduction
4.2 Learning Outcomes (LOs)
4.3 Main Contents
 4.3.1 The Concept of Globalization and Economic Globalization
 4.3.2 Definition of Globalization
 4.3.3 Definition of Economic Globalization
 4.3.4 The Elements of Economic Globalization
 4.3.5 The features of Economic Globalization
4.4 Summary
4.5 References/Further Readings/Web Resources
4.6 Possible Answers to Self-Assessment Exercise(s)

4.1 Introduction

Under this unit, globalization and economic globalization will be discussed. These discussions will be made under themes such concepts of globalization and economic globalization, definitions of globalization and economic gloablisation, features and elements of economic globalisation.

4.2 Learning Outcomes

By the end of this unit, you will be able to:

explain the meaning of globalisation and economic globalization as well as their differences
explain the features and elements of economic globalization.

4.3 Main Content

The main contents of this unit includes, the concept of globalization and economic globalization, definition of globalization, definition of economic globalization, elements of economic globalization, and features of economic globalization.

4.3.1 The Concept of Globalization and Economic Globalization

Because globalization has so many dimensions such as economic, political, cultural, and environmental, it is difficult to define. The economic aspect of globalization is the focus here. However, globalization will also be defined to better understanding of the topic. According to Peterson Institute for International Economics (PIIE), the term globalization refers to the rising interconnectedness of economies the world, cultures, and inhabitants, as a result of cross-border commerce in commodities and services, technology, and investment, people, and information flows. Over many years, countries have formed economic alliances to enable these flows. However, with the end of the Cold War in the early 1990s, the word acquired prominence as these cooperative agreements influenced modern life.

Self-Assessment Exercises 1

What is globalization?

4.3.2 Definition of Globalization

Globalization is defined by Reich "as a set of economic and political structures and processes deriving from the changing character of the goods and assets that comprise the base of the international political economy—in particular, the increasing structural differentiation of those goods and assets." McGrew in his description refers to globalization the network of links and interconnections that exist outside the country states (and, by extension, societies) that make up the current world order.

Globalization is the process of integrating a country's economy with the global economy so that the entire globe can function as a single market and economy. In this borderless system, capital, technology, and products are easily exchanged. Globalization connects every country's economy to the economies of other countries across the world, allowing businesses to expand worldwide and countries to improve their competitiveness. As a result, internationalization is considered as part of globalization. To put it another way, globalization entails connecting the economy countries with the global economy. It refers to the process through which events, choices, and actions in one area of the world can have far-reaching implications for persons and groups in other parts of the world.

4.3.3 Definition of Economic Globalization

Economic globalization is one of the three primary characteristics of globalization discussed in academic literature, the other two being political and cultural globalization. It refers to the rising interconnectedness of world economies as a result of increased cross-border commerce in goods and services, international capital flows, and the widespread and fast development of technology.

According to the World Bank Briefing Paper, 2001, "economic globalization refers to the "quickly rising share of economic activity in the world [that] seems to be taking place between people in different countries". More specifically, the IMF Issue Brief 2000 defines economic globalization as "the result of the increasing integration of economies around the world, particularly through trade and financial flows and the movement of people and knowledge across international borders". Economic globalization refers to the management of economic operations by home and worldwide markets, as well as the coordination of national and global economies. It comes from the industrialized world and the multinational businesses that operate there.

4.3.4 Elements of Economic Globalization

Cross-border economic activity expands in five ways: (a) international commerce; (b) foreign direct investment; (c) capital market movements; (d) migration (labor mobility); and (e) technological diffusion.

a) International Commerce or Trade

International trade is economic transactions that take place between countries. It enables countries to extend their markets and get access to commodities and services that might otherwise be unavailable in their own country. Imports account for a growing percentage of consumer expenditure on goods and services, while exports account for a growing share of what countries create. Other types of transactions include travel services and payments for foreign patents. International trade and the financial transactions that accompany it are typically conducted to provide a nation with commodities that it lacks in exchange for those that it produces in abundance; such transactions, when combined with other economic policies, tend to improve the standard of living of a nation. In other words, imports are products or services that are introduced into the country while exports are products or services that are sold to a foreign country.

(b) Foreign Direct Investment (FDI)

The United Nations define FDI as "investment made to acquire lasting interest in enterprises operating outside of the economy of the investor". According to Corporate Finance Institute, FDI is "an investment in the form of a controlling ownership in a business in one country by an entity based in another country".

FDI is the purchase of a stake in a firm by a corporation or investor based outside of the country's boundaries. In general, the word refers to a commercial decision to buy a significant share in or buy a foreign company completely in order to expand its activities to a new territory.

(c) Capital Market Movements or Flows

Globally, capital market flows have made investors to progressively diversify their portfolios to include foreign financial assets, such as international bonds, equities, or mutual funds, in many nations, particularly in the developed world, while borrowers have increasingly looked to overseas sources of money.

The movement of money for the purposes of investment, commerce, or commercial activities is referred to as capital flows. These include the flow of cash inside a company in the form of investment capital, capital spending on operations, and Research and Development (R&D). Remittances from migration, which mainly travel from industrialized to less industrialized nations, are also included in capital market flows. In essence, an entrepreneur has a variety of options for financing his or her firm. Capital flows are also financial asset transfers between multinational companies. Significant levels of capital inflow imply a developing economy, but large amounts of capital outflow signal a country's economic instability.

(d) Migration (Labour Mobility)

Labour mobility refers to the ease with which workers may migrate within and across economies. It is a significant aspect of economics because it examines how labor, as one of the most important components of production, influences growth and output.

Migration of labor is becoming more mobile, and it may assist developing economies when migrants who have gained education and know-how overseas return home to start new businesses. Migration, on the other hand, can harm the economy by causing brain drain, or the loss of qualified employees who are necessary for economic progress.

(e) Technological Diffusion

The process through which new goods, processes, or management practices spread within and between economies is known as technological diffusion. As a result, it is the broad acceptance and application of a certain technology. The process through which inventions are embraced by a population is known as technology diffusion. The type and quality of the invention, how information about the innovation is disseminated, and the characteristics of the population into which it is introduced are all elements that influence whether or not diffusion happens.

Self-Assessment Exercises 2

Outline and discuss the various elements of economic globalization.

4.3.5 Features of Economic Globalization

i) Liberalisation

Liberalisation symbolizes for entrepreneurs' freedom to start whatever industry, trade, or business endeavor they choose, whether it is in their own country or overseas. As a result, liberalisation entails making worldwide efforts to reduce trade barriers, allowing for simple and seamless flow of products and services across countries.

ii) Free Trade

It advocates for the unrestricted flow of trade between all nations. Each state accords other states the most favoured country status and preserves its business and trade free of overbearing regulatory and protectionist regimes.

iii) Globalisation of Economic Activity

The domestic market and the global market both control economic operations. It refers to the process of home economies becoming more integrated with the global economy. The sophisticated character of industrial organizations is a result of globalization.

iv) Liberalisation of Import-Export System

Capital is the lifeblood of any firm. There is a free movement of capital between countries as a result of globalization. It stands for removing barriers to cross-border trade and ensuring the free movement of goods and services.

v) Privatisation

It simply implies keeping the government out of the business of manufacturing and distribution, and allowing free flow of industrial, commercial, and economic activity across borders. It is the process through which the government transfers ownership, property, or a business to the private sector. The government is no longer the owner of the company or firm at this point.

vi) Increased Collaborations

Increased collaborations encourage entrepreneurial alliances in order to ensure quick modernisation, development, and technical advancement. In this sense, efforts are undertaken to establish an atmosphere in national and international markets where all nations may benefit from innovative technology. This is because globalization has placed technology at the service of humanity, reducing the world to a small global village with the help of technical advancements such as the

Internet, telecommunications, and e-commerce. It also encourages intellectual work and property and increase unrestricted movements between nations.

vii) Economic Reforms

Economic reforms promote fiscal and financial changes in order to strengthen free international commerce, free entrepreneurship, and market forces. The reason for this is that globalization has brought politics and economics together. Previously, fate of people was dictated by political ideology and international connections. In the new era, economics, job creation, and public welfare are the factors that shape international relations.

Self-Assessment Exercises 3

Mention and explain the features of economic globalization.

4.4 Summary

Economic globalisation increases international trade in an exchange of a good or service involving at least two different countries.

Globalisation brings about comparative advantage which allows for gains from international trade and ultimately leading to increased consumption of goods.

There about seven features of economic globalization discussed in this unit and they include; libralisation, free trade, globalization of economic activity, Liberalisation of Import-Export System, privatization, increased collaboration and economic reform.

There are also five elements of economic globalization discussed. These include the following: International trade, Foreign Direct Investment (FDI), Capital Market Movement, Migration of labour and technical diffusion.

This unit presented exhaustive discussions on globalization and economic globalization. Under the themes such as, definition of globalization, definition of economic globalization, elements and features of economic globalisation, economic globalization was explained and expounded.

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4.6 Possible Answers to SAEs

Answers to SAEs 1

The term globalization refers to the rising interconnectedness of economies the world, cultures, and inhabitants, as a result of cross-border commerce in commodities and services, technology, and investment, people, and information flows.

Answers to SAEs 2

Elements of Economic Globalization

a) International Commerce or Trade: International trade is economic transactions that take place between countries.

(b) Foreign Direct Investment (FDI): The United Nations define FDI as "investment made to acquire lasting interest in enterprises operating outside of the economy of the investor".

(c) Capital Market Movements or Flows: Globally, capital market flows have made investors to progressively diversify their portfolios to include foreign financial assets, such as international bonds, equities, or mutual funds, in many nations, particularly in the developed world, while borrowers have increasingly looked to overseas sources of money.

Answers to SAEs 3

Features of Economic Globalization

i) Liberalisation: Liberalisation symbolizes for entrepreneurs' freedom to start whatever industry, trade, or business endeavor they choose, whether it is in their own country or overseas.

ii) Free Trade: It advocates for the unrestricted flow of trade between all nations.

iii) Globalisation of Economic Activity: The domestic market and the global market both control economic operations.