



NATIONAL OPEN UNIVERSITY OF NIGERIA

SCHOOL OF MANAGEMENT SCIENCE

COURSE CODE: MGS 207

**COURSE TITLE: INTRODUCTION TO DEVELOPMENT
ECONOMICS**

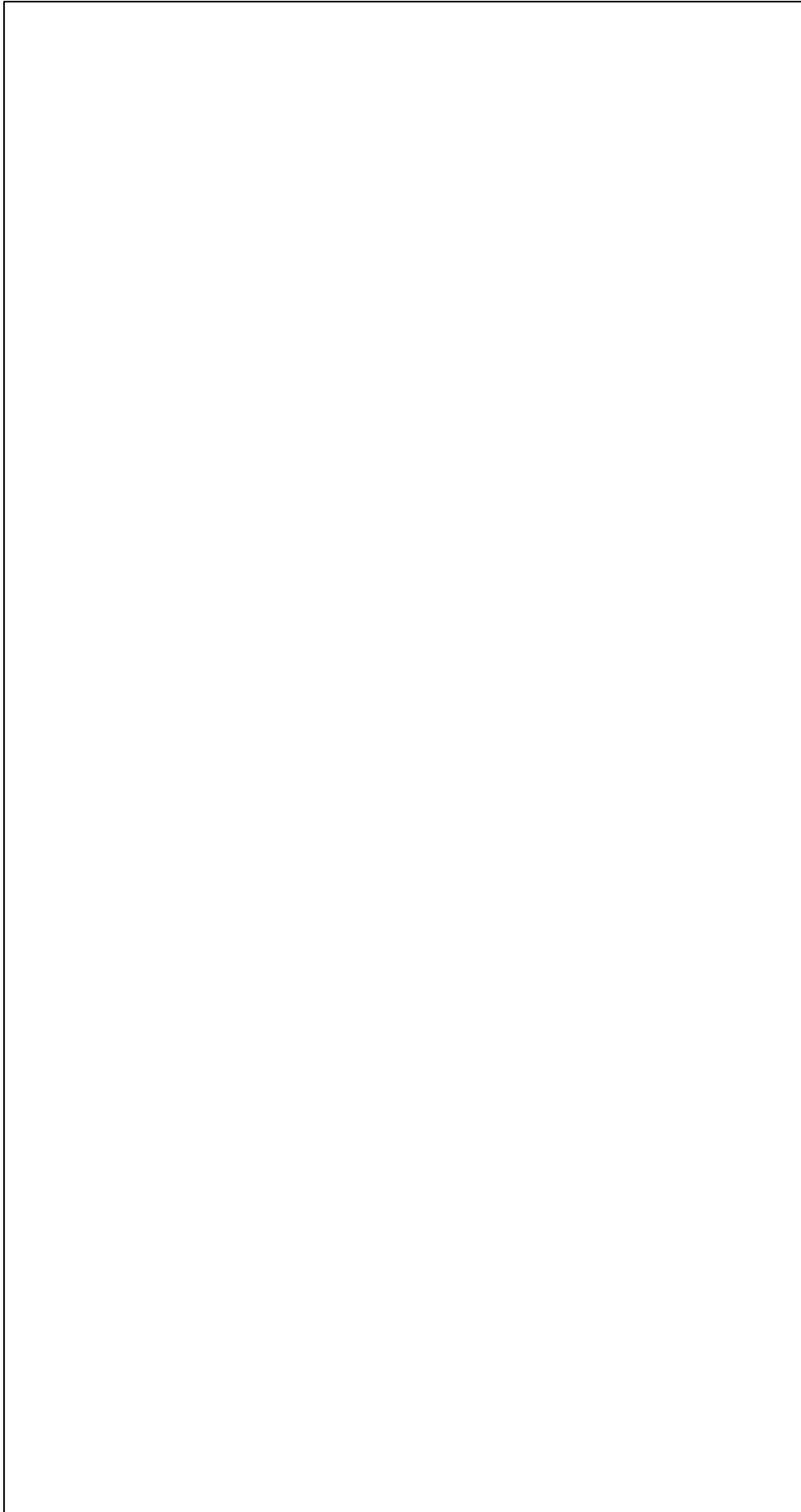
**COURSE
GUIDE**

**MGS 207
INTRODUCTION TO DEVELOPMENT ECONOMICS**

Course Team Mr. Maghori (Course Writer/Developer) – NOUN
Dr. O.J. Onwe (Programme Leader) – NOUN
Abdullahi S. Araga (Course Coordinator) – NOUN



NATIONAL OPEN UNIVERSITY OF NIGERIA



National Open University of Nigeria
Headquarters
14/16 Ahmadu Bello Way
Victoria Island, Lagos

Abuja Office
5 Dar es Salaam Street
Off Aminu Kano Crescent
Wuse II, Abuja

e-mail: centralinfo@nou.edu.ng

URL: www.nou.edu.ng

Published by
National Open University of Nigeria

Printed 2008

Reprinted 2014

ISBN: ISBN: 978-058-845-0

All Rights Reserved

Printed by:

CONTENTS	PAGE
Introduction.....	iv
What You will Learn in this Course.....	iv
Course Aim.....	iv
Course Objectives.....	v
Course Material.....	v
Study Units.....	vi
Assignment File	vii
Tutor-Marked Assignment.....	viii
Final Examination and Grading	viii
Summary.....	viii

INTRODUCTION

MGS 207: Introduction to Development Economics is a semester course work of two credit hour. The course is available to all students taking the B.Sc programme in the school of Business and Human Resources Management.

The course is made up of 17 units involving the concept, scope and theories of economic growth and development. This constitutes the backdrop to the problems and challenges of development. Due to the fact that development is a comprehensive process involving economic, social and environmental changes, the course will take an interdisciplinary approach. It is an attempt to explain some complex relationships among various aspects of development including population growth, economic growth, improvements in education and health, industrialization and agriculture, environmental degradation and globalization.

The course guide informs on what the course MGS 207 is all about, the materials to be used and how to make use of the materials to ensure adequate success. Other information contained in the course guide includes the economic use of time, information on tutor marked assignments/question. There will be tutorial classes on the course as will be arranged by the study centres

WHAT YOU WILL LEARN IN THIS COURSE

The course contents consist of~ the nature and meaning of development and underdevelopment and its various manifestations in developing nations; Theories of growth and development and its various manifestations in developing nations; Theories of growth and development including historical growth experience of now developed countries and major development problems and policies both domestic and international; Topics of analysis and review include poverty and income inequality, population growth, education and human capital development; Agricultural and Industrial development, Trade and development, financing development, Development goals and strategies and Development planning.

COURSE AIMS

The aims of this course is to expose students to some major challenges in today's sustainable development from the global to the national and perhaps even to the local level and help them gain a more holistic and realistic view of their country's situation in a global context.

The aims will be achieved by:

- explaining the nature, goals and means of development
- highlighting the historical growth experience of developed countries.
- Identifying the major development problem and policies both domestic and international.
- Analysing the developmental problems of poverty and income inequality; poverty and hunger, health and longevity; education and human capital.
- Explaining all the areas of globalization -international trade and migration; foreign investment and foreign aid.
- Explaining the indicators of development sustainability.
- Highlighting the millennium development goals.

COURSE OBJECTIVES

At the end of the course, you should be able to:

- explain the nature, goals and means of development and underdevelopment.
- highlight the historical growth experience of developed countries with a view to ascertaining its relevance to contemporary developing nations.
- describe the four classic theories of development
- identify the major developmental problems and policies of both domestic and international levels.
- explain the developmental problems of poverty and income inequality; poverty and hunger, health and longevity; education and human capital
- describe the variants of globalization in international trade and migration; foreign investment and foreign trade.
- explain public and private enterprises.
- list the indicators of sustainable development
- list the millennium development goals.
- explain development plans.

COURSE MATERIALS

- Course Guides
- Study units
- Textbooks
- Assignment guide

STUDY UNITS

There are three modules with 17 units of this course which should be studied carefully.

Module 1

Unit 1	General Scope of the Development Economics
Unit 2	Classic Theories of Development
Unit 3	Poverty, Income Inequality and Development
Unit 4	Population Growth and Economic Development
Unit 5	Human capital: Education in Economic Development
Unit 6	Human Capital: Health in Economic Development

Module 2

Unit 1	Urbanization and Rural-Urban Migration
Unit 2	Agricultural Transformation and Rural Development
Unit 3	The Employment Problem in Less Developed Countries
Unit 4	Industrialization Strategies for Economic Development
Unit 5	Public and Private Enterprises

Module 3

Unit 1	Globalization: International Trade and Development
Unit 2	Globalization: Foreign Investment and Foreign Aid
Unit 3	Composite Indicators of Development
Unit 4	Indicators of Sustainable Development
Unit 5	Development Goals and Strategies
Unit 6	Development Planning

The first 2 unit under module 1 focus on the nature and meaning of development and underdevelopment and its various manifestations in developing countries. They also give you the historical growth experience of developed countries based on the four classic theories of development and thus becomes a benchmark for assessing its relevance to contemporary developing nations.

Module 1 unit 3 to module 2 unit 5 forms the core issues in development problems and policies at the domestic level. Unit 12 and unit 13 also focus on core issues in development problems and policies, but this time at the international level.

Module 3 Unit 3 to Unit 5 give the indicators, strategies and goals of sustainable development.

Unit 6 focuses on development planning in all its ramifications.

Each study unit will take at least two hours and consists of introductions, objectives, main content exercises, conclusion, summary and references, as well as tutor marked questions. There are also text books under reference for further reading so as to give you additional information. You should practice the tutor marked questions to enable you have greater understanding of the course.

The Modules

The course is divided into three modules. The first module has 6 units, the second module consists of 5 units while the last module has 6 units.

The first module deals with the nature and meaning of development and underdevelopment and its various manifestations in the developed countries as well as the historical growth experiences of now developed countries based on four classic theories of development.

The second module treats the core issues in development problems and policies at both the domestic and international levels. The third module focuses on the composite indicators of development as well as strategies and goals of sustainable development. The last module is on all areas of development planning using Nigeria as a case study.

ASSIGNMENT FILE

There will be five assignments' and each student is expected to do all of them by following the schedule presented below.

1. The nature and meaning of development and under-development and historical growth experience of developed countries based on four classic theories of development (units 1 & 2)
2. Core issues in development problems and policies at the domestic area (units 3, 4, 5, 6, 7, 8,9, 10 & 11)
3. Core issues in development problems and policies internationally (units 12 & 13)
4. Indicators, strategies and goals of sustainable development (units 14, 15 & 16)
5. Development planning (unit 17)

TUTOR-MARKED ASSIGNMENT

In doing the tutor marked assignments, each student is expected to apply what has been learnt in the contents of the study unit. Students are also expected to turn in the assignments which are five in number to their tutor for grading. They constitute 40% of the total core.

FINAL EXAMINATION AND GRADING

At the end of the course each students will be expected to write the final examination. It will attract the remaining 60%. This makes the total final score to be 100%.

SUMMARY

Course MGS 207 (Introduction to Development Economics) exposes you to the nature and meaning of development and under development, classic theories of development, major development problems and policies as well as possibilities and prospects for development.

On the successful completion of the course, each student of the course would have been fully equipped with the principle and concepts; problems and policies of development as well as possibilities and prospects for development.



**MAIN
COURSE**

CONTENTS	PAGE
Module 1	1
Unit 1 General Scope of the Development Economics.....	1
Unit 2 Classic Theories of Development.	8
Unit 3 Poverty, Income Inequality and Development.....	17
Unit 4 Population Growth and Economic Development.....	24
Unit 5 Human Capital: Education in Economic Development	31
Unit 6 Human Capital: Health in Economic Development....	37
Module 2	44
Unit 1 Urbanization and Rural-Urban Migration.....	44
Unit 2 Agricultural Transformation and Rural Development..	50
Unit 3 The Employment Problem in Less Developed Countries	56
Unit 4 Industrialization strategies for Economic Development	62
Unit 5 Public and Private Enterprises.....	67
Module 3	73
Unit 1 Globalization: International Trade and Development...	73
Unit 2 Globalization: Foreign Investment and Foreign Aid....	80
Unit 3 Composite Indicators of Development.....	86
Unit 4 Indicators of Sustainable Development.....	91
Unit 5 Development Goals and Strategies.....	97
Unit 6 Development Planning	102

MODULE 1

Unit 1	General scope of the Development Economics
Unit 2	Classic Theories of Development
Unit 3	Poverty, Income Inequality and Development
Unit 4	Population Growth and Economic Development
Unit 5	Human Capital: Education in Economic Development
Unit 6	Human Capital: Health in Economic Development

UNIT 1 GENERAL SCOPE OF DEVELOPMENT ECONOMICS

CONTENTS

1.0	Introduction
2.0	Objectives
3.0	Main Content
3.1	Scope of Development Economics
3.2	Meaning of Development
3.3	Goals of Economic Development
3.4	Measurement of Development
3.4.1	Comparing Levels of Development
3.5	Sustainable Development
4.0	Conclusion
5.0	Summary
6.0	Tutor-Marked Assignment
7.0	References/Further Readings

1.0 INTRODUCTION

This first unit of this course deals with the general scope of development economics. In this unit, you are exposed to the different areas of development economics so that you will have a panoramic view of the subject. Economics of development is one of the newest, most exciting, and most challenging branches of the disciplines of economics. Development economics has a greater scope. Development should be viewed as much more than simply economic growth. It goes beyond the objective of increased average income to include freedom, equity, health, education, safe environment and much more. We shall further look at the various yardsticks for measuring development. Put differently we shall answer the question. How do we determine which countries are more developed and which less? In addition, we shall discuss the goals and means of development. The first unit will end with a discussion on the necessary conditions for sustainable development.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- explain the meaning and scope of development economics
- describe the indicators measuring development
- explain the necessary conditions for sustainable development
- explain the goals of development.

3.0 MAIN CONTENT

3.1 Scope of Development Economics

Traditional economics which comprises classical and neoclassical economics is concerned with how scarce productive resources are efficiently allocated with growth over time in order to produce an ever expanding range of goods and services. However, development has an even greater scope. In addition, it must be concerned with the economic, social, political and institutional transformation of entire societies necessary to bring about rapid and large scale improvement in the levels of living of the masses of poverty stricken malnourished and illiterate peoples of Africa, Asia and Latin America. Development should therefore be associated with increase in GDP per capital, structural changes and appropriate measures for the disaggregated indices of development.

The focus of traditional economics mainly on growth in the discussion of development may be an inappropriate approach. We need to put distribution process at the centre of development conceptualization. Closely related to distribution is the issue of employment. Empirical evidence shows that there is a high rate of unemployment in developing countries which are conducive to political instability. There is also the issue of manpower development objective. A developing country is one whose human resources are developed and effectively utilized. Therefore, the focus should be on human resource, viz-a-viz utilization rather than focus on GNP per capital. A critical factor in the development process is the non-economic dimensions of development problems. As economists are concerned with economic explanation of low income levels, how employment" can be increased, they came to realize that without clear understanding of other non economic aspects of development, the concept of development cannot be meaningfully resolved. Today, there is a whole field of study called sociology of development and a new field of study in political science known as politics of development

3.2 Meaning of Development

What is development? How do we determine which countries are more developed and less developed? These questions are readily answered as follows. The increase in gross national product per capital usually connotes economic growth. Development is really much more than simply economic growth, it goes far beyond the objective of increased average income to include factors like education or elimination of poverty, inequality and unemployment within the context of growing economy. Development has been conceived as a multi dimensional process involving economic as well as social and environmental changes. We shall attempt to explain in the course of this unit, some complex relationships among various aspects of development including population growth, economic growth, education and health etc. Modern concept of development sees development as substantial improvement in people's quality of life; access to education and health care, employment opportunities, availability of clean air and safe drinking water, the threat to crime etc.

3.3 Goals of Economic Development

Different countries have different priorities in their development policies. The questions to ask are: Is the development goal to increase national wealth or improving the well-being of the majority of the population or ensuring peoples freedom? Or increasing their economic security?

The recent United Nations (UN) documents emphasize “human development” measured by life expectancy, adult literacy, access to all three levels of education as well as people's average income which determines their freedom of choice. In a broader sense, human development can be conceptualized to incorporate all aspects of individuals well being from their health status to their economic and political freedom.

It is true that traditional economics which is concerned with economic growth by increasing a nation's total wealth can enhance its potential for reducing poverty. However, examples abound where economic growth was not matched by progress in human development.

Economic goals must be constantly nourished by fruits of human development which enabling conditions include -health services, education services, employment opportunities democracy, environmental protection, etc. Conversely, slow human development can put an end to fast economic growth which enabling conditions are

qualified labour, technological innovation and sound management. "Human development is the end -economic growth a means."

SELF ASSESSMENT EXERCISE 1

We have just looked at the scope, meaning, goals and means of development. You are expected to be able to explain these concepts with ease.

3.4 Measurement of Development

In strict economic sense, GNP per capita is an index of economic growth. In practice, economists use gross national product (GNP) per capita or gross domestic product (GDP) per capita for the same purpose. These statistical indicators provide a rough measure of relative productivity with which countries use their resources.

GDP is calculated as the value of the total final output of all goods and services produced in a given year within the country's boundaries. GNP is GDP plus net income from abroad which is made up of the difference between incomes received by residents from abroad and incomes received by non residents.

GNP may be much less than GDP if much of the income from a country's production flows to foreign persons or firms. GDP and GNP can serve as indicators of the scale of a country economy. However, to judge a country's level of economic development, these indicators have to be divided by the country's population. GDP per capita and GNP per capita show the approximate amounts of goods and services that each person in a country would be able to buy in a year if incomes were divided equally. Although, this measure reflect the average income in a country. GNP per capita and GDP per capita have numerous limitations when it comes to measuring peoples actual well being. They do not show how equitably a country's income is distributed; they do not account for pollution, environmental degradations and resource depletion. A more popular, though apparently more disputable approach involves dividing all countries into 'developing' and 'developed'. This classification does not however work well in all cases. For example a group of high income developing countries that includes Israel, Kuwait, Singapore and the United Arab Emirate (UAE) are considered developing because of their economic structure, although their incomes formally place them among developed countries.

3.4.1 Comparing Levels of Development

The endowment of countries with natural resources is unequal. While some countries benefit from fertile agricultural soils others put a lot of effort into artificial soil amelioration. Some countries like Nigeria, Iraq, Iran have rich oil and gas deposits within their territories, while others have to import fossil fuels. However, a wealth of natural resources is not the most important determinant of development success rather, the productivity with which countries use their productive resources physical capital, human capital and natural capital -is widely recognized as the main indicator of their level of economic development.

Economists calculate how productively countries use their capital, but such calculating are challenging because of the difficulty of putting values on elements of natural and human capital. In practice economists use GNP per capita or GDP per capital as we have earlier discussed.

SELF ASSESSMENT EXERCISE 2

Why is capital important for sustainable development?

3.5 Sustainable Development

The term sustainable development is widely used by politicians all over the world. Even though, the notion is still rather new and lacks uniform interpretation. According to the United Nations World Commission on Environment and Development (1987) development is sustainable if it “meets the needs of the present without compromising the ability of future generations to meet their own needs. Sustainable development could also be called equitable and balanced development in as it concerns the interests of different groups of people within the same generation and among generations and do so simultaneously in three major interrelated areas -economic, social and environmental. .The economic objectives include growth, efficiency and disability. The social objectives are full employment, equity, security, education, health, participation and cultural identity. The environmental objectives relate to healthy environment for humans, rational use of renewable natural resources and conservation of non renewable natural resources.

Arguably, the most critical problem of sustainable development in each country as well as globally, is eradication of extreme poverty. War as well as poverty is inherently destructive of all economic as well as social and environmental goals of development.

The Rio Declaration (1992) puts it this way “Human beings are at the centre of concern for sustainable development. They are entitled to a healthy and productive life in harmony with nature”.

4.0 CONCLUSION

In this unit, we started out by looking at the general scope of development economics including the non economic dimensions of development. We went ahead to discuss the meaning of development which is a new dimension to the earlier held view of traditional economists. We then looked at the several goals and means of development. We further discussed the GNP per capita and GDP per capita as a measure of relative productivity.

In comparing levels of development, we looked at the productive resources of a country -physical capital human capital and natural capital as the main indicators of the country's level of economic development.

Lastly, we discussed the concept of sustainable development and concluded that in the final analysis sustainable development is about long-term conditions for humanity's multidimensional well-being.

5.0 SUMMARY

This first unit of the course-Development economics is concerned with the bird's eye view of development. Thus, it looks at the concept and scope of development, the goals of development and more importantly, the yardsticks for measuring development. The unit further describes how levels of development are compared among developing countries. We brought the unit to an end with a discussion on the conditions for sustainable development. This unit forms the background of our discussion in the second unit which deals with the classical theories of development. In the next study unit you will be taken through classical theories of economic development.

6.0 TUTOR-MARKED ASSIGNMENT

- (a) What do we mean by development?
- (b) How do we determine which countries are more developed and which less?

7.0 REFERENCES/FURTHER READING

Todaro M & Smith S. (2003). *Economic Development*. Pearson Education Pte Ltd, Delhi 110092, India (8th Edition).

Takyana P. Soubbtina. (2004). *Beyond Economic Growth: An Introduction to Sustainable Development*. 2nd ed. The World Bank, 1818H Street N. W, Washington DC 20433, USA.

UNIT 2 CLASSICAL THEORIES OF DEVELOPMENT

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Classical Theories of Development
 - 3.2 Development as Linear-Stages of Growth
 - 3.2.1 Rostow's Stages Of Growth
 - 3.2.2 Harrod-Domar Growth Model
 - 3.3 Structural Changes Model
 - 3.3.1 Lewis Theory of Development
 - 3.4 The International Dependence Model
 - 3.4.1 The Neocolonial Dependence Model
 - 3.4.2 The False Paradigm Model
 - 3.4.3 The Dualistic -Development Model
 - 3.5 The Neoclassical Counter Revolution Market Fundamentalism
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

1.0 INTRODUCTION

In the last course which is on the general scope of development economics, we discussed the concept and scope of development. We noted that there are certain criteria for measuring development as well as comparing levels of development among developing countries. We concluded our discussion on the unit by noting that human beings are at the centre of concern for sustainable development as they are entitled to a healthy and productive life in harmony with nature.

The second unit which we are about to discuss is concerned with the classic theories of economic development. In it, we shall look at the recent historical and intellectual evolution in scholarly thinking about how and why development does or does not take place. We shall do this by examining four major and often competing development theories. These theories offer valuable insights and useful perspective on the nature of the development process. It is important to note that newer models of development and underdevelopment often draw lesson from the classical theories.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- analyse the different classic theories of economic development
- explain the limitations to the theories
- explain the ideological, theoretical and empirical differences of the theories
- explain how such differences would be reconciled.

3.0 MAIN CONTENT

3.1 Classical Theories of Economic Development

After the World War II literatures on economic development has been dominated by four major and sometimes competing schools of thought. These theories attempt to explain various aspects of development.

These theories include (i) the linear stages of growth model (ii) theories and patterns of structural change (iii) the international –dependence revolution and (iv) the neo-classical, free- market counterrevolution. Although there is no consensus of opinion, out of these theories we might be able to get what these theories are about and form what policies. We shall start our theoretical analysis by looking at the classical theory of the linear stages of growth model.

3.2 Development as Linear-Stages of Growth

The evolution of stage theories of economic development is essentially the contribution of economic historians who have studied the economic experience of developed countries and have tried to systematize that experience into several stages. The implication of stage theories is that for development to occur, countries have to go through different stages that have been identified in a sense replicating some countries that have developed in the past. However, there are some limitations.

3.2.1 Rostow's Stages of Growth

Wait. W. Rostow in the late 1950s published a book called “The Stages of Economic Growth”. It made a lot of impact on the economic development scene and generated a lot of controversies. Rostow postulated that “it is possible to identify all societies, in their economic dimensions, as lying within one of five categories: the traditional society, the pre-conditions for take off into self-sustaining growth, the

take off, the drive to maturity, and A the stage of high mass consumption.

The traditional stage simply describes the characteristics of most traditional stages, ie, economy operating largely at a subsistence level. In it, the economic well being is very much circumscribed in which there economic well being is very much circumscribe there is very little centralization of authority -fragmentation of political authority. There is relatively little economic growth with savings rate being very low. The traditional stage gives way to the pre-condition stage as a result of some changes in the traditional socio-economic system.

In the precondition for take-off into self-sustaining growth stage, there is the emergence of an elite group that is committed to the modernizing of the economy, i.e., introducing a modern economy such acts usually involves the establishment of central political authority, the elimination of trade barriers that previously existed in the system which resulted from amalgamation of politico-economic system or by the creation of appropriate transport and communication facilities to bring various systems together. There is also the establishment of social overhead capital. Such infrastructures include transport, communication, education, health facilities etc. There is significant expansion of agricultural production. It is evident that in the pre-condition stage, you begin to have the improvement in agriculture and the positive growth in income. However, the precondition stage is marked by the existence of the traditional stage.

The self-sustained stage is the most important stage because it presents the demarcation line between a traditional economy and a modern self sustained economy.

The features of this stage include the emergence of a leading sector which grows at such a rapid stage and it is so interlinked with other sectors of the economy. For the leading sector to contribute to economic sustenance, it has to have backward and forward linkage. The leading sector will be able to purchase its input from other sectors (backward linkage). The forward linkage represents the sales of its output to other sectors for use as inputs thus providing additional stimulus to these other sectors. The drive to maturity stage is a situation in which traditional methods of production are almost completely eliminated while modern technology is applied to almost all aspects of production it takes up to fifty years or so before it is complete. At this time, the economic system has acquired the technological capability to produce almost all commodities.

The stage of high mass consumption is characterized by the existence of relatively high income per capital and the ability for the income to engage in wide range of consumer durables -cars, refrigerators, stereo sets, air conditioners. It is associated with relatively large amount of leisure for working masses. It was argued that advanced countries had all passed the stage of "take-off into self sustaining growth and the underdeveloped countries that were still in either the traditional society or the pre conditions stage had only to follow a certain set of rules of development to take off in their turn into self -sustaining economic growth.

A major critique of Rostows model is that there is always an overlap between one stage and the other, thus his classification of five stages of growth (development) do not constitute a valid theory of economic development as such.

3.2.2 The Harrod -Domar Growth Model (H -D Model)

The H – D growth model ascribes the economic mechanism by which more investment leads to more growth. This model is based on the premise that every economy must save a certain proportion of its national income, if only to replace worn out capital goods (buildings, equipments, materials). However in order to grow, new investments representing net additions to the capital stock are necessary. This is related to the equation below.

$$\frac{Y}{Y} = \frac{S}{K} \dots\dots\dots (1)$$

Where s = national savings ratio; k = capital output ratio

DY N = rate of growth of GNP:

Equation 1 is a simplified version of the famous equation in the Harrod–Domar theory of economic growth.

It states simply that the rate of growth of GNP is determined jointly by the 1. national savings ratio(s), and the capital – out put ratio(k). The economic logic is that in order to grow, economies must save and invest a certain proportion of their GNP.

3.3 Structural -Change Models

The structural change theory has as its main focus, the means by which underdeveloped economic transform subsistence agriculture to a most modern, more urbanized and more industrially diverse manufacturing

and service economy. It utilizes a combination of neoclassical price and resource allocation theory and modern economics to describe how this transformation process takes place.

3.3.1 The Lewis Theory of Development

W. Arthur Lewis in the mid -1950s formulated one of the best known theoretical models of development that focused on the structural transformation of a subsistence economy. The model is based on the 1954 article from the Journal of the Manchester school of Economics. Basically, he conceptualized the economy in terms of the sectors, ie what he calls the capitalist sector and the traditional sector. The capitalist sector in his model provides the engine for growth of the economy and as the capitalist sector expands, economic growth and development expand. Initially, the traditional sector represents the large sector and the capitalist sector, the small one. This according to Lewis explains how the capitalist sector gets to grow large in size at the expense of the traditional sector. Lewis looked at development as a process of the transformation of the traditional economy into a modern capitalist sector.

Lewis Makes Three Assumptions

First, there is the existence of unlimited supply of labour at subsistence wages in the economic system. He identifies these sources as the agricultural sector and the urban sector.

Secondly, employment expands in the capitalist sector as far as capital formation expands. Third, it is only the capitalists that save in the system. The presumption is that for most wage earners, savings is very little out of their wages. If there were to be capital formation, it was to be from the savings of the capitalistic; savings from wages and salaries if they exist will be minimal.

For Arthur Lewis, the increase in the share of savings is very vital for the development process. The expansion of the capitalist sector becomes a very critical process. The process of expansion can be kept going if the productivity of workers in the subsistence sector is improved. Labour is then released to the capitalist modern sector. In the extreme case, a situation will exist when the productivity of labour in the urban modern sector is increased to the level that the productivity will be the same as that in the traditional sector, i.e, the marginal productivity will be the same in a situation like that, dualism must have been eliminated.

Lewis shows how the size of the traditional sector is reduced and the modern sector increased while transforming the economy.

The criticisms of the Lewis model are as follows:

A point of departure is the extent to which unlimited supply of labour is available.

Based on Japanese development experience, the assumption of constant real wages in the traditional sector is not valid.

3.4 The International Dependence Model

The International Dependence models gained increasing support especially among intellectuals of the developing countries in the 1970s. This followed the growing disenchantment with the stages and structural change models. The model believes that developing countries are plagued by institutional political and economic bottlenecks at both domestic and international levels so much so that they depend on, and are dominated by rich countries. The international dependence model has three schools of thoughts. These include neocolonial dependence model; the false paradigm model.

3.4.1 Neocolonial dependence model is an indirect off shoot of the Marxist thinking in it, the existence and continuance of underdevelopment are attributable to the historical evolution of the unequal relationship between the international capitalist system or rich countries and the poor countries. The neocolonial view of underdevelopment is that the developing world's continuing and worsening poverty are due largely to the existence and policies of the industrial capitalist countries of the northern hemisphere and their extension of small, but powerful elite in the developing countries. The model therefore suggests a revolutionary struggle or at least major restructuring of the world's capitalist system so as to free the dependent developing nations from the direct and indirect economic control of their developed world and domestic oppressors.

3.4.2 The false parading model attributes under development to faulty and inappropriate advice provided by well meaning but often uninformed and biased international "expert" advisers from developed countries and multinational donor organization. The stock in trade of these experts is to offer sophisticated concepts, elegant theoretical structures and complex econometric models of development the often lead to in-appropriate or incorrect policies. In addition, leading university intellectuals trade unionists, high level government economists and other civil servants all get their training in developed country, institutions where they are served

an unhealthy dose of alien concepts and elegant but inapplicable theoretical models. The result is that desirable institution and structural in focus are neglected or at least paid scant attention.

3.4.3 The Dualistic -Development Thesis. This thesis is about the notion of a world of dual societies of rich nations and poor nations. The concept of dualism embraces the following four key arguments.

- (i) Different sets of conditions -superior and inferior can coexist in a given space. An example is the Lewis's notion of the coexistence of modern and traditional methods of production in urban and rural sectors.
- (ii) The coexistence is chronic. In other words, the international coexistence of wealth and poverty is simply not a historical phenomenon that can be rectified in time.
- (iii) The degrees of superiority or inferiority not only fail to show any signs of diminishing but even have an inherent tendency to increase.
- (iv) The interrelations between the superior and inferior elements are such that the existence of the superior elements does little or nothing to pull up the inferior elements rather may actually serve to push it down i.e to develop its under development.

SELF ASSESSMENT EXERCISE 1

Identify and discuss the classical theories of economic development, you are expected to be able to explain the essential destructions among the stages of growth theory of development and the structural larges models of

3.5 The Neoclassical Counter Revolution-Market Fundamentalism

The neoclassical counterrevolution in economic theory and policy in the 1980's was brought about by the political ascendancy of conservative governments in the United States, Canada, Britain and West Germany. The central argument is that underdevelopment results from poor resource allocation due to inappropriate pricing policies and state intervention by overly active developing nations. It is their contention that what is needed is promoting free markets and laissez- fair economics within the context of permissive governments that allow the "magic of the marketplace" and the invisible hand of markets prices to guide resource allocation and stimulate economic development.

The neoclassical challenge to the prevailing development orthodoxy can be divided into three approaches:

- (i) The free market approach
- (ii) Public choice theory
- (iii) Market friendly approach.

The free market analysis argues that markets alone are efficient, i.e, product markets provide the best signals for investment in new activities. Free market development economists have tended to assume that developing world markets are efficient and that whatever imperfections exist are of little consequence.

The public choice theory goes beyond the above argument to state that governments can do nothing right because public choice theory assumes that politicians, bureaucrats, citizens and state, act solely for self interest using their power and authority of government for their own selfish interest. The net result is not only a misallocation of resources, but also a general reduction in individual freedoms. The conclusion is that minimal government is the best government. The market friendly approach is the most recent variant on the neoclassical counterrevolution. This approach recognizes that there are many imperfections in LDC product and factor market. They contended that governments do have a key role to play in facilitating the operations of the market through “nonselective” intervention.

SELF ASSESSMENT EXERCISE 2

What is meant by the term neoclassical counterrevolution?

4.0 CONCLUSION

In this second unit, we have discussed a range of competing theories and approaches to the study of economic development. The first of these theories which is the linear stage theory which lays emphasis on the central role of accelerated capital accumulation as an engine of growth. The next theory which emphasizes structural change indicates average pattern of development. The international dependence theory questions the validity of the two-sector model of modernization and industrialization in light of their questionable assumptions and recent developing world history. The last of the theories which is the neoclassical counterrevolution of the 1980's contend that free markets and less government provide the basic ingredients for development. The existence of controversies amongst the four theories does not remove the fact that the study of development economics is both challenging and exciting more so that each approach has its strengths and weaknesses.

5.0 SUMMARY

This unit looks at the four classic theories of development. These theories offer explanations to the historical developments in the economics of the developing countries. The linear stage growth as the first classic theory identified the five stages of growth of societies in their quest for economic development. The second classic theory discusses the structural change model whereby societies transit economically from the traditional sector to a capitalist sector.

Following the growing disenchantment with these earlier two classic growth theories, the intellectuals of the 1970's focused in the international dependence model. Their thesis was that the existence and continuance of underdevelopment was due largely to unequal relationship between international capitalist system (rich countries) and the poor countries. In the fourth and last classical theory, we looked at the neoclassical counterrevolution -market fundamentalism. The advocates of this model contended that promoting free markets and laissez-faire economics will enable the invisible hand of market prices guide resource allocation and stimulate economic development.

Having looked at the historical trend, via classic theories of development we are not set to explore the different dimensions of development economics. We shall be discussing poverty and income inequality in our third unit. In the next study unit, you will be taken through poverty, income inequality and development.

6.0 TUTOR-MARKED ASSIGNMENT

Explain the essential distinctions among the stages of growth theory of development, the structural change model and the theory of international dependence. Explain your answer.

7.0 REFERENCES/FURTHER READING

Todaro M.P and Smith Sc (2003) Economic Development 8th Edition: Pearson Education (Singapore) Pte Ltd, Delhi India.

Tatyana P. Soubbotina (2004) Beyond Economic Growth. An Introduction to Sustainable Development (2nd Edition) The World Bank, 1818H Street NW; Washington DC 20433 U.S.A.

UNIT 3 POVERTY, INCOME INEQUALITY AND ECONOMIC DEVELOPMENT

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 The Nature of Poverty
 - 3.1.1 Meaning of Poverty
 - 3.1.2 The Vicious Circle of Poverty
 - 3.1.3 Growth and Poverty
 - 3.2 Income Inequality
 - 3.2.1 Growth and Inequality
 - 3.2.2 Measuring Inequality and Poverty
 - 3.3 Cost and Benefits of Income Inequality
 - 3.4 Policy Options
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

1.0 INTRODUCTION

In the last unit, we discussed the classical theories of economic development noting that four different but related theories were propounded on the historical trends of the various aspects of development. Although, there was no consensus due largely to much disagreement, each of these approaches to understanding development has something to offer.

In this third unit, we shall discuss poverty and income inequality as a component of the developmental process of any society. Our main focus shall be on poverty in all its ramification including the vicious circle of poverty. We shall also look at how income inequality affects poverty and quality of life in a country. Furthermore, we shall discuss the relationship between poverty and political instability as well as the challenge of hunger. The other areas for discussion in this unit include measuring inequality, the Lorenz curve and Gini indices, and finally, the cost and benefits of income inequality.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- explain the nature of poverty and the vicious circle of poverty
- describe the Lorenz curves and Gini indices
- explain income inequality and how it affects poverty and the quality of life
- measure inequality and explain the cost and benefits of income inequality.

3.0 MAIN CONTENT

3.1 The Nature of Poverty

3.1.1 Meaning of Poverty

Meaning of poverty simply put, is pronounced deprivation of well-being. At the core of all development problems is the elimination of wide spread poverty and growing income inequality. Although our main focus is on economic poverty and inequalities in the distribution of incomes and assets, it is important to keep in mind that this is only a small part of the broader inequality problem in the developing world. Of greater importance are inequalities of power, prestige, status, gender job satisfaction, conditions of work, freedom of choice and many other dimensions of the development problem.

In the traditional setting, poverty was understood as material deprivations, as living with low income and low consumption which manifests by way of poor nutrition and poor living conditions. However, income poverty does not exist alone rather it is often times associated with so-called human poverty -low health and education levels. It has been argued that this phenomenon is the direct consequence or the cause of low income. In addition, income and human poverty tend to be accompanied by some social deprivations which include vulnerability to disease, voicelessness in key society's institutions, inability to improve one's living condition. It is important to observe that poverty is a multidimensional phenomenon that requires a more comprehensive policy aimed at its induction.

3.1.2 The Vicious Circle of Poverty

This is a term used to describe a self reinforcing situation in which factors tend to perpetuate poverty.

To explain this undesirable phenomenon, let us use the following diagram.

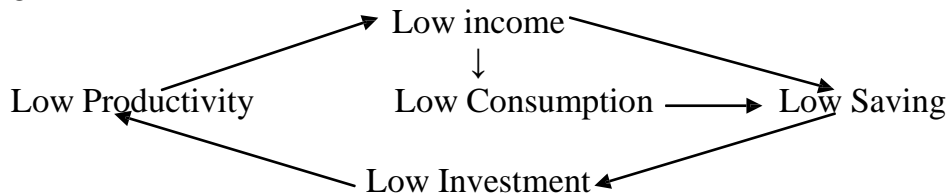


Fig 3.1 The vicious circle of poverty

From Fig. 3.1, it can be seen that low incomes in poor countries lead to low savings resulting from most incomes being spent to meet current (often urgent) needs. Lower saving rates account for a much smaller pool of savings available for desperately needed domestic investment in both physical capital and human capital. But without new investment, an economy's productivity cannot be increased and incomes cannot be raised. The low labour productivity eventually leads to persistence of poverty. That closes the vicious circle of poverty. The question that arises from this undesirable condition is due poor countries doomed to remain Poor? This question can be readily answered by using the available data in saving and investment in East Asia in the past two decades which suggest that the answer is no.

3.11 Growth and Poverty

The issue under consideration here is the relationship between growth and poverty. The relevant question to ask is -does there exist a conflict between reduction of poverty and the acceleration of growth? Or are they complementary? Experts in the field of development economics have argued that there are plausible reasons why policies focused toward reducing poverty levels need not lead to a slower rate of growth. Although traditionally, a body of opinion held that rapid growth is bad for the poor because they would be bypassed and marginalized by the structural changes of modern growth. There has also been considerable concern in policy circles that the public expenditures required for the reduction of poverty, would entail a reduction in the rate of growth. However, the review of country experience suggests that with appropriate policies, the poor can participate in growth.

SELF ASSESSMENT EXERCISE

Explain whether poor countries can break the vicious circle of poverty.

3.2 Income Inequality

Income inequality is a term used to refer to the existence of disproportionate distribution of total national income among households. In it the share going to rich persons in a country is far greater than that going to poorer persons. This situation is common to most less developed countries (LDCs). This is due largely to differences in the amount of income derived from ownership of property and to a lesser extent the result of differences in earned income.

3.2.1 Growth and Inequality

To study the relationship between inequality and economic growth, the percentage growth rates of incomes and gross material product of 13 developing countries were considered. Long run data covering the periods of the 1960's and the mid -1990's were used. During those periods per capita growth in East Asia averaged 5.5% while that of Africa declined by 0.2% yet both Gini coefficient. {an aggregate numerical measure of income inequality ranging from 0(perfect equality) to 1 (perfect inequality)} remained unchanged. The overall data suggest that it is the character of economic growth that determines the degree to which it attains growth, as or is not reflected in improved living standards for the very poor. It is not the mere fact of rapid growth alone that determines the nature of its distributional benefits.

3.2.2 Measuring Inequality and Poverty

To measure income inequality in a country and compare this phenomenon among countries more accurately, economists use Lorenz curves and Gini indices. Lorenz curve shows the actual quantitative relationship between the percentage of income recipients and the percentage of the total income they did in fact receive during a given period say a given year. How is the curve constructed? First, economists rank all the individuals or households in a country by their income level from the poorest to the richest. Then all these individuals or households are divided into 5 groups i.e. 20 percent in each (or 10 groups, 10 persons in each).

Next, the income in each group is calculated and expressed as a percentage of GDP. The shares of GDP received by these groups (cumulatively) are plotted. e.g., the income share of the poorest quintile is plotted against 20 percent of the population and so on until the

aggregate share of all five quintiles (which equals 100 percent) is plotted against 100 percent of the population. After connecting all the points on the chart starting with 0 percent share of income received by 0 percent of the population, we get the Lorenz curve for the country. The more the Lorenz line curves away from the diagonal (perfect equality) the greater the degree of inequality.

A Gini index is even more convenient than a Lorenz curve when the task is to compare income inequality among many countries. The index is calculated as the area between a Lorenz curve and the line of absolute equality expressed as percentage of the triangle under the line as shown in fig 3.2 above ie the ratio of the shaded area to the total area of the triangle BCD. Gini coefficients are aggregate inequality measures and can vary anywhere from 0 (perfect equality) to 1 (perfect inequality) Gini coefficient for countries with highly unequal income distributions typically lies between 0.50 and 0.70 while for countries with relatively equitable distribution, it is in the order of 0.20 to 0.35.

Measures of income poverty vary in different countries. Speaking in general terms, the richer a country is the higher in its national poverty line. To allow for international comparisons the World Bank has established an international poverty line of \$1 a day per person in 1985 purchasing power parity (PPP) prices. This is equivalent to \$1.08 a day per person in 1993 prices. For middle income countries on international poverty line of \$2 a day, ie \$2.15 in 1993 PPP prices is closer to a practical minimum. Of the 6 billion people living on earth as the end of the 20th century, almost half-about 2.8 billion -lived or less than \$2 a day and about one fifth (1.2billion) lived on less than \$1.

3.3 Cost and Benefits of Income Inequality

Economists have often argued that mitigating the effects of inequality by increasing the burden of government tends to discourage investment, slows economic growth and undermines a country's international competitiveness. On the other hand, excessive inequality adversely affects people's quality of life leading to a higher incidence of poverty, A impeding progress in health and education and contributing to crime. In addition high inequality does the following (i) reduces the pool of people with access to the resources. (ii) threatens a country's stability (iii) may discourage certain basic norms of behaviour of the economic agents such as trust and commitment and (iv) limits the use of important market instruments such as prices and fines. However experts globally recommend decreasing income inequality in developing countries to help accelerate economic and human development.

3.4 Policy Options

Developing country governments have identifiable four broad areas of possible policy intervention. These include (a) altering the functional distribution in the returns to labour, land and capital as determined by factor prices utilization levels, and the consequent shares of national income that accrue to the owners of each factor (b) mitigating the size distribution (c) reducing the size distribution of the upper levels through progressive taxation of personal income and wealth and (d) increasing the size distribution of the lower levels through public expenditures of tax revenues to raise the incomes of the poor either directly or indirectly.

4.0 CONCLUSION

We commenced the discussion on this third unit by looking at the nature of poverty as well as the vicious circle of poverty. In it we saw poverty as a multidimensional manifest by way of disease, economic crises, voicelessness in most society's institution and inability to improve ones living circumstances. We then looked at the relationship between poverty and growth. We also focused on inequality and the extent of relative inequality in developing countries and how it is related to the extent of absolute poverty. Data from 13 developing countries in respect of the growth of their GNPs suggest that it is the character of economic growth that determines the extent to which that growth is or is not reflected in improved living standard. We also looked at the measurement of inequality by using the internationally acclaimed Lorenz curve and Gini coefficient. We further discussed the cost and benefits of income inequality. The discussion on poverty, income inequality and development came to a close with an analysis on viable policy option available to developing countries towards mitigating poverty and income inequality, such policy option include evolving strategies that will put in place appropriate agricultural development policies for attacking poverty through helping the poor develop their micro-enterprises on which a large fraction of the nonagricultural poor depend for their survival.

5.0 SUMMARY

In this unit, we focused on poverty and income inequality as they affect development. Looking at these phenomena in their ramification, it was our view that there is the need for a package of complementary and supportive policies towards mitigating the problems of poverty and inequality in development. In the next unit we shall look at population growth and economic development.

6.0 TUTOR-MARKED ASSIGNMENT

How does income inequality affect poverty and quality of life in a country?

7.0 REFERENCES/FURTHER READING

Todaro M.P and Smith S.c (2003) Economic Development. 8th Edition: Pearson Education (Singapore) Pte Ltd, Delhi, India.

Tatyana P. Soubbotina (2004) Beyond Economic Growth, An Introduction to Sustainable Development (2nd Edition). The World Bank 1818H Street N.W; Washington DC 20433 U.S.A.

UNIT 4 POPULATION GROWTHS AND ECONOMIC DEVELOPMENT

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 History of World Populations Growth
 - 3.2 Structure of World Population
 - 3.3 Population Growth and Quality of Life
 - 3.4 Demographic Transition
 - 3.5 The causes and Consequences of High Fertility in Developing Countries
 - 3.6 Policy Approaches to Reductions in World Population Growth
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

1.0 INTRODUCTION

In the last unit, which is on poverty, income inequality and development we looked into the issues of independent poverty and growing income inequality which are at the core of all development problems. We had as our main focus, economic poverty and inequalities in the distribution of incomes and assets noting that a package of complementary and supportive policies should be pursued by developing countries aimed at mitigating the problems of poverty and inequality in development.

In this unit, we shall be looking at the issue of population growth and economic development: the causes, consequences and controversies. Our main focus will be on the rapid population growth which is more pronounced in developing countries and its serious consequences for the well being of all of humanity. We shall also be looking at the relationship between development and population growth. Finally, we shall discuss the issue of what developing countries can do and how developed countries can assist developing countries with their population problems.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- explain why the world population is growing faster than ever before
- describe the structure of world population
- explain the causes and consequences of high fertility in developing countries
- analyse the concept of demographic transition

3.0 MAIN CONTENT

3.1 The History of World Population Growth

In the past 50 years, the world has experienced an unprecedented increase in population. Population growth rate today is primarily the result of a rapid transition from a long historical era characterized by high birth rates and death rates to one in which death rates have fallen sharply but birthrates especially in developing countries are only just beginning to fall from their historically high levels. A natural population increase occurs when birth rate is higher than the death rate. However, a country population growth rate depends on the natural increase and on migration, global population growth is determined exclusively by natural increase.

Around the world, death rates gradually decreased in the late 19th and the 20th centuries with death rates in developing countries falling rapidly after World War II due largely to spread of modern medicine. Since the 1960's birth rates have also been declining rapidly in most developing countries except those in sub-Saharan Africa and the middle East. Today's low income countries still have the world's highest birth rates.

3.2 Structure of World's Population

The world's population is very unevenly distributed in the areas of geographic, region, fertility and mortality levels, and structures.

In terms of geographic region, more than three – quarters of the world's people live in developing countries compared to person In four lives in an economically developed nation. Given current population growth rates in different parts of the world, which is significantly higher in the LDCS, the regional distribution of the worlds population will inevitably change by 2050. By that time, it is likely that there will be almost 6.5 billion more people on the earth than in 1950 and about 3 billion more

than in 2000. In fertility and mortality trends, natural increase simply measures the excess of births over deaths or in more technical terms, the difference between fertility and mortality. The difference between developing and developed nations in terms of rates of population growth can be explained simply the facts that birth rates (fertility) in developing countries are generally much higher than in the rich nations. LDC death rates (mortality) are also higher. The major source of difference in population growth rates between the less developed and the more developed countries is the sizeable difference in their birthrates.

In the area of age structure and dependency burdens, world population today is very youthful particularly in the developing world. Children under the age of 15, constitute almost 40% of the total population of developing countries, but less than 20% of the population of developed nations. For example 46% of Nigeria's population and 48% of Ethiopia's was under 15 in 1997. The economic implication of this phenomenon is that in countries with such an age structure, the youth dependency ratio – the proportion of youths (under age 15) to economically active adults (ages 15 to 64) is very high. Thus, the workforce in developing countries must support almost twice as many children as it does in wealthier countries.

SELF ASSESSMENT EXERCISE 1

We have so far discussed the history and structure of the World's population. You should be able to explain the reasons why world population is growing faster than ever before.

3.3 Population Growth and Quality of Life

Latest empirical research has shown that there exist some potential negative consequences of population growth on poverty and inequality. The negative consequences of rapid population growth fall most heavily on the poor because they are the ones who are made landless, suffer first from cuts in government health and education programmes. They are the main victims of job cuts due to slower growth of the economy. Poor women once again bear the greatest burden of government austerity programs; large families perpetuate poverty and also exacerbate inequality. Further, large family size and low incomes restrict the opportunities of parents to educate all their children. High fertility harms the health of mothers and children. Feeding the world's population is made more difficult by rapid population growth.

3.4. The Demographic Transition

Demographic transition is a term used to refer to the process by which fertility rates eventually decline to replacement levels. It attempts to explain why all contemporary developed nations have more or less passed through the same three stages of modern population history. In stage I, these countries for centuries had stable or very slow population growth as a result of the combined effects of high birth rates and almost equally high death rates before their economic modernization. Stage II occurred when modernization in association with improved public health methods, healthier diets, higher incomes and other improvements led to a marked reduction in mortality thus gradually raising life expectancy from under 40 years to over 60 years. It is important to note that this decline in death rates was not immediately followed by a decline in fertility, hence it resulted in a growing divergence between high birth rates and falling death rates. The consequence of this is the sharp increases in population growth compared to past centuries. Stage II marked the beginning of the demographic transition (the transition from stable or show growing populations first to rapidly increasing numbers and then to declining rates).

Finally stage III began when the forces and influences of modernization and development caused the beginning of a decline in fertility, eventually falling birth rates converged with lower death rates, leaving little or no population growth.

3.5 The Causes and Consequences of High Fertility in Developing Countries

Two schools of thought propounded theories which advanced arguments on the likely causes of high fertility in developing countries. The first of such theories is the "Malthusian population trap". In it Reverend Thomas Malthus attempted to show the relationship between population growth and economic development. In this essay on the principle of population, Malthus postulated that there is a universal tendency for the population of a country, unless checked by dwindling food supplies, to grow at a geometric rate, doubling every 30 to 40 years while food supplies could grow at an arithmetic rate. Because the growth of food supply could not keep pace with the rapidly increasing population, per capita income would fall so low as to lead to a population that will exist slightly at above subsistence level. Malthus contended that the only way to avoid this condition of chronic low levels of living or absolute poverty was for people to engage in moral restraint and limit the number of their offsprings.

The criticisms of the Malthusian population trap are that:

- (i) the model ignores the enormous impact of technological progress in offsetting the growth inhibiting forces of rapid population increases.
- (ii) the research in LDCs indicates that there appears to be no clear correlation between population growth rates and levels of per capita income.

The second theory on the causes of high fertility in developing countries is the microeconomic Household Theory of fertility. This theory is an application of the conventional theory of consumer behaviour, which assumes that an individual with a given set of preferences for a range of goods (utility function) tries to maximize the satisfaction derived from consuming these goods subject to his income constraint and the relative prices of all goods. In the application of this theory to fertility analysis, children are considered as a special kind of consumption good. It assumes that the household demand for children is determined by family preferences for a certain number of surviving (usually male) children, by the price of rearing these children and by levels of family income. Children in poor societies are seen partly as economic investment goods in that there is an expected return in the form of both child labour and provision of financial support for parents in old age. It is important to point out that statistical studies in a broad spectrum of developing countries have provided strong support for the economic theory of fertility.

On the consequences of high fertility there exists some conflicting opinions. The people who argue that population growth is not a cause for concern assert that:

- (i) the problem is not population growth but other issues
- (ii) population growth is a false issue deliberately created by dominant rich -country agencies and institutions to keep LDCs in their underdeveloped, dependent condition.
- (iii) for many developing countries and regions, population growth is in fact desirable. Many knowledgeable people from both rich and poor nations argue that the real problem is not population growth per se, but one or all of the following four issues:
 - (a) underdevelopment
 - (b) world resource depletion and environmental destruction
 - (c) population distribution
 - (e) subordination of women.

3.6 Policy Approaches to Reductions in World Population Growth

The consensus opinion on rapid population growth and economic development are that:

- (1) population growth is not the primary cause of low levels of living, gross inequalities or the limited freedom of choice that characterize much of the developing world
- (2) the problem of population is not simply one of numbers, but involves the quality of life and material well-being
- (3) rapid population growth does serve to intensify problem of underdevelopment and make prospects for development. Based on these three proposition, we may conclude that the following three policy goals and objectives might be included in any realistic approach to the issue of population growth in developing countries:
 - (i) problems such as absolute poverty, gross inequality, widespread unemployment, limited female access to education, malnutrition, and poor health facilities must be given high priority in countries or regions where population size, distribution, and growth are seen as existing or potential problems
 - (ii) to bring about smaller families through development induced motivation, family planning programs providing both the education and the technological means to regulate fertility for people who wish to regulate it should be established
 - (iii) developed countries should assist developing countries to achieve their lowered fertility and mortality objectives.

SELF ASSESSMENT EXERCISE 2

Why do fertility and population growth rates vary from one country to another?

4.0 CONCLUSION

In this unit, which is the fourth one, we discussed population growth and economic development with special focus on developing countries. We globally looked at the causes, consequences and controversies of rapidly growing population and 5 effects on economic development on the global scale, falling fertility rates already have decreased the population' growth rate from more than 2.0 percent to 1.5 percent a year over the past 30 years. Also in the last decade, fertility rates in many of the poorest countries such as Bangladesh and most of the countries in sub-Saharan Africa have experienced an impressive decline. In no small

part, this decline is the result of more widespread availability of family planning. This change helps set the stage for an opportunity for successful development efforts in the coming years, but developed countries need to do their part in providing expanded development assistance especially efforts focused on the need and opportunity to greatly reduce the incidence of poverty, which remains the biggest cause of high rates of fertility.

5.0 SUMMARY

In this unit, we looked at population growth and economic development. Our major focus was on the causes and consequences of the rapidly growing population of developing countries on economic growth. This is more so that rapid population growth can have serious consequences for the well being of all of humanity. Areas covered in respect of this phenomenon include the history and structure of world population; the effect of population growth on quality of life, the concept of demographic transition. We wrapped up the unit by looking at the consequences of high fertility in developing countries and policy options available to developing countries towards receiving high fertility rate. In the next unit, we shall look at education as part of human capital in economic development.

6.0 TUTOR-MARKED ASSIGNMENT

To what extent does rapid population increase make it more difficult to provide essential social services, including housing, transport, sanitation and security?

7.0 REFERENCES/FURTHER READING

Tatyana P. Solubbotina (2004). *Beyond Economic Growth: An Introduction to Sustainable Development* (2nd Edition). The World Bank 1818H Street NW; Washington DC 20433 USA.

Todaro M. P. and Mith S. C. (2003). *Economic Development* (8th Edition) Pearson Education (Singapore) Pte Ltd, Delli, India.

UNIT 5 HUMAN CAPITAL: EDUCATION IN ECONOMIC DEVELOPMENT

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 The Central Roles of Education
 - 3.2 Investing in Education -Human Capital Approach
 - 3.3 The Gender Gap: Women and Education
 - 3.4 Educational System and Development
 - 3.4.1 Primary Education and Literacy
 - 3.4.2 Issues in Secondary and Tertiary Education I
 - 3.5 Policies for Education and Income Generation
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

1.0 INTRODUCTION

In the last unit we discussed the issues of population growth and its effect on economic development with particular reference to developing countries. We looked at the consequences of a rapidly growing population for the well being of all of humanity. We concluded that the developed countries need to play vital roles in providing expanded development assistance aimed at greatly reducing the incidence of poverty which remains the biggest cause of fertility.

In this unit, we shall be looking at Education as a vital component of Human capital in Economic Development. Our main focus shall be on education as a basic objective of development. We shall also examine, the role of education in economic development, moreso that recent decades have witnessed on historically unprecedented extension of literacy and other basic education to a majority of people in the developing world. Arguments have been advanced that most human capital is built up through education or training that increases a persons economic productivity and thus “arming a higher income. Education therefore can be seen as a vital component of growth and development.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- explain the role of education in economic development
- analyse the best ways to build a country's human capital
- explain the main obstacles to universal primary education in low income countries
- explain how a country's economic position affects its education need
- describe the educational gender gap in all LDCs.

3.0 MAIN CONTENT

3.1 The Central Role of Education

The role of education in economic development cannot be overemphasized. Most governments are playing an increasingly active role in providing education. Differences in public spending on education across countries reflect differences in government efforts to increase the national stocks of human capital. Governments of developing countries devote a larger share of their GDP to education today than they did in 1950 but this share is still smaller than that of the developed countries; 3.3 percent of GDP in low – income countries and 4.8 percent in middle income countries compared with 5.4 percent in high income countries. This gap is an important manifestation of the vicious circle of poverty described in unit 3. It is important to note that education is essential for a satisfying and rewarding life. It is fundamental to the broader notion of expanded human capabilities that lie at the heart of the meaning of development. At the same time, education plays a key role in the ability of a developing country to absorb modern technology and to develop the capacity for self-sustaining growth and development.

3.2 Investing in Education the Human Capital Approach

Human capital is the term economists often use for education, health and other human capacities that can raise productivity when increased. Most human capital is built up through education or training that increases a person's economic productivity i.e. enables him to produce more valuable goods and services and thus earn higher incomes. Governments, workers, and employers invest in human capital by devoting money and time to education and training.

Like any other investment this investment in human capital requires sacrifices. People agree to make these sacrifices if they expect to be

rewarded with additional income in the future. Governments spend public funds on education because they believe that a better educated population will contribute to faster and more sustainable development. Educated and skilled people are usually able to deliver more output that is more valuable in the market place and their employers tend to recognize that fact with higher wages.

The impact of human capital investment in developing countries can be quite substantial. The national stock of human capital and its rate of increase are critical to a country's level and rate of economic development. This is because these are important determinants of a country's ability to produce and adopt technological innovations.

Nevertheless, investing in human capital, although extremely important, is not sufficient for rapid economic growth. Such investment must be accompanied by the right development strategy. It is important to note that economic returns to education are not always the same. However, returns to education may be lower if (i) the quality of education is low or knowledge and skills acquired at school do not match market demand (ii) there is insufficient demand for human capital because of slow economic growth (iii) workers with lower and higher education and skills are deliberately paid similar wages to preserve a relative equality in earnings -as used to happen in centrally planned economy.

3.3 The Gender Gap: Women and Education

In almost every developing country, young females receive considerably less education than young males. In 66 out of 108 countries, women's enrollment in primary and secondary education is lower than that of men by at least 10 percentage points. The educational gender gap is the greatest in the poorest countries. For all developing countries taken together, the female literacy rate was 29% lower than male literacy. The relevant to be higher for primary education than for other levels of study, most government are committed to providing free access to primary school to all children. We note that primary school enrollments are generally lower for girls than for boys. This gender gap is widest in South Asia, sub-Saharan Africa and the Middle East. However, Latin America and the Caribbean have already managed to do away with the gender gap in primary and even secondary education. Narrowing the gender gap requires supportive national policies, such as reducing the direct and indirect costs of girls; schooling for their parents and building more schools for girls in education systems that are segregated by sex.

3.4 Educational Systems and Development

Harbison F.H in his book -Human Resources as the Wealth of Nations argued that human beings are the centre of developmental process. They organize, plan and produce the capital equipment. According to him “clearly, a country which is unable to develop the skills and knowledge of its people and to utilize them effectively in the national economy will be unable to develop anything else.” We can also argue that the principal institutional mechanism for developing human skills and knowledge is the formal educational systems.

3.4.1 Primary Education and Literacy

Attending primary school enables children acquire basic literacy and numeracy as well as the knowledge and skill needed for their future education. In low income countries, primary education in itself often improves the welfare of the poor by making them more productive workers. Despite rapid growth in the number of children of primary school age, since 1970, developing countries have succeeded in considerably increasing the percentage of children enrolled in primary school. However, the universal primary education, a goal pursued by most governments of developing countries is still far from being achieved in many of them. Because economic and social returns to society are known.

3.4.2 Issues in Secondary and Tertiary Education

Enrolment in secondary schools is much lower than in primary schools in most developing countries. On the average, less than 60 percent of children of secondary school age in low and middle income countries are enrolled while in high-income countries, secondary education has become almost universal. Child labour remains the most formidable obstacle to education for children in low-income countries.

The gap between developed and developing countries is particularly wide in tertiary education. We note that neither the number of students enrolled at a level of study nor the amount of resources invested in education can indicate the quality of education and thus provides only a rough idea of a country's educational achievement. However, vast opportunities for improving the quality of education in the lagging developing countries are offered by modern information and communication technology. Given the high cost of limited availability of computers and internet connectivity in low- and middle income countries their benefits can be maximized by installing computers first in schools, libraries and community centres.

3.5 Policies for Education and Income Generation

In order to generate economic returns, education and training have to meet the ever-changing demands of the labour market ie they have to equip graduates with the knowledge and skills reached at each stage of a country's economic development. For example, countries moving from planned to market economies usually need more people trained in economics and business management to work in emerging private sectors as well as in reformed public sectors. Investing in education is not only an important way to build a country's human capital and move it closer to the knowledge economy, thus improving in prospects for economic growth and higher living standard. For every individual, education also has a value in its own right because education broadens people's horizons and helps them to live healthier, more financially secure and more fulfilling question to ask here is why is female education important? The answer is that there now exists ample empirical evidence that educational discrimination against women hinders economic development in addition to reinforcing social inequality. The point to note in this discussion is that closing the educational gender gap by expanding educational opportunities for women in economically desirable for the following reasons at the rate of return on women's education is higher than that in men's in most developing countries (ii) increasing women's education not only increases their productivity on the farm and in the factory but also results in greater labour participation (iii) improved child health and nutrition and more educated mothers had to multiplier effects on the quality of a nation's human resources for many generations to come. (iv) because women carry a disproportionate burden of poverty and landlessness that permeates developing societies, any significant improvements in their role and status in education can have an important impact on breaking the vicious cycle of poverty and inadequate schooling.

SELF ASSESSMENT EXERCISE

Identify and explain the best ways to build a country's human capital.

4.0 CONCLUSION

In this unit we discussed human capital development. You have been exposed to the role which education plays in economic development. The primary and secondary levels and education play important role in the life of our children towards the acquisition of requisite knowledge for skills development.

The tertiary level of education provides the ultimate educational needs for skills acquisition by the youth. Hence, educational system in any country determines the level human capital development.

5.0 SUMMARY

In this unit, you have been taken through topical areas such as investment in education towards human capital development, the gender gap in the area of human and education, educational system and economic development, and castly the policies needed for trooping up education and income generation in any economy.

In the next unit, we shall look at the of health delivery in human capital development.

6.0 TUTOR-MARKED ASSIGNMENT

Discuss the role of education in human capital development.

7.0 REFERENCES/FURTHER READING

Todaro M.P and Smith S.C (2003). *Economic Development* (8th Edition) Pearson Education (Singapore) Pte Ltd, Delhi, India.

Tatyana P. Soubbotina (2004). *Beyond Economic Growth: An Introduction to sustainable Development* (2nd Edition). The World Bank 1818HN.W; Washington DC 20433 U.S.A.

UNIT 6 HUMAN CAPITAL: HEALTH IN ECONOMIC DEVELOPMENT

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 The Central Role of Health: Global Trends
 - 3.2 Health and Population Age Structure
 - 3.3 Health System and Development.
 - 3.4 The Burden of Infectious Diseases
 - 3.4.1 HIV and Aids
 - 3.4.2 Tuberculosis
 - 3.4.3 Malaria
 - 3.4.4 Health System Policy
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

1.0 INTRODUCTION

Our discussion in the last Unit 5, centred on the role of education in development. The point was made that plays a key role in the ability of a developing country to absorb modern technology and to develop the capacity for self -sustaining growth and development. We also advanced the argument that the educated populace being a part of national stock of human capital is critical to a country's level and rate of economic development. A better educated population will also contribute to faster and more sustainable development. In this unit, we shall be looking at the role health plays in a country's economic development. Health is fundamental to the broader notion of expanded human capabilities that lie at the heart of the meaning of development. It can be seen as a vital component of growth and development in that it constitutes an input into the aggregate production function. The role as both input and output gives education its central importance in economic development.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- explain the central role health plays in economic development
- analyse the factors that account for most of the health improvements in the 20th Century

- explain how major health risks are changing for different groups of countries
- explain how developing countries are tackling the spread of HIV
- pandemic
- explain the life style challenges confronting the developing countries.

3.0 MAIN CONTENT

3.1 The Central Role of Health: Global Trends

Health like education is a basic objective of development. It is an important end in itself being central to well-being and essential for a satisfying and rewarding life. It is important to appreciate the improvements in world health over the past half -century. There are two statistical indicators utilized in monitoring the health of a country's population. They include life expectancy at birth and the under -5 mortality rate. These indications are also cited among broader measures of a population's quality of life. This is so because they indirectly reflect many aspects of people's welfare including their levels of income and nutrition, the quality of their environment, and that access to health care, safe water and sanitation.

Life expectancy at birth indicates the number of years a newborn baby would live if health conditions prevailing at the time of its birth were to stay the same throughout its life. This indicator does not predict how long a baby will actually live but rather reflects the overall health conditions characteristic of this particular year. The under -5 mortality rate indicates the number of newborn babies who are likely to die before reaching age 5 per 1,000 live births. Due to the fact that infants and children are more vulnerable to malnutrition and poor hygienic living conditions they account for the largest portion of deaths in most developing countries. The second half of the 20th century witnessed a global improvement in health conditions more than in all previous human history.

Average life expectancy at birth in low -and middle -income countries increased from 40 years in 1950 to 65 years in 1998. Over the same period, the average under -5 mortality rate for this group of countries fell from 280 to 79 per 1,000. However, these achievements are still considerably below those in high income countries where average life expectancy at birth is 78 years and the average under -5 mortality rate is 6 per 1,000. However, governments of developing countries are investing in improving public health measures (safe drinking water, sanitation, mass immunization), training medical personnel and building clinics and hospitals.

3.2 Health and Population Age Structures

The health and the longevity of a country's citizens are reflected in its population age structure i.e. the percent age of total population in different age groups. In low income countries, more than one third of the population is under 15 compared with less than one fifth in high-income countries. From a social and economic perspective, a high percentage of children in a population means that a large portion is too young to work and in the short run is dependent on those who work. This accounts for the relatively high age dependency ratios in most developing countries. However, the declining fertility in developing countries is expected to result in declining dependency ratios for the next few decades.

On the other hand, high income countries currently face the problem of aging population i.e., a growing percentage of elderly non-working people. In 1997, people at 65 and above made up 13.6 percent of the population in these countries and this portion is expected to grow to almost 17.4 percent by 2015. In countries such as Belgium, Germany, Greece, Italy, Japan and Sweden, the share of elderly people has already reached or surpassed 15 percent. An aging population puts greater pressure on a country's pension, health care and social security systems. Developing countries too will face the problem of an aging population as life expectancy continues to increase.

SELF ASSESSMENT EXERCISE 1

Identify and explain the factors that account for most of the health improvements in the 20TH century.

3.3 Health System and Development

As we noted earlier in our discussion, the health of a country's population is measured by the under-5 mortality rate and life expectancy. The latter measure has the advantage that it is available for most countries, at least as an estimate, though it can be very misleading. The extension of life expectancy can provide extended years of vitality while providing only additional years of extremely poor health and suffering in another. The infant survival rate is a better measure, but clearly omits consideration of the general health status of the population beyond only childhood. The World Health Organization (WHO) defines health as "a state of complete physical, mental and social well-being and not merely the absence of disease and infirmity." Using a "disability-adjusted life year (DALYs) measure, a World Development Report Study in 1993 calculated that about one-quarter of the global burden of disease was represented by diarrhea, childhood diseases including measles,

respiratory infections, parasitic worm infections and malaria, all major health problems of developing countries.

3.4 The Burden of Infectious Diseases

It has been estimated that developing countries face a much more crippling disease burden than developed countries especially regarding infectious diseases. About half of all infectious disease mortality in developing countries -more than 5 million deaths a year -can be attributed to three diseases: HIV/AIDS, Tuberculosis (TB) and malaria. None of these three diseases has an effective vaccine, but there are proven and cost-effective ways to prevent these diseases.

Prevention, however, is complicated by the fact that infections occur primarily in the poorest countries and among the poorest people.

3.4.1 HIV/AIDS

According to former United Nations Secretary General Kofi Anna, HIV/AIDS has become a major development crisis. Recent medical advances notwithstanding, there is still no cure available while the total number of people living with HIV / AIDS has reached 40 million. In many African countries' 10 to 20 percent of all adults are infected with HIV/ The Caribbean has the highest infection outside of sub-Saharan Africa while in other regions HIV prevalence is considered lower. In high – income countries, the number of AIDS -related deaths considerably decreased in the late 1990's due largely to recent developed expensive therapy.

It is important to note that AIDS is. The final and fatal stage of infection with the human immunodeficiency virus (HIV). AIDS is thought as an issue of health care systems and delivery as well as an issue of economic development. African countries hardest hit by HIV/AIDS cannot be expected to cope with this crisis without substantial support from the international community.

3.4.2 Tuberculosis (TB)

This disease is another global epidemic that threatens to get out of control as a result of combination with HIV/AIDS and the emergence of multi- drug -resistant TB strains. HIV radically weakens a person's immune system and TB becomes the first manifestation of AIDS in over 50 percent of all cases in developing countries. Tuberculosis kills about 2 million people a year worldwide even though modern low-cost anti -TB drug can cure at least 85 percent of all cases. According to WHO estimates, only 19 percent of all TB cases in 20 high TB burden

countries are currently cured. The main burden of TB is carried by Southeast Asia and sub-Saharan Africa where most of the world's poor reside.

3.4.3 Malaria

Malaria is largely preventable and treatable infectious disease. It nevertheless kills as many people as TB each year. Its spread is limited to countries with tropical climates and has shrunk considerably over the past 50 years. Malaria directly causes an estimated, 1 million deaths each year, most of them among impoverished African children. The WHO reported that malaria directly or indirectly causes up to 2 million deaths a year, the vast majority among young impoverished children of Africa and some 400 million cases annually. Globally more than 2 billion people are threatened. The WHO Roll Back malaria program seeks to eradicate this disease at its source. In addition major efforts are underway to increase international funding for a war on malaria emphasizing the development of a malaria vaccine. With proper funding, specialists believe an effective vaccine might be just a few years away.

3.5 Health System Policy

WHO defines a health system as “all activities whose primary purpose is to promote, restore or maintain health”.

Health system includes the components of public health departments, hospitals, and clinics and offices of doctors and paramedics. Outside this formal system is an informal network utilized by many poorer citizens, which includes traditional healers, who may practice with the use of somewhat effective herbal remedies or other methods that provide some medical benefits, such as acupuncture, but who also may practice techniques for which there is no evidence of effectiveness.

Formal public health measures have played a very important role in developing countries. Ministries of health, sometimes complemented by the services of non-governmental organizations have played vital roles in extending vaccines to rural areas. Basic health is also an effective means to achieve goals of poverty reduction. An effective government role in health systems is critical for the following reasons (i) health is central to poverty alleviation, because people are often uninformed about health, a situation compounded by poverty (ii) households spend too little on health because they may neglect externalities. (iii) The market would invest too little in health infrastructure and research and development. Government has different roles in different countries. As

WHO “puts it, “the health of people is always a national priority; government responsibility for it is continuous and permanent”.

SELF ASSESSMENT EXERCISE 2

Can the spread of HIV/AIDS developing countries be curbed?

4.0 CONCLUSION

The role of health, as a form of human capital, in economic development was the issues of discussion in this unit. In it, we noted that developing nations continue to face great challenges as they seek to continue to improve the health of their citizens as the most important root cause of poor health in developing countries is poverty itself.

We also took a systematic look of health systems in developing countries, to understand the sources of the severe inequalities and inefficiencies that continue to plague them. We found compelling evidence that investments in human capital have to be undertaken with both equity and efficiency for them to successfully realize their potential impact or incomes. We conclude that formal public health measures have played a very important role in developing countries and that an effective government role in health systems is critical. As the WHO observes, the careful and responsible management of the well-being of the population -stewardship is the very essence of good government.

5.0 SUMMARY

The discussion in this unit centered on the role of health in a country's economic development. We started out with the central role of health with emphasis on global trends -that is how the low and middle income countries fared in respect of the two yardsticks for measuring the health of a country's ,population -life expectancy and under -5 mortality rate. Next, we looked at health and population age structure -more specifically the social and economic challenges that result from different population age structures.

We noted that developing countries have higher age dependency ratio than developed countries. The burdens of infectious diseases were also discussed. In it the three major killer diseases HIV/AIDS, Tuberculosis and malaria were treated. We noted sadly that none of these three killer diseases has an effective vaccine. This phenomenon is further exacerbated by the fact that infections occur primarily in the poorest countries and among the poorest people thus perpetuating their poverty even further. The discussion in this unit came to an end with health

system, policy option available to government to address the health problems of its citizens.

6.0 TUTOR-MARKED ASSIGNMENT

1. What are the most pressing health challenges today?
2. What makes them so difficult to solve?

7.0 REFERENCES/FURTHER READING

Todaro M.P and Smith S.C (2003). Economic Development (8th Edition) Pearson Education (Singapore) Pte Ltd, Delhi, India.

Tatyana P. Soubbotina (2004). Beyond Economic Growth: An Introduction to sustainable Development (2nd Edition). The World Bank 1818HN.W; Washington DC 20433 U.S.A.

MODULE 2

Unit 1	Urbanization and Rural-Urban Migration
Unit 2	Agricultural Transformation and Rural Development
Unit 3	The Employment Problem in Less Developed Countries
Unit 4	Industrialization Strategies for Economic Development
Unit 5	Public and Private Enterprises

UNIT 1 URBANIZATION AND RURAL-URBAN MIGRATION

CONTENTS

1.0	Introduction
2.0	Objectives
3.0	Main Content
3.1	The Migration and Urbanization Dilemma
3.2	The Urban Informal Sector
3.3	Urban Unemployment
3.4	Urban Air Pollution
3.5	Migration and Development
4.0	Conclusion
5.0	Summary
6.0	Tutor-Marked Assignment
7.0	References/Further Readings

1.0 INTRODUCTION

In the last unit, we discussed the role of health in economic development. In it, we looked at the global trends in both developed and developing nations with respect to the quality of life of their people using the two statistical indications -life expectancy and under -5 mortality rate. We saw that there has been improvement in the health conditions around the world. We also discussed the issue of high age dependence ratio prevalent in most developing countries as different from the developed nations where there are roughly 2 people of working age to support each person who is too young or too old to work. We finally looked at the policy option available to developing nations to improve their health systems.

In this unit, we shall be looking at urbanization and rural-urban migration. In it, we shall look at the positive association between urbanization and per capital income in the development process taking full cognizance of the fact that migration and urbanization is one of the most complex dilemmas of the development process.

This phenomenon includes the massive and historically unprecedented movement of people from the rural countryside to the burgeoning cities of Africa. After looking at the trends and prospects for overall urban population growth, we shall discuss the potential role of cities in general and the urban information sector in particular in fostering economic development. We then turn to urban unemployment, urban air pollution and wrap up the unit with an evaluation of the various policy options that LDC governments may wish to pursue in their attempt to curtail the heavy flow of rural-to-urban migration and ameliorate the serious unemployment problems that continue to plague the crowded cities of the LDCs.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- account for the unprecedented movements of people from the rural to urban areas in most developing countries
- explain the problem of rapid urbanization as a population policy issue
- explain the reasons for rising urban un-employment and under-employment in developing countries
- explain the role of urban informal sector in fostering economic development
- explain why urban air pollution is often higher in developing countries.

3.0 MAIN CONTENT

3.1 The Migration and Urbanization Dilemma

Studies over the years have shown that one of the most complex dilemma of the development process is the historically unprecedented movement of people from the rural countryside to the urban cities. The question to ask is -how are the LDCs able to cope economically environmentally and politically with such acute concentrations of people. While it is true that cities offer cost reducing advantages of agglomeration economics and economics of scale as well as numerous economic and social externalities, the social costs of a progressive overloading of housing and social services and of course not forgetting increased crime, pollution, congestion which tend gradually to outweigh these historical urban advantages.

Along with the rapid spread of urbanization and urban bias in development strategies is the attendant prolific growth of huge slums and shanty towns. Although this phenomenon is a direct consequence of

population growth and accelerated rural to -urban migration, part of the blames rates with LDC governments. Given the widespread dissatisfaction with rapid urban growth in developing countries, the critical issues that need to be addressed is the extent to which national governments can formulate development policies that can have a definite impact on trends in urban growth. With birthrates beginning to decline in many LDCs, the serious and worsening problem of rapid urban growth and accelerated rural urban migration will undoubtedly be one of the most important development and demographic issues of the early twenty -first century.

3.2 The Urban Informal Sector

In the early 1970s, the existence of an unorganized, unregulated and mostly legal, but unregistered informal sector was recognized. The informal sector continues to play an important role in developing countries despite decade of neglect and outright hostility. In many developing countries, about half of the employed urban population works in the informal sector. The sector is characterized by a large number of small-scale production and service activities that are individually or family owned and uses labour intensive and simple technology.

The usually self-employed workers in this sector have little formal education, we generally unskilled and lack access to financial capital. As a result, worker productivity and income tend to be lower in the informal sector than in the formal sector. It is important to note that most workers entering this sector are recent migrants from rural areas unable to find employment in the formal-sector. Moreover workers in the informal sector do not enjoy the measure of protection afforded by the formal sector in term of job security, decent working conditions and old age pensions.

In terms of its relationship with other sectors, the informal sector is linked with the rural sector in that it allows excess labour to escape from rural poverty and under employment. It is also closely connected with the formal urban sector which depends on the informal sector for cheap inputs and wage goods for its workers. Many women run small business ventures called micro enterprises in the urban informal sector.

3.3 Urban Unemployment

The increasing supply of job seekers into both formal and informal sectors of the urban economy has been one of the consequences of the rapid urbanization process. In many developing countries, the supply of workers far outstrip the demand resulting in extremely high rates of

unemployment and under employment in urban areas. Data on urban unemployment for 20 countries show that 15 out of the 200 countries had rates above 9% and 13 countries had rates in excess of 10%. This data excludes the very many people who are chronically underemployed in the informal sector.

The problem is therefore much more serious than even these data suggest. Unfortunately reliable information on unemployment in Africa and in some of the most populated Asian cities where rates are likely to be high is unavailable. This is a major contributing factor to both high rates of urban growth and high rates of unemployment and underemployment in rural-urban migration.

SELF ASSESSMENT EXERCISE 1

Explain why the informal sector is becoming an ever-larger part of the urban economy.

3.4 Urban Air Pollution

As we noted earlier, there is a worldwide trend toward urbanization –a process of relative growth in a country's urban population accompanied by an even faster increase the economic, political and cultural importance of cities relative to rural areas. Most of the world's most popular cities are in developing countries. These cities have high concentrations of poor residents and suffer from social and environmental problems including severe air pollution.

Suspended particulate matter is made up of airborne smoke, soot, dust and liquid droplets from full combustion. High concentrations of suspended particulates adversely affect human health, provoking a wide range of respiratory diseases and exacerbating heart disease and other conditions world wide, in 1995, the ill health caused by such pollutions resulted in at least 500,000 premature deaths and 4-5 million new cases of chronic bronchitis. Most of one people at risk are urban dwellers in developing countries especially China and India. Using cleaner fossil fuels (natural gas and higher-grade coal), burning these fuels more efficiently and increasing reliance on even cleaners, renewable sources of energy are some of the best ways to control and reduce air pollution without limiting economic growth. Airborne lead is one of the most harmful particulate pollutants. Young children are especially vulnerable: lead poisoning of children leads to permanent brain damage, causing learning disabilities, hearing loss and behavioural abnormalities. In adults lead absorption causes hypertension, blood pressure problems and heart disease. While governments increasingly control large industrial sources of pollution, motor traffic is rapidly growing.

An improved quality of air does not result directly from economic growth. Any environmental benefits are usually achieved only as a result of political pressures from environmentally concerned population group and only through democratic mechanisms can these pressures translate into regulatory and technological changes.

3.5 Migration and Development

In economic development literature, rural urban migration was once favourably viewed as pervasive in its impact on the development process. The process was deemed socially beneficial because human resources were being shifted from location where their social marginal product was often.

Based on long term trends and comparisons with developed countries, continued urbanization and rural urban migration are probably inevitable. The reasons for this phenomenon are that (i) most alternative areas of employment expansion tend to be concentrated in urban areas because of agglomeration effects (ii) As education increases in rural areas, workers gain the skill they need, and perhaps the missing aspirations, to seek employment in the city.

Based on the possible policy approaches designed to improve the serious migration and employment situations in developing countries, we conclude that a comprehensive migration and employment should include the following (a) creating an appropriate rural urban economic balance (b) expanding small-scale, labour intensive industries (c) eliminating factor- price distortions (d) choosing appropriate labour intensive technologies of production (e) modifying the direct linkage between education and employment (f) reducing population growth (g) decentralizing authorities to cities and neighbourhoods.

SELF ASSESSMENT EXERCISE 2

What is the key to solving the serious problem of excessive rural urban migration?

4.0 CONCLUSION

The topic for discussion in this unit is urbanization and rural-urban migration. We looked at the migration and urbanization dilemma in which labour supply from the rural country side to the cities far outstrips their demand in these burgeoning cities especially in Africa. We noted that the incidence of massive and historically unprecedented movement of people from rural to urban cities constitutes a dilemma to the development process. We further noted that apart from the economies of

scale and proximity as well as numerous economic and social externalities that the cities offer, the social costs of a progressive overloading of housing and social services as well as increased crime, pollution, and congestion has the tendency to outweigh these urban advantages.

5.0 SUMMARY

In this unit, we looked at urbanization and rural urban migration as they affect developing countries. We began by discussing one of the dilemmas of the development process arising from the unprecedented exodus of people from the rural countryside to the urban cities of Africa, Asia and Latin America. We then looked at the urban informal sector which, as we found out, plays an important role in developing countries despite decades of their neglect. We talked about the role of women in the informal sector. Urban unemployment as a consequence of rural - urban migration leading eventually to rapid urbanization process came up next for discussion as this phenomenon leads to antisocial behaviours in cities. We also discussed urban air pollution and the impact of migration on economic development.

Finally, we evaluated the various policy options that LDCs may wish to pursue to improve the serious migration and employment situations in developing countries concluding that a comprehensive migration and employment strategy have to be put in place if the issues are to be seriously addressed

In the next unit, we shall discuss agricultural transformation and rural development.

6.0 TUTOR-MARKED ASSIGNMENT

Why might the problem of rapid urbanization be a more significant population policy issue than curtailing LDC population growth rates over the next two decades? Explain your answer.

7.0 REFERENCES/FURTHER READING

Todaro M.P & Smith S.C (2003). *Economic Development* (8th Edition) Pearson Education (Singapore) Pte Ltd, Delhi, India.

Tatyana P. Soubbotina (2004). *Beyond Economic Growth: An Introduction to Sustainable Development* (2nd Edition). The World Bank 1818HN.W; Washington DC 20433 U.S.A.

UNIT 2 AGRICULTURAL TRANSFORMATION AND RURAL DEVELOPMENT

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Agricultural Progress and Rural Development
 - 3.2 The Structure of Agrarian System in the Developing Countries
 - 3.3 The Important Role of Women in Agricultural Production
 - 3.4 Towards a Strategy of Agricultural and Rural Development
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

1.0 INTRODUCTION

We discussed urbanization and rural urban migration in the last unit. The discussion focused on one of the dilemma of the development process faced by developing countries. This phenomenon has to do with the unprecedented movement of people from the rural country side to the urban cities of Africa, Asia and Latin America. This historical trend has left in its wake, overloading of housing and social services, increased crime rate, pollution, congestion among other vices as well as urban unemployment which far outweigh the advantages of cost reducing agglomeration economics, economics of scale and social externalities. We ended the discussion by concluding that various policy options are available to LDCs which they may wish to pursue with a view to curtailing the heavy flow of rural-to-urban migration.

In this unit, we shall be looking at the correlation between agricultural transformation and rural development. In it we shall discuss extensively agricultural progress and rural development bearing in mind the structure of agrarian system in the developing countries. We shall also beam our searchlight on the role of women in agriculture. We shall conclude the unit by looking critically at the strategy of agricultural and rural development.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- explain how total agricultural output and productivity per capital can be substantially increased to benefit the average small farmer
- analyse the process by which traditional low-productivity peasant farms are transformed into high-productivity commercial enterprise
- explain agricultural productivity can be raised to improve rural life
- explain institutional and structural changes in rural farming systems.

3.0 MAIN CONTENT

3.1 Agricultural Progress and Rural Development

Recent statistics show that over 2.5 billion people in the developing world live on a meager and often inadequate living in agricultural pursuits. Furthermore, over 3 billion people lived in rural areas in 2001. In Africa most countries are having rural dwellers in excess of three quarters of the total population. Of greater importance is the fact that over two-thirds of the world's poorest people are also located in rural areas and engaged primarily in subsistence agriculture. Traditionally, the role of agriculture in economic development has been viewed as passive and supportive.

On the account of historical experience of western countries, economic development was seen as requiring a rapid structural transformation of the economy from one predominantly focused in agricultural activities to a more modern industrial and services society. The thinking was that agriculture's role was that of providing sufficient low-priced food and manpower to the expanding industrial economy. The industrial economy was seen as the dynamic leading sector. The Lewis's two-sector model we discussed in unit 2, is an outstanding example that places heavy emphasis on rapid industrial growth with an agricultural sector fueling the industrial expansion via cheap food and surplus labour.

3.2 The Structure of Agrarian System in the Developing Countries

There exists two kinds of world agriculture - (i) the highly efficient agriculture of the developed countries where substantial productive capacity and high output per worker which permits a very number of

farmers to feed the entire nation and (ii) the inefficient and low-productivity agriculture of developing countries where in many instances, the agricultural sector can barely sustain the farm population let alone the burgeoning urban population even at a minimum level of subsistence. The gap between the two kinds of agriculture is immense. In Latin America and parts of the Asian subcontinent, there is a concentration of large areas of land in the hands of a small class of powerful landowners.

In Africa, historical circumstances and the availability of relatively more unused land resulted in a different structure of agricultural activity. In terms of level of farm productivity, there is little to distinguish among the three regions. Both the Latin America and Asian peasant is a rural cultivator whose prime concern is survival. Subsistence defines his concept of survival. As in Asia and Latin America, subsistence farming on small plots of land is the way of life for the vast majority of African people just as we have in Nigeria.

However, the organization and structure of African agricultural systems differ markedly from those found in contemporary Asia or Latin America which have agrarian structures. Even though, the small African farmer once had more room in which to manoeuvre than his typical Asian or Latin American counterpart, the rapid growth of rural populations throughout sub-Saharan Africa has led to a similar fragmentation of smallholder agriculture? It is important to note that unless lower productivity peasant agriculture can be transformed rapidly into higher productivity farming in Asia and Latin America and Africa, the hundreds of millions of impoverished and increasingly landless rural dwellers face an even more precarious existence in the years immediately ahead.

SELF ASSESSMENT EXERCISE 1

Explain the agrarian systems in Asia, Latin America and Africa.

3.3 The Important Role of Women in Agricultural Production

The crucial role played by women in agricultural production is often overlooked, as a feature of LDC agrarian system. In Africa, where subsistence farming is predominant, and shifting cultivation remains important, newly all tasks associated with subsistence food production are performed by women. In her pioneering work on women and development, Esther Boserup examined many studies on African women's participation in agriculture and found that in nearly all cases

recorded, women did most of the agricultural work and were found to do around 70% of the total work.

The truth of the matter is that women provide an important source of labour for cash crop, cultivate food for household consumption, raise and market livestock, generate additional income through cottage industries collect firewood and water, and perform household chores, including the processing and cooking of foods. It has become evident that since women produce a large share of agricultural output, successful agricultural reform will require raising women's productivity.

3.4 Towards a Strategy of Agricultural and Rural Development

As a major objective of agricultural and rural development in developing countries, there should be a progressive improvement in rural levels of living achieved primarily through increases in small farm incomes, output and productivity.

To do this, certain basic conditions essential to its achievement identifiable. These include (i) technological change and innovation (ii) appropriate government economic policies and (iii) supportive social institutions. In respect of general rural advancement, the following conditions are desirable (a) modernizing farm structures to meet rising food demands.

- (b) creating an effective supporting system
- (c) changing the rural environment to improve levels of living.

4.0 CONCLUSION

In this unit, we discussed extensively, the issue of agricultural transformation and rural development. We noted that about two-thirds of the world's poorest people live in rural areas and engaged in subsistence agriculture. We further noted that traditionally, the view persists that agriculture plays a passive and supportive role of providing low priced food and surplus labour to the industrial economy which was seen as a leading and dynamic sector.

We also discussed the important role women play in agricultural productivity. We ended the discussion on the unit by evaluating the requirements for agricultural and rural development. We concluded that because the majority of population in the developing world is located in rural areas and also because of the rising problems of urban unemployment and population congestion. Development objectives must find their ultimate solution in the improvement of rural

environment by restoring a proper balance between urban and rural economic opportunities.

SELF ASSESSMENT EXERCISE 2

What do we mean by rural development? How can it be achieved?

5.0 SUMMARY

The topic of discussion in this unit is agricultural transformation and rural development. We started out by looking at the imperative of agricultural progress and rural development, we noted that although traditional African communal systems differ markedly from agrarian structures prevalent throughout much of Asia and Latin America, the contemporary economic status of the small farmer is not very different among the three regions.

We went further to look at the agrarian system in developing countries noting that subsistence, mixed and specialized commercial types coexist in almost all LDCs at any given time. The important role of women in agricultural production was looked into, we saw that apart from processing and cooking food women provide an important source of labour for cash crop production as well as cultivate food for household consumption. Women also raise and market livestock, generate additional income through cottage industries.

Finally, we discussed the strategy of agricultural and rural development which includes land reforms, supportive policies to provide the necessary incentives and economic opportunities, and integrated development objectives. Having looked at urbanization and rural urban migration with it, attendant urban unemployment in unit 7 and Agricultural transformation and rural development in unit 8, we shall look at employment problems in LDCs in the next unit.

6.0 TUTOR-MARKED ASSIGNMENT

What were the principal reasons for the relative stagnation of developing country agriculture during the so-called development decades of the 1960s and 1990s? Explain your answer.

7.0 REFERENCES/FURTHER READING

Todaro M.P & Smith S.C. (2003). *Economic Development* (8th Edition)
Pearson Education (Singapore) Pte Ltd, Delhi, India.

Tatyana P. Soubbotina (2004). *Beyond Economic Growth: An Introduction to Sustainable Development* (2nd ed.). The World Bank 1818HN.W; Washington DC 20433 U.S.A.

UNIT 3 THE EMPLOYMENT PROBLEM IN LESS DEVELOPED COUNTRIES

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 The Concept of Unemployment
 - 3.2 Characteristics of the Employment Problem in LDCS
 - 3.3 Reasons for Employment Problems
 - 3.4 Suggested Policies Approaches
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

1.0 INTRODUCTION

In the last unit, we dealt extensively with agricultural transformation and rural development. It, we looked at the imperatives of agricultural progress and rural progress. We went further to discuss the various agrarian structure, prevalent in Asia, Latin America and Africa noting that they are similar. We also looked at the important role of women in agricultural production. We concluded the unit by discussing the strategy of agricultural and rural development.

In this unit, we shall be looking at the employment problems in LDCs. Part of our discussion will be the concept of unemployment, characteristics of the employment problem and the reasons for employment problems. In addition, we shall look at the suggested policy options available to LDCs which they may wish to take advantage of to transform the areas.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- explain the concepts and issues of unemployment
- describe the characteristics of the employment problem in LDCs
- analyse the reasons for employment problems
- explain the policy measures for solving employment problems.

3.0 MAIN CONTENT

3.1 The Concept and Issues of Unemployment

This subject matter has been reformed to by many writers at various times. Unemployment and underemployment was initially worked out in the context of developing countries. Unemployment is defined usually in terms of inability of workers who are willing to work and are searching for work to get one. Put differently, a person is said to be unemployed when he or she is able and willing to work and is available for work, but does not have work. Unemployment presupposes zero income.

Unemployment can be classified in various ways. (i) frictional unemployment (ii) structural unemployment (iii) demand-deficit unemployment (iv) classical unemployment. Frictional unemployment results from the normal turnover of labour. Sources of frictional unemployment include young people who enter the labour force and look for jobs. Another source is people who are in the process of changing their job and are caught between one job and the next. Structural unemployment refers to unemployment arising because there is mismatch of skills and opportunities when the pattern of demand and production changes.

Demand deficit unemployment refers to Keynesian unemployment when aggregate demand falls and wages and prices have not adjusted to restore full employment. Voluntary unemployment where the worker can find work, but is unable to accept the work that is available for certain reason. A large number of people engage in a lot of activities in which little incomes are earned. A phenomenon widespread especially in the rural areas is underemployment. (disguised unemployment). Remunerative employment is the generic name.

Employment problem therefore encompasses all the concepts mentioned above. The question to ask is why is unemployment as source of concern in the development literature? The answer to this is that when there is considerable underutilization of labour, there is an opportunity cost. Acceleration of growth results from full utilization of labour. The focus of the development process is man himself. An unemployed worker invariably will have a low or no income at all. This could mean that there is a high incidence of poverty and in turn a high degree of income inequality in the system.

All of these factors have a destabilizing impact. It has been shown in the literature that where there is high unemployment rate, there is the incidence of political unrest, social disorder etc. In Nigeria, it is not

unconnected with highway robbery, advance fee fraud and other anti social vices.

3.2 Characteristics of the Employment Problem in LDCs

In most LDCs, there is the tendency to find

- (i) high urban unemployment rates. A recent survey of 20 developing countries shows that 13 of the countries had rates in excess of 10%. A UN data indicate that the combined urban unemployment and underemployment rate in 1995 was 28.7% for Argentina, more than 30% in the Philippines, and 42% in Cameroon
- (ii) informal sector traditional sector using relatively crude method of production, tailoring, petty trading etc
- (iii) Graduate unemployment. For example in Nigeria, up to the early eighties, university graduates had jobs waiting for them on graduation, at times more than one offer what obtains now is a situation whereby graduates of ten years or more are still seeking for employment.

The point to note is that the dimensions of the employment problem in LDCs go beyond shortage of work opportunities, underutilization and low productivity of those who do work long hours, but also includes growing divergence between inflated attitudes and job expectations especially among the educated youths and the actual jobs available in urban and rural areas.

SELF ASSESSMENT EXERCISE 1

List three characteristics of unemployment problem. Give reasons for your answer.

3.3 Reasons for Employment Problems

As we earlier noted, the serious unemployment problems that continue to plague LDCs is a direct consequence of the historically unprecedented movement of people from the rural countryside to the large urban cities. The following reasons can be adduced for the unemployment problems. High urban unemployment – In LDCs, there is a high rate of urban immigration and a high natural rate of growth.

Harri's and Todaro put up a theory that the rate of migration from rural to urban area is a function of income wage differential between the rural and urban areas and the probability of gaining employment in the urban

areas. If the probability of obtaining employment is zero, even if there is a position wage differential, the income is zero.

There are other differentials that might encourage rural -urban migration e.g. educational and health facilities. Electricity is another facility that induces people to move from rural to urban areas. There is also a high ratio of educational expansion. In Nigeria, up to the early 60s, urban employment was not a problem.

The incidence of high wage rate in urban areas is a result of labour unions. Politicians, in attempt to survive, accent to wages that are higher than labour productivity. Apart from the issue of high wages, there are a number of monetary and fiscal policies which it is argued, contribute to the slow growth of employment opportunities. Public expenditure in most LDCs has not paid attention to employment creation potentials.

Also the under-utilization of labour in the formal sectors is another dimension. This is associated with seasonal characters of economic activities in the rural areas. The tempo of activities slows down after the planting and harvesting seasons. Underutilization of labour in the urban informal sector is akin to that of the rural areas of cleaners, washers and sellers of merchandize of low value abound.

3.4 Suggested Policy Approaches

There exists, possible policy approaches designed to improve the very serious employment situation in developing countries. The question now is what can be done and what is to be done? The most important conclusion is that development policy has to focus more on rural development because the absence of this contributes to high income differentials many informed observers agree on the central importance of rural and agricultural development, if the urban unemployment problem is to be solved.

The educational system should be modified so that there should be a direct linkage between education and employment i.e the output of the educational system should be related to the demand for various categories of manpower. The emergence of the phenomenon of the educated unemployed is calling to question the appropriateness of the massive quantitative expansion of educational system especially at the higher levels.

In the area of population policy, the population and labour supply reduction polities provide an essential ingredient in any strategy to combat the severe employment problems that developing countries face now and future years. A shower rate of population growth leads to a

shower rate of growth of labour force. This will increase the employment opportunities. Another area of policy focus is choosing appropriate labour intensive technologies of production.

To increase employment, LDCs have to use the technology that is labour absorptive small scale industries and agricultural sectors are more labour absorptive. Closely related to the above, is the adoption of wage policy. There is need for caution in adopting policy that will increase wages unless it is matched by the required employment creating potentials.

SELF ASSESSMENT EXERCISE 2

How does the balance between urban and rural economies and social opportunities lead to a reduction of the high urban unemployment rate?

4.0 CONCLUSION

We discussed the unemployment problems in less developed countries (LDCs) in this unit. We noted that the issue has attracted a lot of write-ups from development economists probably because unemployment is one of the problems that continue to plague the urban cities of the LDCs this constituting a threat to the development process. We also looked at the classification of unemployment i.e. the variants of unemployment noting their characteristics in LDCs.

Another area that attracted our attention was the reasons for employment problems in developing countries. In our policy suggestion, we were of the view that if urban unemployment problem is to be solved, there is need for rural and agricultural development hence we conclude that a comprehensive employment strategy must be pursued by LDCs if urban unemployment were to be properly addressed.

5.0 SUMMARY

In this unit, we focused on the unemployment problems plaguing large urban cities in LDCs. We discussed the effects of high rate of urban unemployment in the development process. Our issues that we looked into include the concept and issues of unemployment, the characteristics of the employment problems in LDCs. We also addressed the reasons for employment problems.

At the end of unit, we conclude that what appears to be the consensus of most economists on the shape of a comprehensive employment strategy can be encapsulated into four key elements namely (i) creating an appropriate rural -urban economic balance (ii) choosing appropriate labour -intensive technologies of production (iii) modifying the direct

linkage between education and employment (iv) reducing population growth. In the next unit, we shall be looking at industrialization strategies for economic development.

6.0 TUTOR-MARKED ASSIGNMENT

“The key to solving the serious problem of rising urban unemployment and underemployment in developing countries is to restore a proper balance between urban and rural economics and social opportunities”
Discuss.

7.0 REFERENCES/FURTHER READING

Joe U. Umo. Ed. (1996). *Towards full Employment Strategy in Nigeria: Issues and Strategies*. Lagos:Manpower Board.

Diejomaoh V. “Strategies for Employment Generation Lessons from ILO/JASP A - Nigerian Experience. J. U. Umo *Employment Generation in Nigeria: Issues and Problems*. Lagos Nigeria: National Directorate of Employment.

Todaro M.P and Smith S.C (2003). *Economic Development* (8th Edition) Pearson Education (Singapore) Pte Ltd, Delhi, India.

UNIT 4 INDUSTRIALIZATION STRATEGIES FOR ECONOMIC DEVELOPMENT

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Major Structural Shifts
 - 3.2 Economic Rationale for Industrialization and Post-Industrialization
 - 3.3 Knowledge Revolution
 - 3.4 Implications for Development Sustainability
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Reading

1.0 INTRODUCTION

The objective of last unit is to look into the employment problem in LDC s. In it the concept, issues and characteristics of unemployment were discussed. While the reasons for the rising rate of unemployment in developing countries were examined, certain policy options were suggested that developing countries could explore to help reduce the high rate of unemployment.

In unit 10, we shall focus our attention on industrialization and post industrialization as they affect developing countries. Also, we shall be discussing the major structural shifts in various economics with special reference to developing countries; the economic rationale for industrialization, knowledge revolution and finally the implications of this phenomenon for development sustainability.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- explain the concept of industrialization and post industrialization
- explain the reasons behind industrialization and post industrialization
- describe the stages of economic development
- explain the implications of the knowledge revolution for development sustainability.

3.0 MAIN CONTENT

3.1 Major Structural Shifts

Agrarian economy changes the proportions and interrelations among its basic sectors -agriculture, industry and services and between other sectors -rural and urban; public and private, domestic and export -oriented. One way to look at the structure of an economy, is to compare the shares of its three major sectors -agriculture, industry and services in the countries total output and employment.

Initially, agriculture is a developing economics most important sector for example, in the 1960s, agriculture was the mainstay of Nigeria's economy. However as income per capital rises, agriculture loses primacy giving way first to a rise in the industrial sector, then to a rise in the service sector. These two consecutive shifts are called industrialization and post industrialization. It is important to note that all growing economics are likely to go through these stages which can be explained by structural changes in consumer demand and the relative labour productivity of the three major economic sectors.

3.2 Economic Rationale CO/Industrialization and Post Industrialization

All growing economies pass through stages during which their structures change in the areas of consumer demand and labour productivity. In terms of industrialization, what happens is that as people's incomes increase, their demand for food which is the main product of agriculture -meets its natural limit and they begin to demand relatively more industrial goods. With the introduction of new farm techniques and machinery labours productivity in agriculture increases faster than in industry thus making agricultural products relatively less expensive and diminishing their share in gross domestic product (GDP). This increase in labour productivity in turn diminishes the need for agricultural workers while employment opportunities grow in the industries. This results in industries larger share of the GDP than agriculture.

In post industrialization, as incomes continue to rise, consumers demand become less material and more of services such as health, education, information, entertainment, tourism and many other area. However, labour productivity in services does not grow as fast as it does in agriculture and industry due largely to the fact that most jobs in the services sector cannot be filled by machines. As a result, services become more expensive relative to agricultural and industrial goods. Also lower mechanization explains the continuing in employment in the

services sector as against the decline in employment growth in industry and agriculture.

Eventually, the services sector replaces the industrial sector as the leading sector of the economy. The major issue of relevance here is that while most high-income and middle-income countries are today post industrializing, low-income countries are still industrializing i.e becoming more reliant on industry. It is to be noted that even in countries still industrializing, the service sector is growing relative to the economy taken as a whole. By the end of the 1990s services made up almost two thirds of world GDP where as they had only about half of worlds GDP in the early 1980s.

3.3 Knowledge Revolution

Knowledge and information related services such as education, research and development (RED), modem communication (telephones and internet) and business services constitute the fastest growing part of the service sector. This is the result of the so-called knowledge revolution that commenced by the second half of the 20th century. This term is used to refer to “a radical speeding up of scientific advances and their economic application in the form of new technologies as well as new consume product.

Technological innovation rather than investment per se became the mall source of increased productivity, the major tool of economic competitiveness in the world market and the most important driver of economic growth. However, majority of developing countries face considerable difficulties joining the global knowledge revolution. Their incapacity to tap the internationally available flows of knowledge and adapt them for their specific needs is consequent upon their relatively small member of scientists and engineers working in these countries. It has been advocated that the international community should help developing countries bridge the widest knowledge and information gaps by increasing official development aid and private capital flows as well as by directly facilitating the transfer of modem technology from developed countries.

SELF ASSESSMENT EXERCISE 1

Name and explain the structural shifts in all growing economies.

3.4 Implications for Development Sustainability

Having surveyed the structural shifts in global growing economics leading to industrialization and post industrialization as well as the

knowledge revolution that goes with this phenomenon, we shall now look at their implications for sustainable development. We know that the sector produce, “intangible” goods such as health and education services, as well as modern communication, information and business services. This form of production requires less natural capital and more human capital.

The implication of this is that the demand for human capital is bound to increase hence the growing demand for more educated workers thus prompting countries to invest more in education. Also a growing service sector that uses less natural resources puts less pressure on the local, regional and global environment. The consequence is that national and global development becomes more environmentally and socially sustainable.

It is important to note that this fact does not diminish the need to need the material needs of the fast growing population of developing countries through agricultural and industrial growth. On a final note, it is important that if people's needs across the world are met, by making greater use of knowledge in better educated workers, more productions more socially and environmentally appropriate technology, rather than using more machines, equipment and processes, the damage to the natural environment and the potential for social conflict can be lessened.

SELF ASSESSMENT EXERCISE 2

How can poor countries benefit from the ongoing knowledge revolution?

4.0 CONCLUSION

We started our discussion of the unit by noting that all growing economics globally change the proportions and interrelationship among their basic sectors -agriculture, industry and services and between other sectors. The question we ask ourselves is whether there are any common patterns in how all growing economics change. We answered this question by looking at the major structural shifts thus advancing economic reasons behind industrialization and post industrialization.

We saw that most high income and middle income countries are currently post high-income and middle income countries are currently post industrializing by becoming less reliant on industry, while low income countries today are still industrializing by becoming more reliant on industry. We observed that even while still industrializing, the developing countries still have a relatively growing service sector compared to the whole economy.

We further discussed the issue of knowledge revolution which was brought about by the service sector thus resulting in radical speeding up of scientific advances and their economic applications in the form of new technologies and new products. We concluded by noting that the implications for sustainable development are that the product of the services sector which are intangible in nature calls for increased investment in human capital development which will in turn help national and global development become more environmentally and socially sustainable.

5.0 SUMMARY

In this unit, we discussed the issue of industrialization strategies for economic development. All issues leading to industrialization and post industrialization attracted our attention. The result is that we focused on the following -major structural shifts which leads to industrialization and post industrialization; the knowledge revolution which resulted from the growth of the service sector.

This phenomenon of knowledge revolution brought about more emphasis in human capital development to keep pace with the fast growing service sector in the area of education and information and communications technology (ICT). It also brought about the awareness that developing countries striking to improve their economic prospects today should aim at investing not only in their physical capital, but also directly in their “knowledge base”.

The implications of the knowledge revolution for sustainable Development are that conserving natural capital and building up human capital may likely help national and global development become more environmentally and socially sustainable. In the next unit, we shall be looking at public and private enterprises.

6.0 TUTOR-MARKED ASSIGNMENT

What are the economic reasons behind industrialization and post industrialization?

7.0 REFERENCES/FURTHER READING

Tatyana P. Soubbotina. (2004). *Beyond Economic Growth. An Introduction to Sustainable Development*. (2nd ed.) The World Bank 18184 Street NW Washington DC 20433.

UNIT 5 PUBLIC AND PRIVATE ENTERPRISES

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 The Dilemma of Public- Private Ownership
 - 3.2 Government Intervention in Economic Activities
 - 3.3 Trend towards Privatization
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

1.0 INTRODUCTION

In the last unit -10 we discussed the industrialization strategies for economic development. In it, we noted that structural changes in the economics of nations especially in developing countries that eventually give rise to industrialization. We finally looked at the knowledge revolution and its implications for sustainable development.

In this unit, we shall focus on public and private enterprises. We shall look at the dilemma of private -public ownership and attempt to provide a rationale for government's intervention in economic activities. We shall then discuss the trend toward privatization while taking full cognizance of the fact that there is the need to find the right mix.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- explain the concept of public and private enterprises
- explain the justification for governments intervention in economic activities
- describe the share of state-owned enterprise in a nation's GDP and gross domestic investment GDI
- explain why developing countries are in favour of privatization as part of the development goal of industrialization.

3.0 MAIN CONTENT

3.1 The Dilemma of Public-Private Partnership

During the past three or four decades, there has been a rapid growth in the number and size of state owned enterprises in developing countries. In addition to their traditional presence in utilities, transportation and communication, state -owned enterprises have become active in such key sectors as large-scale manufacturing, construction, finance, services; natural resources and agriculture. Sometimes, they may dominate these sectors.

In developing countries, much less government spending goes for social services and much more is used to subsidize commercial state owned enterprises that provide free public services. These state-owned enterprises could also be run by private firms, but under direct control by governments. State-owned enterprises have played a major role in the economics of developing nations, contributing an average 7% to 15% of their GDP. In some cases, the contribution is considerably higher. For example during the 1980's, State -owned enterprises (SOEs) produced 10% to 20% of the domestic output in Senegal, Guinea, India, Zimbabwe, Tunisia and Venezuela and almost 30% of the output in Ghana and Zambia.

In looking at the dilemma faced by developing countries as to the right mix of public and private enterprises, we shall now look at the advantages and disadvantages of state-owned enterprises as well as providing the rationale for government intervention in economic activities.

3.2 Government Intervention in Economic Activities

Economists over the years have increasingly recognized the fact that state intervention in economic activities is justified only where the market systems fails. We know that market systems are not the same in different countries. For example, in developing countries, markets are underdeveloped and in some sectors non existent. It is very important to note that even in well developed economics, there are five basic situations called market failures where the private sector tends to under produce or over produce certain goods and services. These include:

- (i) under production of goods and such as defence, law and order etc.
- (ii) under production of goods and services with positive externalities e.g. public .health education etc.

- (iii) overpricing and underproduction by natural monopolies e.g. by electric and water utilities.
- (iv) insufficient supply of social services such as pensions medical and unemployment insurance.
- (v) Insufficient information available to some parties affected by market processes e.g. information about quality of food products and medicines available to consumers whose health is at risk. These five situations call for some kind of government intervention.

Those who advocate the preservation of extensive state enterprises argue that only:

- (a) government is capable of providing sufficient investment for technical modernization of major national industries
- (b) direct government control over certain enterprises can prevent socially unacceptable high prices for basic goods and services such as energy, housing and transportation
- (c) government ownership of the biggest enterprise can help avoid mass unemployment.

On the other hand, proponents of privatization maintain that the experience of many countries show that state enterprises as are usually less efficient than private firms as manager of state enterprises do not have the incentive pursue profitability. Besides, It IS often difficult to run state enterprises at a profit because governments keep state enterprises selling prices artificially low. Given this scenario, the question to ask is -when is it preferable to keep enterprises under government ownership? To answer this question, we shall look at the issue of trend toward privatization in the next segment.

SELF ASSESSMENT EXERCISE 1

Identify and explain the reasons why government intervenes in economic activities.

3.3 Trend towards Privatization

The privatization of state owned enterprises in the production and financial sectors, hinges on the re-classical hypothesis that private ownership brings greater efficiency and more rapid growth. During the 1980s and 1990s, privatization was actively promoted by major international bilateral (USAID) and multilateral agencies world Bank, IMF).

Since the 1980s, many developing and some developed countries have adopted privatization programs. By privatizing all the enterprises that can be successfully run by private firms, governments can often make national economics more efficient, on the one hand and free their budgets from the burden of subsidizing loss making enterprises on the other.

Consequently, they are able to focus on tasks that cannot be handed over to markets such as building human capital and proving for human development. For example in Nigeria, the Bureau for Public Enterprises (BPE) was established to privatize government parastatals and enterprises which were no longer turning in the expected profit and were becoming a big burden to run, thus depriving government of funds it would otherwise have spent on profitable ventures that would benefit the citizenry.

Between 1975 and 1998, 590 public enterprises were set up and maintained by the Federal Government of these, 160 enterprises were engaged in the business of selling goods and services. However, lethargy, corruption and political patronage soon crept into render most of the enterprises unprofitable. As at 2000, about 2 of every 10 people in developing countries were without access to safe water; 5 out of 10 lived without adequate sanitation; and 9 of 10 lived without their waste water being treated in any way. Resulting from this, water related diseases rank among the top reasons for child mortality.

Also experience shows that privatization often leads to increased tariffs unaffordable to poor households. Overall, the experience of various countries appears to present a mixed picture of success and failure both in mostly public and in mostly private service delivery. We conclude that no single solution fits all countries. The conclusion is that the final responsibility for providing such vital services as water and sanitation, basic health and education services lies with governments.

SELF ASSESSMENT EXERCISE 2

When is privatization economically warranted? When can it be detrimental?

4.0 CONCLUSION

We started out in this unit by looking at the public and private enterprises. We noted that over the past 35 years, the share of government spending in the GDP of developed countries roughly doubled while the share of government spending in the GDP of developing countries is less than that in developed countries since the

1980s. We also noted that in developed countries, more than half of governments spending is devoted to social services including pensions, unemployment insurance, social security and other transfer payments whereas Developing countries spend much less for said services and much more to subsidize state owned enterprise.

The consequence of this phenomenon is that in some countries, radical market reforms have resulted in neglect of the states vital functions such as law and order, critical social services etc. Important programs in education and health have been cut. We conclude by stating that it is not sufficient to claim that privatization can lead to higher profits, greater output or even lower costs, the key issue is whether such privatization better serves the long run development interests of a nation by promoting a more sustainable and equitable pattern of economic and social progress.

5.0 SUMMARY

This unit is concerned with public and private enterprises. In it, we discussed the concept of private and public enterprises as it applies to both developed and developing nations. We attempted to provide the rationale for government intervention in economic activities. We also compared the state-owned enterprises share of GDP in both developed and developing nations noting that the share of commercial state enterprises in GDP tends to be higher in poorer countries.

We further discussed the arguments of the proponents of privatization on the one hand and those of the advocates of extensive state enterprises on the other. We then looked at the recent trend toward privatization whereby developing countries are adopting the programs. We concluded that the advantages of privatization notwithstanding, a critical variable is whether privatization serves the long run interest of a nation in its quest for economic growth and development. In the next unit we shall be discussing the international trade and development during Globalization.

6.0 TUTOR-MARKED ASSIGNMENT

Is a high share of state enterprises good or bad for the economic growth and development of developing countries?

7.0 REFERENCES/FURTHER READING

The NEWS; 11 June (2007). Vol 28 No 22; Independent Communications Network Limited, 27 Acme Road, Ikeja, Lagos.

Tatyana P. Soubbotina (2004). *Beyond Economic Growth: The World Bank* 18184 Street NW. Washington DC 20435 U.S.A.

Todaro M.P and Smith S.C (2003). *Economic Development*. (8th ed.) Pearson Education (Singapore) Pte Ltd, Delhi, India.

MODULE 3

Unit 1	Globalization: International Trade and Development
Unit 2	Globalization: Foreign Investment and Foreign Aid
Unit 3	Composite Indicators of Development
Unit 4	Indicators of Sustainable Development
Unit 5	Development Goals and Strategies
Unit 6	Development Planning

UNIT 1 **GLOBALIZATION: INTERNATIONAL TRADE AND DEVELOPMENT**

CONTENTS

1.0	Introduction
2.0	Objectives
3.0	Main Content
3.1	Waves of Modern Globalization
3.2	Trade Strategies of Development
3.3	Export Promotion
3.2.2	Import Substitution
3.3	Costs and Benefits of Free Trade
3.4	Changing Roles of Developing Countries in Global Trade
3.5	International Migration
4.0	Conclusion
5.0	Summary
6.0	Tutor-Marked Assignment
7.0	References/Further Reading

1.0 **INTRODUCTION**

In the last unit we discussed public and private enterprises and their various roles in economic growth and development. We also talked about the several arguments put up by both advocates of state owned enterprises and proponents of privatization of publicly owned enterprises. We then looked at the emerging trend toward privatization. In the final analysis we put up the proposition that despite the arguments put forward in favour of privatization; what is important is that such reform measure must be able to serve the long run interest of developing nations.

In this unit, we shall be looking at globalization as it affects international trade. We shall discuss the trade strategies for development, costs and benefits of free trade. We shall wrap up the unit by discussing the changing roles of developing countries in global trade.

2.0 OBJECTIVES

After studying this unit, you should be able to:

- explain the waves of globalization
- analyze the costs and benefits of free trade
- explain the trade strategies of development
- explain the changing roles of developing countries in global trade.

3.0 MAIN CONTENT

3.1 Waves of Modern Globalization

Globalization is one of the most frequently used words in discussions relating to development, trade and international political economy. Globalization is a process by which the economies of the world become increasingly integrated, leading to a global economy, and increasingly, global economic policy making. Put differently, globalization refers to the growing interdependence of countries resulting from their increased economic integration via trade, foreign investment, foreign aid and international migration of people and ideas.

For some, the term globalization suggests exciting business opportunities, more rapid growth of knowledge and innovation. In terms of development the question to ask is globalization an inevitable phenomenon of human history?

Or does it bring about new forms of inequality and exploitation? Globalization is not altogether new. Researches point out three waves of modern globalization. The first started more than 100 years ago, (1870-1914). Over this period, exports doubled relative to the GDP of developing countries of Africa Asia and Latin America. The second wave of globalization lasted from the 1950s to the 1980s and involved mostly developed countries where trade and investment flows were growing. At the same time, most developing countries were stuck in the role of primary goods exporters. The third current wave of globalization started in the 1980s and continues today driven by two factors.

One involves technological advances that have radically lowered the costs of transportation, communication and computation. The other factor is the increasing liberalization of trade and capital markets. It is important to note that a number of international institutions such as World Bank; International Monetary Fund (IMF), World Trade Organization (WTO) and General Agreement on Tariffs and Trade (GATT) play an important role in promoting global free trade in place of

protectionism. In the past two decades, some 24 developing countries have approximately doubled their ratio of trade to GDP but much of the rest of the developing world, including most of the sub-Saharan Africa failed to participate in globalization processes and failed to achieve positive income growth rates. For countries that are actively engaged in globalization, the benefits come with new risks and challenges.

3.2 Trade Strategies of Development

3.2.1 Export Promotion

Export promotion is the term used to refer to 'government' efforts to expand the volume of a country's exports through export incentives and other means in order to generate more foreign exchange and improve the current account of its balance of payments." The promotion of LDC primary or secondary exports has long been considered a major ingredient in any viable long – run development strategy. Many low income LDCs still rely on primary products for most of their export earnings. With the exception of petroleum exports and a few needed minerals, primary products export has grown more slowly than total world trade.

Moreover, the LDC share of these exports has been falling over the past few decades. There is the tendency for the concentration on one or few commodities for exports by the LDCs e.g. Ghana on cocoa, Gambia and Senegal on groundnut. Colombia and Brazil largely on coffee. The question now is -what is the implication of LDCs dependence on primary commodities for economic growth and development. The answer is that the prospects for export earning will depend on two major factors (i) the demand prospect (ii) the prospect for supply of these commodities. On the demand prospect, the income elasticity of demand for primary commodities is low- 0.3 to 0.5 in sugar, cocoa, tea, coffee and bananas. The reason for this is related to Engle's law.

Apart from the above, there are factors tending to reduce growth as a result of substitution of synthetic products for natural primary commodities of LDCs e.g. synthetic rubber for natural rubber. There is also substitute for wool e.g. nylon. Saccharine is a substitute for sugar. There are also technological changes that result in the re-use of raw materials called recycling. On the supply side, two major forces are at work. These include impact of technological change on supply and the effect of weather changes. Even when weather conditions are favourable for effective farming, technological changes have been known to increase production e.g. the use of pesticide, to kill pests in cocoa and cotton production in Nigeria.

The implications of fluctuation on the supply side results in inability to earn sufficient foreign exchange which in turn results in fluctuations in income, reductions in government revenue and expenditure and difficulty in implementing growth projects.

3.2.2 Import Substitution (IS)

Many LDCs adopted import substitution as the dominant strategy of industrialization. It entails a programme of replacement of previously imported goods in intermediate goods and machinery and assembling this to meet the domestic need. It is industrialization from top to bottom. It is not only rationalization in term of the usual industrialization objective and balance of payment rationale but in terms of protection argument. Chenery has shown that the rise of industrialization through import replacement was due largely to changes in the supply side and not much from composition of demand side.

Also, experience and studies of import substitution in LDCs have shown at:

- (i) import substitution industrialization does not lead initially to a reduction in the imported commodity but that there has been a shift of import from imported raw materials to manufactured goods
- (ii) the IS industrialization has been established as a result of a very high protection of these industries.
- (iii) The objective of expanding employment outside agriculture.

The merits of import substitution strategy include:

- (a) infant industry argument where the industry needs protection in order to enable it lower its cost as a means of competing favourably with foreign goods
- (b) foreign investment argument in which protection may induce a multinational to establish a branch behind the tariff wall. The policy of IS is difficult to sustain beyond the consumer goods. If it fails, it brings about higher prices of domestic product, inferior brands, under utilized capacity and drain on the foreign exchange.

3.3 Costs and Benefits of Free Trade

Participating countries in free foreign trade benefit immensely from such activities. These include:

- (i) increased access to international markets with the attendant opportunity to benefit from international division of labour. In it trading countries are able to move their resources to the most productive uses by specializing in producing and exporting what they can produce best, while importing all the rest.
- (ii) an actively trading country benefits from the new technologies that "spillover" to it from its trading partner via knowledge embedded in imported production equipment. This gives developing countries a chance to catch up more quickly with the developing countries in terms of productivity.

These benefits notwithstanding, countries opening to international trade, also face considerable risks associated with the strong competition in international markets. While international competition creates the necessary pressure to prevent economic and) technological stagnation to stimulate domestic producers to produce better goods; and to lower costs of production, there is a high risk that many enterprises and even entire industries will be forced out of business. Closing of enterprises and higher unemployment impoverish people and slow national economic growth. Free global trade is still more of an ideal to be reached than a present-day reality.

SELF ASSESSMENT EXERCISE 1

Explain whether all countries should be equally open to foreign trade. Give reasons for your answer.

3.4 Changing Roles of Developing Countries in Global Trade

The growing role of international trade in most developing countries' economics has not yet resulted in a considerably increased share of developing countries in total global trade as compared to what this share was in the 1980's. Developing countries still trade mostly among themselves. In most of them, terms of trade deteriorated in the 1980s and 1990s because primary goods have fallen relative to prices of manufactured goods. Developing countries that depend on these exports have already suffered heavy economic losses. In response to this ugly development in their terms of trade, many developing countries are increasing the share manufactured goods in their exports.

3.5 International Migration

An important aspect of globalization is the increased international mobility of people. Over 60 percent of the world's migrants moved from developing to developed countries and this South-North migration is expected to grow in the future owing to economic as well as demographic reasons. However concerns are growing about the damage done to the development aspirations of the poorer countries by emigration of the most qualified professionals – the so-called “brain drain”. Developing countries are advised to develop mechanisms for encouraging retention and return migration of their qualified workers as this will bring back foreign knowledge and experience, i.e. converting “brain drain” into “brain circulation”.

SELF ASSESSMENT EXERCISE 2

How is the role of developing countries in global trade changing?

4.0 CONCLUSION

In this unit, we discussed international trade and development as essential integral part of globalization. In it, we looked at the waves of modern globalization, trade strategies of development; the costs and benefits of free trade; the changing roles of developing countries in global trade and international migration.

In all, we come to the conclusion that one of the most viable long-run trade policies for small and medium sized developing economies is the expansion of trade among the developing countries (South-South) rather than North-South trade, and the possibilities of economic integration in developing regions.

5.0 SUMMARY

In this unit, our discussion centred on international trade and development as an integral part of globalization. We looked at the various perspectives of international trade as they relate to globalization. The current wave of modern globalization formed the backdrop to other topics of discussion which include trade strategies of development-export promotion and import substitution. We further looked at the costs and benefits of free trade. We ended the discussion with a discussion on the changing roles of developing countries in Global trade as well as international migration.

The conclusion drawn from the discussion in this unit is that there is need for developing nations to make every efforts to reduce their

individual and joint economic vulnerabilities and one method of achieving this goal is to pursue policies of greater collective self-reliance within the context of mutual economic cooperation. In the next unit, we shall discuss foreign investment and foreign aid on Globalization.

6.0 TUTOR-MARKED ASSIGNMENT

Can globalization serve the interests of sustainable development of the countries in the south?

7.0 REFERENCES/FURTHER READING

Jhingan M.L. (2005). *The Economics of Development and Planning* (8th Edition) Vrinda Publications Ltd, Delhi - 110091, India.

Tatyana P. Soubothino (2004). *Beyond Economic Growth. An introduction to Sustainable Development* (2nd Edition) The World Bank 1818H Street N.W. Washington DC 20433 U.S.A.

UNIT 2 GLOBALIZATION: FOREIGN INVESTMENT AND FOREIGN AID

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Private Capital Flows
 - 3.2 Attracting More Foreign Investment
 - 3.3 Official Development Assistance
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Reading

1.0 INTRODUCTION

In the last unit we dealt with globalization as it relates to international trade and development. In it, we discussed the waves of modern globalization, trade strategies of development including export promotion and import substitution. We also looked at the costs and benefits of free trade; changing roles of developing countries in global trade as well as internal migration. We ended the unit by concluding that the expansion of trade among the developing countries as well as the possibilities of economic integration in developing region should be one of the viable long run trade policies developing economics.

In this unit, we shall be looking at another dimension to globalization i.e. foreign investment and foreign aid. We shall attempt to explore the capital private flows and the ways of attracting more foreign investment. We shall also discuss official development assistance. The unit will come to an end with a new view of foreign aid.

2.0 OBJECTIVES

After studying this unit, you should be able to:

- explain what is meant by multinational corporations
- analyse the arguments for and against private foreign investment
- explain why LDC recipients accept Aid
- explain the determinants of the amount of foreign aid for economic development.

3.0 MAIN CONTENT

3.1 Private Capital Flows

The three main forms of financial flows to developing countries are:

- (i) investment from foreign private companies known as private capital flows
- (ii) remittances from migrant workers; and (iii) aid from foreign governments often called official development assistance (ODA).

In 1997, the growing net private capital flows to developing countries, reached their peak at about seven times the net official assistance. The structure of private flows also changed notably, shifting from a predominance of bank loans to foreign direct investment (FDI) and portfolio investment.

The share of foreign direct investment going to developing countries has increased to 38 per cent of global foreign direct investment, driven by rapid growth of transnational corporations and encouraged by liberalization of markets and better prospects for economic growth in a number of developing countries.

The distribution of FDI among developing countries remains extremely unequal. The bulk of the flows tends to go to middle-income countries, so the exclusion of the poorest countries may have contributed to further widening of global income disparities. The developing countries that attract the most private capital flows do so thanks to their favourable investment climate which includes such elements as a stable political regime good prospect for economic growth, liberal and predictable government regulation and easy convertibility of the national currency. Higher foreign investment in these countries helps them break the vicious circle of poverty without adding to their foreign debt.

3.2 Attracting More Foreign Investment

A multinational corporation (MNC) is most simply defined as a corporation or enterprise that conducts and controls productive activities in more than one country. These huge firms, mostly from North America, Europe and Japan present a unique opportunity, but may pose serious problems for the many developing countries in which they operate.

The growth of foreign direct investment in the developing world was extremely rapid during the past decades. It rose from annual rate of \$2.4 billion in 1962 to \$11 billion in 1980 and \$35 billion in 1990 before

surging to over \$185 billion in 1999 almost 60% of this total goes to Asia. We must make the point that multinational corporations are not in development business as their objective is to maximize their return on capital. This explains why over 90% of global FDI goes to other industrial countries and the fastest growing LDCs. MNCs seek out the best profit opportunities and are largely unconcerned with issues such as poverty, inequality and unemployment alleviation.

The controversy over the role and impact of foreign private investments often has as its basis a fundamental disagreement about the nature style and character of a private investment are as follows:

- (a) foreign private investment is a way of filling in gaps between the domestically available supplies of savings, foreign exchange, government revenue and human capital skills and the desired level of these resources necessary to achieve growth and development targets
- (b) filling the gap between targeted foreign-exchange requirements and those derived from net export earnings plus net public foreign aid
- (c) filling the gap between targeted government tax revenues and locally raised taxes. Arguments against private foreign investment include
 - (i) MNC's may lower domestic savings and investment rates by stifling competition through exclusive production agreement with host governments failing to reinvest much of their profit.
 - (ii) MNC's long run impact may be to reduce foreign exchange earnings on both current and capital account.
 - (iii) MNC's contribution to public revenue in terms of corporate tax is considerably less than it should be as a result of liberal tax concessions (iv) The management, entrepreneurial skills, ideas, technology and overseas contracts provided by MNC's may in fact inhibit LDC's development by stifling the growth of indigenous entrepreneurship.

SELF ASSESSMENT EXERCISE 1

Explain whether increased private capital flows to developing countries can make up for reduced official assistance.

3.3 Official Development Assistance (ODA)

For most low-income countries, unable to attract private investors, official development assistance remains the most important source of foreign financial flows. Foreign aid flows to the LDCs is regarded as

indispensable for the development of LDCs. The money value of ODA, has grown from an annual rate of \$4.6 billion in 1960 to \$56 billion in 1999. However, in terms of the percentage of developed countries GNP allocated to official development assistance, there has been a steady decline from 0.51% in 1960 to 0.29% in 1999. Official assistance to developing and transition countries has three main components:

- Grants which do not have to be repaid.
- Concessional loans, which have to be repaid, but at lower interest rates and over longer periods than commercial bank loans.
- Contributions to multilateral institutions promoting development such as the United Nations, International Monetary fund, World Bank and regional development banks -Asian Development Bank; African Development bank, Inter -American Development Bank.

Grants account for 95 -100 percent of the official assistance of most donor countries. A significant part of ODA however comes in the form of tied aid which requires recipients to purchase goods and services from the donor country or from a specified group of countries. Official assistance can also be “tied up” by conditionalities such as the enactment of certain policy reforms that donors see as beneficial to recipient countries' economic growth and poverty reduction.

Arguments for foreign Aid are as follows

- (1) LDCs are characterized as capital poor or low saving and low investing economics hence there is not only an extremely small capital stock, but current rate of capital formation is also very low
- (2) low saving and low investment imply capital deficiency and along with it, LDCs suffer from technological backwardness.
- (3) private enterprise in LDCs is reluctant to undertake risky ventures. Arguments against foreign Aid include:
 - (a) foreign aid is often used for extremely wasteful projects which make large losses year after year.
 - (b) foreign aid does not always bring about an increase in net investment
 - (c) it has failed to improve the income-earning capacity of LDCs and they are now saddled with large external public debts.

SELF ASSESSMENT EXERCISE 2

Should developing countries strive to attract more foreign investment?
Give your own answer.

4.0 CONCLUSION

In this unit, our discussions have centred mainly on the different perspectives of globalization namely foreign investment and foreign aid. We looked at the arguments for and against foreign private investment. We also discussed the activities of multinational corporations (MNCs) viz-a-viz the growth of foreign direct investment.

Another issue that occupied a centre stage in this unit is the official development assistance or foreign aid. In it, we discussed the several arguments canvassed for or against foreign aid to LDCs by developed countries. In all, we come to the conclusion that a lower total volume of aid from the developed nations that is geared more to the real development needs of recipients and permits them greater flexibility and autonomy in meeting their development priorities would represent a positive step.

5.0 SUMMARY

Our talk in this unit W relate to foreign investment and foreign aid as part of globalization. We started at the unit by looking at private capital flows especially from developed countries to LDCs. Noting that the flow grew rapidly the annual growth, rate of \$2.4 billion in 1962 to over \$185 billion in 1999.

Having discussed this growth, we looked at the various arguments advanced in favour or against foreign direct flows taking full cognizance of the activities of multinational corporations viz-a-viz the foreign flows. We also discussed the official development assistance which represents another form of financial flow to LDCs. Again, we looked at the several arguments for and against foreign aid. We concluded that what is important for developing countries is the aid, no matter the volume, that is geared to the real development needs of the recipients. In the next unit, we shall discuss composite indicators of development.

6.0 TUTOR-MARKED ASSIGNMENT

Would you agree that the quality of national policies aimed at economic growth and poverty reduction should as a rule governs donor's decision to provide aid to this or that country?

7.0 REFERENCES/FURTHER READING

Jhingan M.L. (2005). *The Economics of Development and Planning* (8th Edition) Vrinda Publications Ltd, Delhi - 110091, India.

Tatyana P. Soubothino (2004). *Beyond Economic Growth. An introduction to Sustainable Development* (2nd Edition) The World Bank 1818H Street N.W. Washington DC 20433 U.S.A.

UNIT 3 COMPOSITE INDICATORS OF DEVELOPMENT

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
- 3.1 Development Diamond
- 3.2 Human Development Index
 - 3.2.1 Constructing the Human Development Index
- 3.3 Relationship between Economic Growth and Human Development
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Reading

1.0 INTRODUCTION

In the last course which is on globalization as it affects foreign investment and foreign aid, we did discuss private capital flows as one of the three main forms of financial flows to developing countries. In it, we looked at the ways through which foreign investment could be attracted

In this respect, the activities of the multinational corporations were discussed. We also talked about the arguments for and against private investment. In addition to private capital flows, we looked at official development assistance or foreign aid (ODA). The money value of ODA as we noted, grew over the years while the percentage of developed country GNP allocated to ODA declined. We wrapped up the unit with the conclusion that aid to developing nations should be geared towards the development needs of the recipients.

In this unit we shall look at development diamonds and human development index as they affect developing countries.

2.0 OBJECTIVES

After studying this unit, you should be able to:

- explain what is meant by development diamond
- explain how countries can use their wealth more effectively for the benefit of their people
- explain what constitutes human development index
- differentiate between rankings by GNP per capital and by the human development index.

3.0 MAIN CONTENT

3.1 Development Diamonds

Development is the process of improving the quality of all human lives. The three equally important aspects of development are:

- (i) raising people's living levels.
- (ii) Creating conditions conducive to the growth of people's self esteem.
- (iii) Increasing people's freedom of choice by increasing varieties of consumer goods and services.

Comparing countries GNP (or GDP) per capita is the most common approach to assessing their level of development. However, higher per capita income in a country does not always mean that its people are better off than those in a country with lower income because there are many aspects of human well-being that those indicators do not capture.

Development diamonds is a term used by the World Bank to portray relationships among four socioeconomic indicators for a given country relative to the averages for that country's income group. Life expectancy at birth, gross primary or secondary enrollment, access to safe water and GNP per capita are presented, one on each axis, then connected with bold lines to form a polygon. The shapes of this “diamond” can easily be compared to the reference diamond. However, this approach makes it impossible to usually compare the development achievements of these two pairs.

SELF ASSESSMENT EXERCISE 1

Based on our discussion on the development diamonds, suggest a better way to measure countries development than the one earlier mentioned?

3.2 Human Development Index

According to United Nations experts, the human development index is used as a measure of a country's development. This composite index is a simple average of three indices reflecting a country's achievement in health and longevity (as measured by life expectancy at birth) education (measured by adult literacy and combined primary, secondary and tertiary enrollments) and living standard (measured by GDP per capita in purchasing power parity).

The goals are achieved by: life expectancy of 85 years, adult literacy and enrollments of 100 per cent, and real GDP per capita of \$40,000 in purchasing power parity terms. Although, highly desirable, these goals have not yet been fully attained by any country.

Human development is a broad and comprehensive concept. It is as much concerned with economic growth as with its distribution, as with basic human needs as with variety of human aspirations and as with the human deprivation of the poor.

3.2.1 Constructing the Human Development Index (HDI)

The HDI is based on three indicators: longevity, educational attainment and standard of living; and for the construction of the index, fixed minimum and maximum values have been set for each of these indicators:

- Life expectancy at birth: 25 years and 85 years for calculating the life expectancy index.
- Adult literacy: 0% and 100% for calculating the education index.
- Combined gross enrolment ratio (0% and 100%)
- Real GDP per capita (PP \$). \$100 AND \$40,000 (ppp us \$) for calculating GDP index.

For any component of the HDI, individual indices can be computed by applying the formula:

$$\text{Dimension index} = \frac{\text{Actual Value} - \text{Minimum Value}}{\text{Maximum Value} - \text{Minimum Value}}$$

From the above, the HDI is a simple average of the life expectancy index, education index and adjusted GDP per capita (PP \$) index.

The advantage of the human development index relative to the development diamond method is that it allows countries to be ranked in order of their achievements in human development. The disadvantage of the human development index is that, as any aggregate index, it does not allow us to see the relative importance of its different components or to understand why a country index changes over time -whether, for example, it happens because of a change in GNP per capita or because of a change in adult literacy.

The HDI ranking of some countries differs significantly from their ranking by real GNP (or GDP) per capita. For example, Sweden ranks only 28th in real GNP per capita, but 6th in human development – a

difference of 22 points. The difference between a country's human development ranking and its per capita income ranking shows how successful it is (or is not), compared with other countries in translating the (benefits of economic growth into quality of life for its population.

A positive difference means that a country is doing relatively better in terms of human development than in terms of per capita income. This outcome is often seen in former socialist countries and in the developed countries of Europe. A negative difference means the opposite.

3.3 Relationship between Economic Growth and Human Development

We need to emphasize here that there is no automatic link between these two variables. Economic growth is important because no society has been able to sustain the well-being of its people without continuous growth; so economic growth is essential for human development. But human development is equally important because it is healthy and educated people who contribute more to economic growth through productive employment and increase in income.

Thus human development and economic growth are closely connected. In reality, economic growth is a means to an end, and the end is human development. Policy makers should therefore pay more attention to the quality of growth so as to support all-round human development.

SELF ASSESSMENT EXERCISE 2

How can countries use their wealth more effectively for the benefit of their people?

4.0 CONCLUSION

We have discussed the composite indicators of development in this unit. Our emphasis has been on the variables that approximate the indicators of development. These include development disconnected and human development index. We also looked at the methodology of constructing the human development index.

Another issue that features in our discussion was the relationship between economic growth and human development. We conclude that despite the weaknesses of the HDI, by measuring average achievements in health, education and income, the HDI provides a better picture of the state of a country's development than its income alone.

5.0 SUMMARY

Our discussion in this unit centred on the composite indicators of development. At the outset, attempts were made to define development. Having done that, we looked at the development diamond enunciated by exports at the World Bank. It relates to the relationship among four socio economic indicators for a given country relative to the averages for that country's income group. Next, we discussed the human development index which experts at the UN prefer as a measure of a country's development. An addition to this is the method for constructing the human development index.

Finally, we looked at the relationship between economic growth and human development. We conclude that the weaknesses of the Development diamond and the human development index notwithstanding, the HDI present a better approximation of the state of a country's development than its income alone. In the next unit we shall discuss the indicators of sustainable development.

6.0 TUTOR-MARKED ASSIGNMENT

What do you understand by the term economic development?

7.0 REFERENCES/FURTHER READING

Jhingan M.L. (2005). *The Economics of Development and Planning* (8th Edition) Vrinda Publications Ltd, Delhi - 110091, India.

Tatyana P. Soubothino (2004). *Beyond Economic Growth. An introduction to Sustainable Development* (2nd Edition) The World Bank 1818H Street N.W. Washington DC 20433 U.S.A.

UNIT 4 INDICATORS OF SUSTAINABLE DEVELOPMENT

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 The Concept of sustainable development
 - 3.2 Composition of National Wealth
 - 3.3 Accumulation of National Wealth
 - 3.4 Social Capital and Public Officials Corruption
 - 3.5 Policies for Sustainable Development
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Reading

1.0 INTRODUCTION

In the last unit, dealt extensively with the composite indicators of development. I Part of these indicators is the human development index which is used by the UN as a measure of a country's development. We noted that this composite index is a simple average of three indices namely longevity as measured by life expectancy at birth; educational attachment as measured by a combination of adult literacy and combined primary, secondary and tertiary enrollment ratios and standard of living as measured by real, per capital (PPP \$). We equally discussed the construction of the HDI. Another issue that came up for discussion is the relationship between economic growth and human development.

In this unit shall be discussing the indicators of sustainable development – an area in development economic growth and human development economics that has been generating considerable interest. In it, we shall dwell on the concept of sustainable Development, composition of national wealth; accumulation of national wealth, social capital and public officials corruption. We shall wrap up the unit by taking a closer look at the policies for sustainable development.

2.0 OBJECTIVES

After studying this unit, you should be able to:

- define sustainable development
- explain the composition of national wealth
- describe the accumulation of national wealth
- explain how countries can build their social capital
- explain the policies for sustainable development.

3.0 MAIN CONTENT

3.1 The Concept of Sustainable Development

Sustainable development can be defined as “meeting the needs of the present generation without compromising the needs of future generations”. It means that development should keep going. It also emphasizes the creation of sustainable improvements in the quality of life of all people through increases in real income per capita, improvements in education, health and general quality of life and improvements in quality of natural environmental resources. Thus sustainable development is closely linked to economic development. The objective of sustainable development is to create sustainable improvements in the quality of life for all people as the principal goal of development policy.

3.2 Composition of National Wealth

Recent World Bank studies indicate that physical capital is not the main component of a country's wealth rather, for all countries, the most important is the human resources which consists of labour determined mainly by the number of people in a country's labour force and human capital. Natural capital is another important component of every nation's wealth. A country's level of development determines the roles played by the different components of its national wealth. In developed countries, natural capital accounts for just 2 -5 per cent of aggregate wealth. By contrast, in West Africa, natural capital still prevails over physical capital, and the share of human resources is among the lowest in the world despite a large population.

3.3 Accumulation of National Wealth

The accumulation of national wealth is seen as an indicator of sustainable development. Over the past 10 years, the concept of sustainable development has become more comprehensive and

measurable. The World Bank conceives sustainable development as “a process of managing a portfolio of assets to preserve and enhance the opportunities people face”.

Based on this thinking, one possible indicator of sustainable development might be the genuine domestic saving rate or genuine domestic investment rate. Standard measures of wealth accumulation ignore the depletion of, and damage to, natural resources such as forests and oil deposits on the one hand, and investment in one of a nation's most valuable assets – its people – on the other. The genuine domestic saving (investment rate is designed to correct for this shortcoming by adjusting the domestic saving rate downward by an estimate of natural resource depletion and pollution damages; an upward by growth in value of human capital which comes primarily from investing in education and basic health services).

The world banks estimates of the genuine domestic saving rates taking into account net domestic saving, education expenditure, depletion of a nation's energy, mineral and forest resources and damage from Co2 emission show that many of the most resource dependent countries, including all the major oil exporters, have low or negative domestic savings. That means that losses of their wealth caused by depletion of natural capital and damage done by gaseous emissions outweigh the benefits from net domestic saving and education expenditure. It is important to note that this indicator of sustainable development assume high substitutability among different component of national wealth. Also, this indicator can play an important role in attracting governments' attention to the issue of rational use of natural resources for the long-term benefit of their countries.

SELF ASSESSMENT EXERCISE 1

Explain the concepts of sustainable development and the composition and accumulation of national wealth.

3.4 Social Capital and Public Officials Corruption

Social capital refers to organization and associations (including public, private and non profit) as well as to norms and relationships (such as laws, traditions, and personal networks). It is the glue that holds societies together i.e. what social cohesion depends on. Because social capital is so multi dimensional, there can hardly be a single "best" way of measuring it. But that does not mean that measurement is impossible. Researchers measure social capital in a number of creative ways usually by calculating composite indices based on a range of data collected through surveys.

Mounting evidence suggests that social capital is critical for economics to grow and for people to prosper. However, radical reforms or even rapid but unbalanced development often undermine existing forms of social capital without replacing them with new ones. Such degradation of social capital threatens social cohesion and renders development unsustainable. One red flag of social capital degradation is corruption among public servants including bribery, misappropriation of public funds and misuse of authority. Corruption not only wastes resources by distorting government's policies away from the interests of the majority, it also generates apathy and cynicism among citizens, makes laws dysfunctional and contributes to a rise in crime. Eventually, corruption discredits political democracy which is essential for development.

It is no wonder that, according to some studies, countries suffering from high levels of corruption typically exhibit lower rates of economic growth. Such elements of social capital as good governance and the rule of law are no less important for sustainable economic development than such basic economic condition as sufficient saving and investment.

Corruption among government officials is widely seen to be particularly widespread in some African countries and in transition countries. It is important to note that the nature of corruption can differ significantly among countries. Administrative corruption refers to intentional misimplementation of existing laws, rules, and regulations by public officials to provide advantages to selected individuals groups or forms in exchange for illicit and nontransparent private gains (bribes).

To control corruption and minimize its harmful effect on a country's development, governments can use different strategies; reforming Public Administration to reduce opportunities and incentives for corruption and to increase transparency and accountability in government decision making is usually necessary, but insufficient.

Other necessary measures include strengthening the independence and efficiency of the judicial system, giving more voice to NGOs representing various groups of population, fostering truly independent mass media, and creating a competitive private sector free from excessive government regulation as well as from monopolization.

3.5 Policies for Sustainable Development

Agricultural and industrial development along with urbanization and spread of infrastructure combined with population growth has led to environmental degradation. Environmental degradation harms human health, reduces economic productivity and leads to loss of amenities. The damaging effects of economic development on environmental

degradation can be reduced by a judicious choice of economic and environmental policies and environmental investments.

Choice between policies investments should aim at harmonizing economic development with sustainable development such policy measures include:

- (1) reducing poverty by providing greater employment opportunities to the poor
- (2) removing subsidies on the use of electricity, fertilizers, pesticides, diesel, petrol, gas, irrigation water etc
- (3) clarifying and extending property rights
- (4) adopting market based approaches by pointing to consumers and industries about the cost of using natural resources on environment
- (5) using regulatory policies to reduce environmental degradation
- (6) use of economic incentives such as price, quantity and technology.

SELF ASSESSMENT EXERCISE 2

How does the structure of national wealth change as a country develops?

4.0 CONCLUSION

In this unit, we have looked at the indicators of sustainable which include accumulation of national wealth, social capital and control of public, officials' corruption. The policies for sustainable development were also brought into focus. We conclude that a range of policy options is available for LDC governments prominent among which is policies to abate industrial emissions.

5.0 SUMMARY

Discussions on the indicators of sustainable development commenced with the definition of sustainable development, we then went ahead to look at the composition and accumulation of national wealth. Continuing with the indicators of sustainable development, we discussed the social capital and public officials corruption dimension to it noting that social capital is the glue that holds societies together while government officials corruption, discredits political democracy. We ended the unit by dealing with the policy options available to LDC governments towards sustaining their development. In the next unit, we shall discuss development goals and strategies

6.0 TUTOR MARKED ASSIGNMENT

How can countries make their development more sustainable?

7.0 REFERENCES/FURTHER READING

Jhingan, M.L. (2005). *The Economics of Development and Planning* (8th Edition) Vrinda Publications Ltd, Delhi - 110091, India.

Tatyana P. Soubothino (2004). *Beyond Economic Growth. An introduction to Sustainable Development* (2nd Edition) The World Bank 1818H Street N.W. Washington DC 20433 U.S.A.

UNIT 5 DEVELOPMENT GOALS AND STRATEGIES

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 Millennium Development Goals
 - 3.2 The Role of National Development Policies
 - 3.3 The Need for National Sustainable Development Strategy
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Reading

1.0 INTRODUCTION

In the last unit, we looked at the indicators of sustainable development. The issues that came up for discussion include – the concept of sustainable development; the composition of national wealth, the accumulation of national wealth as an indicator of sustainable development, social capital and public officials corruption and finally, the policy option at the disposal of LDC governments towards sustaining their development.

In this unit -5 we shall be looking at development goals and strategies. "In it, we shall take a closer look at millennium development goals, the role of national development policies and the need for national sustainable development policy.

2.0 OBJECTIVES

After studying this unit, you should be able to:

- explain the millennium development goals
- describe the role of national development policies
- explain the need for national sustainable development strategy
- explain the difficult choices facing every country in dealing with its development issues.

3.0 MAIN CONTENT

3.1 Millennium Development Goals

The Millennium Development Goals and their related targets call for achieving the following outcomes by 2015:

1. Decreasing by half the proportion of people living in extreme poverty (on less than US \$1 a day) and suffering from hunger.
2. Achieving universal primary education
3. Eliminating gender disparity at all levels of education.
4. Reducing the under-five mortality rate by two-thirds.
5. Reducing the material mortality ratio by three quarters
6. Halting and beginning to reverse the spread of HIV/AIDS, Malaria and other diseases.
7. Ensuring improved environmental sustainability (by integrating sustainable development into country's policies, reversing the loss of environmental resource and halving the proportion of people without access to potable water and basic sanitation).
8. Building a Global Partnership for Development. The eighth goal was added in 2001 and its specific targets and indicators continue to be actively discussed and formulated under the leadership of the main international development agencies. As of early 2002, wide agreement seemed to be achieved on the following targets.
 - Further develop open and nondiscriminatory trading and financial systems which would include an increased level of official development assistance.
 - Address the special needs of the least developed countries and those of the landlocked and small island developing countries.
 - Deal comprehensively with the problem of the unsustainable foreign debt of developing countries.
 - Develop and implement strategies for reducing youth unemployment. Provide access to affordable essential drugs in developing countries.
 - Spread more widely the benefits of new technologies, especially information and communication technologies (ICT)

It is important to understand that all of the Millennium Development Goals are closely interconnected so that achieving one of them can be expected to contribute to achieving the others. Unfortunately, failure to achieve some of these goals can also preclude the achievement of many or all of the others. Particularly devastating can be the effects of an unchecked HIV/AIDS epidemic which, by killing adults in their most productive years exposes millions to extreme deprivation. The main precondition for achieving the millennium goals is sufficiently fast and equitable

economic growth in developing countries to provide the material resources for reducing all kinds of poverty including human poverty.

The main responsibility for meeting this challenge lies with the governments of developing countries, but donor countries and international development agencies can have important roles to play by building a global partnership for development to complement these efforts. In addition to increasing the amount of official development assistance and improving its effectiveness in poverty reduction, developed countries can make a big contribution by removing the remaining barriers to imports from developing countries, thus helping to accelerate their economic growth.

SELF ASSESSMENT EXERCISE

List the millennium development goals.

3.2 The Role of National Development Policies

The governments of developing countries are the most important actors in the development process and no amount of foreign aid can be effective in a country where the government is corrupt or fails to implement good policies enabling national economics to grow. In addition to making up for multiple market failures, including those in the area of environmental protection, government can also play an important role in coordinating the involvement of all development agents private firm public agencies, and civic associations with the frame work of a national sustainable development strategy.

Government can help different segments of society arrive at a common vision of the country's medium and long term future, build broad national consensus on ways of making this vision a reality and enable all the development agents to act, in accordance with their social responsibilities. Formulating comprehensive national development priorities and coordinating their achievement is a crucial task that can never be entrusted to the private sector or to any foreign aid providers.

Government involvement is indispensable in the following areas:

- (i) providing for universal basic health care and primary education
- (ii) protecting the economically vulnerable
- (iii) creating and maintaining an effective legal system with strong law enforcement and independent well-functioning courts
- (iv) promoting and safe guarding market competition in the private sector
- (vi) improving public access to the information and knowledge needed for development.

3.3 The Need for National Sustainable Development Strategy

Arising from our discussion in (3.1) concerning the millennium development goals, the need for a nation sustainable development strategy especially by the developing country has become imperative.

Such strategies are in the following areas:

- (a) sustainable development's and environmental accounting -Due to the rapid destruction of many of the worlds resources, it is clear that meeting the needs of the growing world population will require radical and early changes in consumption and production patterns
- (b) To meet expanding LDC needs, environmental devastation must be hated and the productivity of existing resources stretched further so as to benefit more people
- (c) insecure land tenure, lack of credit and inputs and absence of information often prevent the poor from making resource – augmenting investments that would help preserve the environmental assets from which they derive their livelihood hence preventing environmental degradation is more often a matter of providing institutional support to the poor than fighting an inevitable process of decay
- (d) the increased accessibility of agricultural inputs to small farmers and the introduction of sustainable methods of farming will help create attractive alternatives to current environmentally destructive patterns of resource use
- (e) policies should be geared towards reducing congestion, vehicular and industrial emissions and poorly ventilated house stoves which inflate the tremendously high environmental costs of urban crowding
- (f) as the income and consumption levels of everyone else in the economy also rise, there is likely to be a net increase in environmental destruction. There is the need, on the part of government, to meet the increasing consumption demand while keeping environmental degradation at a minimum.

SELF ASSESSMENT EXERCISE 2

Does your country have national sustainable development strategy? If so, what are its main goals?

4.0 CONCLUSION

Our discussion in this unit centred on development goals and strategies. In it, we looked at the millennium development goals which aim at

building an effective global partnership for development. There are eight goals altogether seven of which formulate for reaching improvements in some of the most important indicators of development. We then looked at the role of national development policies. In it, six roles are identified. Finally, we discussed the need to put in place, by government, a national sustainable development strategy aimed at improving the growth and development of developing countries.

Based on these issues discussed in this unit, we conclude that every country faces many choices in dealing with its development issues. They entail big risks or big benefits for entire nations, but there is a lot of uncertainty in every choice. Learning from historical experience, national as well as global, may be the best way to minimize this uncertainty.

5.0 SUMMARY

We began this unit by looking at development goals and strategies. The issue of Millennium Development Goals was the first to be discussed. In it, we enumerated the eight major goals.

Seven of such goals are formulated for reaching improvements in some of the most important indicators of development; followed by concrete targets to be achieved by 2015 in comparison with the figures in 1990. The eight goals specifies some of the main means of achieving the first seven goals in the portion of the work that requires joint effort by international development partners -the governments of developed and developing countries as well as the private sector. Next, we discussed the roles of development planning policies and finally the strategies for a national sustainable development.

These issues will constitute the back ground for our discussion in the last unit 6 which is on development planning.

6.0 TUTOR-MARKED ASSIGNMENT

Which roles in national development, should the government play?

7.0 REFERENCES/FURTHER READING

Tatyana P. Soubothino (2004). *Beyond Economic Growth. An introduction to Sustainable Development* (2nd Edition) The World Bank 1818H Street N.W. Washington DC 20433 U.S.A.

Jhingan M.L. (2005) *The Economics of Development and Planning* (8th Edition) Vrinda Publications Ltd, Delhi - 110091, India.

UNIT 6 DEVELOPMENT PLANNING

CONTENTS

- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
 - 3.1 The Nature of Development Planning
 - 3.2 The Objectives of Development Planning
 - 3.3 The Rationale for Development Planning
 - 3.4 The Planning Process
 - 3.5 Problems of Implementation and Plan Failures
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assessment
- 7.0 References/Further Reading

1.0 INTRODUCTION

In Unit 5 we discussed development goals and strategies. In it, we looked at the millennium development goals which formulated far reaching improvements in some of the most important indicators of development. This was followed by concrete targets to be achieved by 2015. As of early 2002, wide agreement appeared to be achieved on six targets mentioned in 3rd of the main content of the unit. We further dealt with the roles of national development policies in which government's involvement has become increasingly inevitable. We ended the unit with a discussion on the strategies for a sustainable national development.

In this chapter, we shall be looking at development planning especially as it affects developing countries. In it, we shall discuss the nature of development planning; the national for development planning; the planning process and finally the problems associated with plan implementation and why plans fail.

2.0 OBJECTIVES

After studying this unit, you should be able to:

- explain the concept of development planning
- explain the rationale for planning
- describe the planning process
- explain the problems of plan implementation in LDCs with special reference to Nigeria
- evaluate development planning in LDCs with Nigeria as a case study.

3.0 MAIN CONTENT

3.1 The Nature of Development Planning

Development planning involves the deliberate efforts on the part of government to speed up the process of social and economic envelopment. In some countries such as the first union, these efforts may be all-pervading with the government intervening directly and extensively in the lives of the people. In others, like the mixed economics of the advanced countries and many developing countries, the interventionist role of the government is relatively small with emphasis on the provision of a policy framework within which the economic and other factors operate.

The need for development planning arises largely from the fact productive resources are scarce relative to the demand for them. Had resources been unlimited, there would have been no need for development planning. One of the principal objectives for planning in developing countries is to increase the rate of economic development. Development planning is particularly popular in developing countries because it is regarded as the best strategy for transforming that economics and for narrowing the gap between them and the advanced industrial countries. The planning for development is indispensable for removing the poverty of nation, for raising national and per capita income.

3.2 Objectives of Development Plans

The five principal objectives of the national development plan:

- (i) To secure a united, stable and self reliant nation.
- (ii) To have a great and dynamic economy
- (iii) To create a just and egalitarian society
- (iv) To have a land of bright and full opportunity for all citizens
- (v) To create a free and democratic society.

The short term objectives are:

- (a) increase in per capita income
- (b) move even distribution of income
- (c) reduction in the level of unemployment
- (d) increase in the supply of high level manpower
- (e) diversification of the economy
- (f) balanced development and indigenization of economic activity.

3.3 The Rationale for Development Planning

The widespread acceptance of planning as a development tool rested on a number of fundamental economic and institutional arguments. Of these, we can single out four as the most often put forward.

(i) Market Failure

In developing countries, markets are under developed and in some sectors even nonexistent. Even in well - established market economics, there are five basic situations called market failures

- (a) underproduction of public goods e.g. defense, law and order, roads etc
- (b) under production of goods and services with positive externalities, for example public health and education
- (c) over pricing and underproduction by natural monopolies e.g. by electric and wider utilities
- (d) insufficient supply of social services such as pensions or medical and unemployment insurance
- (e) insufficient information available to some parties affected by market processes e.g. information about quality of food products and medicines available to consumers whose health is at risk. These five situation call for some kind of government intervention by way of development planning.

(ii) Resource Mobilization and Allocation

Developing economics cannot afford to waste their very limited financial and skilled human resources on unproductive ventures skilled workers must be employed where their contributions will be most widely felt. Economic planning is assumed to help modify the restraining influence of limited resources by recognizing the existence of particular constraints and by choosing and coordinating investment projects so as to channel these scarce factors into their most productive outlets.

(iii) Attitudinal or Psychological Impact

It is often assumed that a detailed statement of national economic and social objectives in the form of a specific development plan can have an important attitudinal or psychological impact on a diverse and often fragmented population.

(iv) Foreign Aid

The formulation of detailed development plans has often been necessary condition for the receipt of bilateral or multilateral foreign aid. With a dropping list of projects, governments are better equipped to solicit foreign assistance and persuade donors that their money will be used as an essential ingredient in a well-conceived and internally consistent plan of action.

The agricultural and industrial sectors cannot, however develop in the absence of economic and social overheads. The building of canals, roads, rail ways, power stations etc is indispensable for agricultural and industrial development. So are the training and educational institution, public health and housing for providing a regular flow of trained and skilled personnel. But private enterprise in underdeveloped countries is not interested in developing the social and economic overheads due to their unprofitability.

SELF ASSESSMENT EXERCISE 1

Explain the concept of development planning and the rationale for it.

3.4 The Planning Process

The strategy of planning is essentially to direct the economy in a given direction, assign specific priorities to be followed and mobilize the resources of a nation in a deliberate attempt to achieve rapid economic development. This gives use to the need for machinery to formulate the plans and implement them. Part of the machinery is the setting up of a planning commission which should be organized in a proper.

In Nigeria, there is in place, a national planning commission which is under the presidency. It is broken down into a number of divisions and sub divisions under such experts as economists, statisticians, engineers etc dealing with the various aspects of the economy. The planning process involves some basic models.

Such economy wide models include

- (i) aggregate growth models involving macro economic estimates of planned changes in principal economic variables.
- (ii) the multi sector input-output analysis which ascertains among the things the production, resource employment and foreign exchange implications of a given set of final demand targets within an internally consistent frame work of inter industry product flow

- (iii) project appraisal and social cost benefit analysis which as it were is the most important component of plan formulation which involves the detailed selection of specific investment project within each sector through the technique of project appraisal and social cost–benefit analysis. These three "stages" of planning - aggregate, sectoral and project, provides the main intellectual tools of planning authority.

3.5 Problems of Plan Implementation and Plan Failures

The relevant question to ask here is -what are the factors responsible for the ineffective implementation of development plans? The answer is readily provided by using Nigerian's development planning experience as a case study. An important feature of the Nigerian Planning experience has been the divergence between planned and actual capital programme and the resultant distortion of the structure of the capital programme. Several factors accounted for distortions in the various plans:

- (a) There is an inherent plan deficiency in which successive plans cannot give the intended result -lack of underlying model or a poorly specified model. In this case, a correctly specified macro-model is necessary, planners depended on ad hoc judgment rather than model.
- (b) Over ambitious plans -a good plan is supposed to be challenging and not over ambitious.
- (c) Bureaucratic weakness and red-tapism in the planning process
- (d) Inadequate planning inputs -planning ministries work without inputs
- (e) Absence of political will -we do not have the political will because we are content with such position
- (f) failure in ordering our priorities.

SELF ASSESSMENT EXERCISE 2

What are the objectives of development planning in Nigeria?

4.0 CONCLUSION

In this last unit, we discussed development, planning with special reference to developing countries and also using Nigeria as a case study. In it, we looked at the nature and objectives of development planning, the rationale for planning, the planning process and the problems of plan implementation and plan failures. We conclude by noting that although several goals of development planning in Nigeria are still to be

achieved, there cannot be any doubt that the overall effect on the economy has been beneficial.

However, efforts should be geared towards improving the planning machinery, and technical quality of plans as well as eliminating the various constraints effective plan implementation.

5.0 SUMMARY

This unit starts off with a discussion on the nature and objectives of development planning. We noted that planning has been seen by development economists as a deliberate and conscious efforts on the part of developing countries to move their nations forward in respect of social and economic development. We further made the point that part of the rationale for planning is to correct market failures. The process of planning was equally discussed. We wrapped up the unit by looking at the problems of plan implementation and plan failures.

In it, we noted the several factors responsible for ineffective plan implementation including, among others, inadequate planning input, bureaucratic weakness and red tapism and lack of political will, concluding that improvement in planning machinery and technical quality of plans will help developing countries especially Nigeria in attaining the objectives of development.

6.0 TUTOR-MARKED ASSIGNMENT

Why do developing countries plan?

7.0 REFERENCES/FURTHER READING

Jhingan M.L. (2005). *The Economics of Development and Planning* (8th Edition) Vrinda Publications Ltd, Delhi - 110091, India.

Tatyana M. P. & Smith S.C. (2003). *Economic Development* (8th Edition) Pearson Education. (Singapore) Pte Ltd Delhi 110092 India.