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ABSOLUTE AND RELATIVE POVERTY

ABSOLUTE POVERTY

- Those that live in Absolute poverty do not have access to the resources required to satisfy basic human material needs.
- Three quarters of the world's population live in countries suffering from widespread absolute poverty.
- It was described by the former World Bank President as "a condition of life so degraded by disease, illiteracy, malnutrition and squalor as to deny its victims basic human necessities....life at the very margin of physical existence."
- Life is threatened without food, drink, warmth, shelter, clothing and good health.
- A primary objective of development should be widespread provision of basic foodstuffs, clean water, housing, clothing and health care.

RELATIVE POVERTY

- Relative poverty is defined as households with an income below 50% of the median in the country studied.
  One in six of the developed world's children live in relative poverty - that is, below the national poverty line in their country - according to a new report from Unicef.

THE CAUSES OF ECONOMIC GROWTH IN DEVELOPING COUNTRIES

WHY DOES A DEVELOPING COUNTRY WANT TO DEVELOP?

- Increase & widen availability of life sustaining goods: food, shelter, health and security
- Raise living standards: higher incomes, employment, education & cultural development
- Expand range of economic and social choice to individuals

ECONOMIC GROWTH NEEDS TO BE SUSTAINABLE:

- **Competition** can help by providing **incentives** to become efficient and profit-making
- Use supply-side policies & use labour more efficiently
- Large budget deficits should be avoided & sound fiscal policies needed
- Allow exchange rate to be determined by market forces
- Encourage **free trade** (possibly together with protectionist policies)
- Attract **FDI** (Foreign Direct Investment) e.g. by MNCs/TNCs -this may bring a large multiplier effect
- Through industrialisation,

- **import substitution** should occur. Rather than using another country's product, own materials and labour should be used
- **export-orientation** should give even faster economic growth
- cut costs, boost employment & productivity

- **Invest** in health, infrastructure and education. This results in a highly educated, motivated, healthy and mobile workforce

APPROPRIATE TECHNOLOGY SHOULD BE USED:

- Step-by-step, structured growth, e.g., hi-tech industries not developed until foundations (e.g. skills and technology) in place
- Ensure efficiency and allocative-efficiency
- **Reliable power supply** is needed first - needed by all industry
- Replacement parts need to be readily available e.g. after an 'aid project', a developing country should not become reliant on highly priced parts from the developed country that gave 'aid'

AID **COULD BE USED TO STIMULATE ECONOMIC GROWTH:**

- debt cancellation - would leave more money to spend on infrastructure and people
- relevant schemes to encourage the country and its people to increase the size of its economy

DETERMINANTS OF GROWTH:

- **Structural adjustment** can be used
- Imports of capital goods - machinery etc. to build up industry
- Exports, initially of primary products
- Improvements of the country's infrastructure
- **Inward Investment**, determined by
  - Interest rates - high = low investment
    - - low = high investment and high borrowing
  - Incomes - determinant of induced investment
  - high income = high spending = long term work contracts = good outlook = firms (esp. TNCs) will invest

THE SIGNIFICANCE OF ECONOMIC GROWTH FOR DEVELOPMENT

- The need to understand the causes of widespread absolute poverty and the prescription of strategies to foster economic growth has always been at the core of development studies.
- Economic Growth is perceived as the principal means of escaping poverty.
- There is a close connection between high levels of poverty and low levels of national income.
- However, the initial growth will do little to alleviate poverty, since it often only benefits those who are better off.

- But despite the fact that the immediate benefits of growth might be unequally distributed, all sections of society would benefit by the **trickle down effect.**

THE ROLE OF BOTH PHYSICAL AND HUMAN CAPITAL

- The price of capital controls the amount of growth that occurs.
- Physical capital such as buildings and machinery restricts the production, which also restricts growth.
- Human capital, labour, also controls the level of production. Higher wages mean less production, but higher demand.
- In developing countries, the lower costs of both types of capital mean that more development can occur.

TECHNOLOGICAL PROGRESS

- Progress is closely linked to industrialisation.
- Improved quality of physical capital means that industry is becoming **less labour intensive.**
- This leads to underemployment and **disguised unemployment** with surplus workers in the agricultural sector adding little or nothing to output.
- However, technological progress is seen by many as the only way for developing countries to become **internationally competitive.**
- Technological progress can come at a cost to the agricultural sector.

THE SIMILARITIES AND DIFFERENCES BETWEEN DEVELOPING COUNTRIES

SIMILARITIES

- Low living standards – these include low income per capita, high income inequality, widespread poverty, lack of access to resources, malnutrition, poor health and short life spans. For example in Ethiopia (HDI Rank 174) GNP per capita is $478, 19.9% pop live on less than $1 per day, the Gini Coefficient of income equality is 38.2, only 32% pop have access to safe water and 21% have sanitation and male life expectancy is at a demoralising 44 years.
- Low F.of P. productivity- Labour productivity is low due to insufficient resources and those resources available are usually of low quality. Machinery, if available at all, is low quality and inefficient. Infrastructure is poor and thus movement of capital and labour is inhibited. For example in Brazil only 9.3% of roads are of good condition. People are also lacking in skills due to the either complete lack of or poor quality of education. This is improving but will take years to filter through into a skilled working population.
- High population growth – averaging 2.4% annually in low income countries (excluding India and China). This is in comparison to high income countries where it is 0.7%.

- High unemployment levels – either the labour resources is not used at all, or it is underused. Either way it is inefficient. This may be due to the poor education resulting in skill shortages, but also to the lack of investment, and therefore job opportunities, seen in low income countries.
- Narrowly focused economies – there is the common trait of dependence upon one resource or exporting product. Typically in agriculture for LEDC's and especially in Africa. There are some developing countries that are diversifying but agriculture still contributes to a large proportion of their GDP.
- A dualistic economy – this can be seen in two aspects. Firstly between the agriculturally dependent rural areas and the industrialising urban areas. And also between the affluent minority and the poor masses.

DIFFERENCES

- Historical factors – some countries, especially those in Asia and Africa, were colonies belonging to European countries. Therefore unlike some countries in Latin America for instance they may devote more effort to restoring their political and economic independence than striving for industrialisation.
- Political volatility – it is a recognised fact that a countries political decisions greatly effect its economic progress. Thus politically stable countries such as those in Asia have been able to see fast growth whilst others have been held back by political instability.
- Public/Private sectors – the trend has been to increase private sector activity and decrease public sector activity. This still varies greatly though, with SE Asian and Latin American countries tending to have the larger private sectors.
- Resources available – both physical and human resources available determine growth capacity. Some countries have access to physical resources such as minerals (South Africa) and oil (Iraq). Other countries have larger human resources than others as they have larger populations. But this can cause problems such as dependence and tension between different demographic groups.
- Geographical restrictions – all countries are different shapes and sizes and have different degrees of access. It is more difficult for instance for a landlocked country in central Africa to trade for instance, than it is for a country by the coast with a port.

THE COSTS OF ECONOMIC GROWTH

- **Inequality of income** - growth rarely delivers its benefits evenly. It often rewards the strong, but gives little to the economically weak. This will widen the income distribution in the economy. Typically seen in Brazil, where the rich minority earn the vast majority of the national income. More growth has seen the rich get richer and the poor get poorer!
- **Pollution (and other *negative externalities*)** - the drive for increased output tends to put more and more pressure on the environment and the result will often be increased pollution. This may be water or air

pollution, but growth also creates significantly increased noise pollution. Traffic growth and increased congestion are prime examples of this. These negative externalities mean that firms will overproduce goods and services, because the private optimum is greater than the social optimum.

- **Loss of non-renewable resources** - the more we want to produce, the more resources we need to do that. The faster we use these resources, the less time they will last, and eventually the more expensive they will be to obtain.
- **Loss of land** - increased output puts further pressure on the available land. This may gradually erode the available countryside. E.g. the Masai in Kenya have been banned from their native land in the Masai Mara, which has now become a famous tourist destination as a result of the desire for economic growth.
- **Lifestyle and cultural changes** - the push for growth has in many areas put a great deal of pressure on individuals. This may have costs in terms of family and community life. E.g. in Indonesia the women are being taken out of their homes so that they can work for local factories and firms, thus removing the role of the 'housewife'.
- **Inflationary pressures -** an increase in the national income of a country may result from a shift of the AD curve outwards, which will cause the price level to rise and thus inflation.
- **Local Unemployment –** foreign investors may bring about strong competition against domestic firms by offering cheaper goods and services, thus driving local firms out of business. Also investors may bring their own skilled employment from abroad, and thus the land occupied by the foreign firm cannot be used to employ locals. Unemployment in certain areas will mean that some structural adjustment policies will be required.
- **Growth of shanty towns –** these will develop as more and more people see the 'bright lights' of the city and leave all their possessions back in their rural villages, to find no jobs/housing, and thus shanty towns develop, e.g. outside Rio de Janeiro.
- **Balance of payments deficit –** as more investors choose to build firms in the developing country more capital goods will be required to be imported, and thus as imports exceed exports, a deficit builds up.
- **Strain on infrastructure –** as more businesses invest in the country more vehicles will travel on the roads and a better distribution of water and electricity will be required, and thus if the infrastructure is weak, significant improvements (expensive) will be required.

CONSTRAINTS OF ECONOMIC GROWTH

Many of the early growth models based most of their attention upon the physical economic contributions necessary for growth; the need to save more, invest more and increase GNP. However whilst these conditions are necessary, they are by no means sufficient to ensure growth.

Specific targets such as improvements in variables, which include savings and investment, are objectives, which just can not be ignored.

It is also important for institutions and their attitudes to improve and become more flexible. In other words willing to change, mainly within developing countries.

It is important to recognise that many of the conditions facing today's LDC's are different from pre-industrial conditions of the high-income countries. The is especially true of the poorest of the LDC's.

Political stability is essential for political growth, however with change must come conflicting views and those who are reluctant to change. During change, power may shift between group's e.g. from landowners to tenant farmers.
Tension can lead to political instability, which may lead to wars and ruin any chance of growth they had.

Many countries have been scarred by wars e.g. WWII. Countries have not had enough time to develop a national identity allied with popular development policies.

The key aim for countries was to modernise the way they ran their country and rapidly introduce industrialisation. We do of course have the problem of corruption within governments and this means growth is limited due to lack of funds. Vested interests industrial countries may equally hold back change and growth in LDC's. In dealings between the institutions of LDC's and developed countries, power lies with the rich.

A major problem with LDC's is the debt they have built up over the years, which is a great constraint on further growth.

Many third world economists believe this to be a major constraint and argue that the political dependency of colonisation has merely been replaced by an economic dependency.

There are many barriers to economic growth especially for LDC's; these include the problems with objectives such as tourism (structural change). For example a country may be landlocked and so it is hard for them to create seaside resorts, which are very popular.

Training is seen to be a big factor when talking about constraints. Without training, people find it hard to find unemployment and therefore growth is not possible.

Investment plays a major part in growth. If foreign investors decide not to invest in a certain country then that country looses out a great deal.

- Low levels of savings leading to low level of investment.
- Insecurity may lead to over investment in the military instead of consumer goods.

- Over reliance on one or more sectors- this occurs a lot in the agricultural industry.

DEVELOPMENT STRATEGIES.
THE DEVELOPMENT OF PARTICULAR SECTORS OF THE ECONOMY

AGRICULTURE

- Build community capacity to sustain growth and development of its agriculture and food sector.
- Assist agricultural firms to become more competitive.
- Provide information that agricultural firms need to thrive in a rapidly changing business environment.
- Improve communication between community leaders, farms, and agribusiness persons, planners and economic developers.
- Empowerment of Women to raising levels of nutrition, improving the production and distribution of food and agricultural products and enhancing the living conditions of rural populations.

INDUSTRY

- Organise and promote cooperation among firms in the sector.
- Research and development of new technology or new products.
- Technology transfer or modernisation, to assist firms in adopting up-to-date technology.
- Specialised financing, to fill capital needs not met by banks and other conventional financing sources.
- Employment and training programs, to assure an adequate and skilled workforce.
- Marketing programs, to help firms access new markets and generate more sales.
- Actions directed at other key competitiveness issues as revealed by the industry analysis. Examples might include transportation, zoning or land use impediments, or the cost of energy.

TOURISM

- Create an environment that supports the success of existing business and new start-ups.
- Upgrade the condition and capacity of the infrastructure to support tourism business expansion.
- Implement an integrated regional marketing program for tourism development.
- Exploit Natural Resource-based Tourism
- Develop well-trained and spoken workforce adapted for tourism and customer service.
- Improve Health and Social Services for a larger influx of population

SOURCES OF EXTERNAL FINANCE.

PRIVATE SECTOR FINANCE ESPECIALLY FROM MULTINATIONAL FIRMS.

WHY DO MNCS LOCATE IN LDCS?

- Overcome protectionism / tariffs - Increases tax revenue, employment and tech.
- Cheap labour - Lower costs (wages, taxes) outweigh costs (transport)
- Legislation / incentives - Lax safety regulations.
- Provide EPZs - no import / export or corporate tax, subsidises utilities and training
- Tax avoidance - low corporate tax. Avoid tax on profits - transfer costs and revenues between branches in different countries, to get situation of lowest tax

DEVELOPMENT BENEFITS FROM MNCS

- Employ / income - 'Trickle down' and multiplier from injection into circular flow. Growth of supply firms eg component / material factories.
- Foreign currency - Inward invest and exports = inflow capital for BoP. If goods sold locally, can replace imports
- Expertise / tech - Firms / entrepeneurs gain skills - use in industrialisation. MNCs bring in new equipment
- Tax revenues

DRAWBACKS OF MNCS

- Income distribution - MNCs lead to monopoly - gain more relative to others
- Exploitation - Poor safety / environment concern to increase profits. Leads to poor publicity for firm
- Foreign currency - BUT - reduced by material imports + repatriation of profits.
- Brain drain - Skilled workers hired by MNCs - don't contibute to local economy
- Prevent entrepreneurs - Monopoly power → barriers to entry for local firms
- Low tax revenues - low rates and tax avoidance
- Capital intensive production techniques - Means only minimal employment

GOVERNMENT ASSISTANCE

MUST MEET TWO CONDITIONS:

- Donor can't be motivated by commercial gain
- Concessions on loans made: eg, lower loans / longer payback times.

TYPES

- Multi lateral - joint assistance eg World Bank
- Bi lateral - Single country. Can be a loan

- Tied / untied - Tied where conditions are placed. Eg, funding used to finance certain projects or spend on donors exports.

PROBLEMS
- This reduces competition + higher costs for local firms.
- Can be used to buy capital equipement → reduces employment
- Spent inappropiately: Government buildings or put into accounts by corupt MPs

WHICH IS BEST?
- Grants better - net transfer of money to LDCs
- Tied aid served interests of donor more unles it is better at encouraging suitable development projects
- Needs to be targetted - help those who need it. Focus on projects to meet basic needs / productivity in agriculture rather than capital investment in industry.

NGOS
Tend to work on small-scale projects to meet local needs - water and schools
More governments give aid by NGOs - US has 50% of aid by NGO - Due to effectiveness, but also vote grabbing. Recognise long-term interests of countries is for increased global trade.

THE IMF AND IBRD (WORLD BANK).

The IMF (International Monetary Fund) and the World Bank are international agencies that effectively act like banks to Governments.

The World Bank (otherwise known as the IBRD, the International Bank for Reconstruction and Development) was set up after the Second World War to provide aid to war torn Europe. Since then it has provided loans to third world countries for development purposes.

The IMF however is not focused solely on aid and development in third world countries. Their main role is to maintain a stable economic international trading environment, especially by maintaining a stable system of exchange rates. The IMF offers funds to countries who's balance of payments is in the red, (and so will be experiencing exchange rates problems) in order to rectify their balance of payments problems.

When 3rd world countries seek debt relief from the 1st world, or multi-lateral aid agencies like the World Bank, conditions are often imposed upon the 3rd world country. These conditions are known as 'Structural adjustment programmes'. A structural adjustment programme is a plan drawn up by the IMF or World Bank to bring about economic recovery in the recipient country.

STRUCTURAL ADJUSTMENT POLICIES.

The simple break down of a structural adjustment programme is as such:

- The IMF lends the country's central bank money in order to maintain its foreign currency reserves. This allows the country to go on importing and exporting.
- In order to obtain the foreign currency to repay debt, a third world country must either increase its exports or lessen its imports (essentially better its balance of payments).
- The government in the third world country must increase taxes and cut its spending. This is because the majority of money owed by a third world country is owed by that country's government.
- The IMF insists on a wide range of measures to be taken. Some of those include removing import controls, privatisation, deregulation of markets, and cutting of subsidies like food subsidies.

Structural adjustment programmes are not very popular in 3rd world countries, as they do not initially seem to provide much good. Many countries experience falls in GDP, and can see their growth rate drop immediately. Economic development can often suffer, with reduced food subsidies leading to higher food prices, and cuts in government spending leading to unemployment. These same cuts in government spending can also impact upon education, and without investment in education, long term economic growth is likely to suffer.

While there are many bad aspects to structural adjustment, supporters point out that it works better than leaving a country be, where it could put itself in a worse state of lower growth and lower levels of development etc.

Whilst structural adjustment may put the economy into an initial downturn, it will often leave it in a better position for growing and expanding in the long run.

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