SENIOR FIVE SELF STUDY WORK
ECONOMICS
DAY 1

TOPIC 2: DEVELOPMENT AND UNDER DEVELOPMENT

Development refers to general improvement in social, economic and political aspects of society that is in terms of security social institutions

While

Under development refers to the underutilization of resources in a country.

SUB TOPIC: ECONOMIC GROWTH

Economic growth refers to the persistent/sustained/continuous increase in the quantity of goods and services produced in an economy during a given time.

Or The study process by which the productive capacity of the economy is increased over time to bring about rising levels of national output and income

DETERMINANTS OF ECONOMIC GROWTH

Factors that determine the rate of economic growth include:-

- Level of technological progress (state of technology). The use of advanced technology creates an increase in output of goods and services which generates high rates of economic growth. However, use of poor technology gives rise to resource underutilization and there is low output of goods and services produced which caused low economic growth rate
- Level of existing capital stock. A large capital stock expands investment and more output of goods and services is produced which causes high economic growth rate while a small capital stock results into low levels of investment hence low output of goods and services which creates low economic growth rates.
- Political climate. A stable political climate gives confidence to both local and foreign investors resulting in increase in the volume to output hence high levels of economic growth. However, political instability scares investors and as a result low output of goods and services is produced which causes low economic growth rate.
- Level of development of infrastructure. Well-developed infrastructure stimulates investment and as a result the volume of goods and services produced increase which leads to high rates of economic growth. However, poor infrastructure discourages investment and reduces the level of output of goods and services thereby leading to low economic growth rate.
- Level of skills of labour. A big size of highly skilled workers is able to promote investment and production of more goods and services which creates a high economic growth rate. However, a small size of a skilled workforce reduces investment and there is low output of goods and services which creates low economic growth rate.
- Level of planning and plan implementation. Proper planning and implementation of projects encourages effective mobilization and allocation of resources which increase the level of production of goods and services thereby leading to high rates of economic growth. However, poor planning and leading to high rates of economic growth. However poor planning and implementation of projects lowers the level of resource exploitation which leads to low productivity hence leading to low rates of economic growth.

- Degree of availability and utilization of natural resources. Greater and better exploitation of available natural resources increases the production of goods and services which creates high economic growth rate while low levels of resource exploitation brings about low volume of goods and services being produced which results into low economic growth rate
- Level of entrepreneurial ability/managerial skills. Better organization of factors of production by entrepreneurs results into better use of the available resources which increase the volume of goods and services produced and hence high economic growth rate is attained. However, limited entrepreneurship skills result into underutilization of resources and there is low output of goods and services and this causes low economic growth rate.
- Cultural factors, for example, conservatism. People with a positive cultural attitude are willing to change to modern methods of production and are able to produce more goods and services leading to high rates of economic growth. However, people with a negative cultural attitude are not willing to change from subsistence production and hence produce low volume of goods and services thereby leading to low economic growth rate
- The market size. A big market size encourages investors to increase production of goods and services which leads to a high rate of economic growth. However, a small /narrow market size discourages investors and results in a low volume of goods and services produced hence low economic growth rate
- Nature of foreign influence. Favorable foreign influence in terms of provision of more grants, donations and direct foreign investment encourages more production of goods and services which leads to high rates of economic growth. However, unfavourable foreign influence in terms of income and profit repatriation, tied aid and increased interference in economic decision making reduces the amount of goods and services produced thereby leading to low rates of economic growth.
- Rate of population growth rate. A stable or controlled population growth rate encourages savings and investment which results in more production of goods and services hence high rates of economic growth. However, a rapid population growth rate creates a heavy dependence burden which discourages saving and investment thereby leading to low rates of economic growth.
- Nature of government policies of taxation and subsidization (Existing government policy on investment and production). Favorable government policy such as provision of tax holidays brings about increased output of goods and services leading to high rates of economic growth. However, Unfavourable government policy such as high taxation reduces the volume of gods and services produced due to the high costs of production which creates low economic growth rate.

FACTORS NECESSARY FOR ENHANCING THE GROWTH OF AN ECONOMY

- Increased technological progress
- High rate of change of natural resource base
- Political stability
- Increased capital accumulation

- High level of entrepreneurial ability or vigor
- Low population and labour force growth rates
- Increased availability of market
- Existence of goods infrastructure for example good rods, schools, hospitals and storage facilities
- Removal of socio-cultural rigidities or hindrances
- Proper planning and implementation
- Favorable foreign influence
- Increased efficiency and quality of the labour force.
- Suggested ways of increasing the level of economic growth in Uganda
- Increase on the level of resource exploitation
- Improve/develop technology
- Equip labor with skills
- Encourage capital accumulation
- Expand local and foreign markets, for example, by joining regional economic co-operation
- Develop infrastructure
- Ensure political stability
- Encourage savings
- Offer investment incentives to local and foreign investors
- Control population growth rate
- Improve entrepreneurship skills
- Diversify the economy
- Modernize agriculture
- Control inflation/stabilize prices
- Liberalize the economy
- Undertake further privatization
- Improve land tenure system/carry out and implement land reforms

CAUSES OF LOW LEVELS OF ECONOMIC GROWTH RATES IN DEVELOPING COUNTRIES

- Small size of existing stock of capital
- Low level of technological progress/poor production techniques
- Low level of development of infrastructure/poorly developed infrastructures
- Low level of skills of labour
- Small size of the market
- Unfavourable political climate/poor political atmosphere
- High population growth rates
- Large size of the subsistence sector
- Low level of savings
- Low level of accountability
- Limited investment incentives/unfavorable government policy on investment
- Poor attitude towards work (high degree of conservatism)

- Low level of natural resource exploitation/narrow natural resources base
- Low level of entrepreneurial ability
- Poor land tenure system
- High levels of capital cut flow
- High levels of price instability
- Limited diversification of the economy

IMPLICATIONS OF LOW ECONOMIC GROWTH RATE DEVELOPING ECONOMIES

- It implies low levels of incomes
- Limited consumer choices due to limited variety of goods
- Underutilization of resources
- High levels of inflation
- Low revenue to the government
- High levels of dependence on imports
- High levels of unemployment
- Low levels of infrastructural development
- Limited labour skills
- Limited entrepreneurial ability
- Low levels of technological development
- High levels of conservatism
- Low levels of monetization of the economy
- Unfavourable Balance Of Payments (BOP) position

REASONS FOR THE DESIRABILITY OF INCREASE IN THE RATE OF ECONOMIC GROWTH

- It widens consumer choices due to production of a variety
- Increase utilization of natural resources
- Promotes price stability/controls inflation
- Increase revenue for government
- Increase employment opportunities
- Promotes infrastructural development
- Leads to increased labour skills
- Increased entrepreneurship ability
- Promotes technological development
- Breaks conservatism
- Monetizes the economy
- Improves the balance of payments position
- Promotes industrialization
- Increase producer incomes
- Leads to reduced dependence on imported consumer goods
- Increase leisure time
- Improve political atmosphere

POSITIVE IMPLICATIONS (BENEFITS) OF ECONOMIC GROWTH

- Creation of more employment opportunities due to increased investment. Economic growth involves expansion of production firms. As more firms are set up, more jobs are created for the people. The employed people earn income which is used to buy their necessities.
  - Improved standard of living due to availability of a variety of goods and services. This arises because people are exposed to a variety of goods and services and they are able to make wider choices.
  - Increased government revenue from taxes. The size of investment activities increase, such activities widen the tax base in the country leading to higher tax revenue for the government which it uses to finance its development programmes.
  - Encourages the development or expansion of basic infrastructure. As more goods and services are produced, there is need to improve the infrastructure in form of roads, communication facilities and storage facilities to support production improved/better balance of payments position due to increased exports and reduced imports. Through economic growth, export promotion industries are developed to increase the volume of exports and export earnings.
  - At the same time, import substitution industries are set up to produce those goods and services that a country would previously have imported from other countries. This helps to reduce expenditure on imports while increasing exports revenue hence better Balance Of Payments (BOP) position
  - Promotes political stability. As the rate of economic growth rises, the population becomes contented and this creates a peaceful atmosphere in the country
  - Reduced income inequalities due to widespread employment opportunities. As a result of increased production of goods and services in the various sectors, there is better distribution of income among the producers and people involved in the various activities. This checks income inequality.
  - Increased humanitarian activities. The increased income generated from the greater volume of output on market promotes a spirit of humanitarianism among the rich.

NEGATIVE IMPLICATIONS (COSTS) OF GROWTH

Costs of growth refer to the undesirable or bad or negative outcomes that are generated as a country attains higher rates of economic growth.

They thus include;-

- Increased environmental pollution of noise, air and water/increased environmental degradation. As the economy grows, industrial activities also expand. This creates irrational disposal of industrial waste that gives rise to air and water pollution and reclaiming swamps to set up industries hence endangering the environment.
- Results into congestion. This I due to increased urbanization which increase the congestion of people and traffic in the towns.
- Causes over exploitation of resources leading to resource depletion. Non-renewable resources like minerals get depleted through over-exploitation. This over use creates scarcity of these non-renewable resources.

- High level of industrial hazards or occupational hazards. The increase in the pace of economic activities results into accidents and occupational diseases like influence, common cold and tuberculosis.
- Causes problems of rural-urban migration and the negative effects. Since many economic activities are urban based, people are attracted to move to urban areas/centres in search of jobs hence creating social evils such as crime rate and slums.
- Widens inequality in distribution of income. This happens when rapid economic growth is taking place in a few sectors while other sectors are stagnant. This creates uneven distribution of income among the various sectors since they are not expanding at the same pace.
- Leisure is foregone since economic growth requires hard work. People exert a lot of effort in production activities and even forego leisure in order to increase the volume of goods and services in the country. Un fortunately, this over-working reduces the quality of life of the people.
- Leads to technological unemployment due to technological progress. This is created by the use of capital intensive techniques of production where machines replace manual labour hence rendering some people jobless.
- Leads to erosion of socio-cultural values (there is cultural decay/ leads to deterioration in cultural values). As a country economically grows, people adopt new ways of life since they get used to new goods and services. For example due to new television technology and the internet, young people are exposed to programmes like Big Brother Africa and other immoral literature which corrupts their minds.
- Current consumption is sacrificed for future investment. Business people sacrifice of suspend current consumption in order to save for future investment. This has a danger of reducing the current welfare of the people since they are doing away with certain goods at the present.
- Worsens the debt burden and hence leading to increased external dependence. This is due to increased borrowing in order to sustain the existing rate of economic growth.

ROSTOW'S STAGES OF ECONOMIC GROWTH

Professor W WRostow in 1961 explained the path of economic growth in a historical perspective and classified societies according to their different levels of economic growth. Rostow divides the economic growth process in five stages namely:

- The traditional society.
- The pre-conditions to take off.
- The take-off.
- The drive to maturity.
- The age of high mass consumption.

Traditional stage (primitive society)

According to Rostow's, this is the first stage in the economics growth process whereby the economy is in a pre-industrial stage. The economy is completely stationary or stagnant at the subsistence level with no or minimal surplus. It is characterized by:

- Existence of a large subsistence sector/dominance of subsistence agriculture sector where production is for own consumption.

- Hierarchical social structure in which family and clan connections play a dominant role.
- Political power is concentrated in the hands of the landed aristocracy.
- No or low savings, what is called savings is merely postponed consumption.
- High degree of super situation and taboos
- Very high degrees of illiteracy and ignorance.
- Closed economy with no participation in foreign trade
- Use of poor techniques of production
- Low levels of monetization/ barter system of exchange
- Low level of economic activities as there is hardly any investment
- Very low labour skills
- Low levels of entrepreneurship
- Very low incomes/ high levels of poverty.

Pre-conditions to take-off stage

- This stage brings the society in the process of transition. It is a period when necessary conditions for development are established. It is characterized by:
- Existence of dualism, that is the economy develops two sectors namely the agriculture and industrial sectors but the agriculture sector dominates and the industrial sector is small and uses labour intensive techniques.
- Foreign trade emerges, that is, involvement in foreign transactions
- Removal of obstacles with hinder economic growth. Society breaks the ties of traditionalism sector is small and uses labour intensive techniques.
- Beginning of the application of modern science to agriculture, that is, adoption of better and efficient methods of production.
- Radical development of various sectors.
- Improvement of the social and economic infrastructure
- Presence of investors/ entrepreneurs who are prepared to give financial support to new ideas.
- Reduction of illiteracy rate as there is increased investment in formal education.
- Industrialization begins to take root
- Increase in saving constituting 5% of National income or Gross Domestic product.
- Increase in investment constituting 5% of National income or Gross Domestic Product.

Take-off stage

This is the 3rd stage of development according to Professor W.W. Rostow when a society becomes self-reliant or self-sustaining and therefore experiences a breakthrough in the vicious cycle of poverty.
It is characterized by:

- High level of employment
- High investment 10-15% of GDP or National income
- High savings 10-15% of GDP or National income
- Self-sustained growth or self-reliant economy

- Emergence of new political and economic institutions.
- High level of industrialization i.e. a leading sector appears.
- Emergence of new markets both domestic and foreign
- High level of urbanization
- High level of technology
- High literacy rates leading to social transformation
- High levels of infrastructural development.

Drive to maturity stage (pre-maturity stage)
This is the fourth stage of economic growth according to Rostow and is the stage between take off and maturity. It is basically a long period of continued progress. It is characterized by:

- Very high level of investment 15-20% of GPD
- Very high level of savings 15-20% of GPD
- Very high level of industrialization. This is reflected in the heavy manufacturing industries such as iron and steel, building of aircrafts and ships
- Very high level of employment
- Use of highly specialized or professional labour
- High level of bureaucracy or growth in administration
- High levels of technology
- Very high levels of urbanization
- Very high levels of infrastructural development
- High levels of monetization
- The economy is self-sustaining
- Production shifts from capital to durable consumer goods.

Age of high mass consumption
This is the fifth and last stage according to Rostow. It is the longest stage of economic growth and Rostow considers that it took the United States of America (USA) about 100 years to move from the fourth to the fifth stage. It is characterized by:

- Heavy industrialization
- Very high figures of Gross National product (GNP)
- An affluent population that is highly skilled and contented
- Massive mechanisation, that is, there is further expansion of modern technology in all activities.
- Mass production of sophiscated consumer goods.
- Resources become fully utilized and the economy becomes fully develop
- Hours of work are reduced and a high proportion of the labour force is engaged in the service industry

Uganda is at the pre-conditions for take-off stage because of the following reasons.

- Growth of the manufacturing sector as a leading sector
- Rising rates of savings and investment
- Removal of institutional framework that hinders development such as conservatism and foreign exchange bottlenecks

- Steady growth process with the economic growth rate ranging between 5-7%
- Improvement in the development of infrastructure
- Mechanisation and modernization of the agricultural sector leading to increased productivity
- Development in foreign transactions
- General improvement in life l expectancy or living conditions
- Improved technology
- Improved entrepreneurial class
- Improved formal education such as universal primary and secondary education.

LIMITATION OF THE ROTARIAN TAKE-OFF THEORY

- It assumes that capital accumulation is the only engine of economic growth, which is not true since there are other factors such as skills, markets and technology
- It is difficult to demarcate one stage of growth from the other for example the 4th and 5th stages
- High level of savings may not necessary lead to economic growth as assumed by the take-off theory
- It does not consider the nature of distribution of income
- He assumed continuity in the road to development yet there could be discontinuity (delays o decline) in economic growth
- It does not consider external factors which affect economic performance for example foreign aid.
- Resources are not homogeneous in all countries or societies
- Some stages may not be necessary. Some economics skip some stages in their development process.

ACTIVITY 1

1. What are the factors that determine the rate of economic growth
2. Why is increase in the rate of economic growth desirable?
3. Benefits and costs of economic growth (implications of economic growth)
4. Giving reasons, suggest the Rostowian stage at which Uganda's current level of development is.
5. Describe Rostow's stages of economic growth.
6. What are the limitations of the Rostowian take-off theory?

DAY 2

ECONOMIC DEVELOPMENT

This is the quantitative increase and qualitative improvement in the volume of goods and service produced in an economy over a long period of time. It is accompanied by structural transformation that leads to improvements in the variable that increase welfare for example increased freedoms of choice, increased self-esteem and increased political freedom.
For a country to attain economic development, it must attain economic growth which must be followed by improvement in the quality of goods and services.

Economic development is a continuous process covering a long period of time and may bring about the following structural positive changes in the political, social and economic set up of a country:

- Cultural changes that lead to new methods of production and bring about changes in the people's ways of life.
- Social changes that lead to better distribution of the country's wealth and facilitate a fairer distribution of essential goods and resources.
- Economic transformation that leads to the creation of policies and activities which generate higher incomes and improve people's standards of living.
- Educational reforms that lead to a shift in the occupational structure of the labour force.
- Political revolutions that often lead to radical changes in political institutions and the administrative structure with the aim of giving greater opportunities to the masses in the decision making process.

Features/characteristics of economic development

- Reduced economic dependence
- Political stability.
- High level of infrastructural development.
- Reduced level of illiteracy/ increased literacy levels.
- Improved technology.
- Reduced cultural rigidities (there is social transformation)
- Expansion of the manufacturing sector.
- Expansion of the monetary production /reduction in subsistence sector.
- Creation of more employment opportunities.

Objectives of economic development in Uganda:

In this case we consider the projected aims of the government as it strives to attain higher levels of economic development. We focus on how that objective is attained.

1. To reduce external dependence. This objective is attained through promoting local industries so that the country reduces dependence on imported goods.
2. To attain price stability. This objective is achieved by regulating money supply as well as increasing domestic production of goods and services in order to check inflation arising from scarcity of commodities.
3. To reduce unemployment in the economy. This objective is attained by putting in place measures to promote investment. Due the expansion in investment, more jobs are created for the people.
4. To attain a fairer distribution of income/ to check income inequality. The government strives to achieve this objective by implementing policies like progressive taxation, supporting projects for the disabled people and so on. The aim of this is to reduce the income gap among the population.
5. To attain higher economic growth rate. This objective is achieved by promoting investment in the major sectors in the country so that more goods and services are produced. This helps to increase the rate of economic growth.
6. To improve the standard of living of the people. This is attained by encouraging people to engage in income generating projects like commercial fanning and small scale

industries. Such projects enable people to earn income and they lead a better standard of living.

7. To improve the skills of Ugandans through training. To achieve this objective, government is carrying out educational reforms in secondary schools and tertiary institutions. Emphasis is being put on giving people practical skills that can enable them to create jobs in future.
8. To improve on the Balance of Payments position. This objective is attained by expanding the export sector to increase export earnings. At the same time, efforts are made to reduce expenditure on imports by supporting import-substitution industries.
9. To consolidate security of life and property. The government achieves this objective by strengthening security organs of the state (the army, Police etc.) so that a conducive environment for investment is created. By maintaining security, the government is able to improve the quality of life of the people.

10.To control the population growth rate to desirable levels. This objective can be achieved by encouraging the use of birth control methods. The aim is to reduce dependency burden in the country so that saving and investment is promoted.

A development goal:
A Development goal refers to those intended economic growth and development targets which a country aims at achieving in a given period of time.
Or Is a preset target or objective of development that has to be achieved by an economy during a given time.
Or Targets relating to improvements in citizens socio-economic welfare that an economy aspires to achieve during a given time.
Or Targets or objectives social, economic or political to be achieved in a specific period of time.
These development goals are always stated in the major government policy statements such as Long term development plans, National Budgets, Ministerial

Policy statements and so on. The National development goals are closely linked or related to the Millennium Development Goals (MDGs).

The major development goals in Uganda are as follows:

- Reducing economic dependence.
- Reducing unemployment.
- Reducing income inequality.
- Attaining price stability.
- Attaining high rates of economic growth and development.
- Controlling population growth rate.
- Improving Balance of payments position.
- Eradicating illiteracy or improving labour skills.
- Providing security for life and property.
- Providing better health care services to the people.

Factors that Influence the choice of development goals in my country include;

- The natural resource(s) base.
- The political system / ideology of the ruling class.
- The price level / the rate of inflation.
- The level of development of infrastructures.
- The labour skills.
- The political atmosphere.
- The techniques of production.
- The size of the available funds.
- The level of dependence on external resources.
- The size of the subsistence sector.
- The entrepreneurial competence/ ability / skills.
- The balance of payments position.
- The population size, structure and growth rate.

Circumstances where economic growth is attained but it is not accompanied by a corresponding rate of economic development

It is possible for a country to economically grow without necessarily attaining economic development. This due to the following circumstances or conditions:

- When there is unequal distribution of income. More commodities may have been produced in a country but the majority of people are earning low. incomes and their quality of life is poor. This means that the aspect of economic development is lacking although there is economic growth reflected in more quantities of goods in a country.
- When the quality of goods and services is poor. A country may be producing more commodities whose quality is poor. It is true there is economic growth but the aspect of development is lacking.
- When there is high level of unemployment in an economy. Individuals who are jobless enjoy limited variety of commodities and they lead a poor standard of living despite the high economic growth rate reflected in more volumes of commodities produced.
- When there is political instability in the country. More goods and services may have been produced yet a country is experiencing political turmoil in some areas. The political instability lowers the quality of life of the people (e.g. some people live if refugee camps). This makes a country to attain economic growth without achieving economic growth.
- When there is high rate of inflation in the country. More goods and services may have been produced yet the country is experiencing high inflation rate. High rate of inflation increases the cost of living leading to a low standard of living of the people. This makes a country to attain economic growth without attaining economic development.
- When people in an economy are being over-worked and they have little time for leisure. A country may be producing more commodities and it attains economic growth but the majority of the people are being over-worked and they have little time for leisure activities. As people forego leisure, their quality of life becomes poor despite the high economic growth rate.

- When there are social costs like pollution. Pollution of the environment due to industrial activities reduces the quality of life of the people much as more commodities are being produced. This makes a country to attain economic growth without achieving economic development.
- When heavy direct taxes are being levied by the government. Country may be producing more goods and services yet the government is levying heavy direct taxes on incomes of the people. This reduces disposable incomes of people and their quality of life is reduced (they lead a low standard of living). Economic growth is attained without economic development.
- When there are no improvements in the techniques of production used by producers. This causes production of low quality goods and services which results into low economic development despite the increase in the volume of commodities produced in the country (high Economic growth rate).
- When there is a considerable degree of conservatism among people. Economic growth may be attained but the majority of the people are not ready adopting new ways of doing things. Since people are not ready to change their cultural attitudes, their welfare remains poor despite the production of more goods and services.
- When the country is producing more capital goods than consumer goods. The production of more capital goods increases economic growth yet these goods do not directly improve people's standard of living as the case is for the consumer goods. Hence a country attains economic growth without achieving economic development.

Circumstances under which economic growth may lead to economic development

- When incomes are evenly distributed.
- When there is a reduction in the social costs.
- When there is improvement in the quality of life of the people.
- When economic growth does not lead to excessive hard work and deprive people of leisure.
- When there is improvement in the quality of goods and services produced.
- When economic growth results from increased production of consumer goods and not capital goods.
- When there is increased expenditure on productive ventures or sectors.
- When there is security or stable political atmosphere in the country.
- When there is structural transformation of the society.
- When there is no inflation in the country.
- When there is a low rate of direct taxation.

ACTIVITY 2

1. Under what circumstances may economic growth lead to economic development?
2.Distinguish between economic growth and economic development
3.aWhat are the basic requirements for a successful balanced growth strategy?
b. Assess the implications of the balanced growth strategy in

developing countries.

c. What are the limitations of the balanced growth strategy?

4.Explain the objectives of development.

5.Explain the factors responsible for the low level of development in your country.

DAY 3

Theories on sectoral priorities

These theories are about the choice of the sector to begin with if economic growth is to be achieved. These theories include:

1. Balanced growth theory of economic growth
2. Unbalanced growth theories of economic growth
3. Big push theory economic growth

Balanced growth strategy (Propounded or advanced by Ragnar Nurkes)

Definition: This is a growth strategy (theory) which emphasises harmonious and simultaneous development of all sectors in an economy so that they complement each other and grow more or less at the same pace.

The strategy is aimed at creating inter-dependence among all sectors to ensure vibrant linkages. It also emphasises development of all the sectors at the same time. To achieve this strategy, there is need for an economy to have a critical minimum effort.

Meaning of Critical minimum effort.

This is the **minimum investment or sacrifice** which is required to attain or raise massive capital stock **necessary for an economy to take off.**

Advantages/merits of Balanced Growth Strategy (Positive implications)

- It results into increased National income figures and accelerated economic growth. The strategy increases the volume of goods and services provided in the various sectors. This increases the national income of a country leading to higher rates of economic growth and higher income per capita.
- Promotion of inter-sectoral linkages in an economy. Through this strategy, the sectors become interdependent. For example, linkages are developed between agriculture and industry. Agriculture provides raw materials to industries and at the same time, industries provide inputs for the agricultural sector. These linkages result into an integrated and self- sustaining economy.
- It encourages the training of various labour skills, which increases labour efficiency in the long run. Different sectors require different specialised workers who are trained in specific fields like engineering, accounting, business management etc. This specialised training of workers leads to greater efficiency of the labour force.
- It helps to widen the country's tax base. Sectors like agriculture, tourism, transport, communication, and manufacturing industry among others are being developed simultaneously. This results into a wide range of activities on which taxes are levied. This leads to greater tax revenue to the government. The tax revenue is channeled into financing development programmes.
- It reduces the problem of balance of payment deficit. This is achieved where the strategy leads to an increase in export earnings while at the same time there is a significant

reduction in import expenditure especially when the strategy is combining development of export promotion industries and import substitution industries.

- More employment opportunities are created. Many jobs are created because many sectors are being development at the same time. Therefore, investment projects are set up. Such projects create more jobs which provide employment income to the people that is used to sustain their welfare.
- It promotes infrastructural development. Simultaneous investment in various sectors is always developed followed by a developed network of infrastructure in form of better roads, improved communication facilities, insurance services,
- banking services, etc. This developed infrastructure promotes further investment in the economy.
- It reduces dependence on other economies or dependence on one sector. The simultaneous investment in all sectors enables a country to reduce dependence on specific sectors. This is because different sectors are being development at the same time under the strategy. Therefore, a decline in one sector does not greatly affect the entire economy / sector.
- There is better utilisation of resources. When sectors are developed, the investors put to use many resources that would otherwise have remained idle. This reduces resource wastage in an economy. For example the industrial sector utilizes raw materials produced from the agricultural sector
- Promotes technological development. The strategy leads to the development of better methods of production to be used in the various sectors of the economy e.g. the use of machines in production greatly improves the quality of goods being produced, (such products /goods become more competitive in the market)
- A variety of goods is produced hence widening the choice of consumers. This exposure to a variety of goods and services is likely to improve people's standard of living. This leads to improved quality of life for the people in an economy.
- Regional balance in development is promoted. This is attained when the strategy focuses on the development of the urban sector and the rural sector. This ultimately leads to desired regional balance as far as distribution of economic benefits is concerned. It also checks rural - urban migration and its associated evils like open urban unemployment, increased crime rate in urban areas, emergence of slums and so on.

Demerits / disadvantages of Balanced Growth Strategy (negative implications)

It necessitates borrowing especially in developing countries, which results into external debt burden. The country may be forced to borrow from other countries to finance development of all sectors in an economy. However, this borrowing worsens the external debt burden and its associated problems. It also exposes an economy to external resource dependence.

- The strategy leads to resource depletion. This arises when there is over ambitious planning in all sectors. This results into over exploitation of the available resources in order to attain higher levels of economic growth in a short period of time. This gives rise to quick resource depletion.

- The strategy is expensive and costly to the economy. The government must meet massive expenditure to sustain the strategy. The government has to spend highly to develop all the sectors at once. The high expenditure leads to budgetary deficits in an economy.
- Wastage is likely to occur because of limited market. Investment in all sectors leads to massive production, which may not be followed up by an expansion in the market. The output is not taken up by the available market. There is wastage which even discourages further investment.
- Heavy losses occur because of project failure. The sectors are always interdependent. Therefore, a failure in one sector leads to failure in other sectors as well. This results into losses to the government and the investors in an economy there by retarding the pace of economic growth.
- It results into inflationary situations in the short run. The strategy involves massive expenditure to develop all sectors of an economy. This increases money supply in an economy, which results into high prices. (This occurs where there is no substantial increase in the volume of goods and services, yet the volume of money in circulation is increased tremendously.)
- It strains Government planning machinery. The Government planning unit or department is burdened to plan for all sectors in the economy. This is not very easy in developing countries where statistical data about the economy is limited or inadequate. Planning for many sectors is made difficult and it strains the planners.
- It is likely to bring about dependence on the external economies. In some cases, the available local resources are not sufficient to develop / support development in all sectors of the economy. This forces the economy to depend on external resources like capital and technology in order to maintain the balanced growth strategy.

Limitations of the balanced growth strategy

N.B. We consider frictional factors / constraining factors/ hindrances to the strategy. We focus on those factors that **slow down** or **limit** the successful implementation of the strategy. Hence the limitations are different from the disadvantages. The limitations are as follows:

- Limited capital to invest in all sectors. The strategy requires massive investment in all economic sectors. However, this is limited by inadequate capital. Due to limited capital, the sectors are not fully financed to cater for their investment priorities. The sectors develop at a slow rate which limits the success of the strategy in developing countries.
- Limited entrepreneurship. In developing countries, there is limited supply of people with the necessary abilities to organise and co-ordinate factors of production. The shortage of vibrant entrepreneurs limits the adoption of the balanced growth strategy because there is inefficiency in the way factors of production are organised.
- Limited / inadequate market. A narrow market discourages further investment in an economy. Producers in the various sectors do not get the incentive to produce for a small market. Producers get frustrated hence limiting the success of the strategy.
- Poor infrastructure. Poor road network and communication facilities limit the growth of sectors. Where the road network is poor, it is difficult to transport the necessary inputs

and finished goods from one place to another. This limits investment hence slowing down the implementation of the balanced growth strategy.

- Poor or uncoordinated planning. Balanced growth strategy calls for harmonious planning in all sectors. However, in developing countries, there is inadequate data on the economy. Therefore, co-ordination among the sectors of the economy becomes difficult hence limiting the strategy.
- Limited skilled labour. In developing countries, there is a shortage of highly trained labour to be used or employed in all sectors of the economy to make them develop at the same pace. Therefore where skilled labour is inadequate, the balanced growth strategy is slowed down.
- Weak inter-sectoral linkages. Linkages between the major sectors are always weak and under developed for example the agricultural sector may have weak linkages with the industrial sector. Hence development of one sector may not lead to the development of other sectors. This always slows down the balanced growth strategy because some sectors are lagging behind.
- Limited Government control over economy. Where the private sector is big, the government finds it difficult to have a direct control of all sectors of the economy. Therefore, implementing the balanced growth strategy becomes hard if the government controls only a small part of the national economy and hence cannot mobilise all the huge resources required..
- Poor investment climate. The high taxes levied on firms increase the cost of doing business in the country hence limiting the successive development of all sectors of the economy.
- Political instability. There is political instability/insecurity in some areas which makes investment risky and uncertain. Investors are discouraged from engaging in economic activities. Therefore, it becomes difficult to develop all the sectors at the same pace in a state of political instability.

Unbalanced growth strategy.

(Advanced by: **Professor Albert Hirschman)**

Meaning:

It is a strategy which advocates for the development of a few leading (strategic) sectors of the economy first and others develop later through linkages. **Or**

Unbalanced growth theory as propounded by Albert O. Hirschman advocates for investment in one or few key sectors of the economy that would ultimately lead to growth of other sectors through linkages.

Therefore, the key or leading sectors with strategic importance are selected and expanded so that they pull up or develop other sectors through linkages e.g by first investing in agriculture so that it becomes a base for producing the raw materials needed in the Agro- based industries.

Merits of the unbalanced growth strategy.

- It requires little resources to be developed. This means the meagre resources and be invested on the leading sectors first. It is also easier and cheaper to develop one or few sectors in case resources are limited.

- It is easier to co-ordinate, control and manage. Since one or a few sectors are handled at a time, it is easier for the economic planners to identify the investment needs of these sectors. Plan formulation and implementation is made easier.
- It promotes use of local resources. The strategy basically relies on the locally available resources unlike the balanced growth strategy that requires borrowing from abroad. Therefore, there is less dependence on foreign resources where the unbalanced strategy is being adopted.
- It encourages specialisation and its advantages. The key sectors are given priority and that is where there is greater specialisation. This increased specialisation enables producers to produce greater quantities of goods and services in the leading sectors and this leads to economic growth.
- It suits developing countries with limited market. Since developing countries have limited markets it is better to concentrate on the leading sectors first where market for such goods and services is available.
- It suits the limited technology of developing countries. Developing countries have limited technology and this can be adequately devoted to the key sectors other than catering for all sectors of the economy.
- It promotes back ward and forward linkages in the economy. Such linkages increase investment and more goods and services are produced.
- It suits developing countries with limited skilled labour. In this case, the limited skilled labour is only channeled and employed in strategic sectors, which can generate linkages with other sectors.
- It suits developing countries with poor infrastructures. In countries where infrastructure is not well developed to serve all sectors, it becomes better to embark on the unbalanced growth strategy instead of the balanced Growth strategy. The few sectors can still be sustained even with the underdeveloped infrastructure.

Arguments against the unbalanced growth strategy/ Negative impact/ demerits

- Some economists have advanced arguments against the unbalanced growth strategy and they include the following:
- It emphasizes specialization in key sectors but this is associated with some shortcomings like fluctuation of prices and unexpended fall in demand for products from the leading sectors.
- Under utilisation of resources is likely to occur since few sectors are being given priority. Resources are not channeled to the less priority sectors. This leads to excess capacity in the economy.
- The strategy leads to unbalanced regional development. This regional imbalance is associated with rural- urban migration which breeds social evils like high crime rate in the urban centres.
- It is likely to promote economic dualism i.e there is sectoral dualism where the developed and underdeveloped sectors exist in the economy. The under developed sectors are always undesirable in the economy.

- The strategy does not contribute significantly to employment creation in the economy. This is because few sectors are employing factors of production like labour. The few strategic sectors create less employment opportunities in an economy.
- The key / leading sectors may fail to stimulate forward and backward linkages in an economy. The strategic sector may develop but does not necessarily create the desired linkages to pull other sectors in an economy. This leads to economic stagnation.
- It is likely to cause income inequality in an economy. People employed or engaged in the leading sectors receive higher incomes than those working in the under -developed sectors.
- The strategy creates a narrow tax base within an economy. Few economic activities are being emphasized in the leading sectors and a narrow tax base is created.
- The strategy does not encourage the expansion of markets. Only the leading sectors are being encouraged and the markets are less likely to expand as compared to the balanced growth strategy.
- The leading sectors may produce less volume of goods and services. This leads to low levels of economic growth and low per capita income when the unbalanced growth strategy is implemented.
- Political instability. The poor political climate scares away potential investors in the key sector for fear of losing their lives and property.
- Poor / weak planning machinery. There is failure to identify the strategic sectors.
- Limited supply of raw materials/ natural resources.
- Poor infrastructure to support the key sectors. The poor infrastructure hinders easy transportation of raw materials and finished products of the key sector.
- Limited forward and backward linkages in the economy, This makes it difficult to identify the key sector that can lead to the development of other sectors.
- Poor technology. The poor methods of production in developing countries discourage investors because of the high costs of production associated with it which prevents them from maximizing profits.
- Poor investment climate in form of absence of investment incentives in some sectors and heavy taxation among others discourages investors because of the high costs of production which prevent them from maximising profit.
- Limited capital stock. The limited capital in developing countries may not allow the creation of strategic imbalances in the economy which spurs economic growth.
- Poor land tenure system. The poor land tenure system hinders investors from accessing enough land required to establish the key sector.
- Limited skilled labour. Developing countries do not have the necessary skills to identify the leading sector, manage the leading sector and prompt the development of lagging sectors.

The big push theory. (Advanced by**: Paul Rodan Rosenstein)**

The theory states that, for a backward economy to take- off into self-sustained growth, a massive or heavy investment programme in industries and economic infrastructure is required.

Therefore, it is a strategy that calls for heavy investment in the industrial sector and economic infrastructure so as to attain self-sustained economic growth. This development theory also emphasizes having a critical minimum effort of the balanced growth strategy.

ACTIVITY 3

1. (a) Distinguish between balanced and unbalanced economic growth strategies.
   (b) Examine the merits and demerits of unbalanced growth theory of economic growth.
2. Give and explain the reasons why the unbalanced growth strategy may not be appropriate for developing countries. Limitations of the unbalanced strategy
3. (a) Distinguish between a loan and a grant.
   (b) Assess the contribution of foreign aid to the economic development of your country.
4. Uganda being a developing country should seek assistance from developed countries so as to achieve economic development. " Discuss.

DAY 4

Advantages of the big push theory

- Acts as a wider source of government revenue through taxation of various industries.
- Creates more employment opportunities in the long run. This is because it encourages the setting up of labour intensive industries that are employment creating.
- Encourages diversification. The emphasis on setting up industries producing a variety of goods creates a diversified economic base necessary for the development of the country.
- Widens market due to linkages. The setting up of many industries creates market for the other sectors products in the economy for example agricultural raw materials.
- Encourages increased output. The massive investment in many industries leads to increased production of goods and services resulting in accelerated economic growth.
- Promotes the development of socio-economic infrastructure for example roads, power plants and banks. This is because of the need to set infrastructure to support the massive investment in many industries.
- Encourages the acquisition of skills through training. The heavy investment in many industries acts as a training ground for labour and helps in development.
- Reduces economic dependence. The development of many industries results into a self-sustaining national economy.
- Leads to increased foreign exchange earnings because of increased exportation of industrial output. This results into improved balance of payments position.
- Ensures economic stability. The high investment in industries ensures economic stability because the prices of industrial products are relatively stable.

Disadvantages of the big push theory

- The strategy is expensive because of the need to import capital goods and raw materials.
- Leads to high social costs for example pollution. There is noise pollution experienced by society due to the many industries set up.
- Big losses may result in case of uncertainties that befall the massive investment a industries.

- Worsen the problem of income inequality. This is because most of the industries ire foreign privately owned and urban based.
- Encourages rural - urban migration and its problems like congestion, slum development and open urban unemployment. This is because industries concentrate in urban areas.
- Leads to overexploitation of resources like fish, timber and minerals. This is "because of the need for raw materials to support industrial development.
- Encourages external economic dependence. This is mainly due to need for
- Imported intermediate products and foreign skills to facilitate massive industrial development.

Factors that limit the application of the big push theory in developing economies

- Limited basic infrastructure. The poor infrastructure in terms of poor roads can sustain big push theory due to the inability to transport finished products from and raw materials to the various industries.
- Political instability. The political unrest in some developing economies destroys industries and economic infrastructure and scares away potential investors from establishing them as they may be destroyed.
- Conservatism. The high affinity to traditional cultural values limits the generation of savings required for massive investment in industries.
- Poor land tenure system. The poor land tenure system in some parts of developing countries leads to poor performance of the agricultural sector yet it is supposed to be the main source of raw materials for industries. *
- Corruption. The increased corruption diverts the massive capital supposed to be invested in industries to personal interests. This results into limited funds for investment in industries.
- Weak policy implementation machinery. The administration or personnel in charge of implementation of the strategy is generally weak in terms of decision making.
- Poor technology. The poor technology hinders investment in industry and economic infrastructure due to fear of high production costs.
- Limited capital. There is limited capital to buy machines, raw materials and land to be used in the establishment of industries and economic infrastructure.
- Limited skills. There is limited skilled manpower to be employed in industries as machine operators, mechanics etc.
- Small markets. The small markets in developing countries discourage production on a large scale for fear of making losses.
- Limited entrepreneurial skills. There are limited entrepreneurial skills required in the establishment, running and managing of the industries and economic infrastructure. This limits the injection of capital in industrial projects.
- Poor investment climate, for example high taxes and limited subsidization act as a disincentive to promising industrialists..

Economic diversification as a development strategy
This is where a country limits dependence on one sector or a few products from a popular sector**.**

Forms of diversification

- Diversification within the agricultural sector: this involves production of a variety of food and cash crops as well as rearing of a variety livestock so that a fall in price in one area is counteracted by stable or increasing prices in other activities.
- Sectoral diversification: this involves development of a variety of sectors of the economy so as to reduce dependence on one sector or a few sectors.
- Regional diversification: this involves creation of many activities in a region.
- Intra-sectoral diversification: this involves creation of a variety of economic activities within a sector, for example, growing crops, rearing of a variety of animals etc.
- Inter-sectoral diversification: this is the creation of multi-activities within a cross section of sectors hence linkages are emphasised.
- Market diversification: this involves acquiring a variety of markets for the existing products

Reasons for diversification of production reasons for diversification of production include:

- To create more employment opportunities.
- To widen consumer's choice by providing a variety of goods and services.
- To widen the export base thus increase foreign exchange earnings.
- To increase the tax revenue of the country as many activities are undertaken. .
- To ensure balanced (equal) regional development and thus reduce rural-urban migration.
- To increase the country's Gross Domestic Product (GDP).
- To promote linkages between the different sectors of the economy.
- To ensure optimum exploitation and utilization of resources.
- To overcome problems of price fluctuations and its negative effects.
- To avoid the risks and uncertainties in some sectors especially agriculture.
- To ensure fair distribution of income.
- To control (structural) inflation.
- To encourage the development of infrastructure.
- To reduce the effects of dependence on a few products / activities.

Benefits of economic diversification

- It widens the export markets leading to increased foreign exchange earnings.
- This is achieved where a country is dealing in the export of many commodities id of a narrow range of goods being sold in the external markets.
- It enables developing countries to overcome problems of fluctuating prices especially with in the agricultural sector.
- It reduces economic dependence because the export market s and commodities are diversified and the economy no longer relies on one commodity.
- It increases employment opportunities in the many activities undertaken.

- It ensures that consumers are exposed to variety of commodities. This widens the consumers' choice leading to an improvement in the people's standard of living.
- Through regional diversification, a country attains equitable and fair income distribution. This helps to reduce rural-urban migration and its undesirable effects or consequences.
- It widens a country's tax base. This arises due to the existence of many activities undertaken through diversification. Government revenue is increased and a country is able to finance her capital and recurrent expenditure programmes.

N.B: Capital expenditure: This refers to spending by the government which is aimed at creating new capacities in the economy, for example, spending to construct a new power dam, a new high way, constructing new schools etc.

WHILE Recurrent expenditure: This refers to spending aimed at maintaining the existing capacity in the economy, for example, paying government workers, repair of roads.

- It promotes resource utilisation in developing countries. Resources that would have remained idle are exploited. This is achieved through widening markets in the long run.
- It is an engine for technological development and transfers.
- It promotes the development of basic infrastructure in an economy especially where regional diversification is being emphasised. Better roads and communication facilities are developed in different regions of the country to ease investment activities.
- It checks or controls scarcity inflation as a result of availing more goods on the market. By controlling inflation, the cost of living falls and this improves people's welfare.
- It promotes entrepreneurship skills due to increase in the number of people willing to take on risks in the numerous activities.
- It creates linkages between different sectors in case inter-sectoral diversification is being emphasised e.g. the agricultural sector feeds the industrial sector with raw material while at the same time the industrial sector is also developed to supply inputs like fertilizers and machines to the agricultural sector. This promotes linkages between sectors of the economy

Merits of diversification of production

- Creates more employment opportunities
- Widens consumers' choices by providing a variety of goods and services.
- Widens the export base thus increase foreign exchange earnings. This reduces the balance of payments (B.O.P) problem.
- Increases the tax base of the country
- Ensures balanced regional development and thus reduces rural-urban migration.
- Increases the country's GDP/ economic growth due to increased output
- Promotes linkages between different sectors of the economy /market /raw materials.
- Leads to optimum exploitation and utilisation of resources.
- Helps to avoid the risks and certainties in some sectors e.g. agricultures.
- Overcomes problem of price fluctuation and its negative effects.
- Ensures fair distribution of income.
- Helps to solve structural inflation.

- Leads to development of infrastructure.
- Reduces the effects of dependence.

Factors limiting economic diversification

- Inadequate capital. There is inadequate capital for instance needed to buy land for growing a variety of crops and rearing a variety of livestock.
- Poor land tenure system. The poor organisation, distribution and ownership of land limits access to the productive resources that would promote growth of a variety of products.
- Poor infrastructure. The poor roads and rails limit the transportation of inputs and the marketing of products of many firms.
- Weak linkages among the sectors. This makes it difficult to have sustained development of many sectors and firms.
- Inadequate entrepreneurial skills. There are limited entrepreneurial skills to manage and run a variety of economic activities.
- Political instability which slows down regional diversification. Political unrest destroys firms and discourages investors for fear of losing their property and lives.
- The weak planning machinery of the government. This makes it difficult to coordinate activities of many sectors.
- Economic instabilities like inflation, high interest rates which discourage investment by increasing the cost of production.
- Limited size of market/ narrow market. There is limited market for the variety of _ nets from different sectors which may lead to losses.
- Conservatism among people. Some of the farmers are not willing to engage in re production of more than one crop or a few animals.
- Limited skilled manpower due to abundant supply of un- skilled labour. There is limited skilled manpower to be employed in the different sectors of economy.
- Poor technology. There is poor technology that cannot be used in some of the sectors because of its inefficiency resulting in poor quality and low volumes of output.

Measures that can be taken to promote economic diversification in Uganda

- Undertake further liberalisation.
- Provide affordable credit.
- Reform the land tenure system.
- Improve labour skills through training.
- Improve infrastructure.
- Encourage entrepreneurial skills among people.
- Promote effective economic development planning.
- Ensure price stability or fight inflation.
- Widen size of market; by way of regional economic integration.
- Discourage conservatism or social prejudices among people.
- Improve methods of production or improve technology.
- Offer investment incentives such as tax holidays, subsidies to encourage investment in various sectors.

- Encourage savings to accumulate funds for further investment in different sectors.
- Encourage or promote inter-sectoral linkages.

ACTIVITY 4

1.(**a)** Distinguish between unbalanced growth and big push theory of economic growth.
(b) Examine the effects of the unbalanced growth strategies in an economy.

2.(a) Define recurrent expenditure.
(b) What are benefits of a recurrent expenditure.

3. (a) Describe the forms of economic diversification
(b) Why is it important to diversify the economy ?

DAY 5
ECONOMIC UNDERDEVELOPMENT
Underdevelopment refers to the underutilization of resources in an economy leading to low output and production of low quality goods and services.
OR
It refers to a situation in which the productive capacity (potential) of an economy is underutilised, that is , an economy has not yet fully utilised her productive resources and is characterised by low quality of output, limited labour skills, use of mainly poor techniques of production and high levels of price instability.
Traits of the Ugandan economy that are descriptive of underdevelopment are:

- Excess capacity in most firms.
- Low literacy rate.
- High population growth rates.
- Continued use of rudimentary technology.
- Low savings and investment rates.
- High unemployment levels.
- Low economic growth rates.
- Low life expectancy.
- Political immaturity.
- Predominance of subsistence production.

Features / traits / characteristics of under -development
- High rates of unemployment.
- Poor infrastructure.
- Weak industrial sector.
- High population growth rate.
- Low levels of income.
- High infant mortality rate / Poor health services.

- High illiteracy rates / Low levels of skills.
- High levels of economic dependence.
- A large subsistence sector / Predominance of subsistence agriculture.
- Unfavourable terms of trade.
- Existence of economic dualism.
- Low levels of entrepreneurship.
- Use of poor technology.
- Low Gross Domestic Product / Low economic growth rate.
- Political immaturity.

Social indicators of economic underdevelopment in Uganda

In this case focus is on those social aspects which tend to have an impact of -reducing the quality of life of the people. Such social indicators of under development are:

- High illiteracy rates.
- Low life expectancy / High mortality rates / Poor health services.
- High levels of conservatism of the people.
- High population growth rate.
- Low self-esteem.
- Poor housing facilities.
- Preference of foreign values / cultures.
- Socially dualistic.
- High levels of malnutrition / low nutrition levels.

Economic indicators of underdevelopment in Uganda

In this case focus is on those economic aspects which tend to have an impact of reducing the quality of life of the people. Such economic indicators of under development are:

- Poor entrepreneurship.
- Low per capita income / low savings.
- Dualistic.
- Prevalence of excess capacity.
- Use of mainly poor technology.
- Widespread underemployment and unemployment.
- Small markets both at home and abroad.
- Mainly agricultural / subsistent.
- High levels of price instability (inflation).
- Persistent / chronic Balance of payments problems.
- Dependent on other countries.

Causes of underdevelopment in the developing nations

An account for the low level of economic development in the developing countries:
N.B: Students need to bring out any of the following aspects in the explanation of points;

Low investment / low output / resource underutilization / production of low quantity and low quality goods and services.

- Poor state of technology. The use of poor methods of production makes resources to be underutilized. This causes low output of goods and services hence leading to underdevelopment.
- Limited capital stock. This arises from inadequate machines and limited money capital therefore, investment cannot be expanded which leads to low volumes of output and this causes underdevelopment.
- Unfavourable terms of trade. Developing countries export primary products at low prices and import expensive manufactured goods. This creates shortage of foreign exchange earnings and developing countries are not able to exploit fully all the resources thereby causing underdevelopment.
- Limited labour skills / Brain drain / High illiteracy rates. There is a limited number of people with technical skills necessary to exploit and use the available resources. Resources are not fully exploited and therefore, there is excess capacity that leads to low production of goods and services and this causes underdevelopment.
- Corruption / low levels of accountability. Money that would have been used to finance development projects so as to produce more goods and services is embezzled by some government officials. As a result, there is low output of goods and services and this causes underdevelopment.
- Political unrest. This scares away potential investors making resources to be underutilised. This causes low output of goods and services hence leading to underdevelopment.
- High rates of capital outflow in form of profit repatriation. This is because of increased foreign investment in the developing countries. The foreign investors repatriate their profits leading to low levels of investment in the country. This causes production of low output of goods and services thereby leading to underdevelopment.
- Poor attitude towards work / conservatism of the people. Many people are not ready and willing to adopt modern ways or method of production. This makes output to remain low and underdevelopment arises.
- Limited market for the products both at home and abroad. Producers are not encouraged to produce in large quantities since the market is small and this makes resources to be underutilised, output becomes low and finally there is underdevelopment.
- Poor infrastructure. For example poor road network discourages investors form setting up investment projects. This results into low levels of resource utilisation and low output of goods and services which causes underdevelopment.
- Dominance of the subsistence sector. The subsistence sector is large and characterised by low output of goods and services. This makes resources to be underutilised thereby causing underdevelopment.
- Dependence on agriculture. Agriculture is mainly carried out on small scale - by peasant farmers and this creates low output of agricultural products hereby causing underdevelopment.
- Low entrepreneurial skills. There is poor organisation of factors of auction which causes underutilisation of resources, output becomes low and hereby causing underdevelopment.

- High debt burden and problem of debt servicing. This reduces the money available for investment thereby causing low output of goods and services and finally underdevelopment.
- Limited quantity, quality and variety of strategic natural resources like iron ore and coal are in limited supply and yet they are important in developing heavy manufacturing industries. This results into low levels of industrialisation and low production of capital goods thereby leading to underdevelopment.
- Dependence on foreign aid which kills initiatives at home. This is because .reign assistance bogs creativity and encourages laziness. This results into low output of goods and services and finally underdevelopment.
- High population growth rates. This results into a high dependency burden Leading to low savings and low investment. This causes production of low output of goods and services thereby leading to underdevelopment.
- Poor land tenure system. This makes large scale (commercial) agriculture difficult to carry out and therefore there is low output in the agricultural sector causing underdevelopment.
- Price and exchange rate instabilities. This increases the cost of production, discourages investors which leads to resource underutilisation. This leads to low output and finally underdevelopment.
- Poor investment climate /poor government policy of investment, for example, heavy taxation. This brings about low levels of industrialisation and resources needed in the industries remain unutilised which causes underdevelopment.
- Unfortunate structural adjustment programmes (SAPs). SAPs of the International Monetary Fund (IMF) and World Bank for example privatization and retrenchment forces the government to divert some of the money from certain sectors to implement some of these programmes. This causes low output of goods and services in those sectors and finally results into underdevelopment.

Measures that could be taken to accelerate the development process in Uganda

- Lay down strong infrastructure.
- Modernise agriculture since it is the backbone of the economy.
- Encourage development of human resources through intensive training.
- Attain political stability in all parts of the country.
- Undertake further expansion of the market to facilitate the process of commercialisation.
- Provision of capital to local investors.
- Develop appropriate technology through technological transfer and development.
- Control the high population growth rates through family planning.
- Promote the industrial sector.
- Provision of desired investment incentives.

N.B. Vicious circle refers to a situation that tends to precipitate certain undesirable phenomena or ends. It describes a series of unfortunate circumstances that intensify one another by feeding each other.

Least developed country is one which is stagnant with low levels of income and persistent unemployment characterised by constant poverty, very low living conditions and far below the international poverty line.

Underdeveloped country is one which is developing although living conditions are still low. It is one which is above the least developed characterised by less than full employment level, slow growth of Gross Domestic Output (GDP), economic vulnerability with the majority of its people just affording the bare minimum of life.

ACTIVITY 5

1. (a) What are the indicators of under development in Uganda ?
   (b) Examine the causes of under development in your country

1 (a) What are the causes of underdevelopment in the developing nations?
  (b) Describe measures that could be taken to accelerate the development process in Uganda

DAY 6

Poverty

This refers to a situation where a proportion or section of the population is able to meet only its bare subsistence essentials of food, clothing and shelter in order to maintain the minimum level of living.

a. **poverty** refers to a situation where a population or section of the population is at most able to meet only its bare subsistence essentials of food, clothing and shelter and no more.
b. **Relative poverty** is a situation whereby a section of the population is able to meet the bare minimum necessities of life and a bit of luxuries.

Causes of poverty in Uganda

- Limited basic raw materials.
- Limited committed leadership.
- Incompetent and over-ambitious economic policies.
- Political instability. This leads to destruction of property and lives which discourages the setting up of firms leading to low output hence generation of low incomes.
- Inappropriate education system.
- Hostile climate.
- Poor performance of the agricultural sector.
- Existence of social strata and class exploitation in the society.
- Inconsistent inflow of foreign aid.
- Inappropriate technology.
- High population growth rate. This leads to a high dependence burden which discourages savings and investment leading to low output hence generation of low incomes.

Measures aimed at reducing poverty in Uganda

- Developing infrastructures.
- Providing

- labour with skills through training.
- Encouraging savings.
- Improving techniques of production.
- Improving land tenure system.
- Controlling population growth rates.
- Providing affordable credit for investment.
- Widening markets for example joining regional co-operation.
- Providing entrepreneurship skills.
- Improving political climate.
- Encouraging modernization or commercialisation of agriculture.
- Fighting conservatism.
- Diversifying the economy.

ACTIVITY 6

1.(a) Define poverty.
(b) Explain the forms of poverty in Uganda.

2.(a) Describe the causes of poverty in Uganda
(b)What are the measures aimed at reducing poverty in Uganda

DAY 7

THE DEVELOPMENT PROCESS AND CHOICE OF A DEVELOPMENT STRATEGY

Development process

Development is a multi-dimensional process characterized by the increase in real capital income of a country over a long period of time. The economy is transformed from a backward economy to a modern advanced industrial economy.

Development strategy refers to the policy measures taken by a planning authority aimed at the achievement of given development goals/ aims/objectives during a given time.

OR It is a broad policy guideline initiated and followed by a country in formulation and executing long term economic policies for the development of the nation.

NB: Economic policy refers to a statement of objectives and methods of achieving those objectives by the government, political party and business community

Choice of development strategy

This is defined as a search or an appraisal of an alternative course of action which leads to the development of the economy.

Development strategies for developing countries

Export promotion industrial development strategy
(Outward looking industrial development strategy)

Export promotion industrial development strategy: refers to an industrial strategy of promoting the domestic manufacturing sector with the view to increasing the export of manufactured goods.

Or Is the policy of establishing industries to produce goods for the export market

Reasons for the adoption of the export promotion strategy of industries development

- To increase the country's foreign exchange earnings and this build up the reserves. This is due to the increased exportation manufactured products
- To improve on the country's balance of payments position. This is mainly due to the increased foreign exchange earnings from the increased export.
- To diversify the economy. This is due to the promotion of the industrial sector which increase the variety of goods produced and exported.
- To facilitate the use of idle potentials (domestic resources) of the country. This is because of the utilization of local resources as inputs in the manufacturing industries that are set up.
- To create more employment. This is due to the setting up of many manufacturing industries that employ many people as machine operators and managers leading to increase in incomes.
- To promote commercialization of the economy. This is because of the encouragement of production for sale.
- To redistribute income in the economy. This is due to the numerous employment opportunities that are a source of income to many people.
- To develop the agricultural sector, Uganda being an agro-based economy. This is due to the linkages created by the development of the manufacturing sector that utilizes inputs from the agricultural sector.
- To diversify foreign markets. This is due to the expansion of exports necessitating the acquisition of a variety of markets for the existing products.
- To encourage development of technology. This is because most of the manufacturing industries are owned by foreigners who bring with them modern efficient production techniques leading to high quality and quantity output.
- To accelerate economic growth. This is because most of the establishment of many industries that results into increased output hence economic growth.
- To facilitate the development of infrastructure. This is due to the setting up of roads and energy facilities. The roads are set up ease transportation of raw materials and finished products.

Requirements for export promotion strategy.

- Skilled manpower.
- Adequate raw materials.
- Extensive advertisement abroad.
- Transport and energy facilities.
- Trade agreements to create guaranteed markets.
- Export promotion institution.
- Extensive research to identify products needed in external markets.
- Fiscal incentives to the export sector like tax holidays and subsidies.
- Large entrepreneurial class to undertake risks in the development of the export promotion industries.

Factors that limit adoption of export promotion strategy in my country are:

- Poor infrastructure like poor roads discourages potential investors from establishing industries for fear of high production costs involved.
- Limited skills. There is limited skilled manpower like machine operators (technicians) to be employed in the industries.
- Limited foreign market due to low quality products that cannot compete favourably in foreign markets. This discourages producers for fear of making
- High level of corruption. This results into misuse of the funds that would have been used for the expansion of the manufacturing industries.
- Political instabilities scare away potential investors from establishing industries and the existing ones from expanding theirs for fear of destroying them and losing their lives.
- Inadequate capital to buy land, machinery and inputs to be used in the establishment and running of the industries.
- Poor land tenure system limits accessibility to land to many potential investors thus discouraging them from establishing industries and also discouraging the existing investors from expanding theirs.
- Protectionist policies of the developed countries. They put restrictions on the exports from developing countries thereby limiting the amount exported hence discouraging them from exporting for fear of making losses.
- Limited local natural resources. There are limited raw materials which discourage potential investors to establish industries and existing ones to expand theirs for fear of producing at excess capacity and failing to earn high profits.
- Poor technology in the developing countries discourages potential investors from establishing industries for fear of producing low quality products which cannot compete in foreign markets.
- Limited entrepreneurial skills hinder the would be investors to establish industries because they do not have the necessary skills to run and manage them. This results in poor organization of other factors of production hence limited development of export-related industries.
- Firms are Usually high cost producers hence their products are relatively expensive. The strategy is limited by the expensive exports due to the high costs of production which make the exports uncompetitive in foreign markets and this discourages investors from producing for export for fear of making losses.
- Production of similar products hence cannot utilise developing countries" markets. There are limited markets for the exports of developing countries because they produce similar products which cannot be absorbed.
- High costs of advertising, market research and research into better products and processes scare off the potential investors.

Measures being taken to improve the performance of the export promotion strategy

- Giving fiscal incentives to exporters like tax relief and refund (customs drawback).
- Sending delegations of trade researchers to foreign markets or countries.
- Giving credit facilities to investors.

- Improvement of infrastructure.
- Setting up export promotion institutions.
- Joining regional co-operations.
- Encouraging diversification of exports.
- Carrying out extensive sales promotion campaigns in foreign markets.

ACTIVITY 7

1.(a) Distinguish between export substitution and export promotion strategies for industrial development.
(b) Examine the merits and demerits of the export substitution strategy in developing growth, developing countries

2.“As a measure of accelerating economic growth, developing countries should adopt capital intensive technology.” Discuss.

3 .What are the limitations to export promotion as a development strategy?

DAY 8

Import substitution industrial development strategy

(Inward looking development strategy)

Import substitution industrial development strategy: refers to a strategy of producing internally the formerly imported industrial goods to reduce outflow of foreign exchange **Or** Refers to measures aimed at establishing industries to produce locally, goods that were formerly imported.

N.B. The inward looking development strategy calls for policies that stress economic self-reliance on the part of developing countries. These include development of indigenous appropriate technology and imposition of substantial protective tariff barriers in order to promote import substitution.

Requirements of the import substitution strategy

- Raw materials.
- Skilled manpower.
- Adequate market.
- Developed transport facilities.
- Adequate power / energy to run the industries.
- Incentives like tax holidays, credit facilities, tax rebates etc.
- Protectionism of the import substitution industries by imposing high tariffs on imported manufactured goods.
- Reduction of taxes on imported raw materials.

Reasons for the adoption of the import substitution strategy of industrial development.

- To reduce economic dependence. Import substitution industrialisation aims at reducing the reliance on imported manufactured goods.
- To save foreign exchange that would be used to import goods. Import substitution industrialisation aims at reducing foreign exchange expenditure on imported manufactured goods.

- To facilitate increased resource utilisation. Import substitution industrialisation aims at facilitating resource utilisation. This is due to increased production in the industries and high demand for raw materials by the industries.
- To develop the local skills. Import substitution industrialisation aims at promoting the development of local labour skills. This is through training facilities provided by the industries to enable labour handle modern physical capital.
- To create more employment opportunities. Import substitution industrialisation aims at providing gainful employment opportunities to an ever increasing labour force. This is due to increased investment and production in the industries.
- To improve the Balance of Payment position. Import substitution industrialization aims at correcting the BOP position. This is done through reduction in the volume of imported manufactured goods and increase in foreign exchange earnings from exports in the long-run.
- To facilitate technological transfer. Import substitution industrialisation aims at enabling the shifting of new and better techniques of production by the foreign investors. This is due to the high use of efficient capital intensive technology in the import substitution industries.
- To accelerate economic growth. Import substitution industrialisation aims at stimulating investment. The increased investment leads to increased output production in the industries hence economic growth.
- To stimulate expansion of infrastructure. Import substitution aims at encouraging the development of infrastructure like energy plants to avail power and the road network to increase access to raw materials and areas of market for finished goods.
- To encourage capital inflow as foreign investors are attracted to set up such industries. Import substitution industrialisation aims at attracting foreign investors' to take on the large industries.
- To increase government revenue by way of taxation. Import substitution industrialisation aims at increasing sources of public income through payment of taxes and license payments.
- To control / check imported inflation. Import substitution industrialisation aims at ensuring stable prices in the economy by increasing production of formerly imported products from inflationary prone economies.
- To earn foreign exchange as some of these industries grow and begin to export some of the goods they produce.
- in saving scarce foreign exchange. The strategy saves scarce foreign exchange resources available by restricting expenditure on imported products.
- Reduces economic dependence. The strategy leads to production of goods that were formerly imported which results in reduced importation of manufactured goods hence reducing external dependence.
- Encourages exploitation of idle resources. More domestic resources are exploited as some of the industries use the locally available raw materials in the production process.
- Provides greater employment opportunities in the long run. This is because the strategy has more forward and backward linkages and facilitates the use of labour intensive techniques of production.

- Improves balance of payments (B.O.P) position. The strategy facilitates the setting up of industries that produce many goods that were formerly imported thus reducing importation and expenditure abroad.
- Facilitates technological transfer from More Developed Countries (MDCs).efficient modern technology is imported which leads to the improvement of the local technology leading to increased productivity.
- Stimulates growth of the industrial / manufacturing sector. This is because of the increased backward and forward linkages which enable the setting up of many industries.
- Promotes development of local skills through training. The strategy enables the organisation of workshops and seminars for the training of workers to operate and repair machines which results in improvement of skills.
- Promotes infrastructural development. The strategy encourages the construction of roads and rails to ease the transportation of raw materials and finished products.
- Controls imported inflation / reduces imported inflation. The strategy helps to control imported inflation by reducing the volume of imports from inflation prone economies.
- Encourages entrepreneurial development. The strategy facilitates the development of local entrepreneurs who undertake to bear risks and uncertainties through organisation of other factors of production.
- Encourages capital inflow in form of foreign private investments. The strategy facilitates the transfer of productive resources by foreign investors into the economies of developing countries leading to increased foreign exchange.
- Leads to foreign exchange earnings in the long run. In the long run, the strategy is outward paying and source of foreign exchange through exportation of the surplus products.
- Acts as a wider source of government revenue because it has more linkages and hence more economic activities which are taxed to raise income for recurrent and development expenditure.
- Promotes economic growth. The strategy fosters internal growth of the economy through increasing the quantity of consumer goods available.

Demerits of import substitution

- Encourages capital flight through profit and income repatriation .The strategy promotes excessive capital outflow since most of the industries are owned by foreigners.
- Subjects nationals to highly priced goods due to high costs of production. The strategy leads to high domestic prices due to high production costs leading to low standards of living.
- Limited variety of goods hence falling standards of living. There is limited variety of goods on the market because of protectionism which limits entry of imports.
- Consumption of poor quality goods/inferior substitutes due to continued government's protection which limits competition.
- Encourages high use of imported capital and intermediate goods causing balance of payments (B.O.P.) problems as a result of increased import expenditure.
- Tends to encourage capital intensive techniques resulting into technological unemployment whereby people are replaced by machines in the production process.

- Promotes monopoly tendencies with all the negative effects due to protectionism that limits competition from imported goods.
- Increased wastage of resources due to limited market. These industries produce r. excess capacity due to limited market resulting in wastage of resources.
- Over protectionism may lead to retaliation which reduces the volume of trade.
- Increased rural-urban migration with its evils since many of the industries are urban based. Many people move to urban areas to look for jobs leading to high crime rates, congestion, prostitution and development of slums.
- Results in a decline in government revenue due to a fall in import duty resulting from reduced importation.
- Increased government expenditure on subsidising the industries to encourage them to grow.
- High social costs like pollution because of many industries that are established eve off gases and release industrial wastes which pollute the environment.
- Management contracts are usually expensive to maintain for example tax holidays and concessions given. This reduces the net benefits of the investments in import substitution industries especially by foreigners.

Limitations to import substitution as a development strategy

- Small domestic markets hinder the expansion and growth of import substitution industries due to poor quality goods and the final product being more expensive than the imported goods. The investors are thus discouraged from establishing and expanding industries for fear of making losses.
- high cost industries because of protectionism. The industries put a lot of pressure on the government to protect them from foreign competition through government providing subsidies and tax holidays.
- Shortage of inputs or raw materials hence the need for imported intermediate products. The limited supply of basic raw materials leads to production at excess capacity. This discourages investors to establish the industries and existing ones to expand because of getting low profits.
- Limited capital for establishing the industries. There is limited capital to buy raw materials and install new machinery thus making it difficult to set up industries.
- Limited technology. Developing countries have poor technology which limits the establishment of efficient import substitution industries.
- Limited skills to manage these industries. There is limited skilled manpower in developing countries which results in inefficiency in the operation of import substitution industries.
- Political instability. Political unrest in some parts of developing countries has hampered successful operation of import substitution industries by scaring the investors from injecting capital for fear of their lives and property.
- Setting up of wrong industries due to poor choice of priorities. The
- industries set up are inefficient and cannot be maintained, for example, the foreign investors set up assembling plants for final stages of production, which industries are not a priority for the developing countries.

- Dependency on unreliable sources of foreign aid to finance the establishment and maintenance of the import substitution industries. This strategy requires high capital investment that may necessitate foreign aid which in most cases is unreliable.

ACTIVITY 8

1. Explain the objectives for import promotion in your country.
2. Distinguish between import promotion and import substitution industrial development strategies.
3. Explain the merits of adopting the import promotion strategy of industrialization.
4. Explain the Limitations to import promotion as a development strategy
5. "To what extent is the inward-looking industrial development strategy ideal for your country?"

DAY 9

CHOICE OF TECHNIQUE OF PRODUCTION IN INDUSTRY

1. Labour intensive techniques of production (1 pound technology).
2. Capital intensive techniques of production (1000 pound technology).
3. Intermediate technology.
4. Appropriate technology.

N.B: Technology basically refers to the ways or methods of carrying out production in an industry.

Developing countries need to make a wise choice between capital intensive and labour intensive techniques of production. **The choice of technique to be used depends on the following factors:**

- The degree of availability of the technique**.**
- The size of market to be served by the technique of production.
- The amount of output required.
- The benefits from the technique.
- The efficiency of the technique.
- The dangers associated with the technique.
- The cost of the technique in relation to the prices of the final output.
- The degree of substitutability of the method of production.

Labour intensive techniques of production(1 pound technology)

These are production methods that employ relatively more labour than other rectors, especially capital.

This production technique uses proportionately more labour than capital. It is referred to as a 1 pound technology or a capital saving technology. It is called a capital saving technology because it saves capital but it uses more units of labour, it is also called a one pound technology because it is cheaper and associated with low skills.

Merits of labour intensive techniques of production in developing countries.

- It is a source of employment in developing countries which experience high rates of unemployment. It creates more jobs in developing countries where there is redundant labour force. For example labour intensive methods help to create more jobs for people in the agricultural sector.
- It is cheap and easily affordable. It is cheaper to obtain and maintain when compared to the capital intensive techniques which are expensive to acquire. This is a bigger advantage in developing countries which have limited capital resources.
- It saves foreign exchange which would otherwise be used to import capital machines. This is because there is use of locally made simple tools hence there is no need of spending foreign currency to buy capital machines from other countries.
- It requires limited skills. The technique does not require complex skills because many people learn on the job. This fits well in developing countries where there is shortage of highly trained manpower.
- It facilitates the exploitation of vast rural potentials since the techniques are mainly rural - based. These techniques promote resource utilization in the rural areas through activities like farming, brick laying, making mats, carpentry etc. This reduces excess capacity in the rural areas.
- Facilitates fair income distribution. More people are employed when labour intensive techniques of production are used. Income is earned by the employed people and this helps to re-distribute income.
- It is needed in agriculture where human judgment is paramount. Activities like harvesting ripe coffee beans, weeding of crops such as beans, maize, millet etc.) call for human judgment. Therefore, such activities require manual workers i.e labour intensive techniques of production.
- It reduces social costs in form of pollution. This method of production is not associated with activities that easily pollute the environment, that is, it is environmentally friendly unlike the use of capital intensive methods in industries that give rise to negative externalities like air and water pollution.
- Controls over- exploitation of resources. It does not result into excessive use of resources especially in the short - run. Irrational use of resources is avoided. As more people are employed, incomes and aggregate demand rise hence encouraging further investment.
- It can easily be spread all over the country and this helps to increase output. As output rises, higher rates of economic growth / GDP are attained. As more people are employed, incomes and aggregate demand rise hence encouraging further investment.

Demerits of labour intensive techniques of production

- It results into low output levels (low productivity). Due to use of rudimentary tools and limited skills in production, there is low output per un: of labour. This low productivity leads to slow growth of firms.
- It gives rise to low quality output. Production units that use labour intensive techniques produce low quality products. Such low quality products are less competitive and they are sold at low prices on the market. This causes losses to producers.

- It is associated with labour unrest. Trade unions can mobilize the dissatisfied workers to go on strike. The employers have no alternative since they depend on this labour. Strikes lead to loss of production time hence causing losses to producers.
- It is costly in the long-run. In the long run, it becomes costly to maintain a big number of workers (labourers) in terms of paying wages, catering for their accommodation, medical care, feeding, transport allowances etc.
- It calls for a lot of supervision of workers at their work place. These results into heavy supervision costs because there is need to employ supervisors to be in charge of the workers.
- It does not encourage skills development. Since there is use of rudimentary tools in production, workers may not undergo training to acquire skills of using them. This kills the drive to acquire better skills in production.
- It does not encourage technological development. It is associated with limited innovations and creativity. The methods of production are not improved upon and remain more or less the same over time. This limits technological development.
- It results into under- utilization of resources. Due to its low productivity, some resources remain un exploited. Excess capacity arises and this causes low rates of economic growth. / low GDP.
- It is slow and time consuming. This arises from use of manual labourers who take more time to accomplish tasks. Therefore, more time is taken before goods are put on the market. A producer may miss some immediate opportunity to sell goods to those who need them yet they are not available on the market.
- It is hard to produce standardised output using this technique of production. It is hard to have products of uniform size, appearance and quality when producers use labour intensive techniques of production.

Capital intensive techniques of production

Capital intensive technology is a production method which employs relatively proportionately) more capital than other factors of production, especially labour.

This production technique employs a big proportion of capital relative to labour ice other factors. It is alternatively termed as **a labour saving technique of production**. The term is used because it uses less units of labour and more units of capital. Since the technique is expensive and it involves hiring highly trained manpower, it is referred to as **the £1000 technology.**

Advantages of capital intensive techniques of production;

- Leads to high quality of output. As firms use capital intensive methods, the quality of products improves. Such high quality commodities command a wider market. Producers are able to earn higher profits which are an incentive for increased production.
- It saves time and it is less tiresome. The use of machines reduces on loss of reduction time in industrial firms. Machines simplify work and this reduces fatigue.
- Economies of scale are enjoyed due to large scale production (it leads to mass production/ it increases output). The level of productivity increases when capital intensive techniques of production are employed. More output is generated hence a higher level of economic growth/ GDP is attained

- It minimises the size of the wage bill paid to labour. It uses fewer labourers and consequently there is a reduction in the amount of money paid to workers in form of wages.
- It improves the skills of workers hence increased labour efficiency. Workers who handle machines are able to acquire skills from time to time, for example, some technicians learn skills of handling machines via on-job-training. Improvement in skills creates efficiency at work.
- It results into technological development and transfer. As a result of innovations and inventions, firms that are capital intensive gradually improve on local methods of production. At the same time there is technological transfer in form of imported machines like tractors and other industrial implements.
- It minimises or reduces on labour unrest. Less manual workers are employed in capital intensive production units. Therefore, the possibility of labour unrest in form of strikes is reduced.
- It facilitates better (optimum) and increased exploitation of resources. Capital intensive machines are applied in farming and in extracting minerals from their natural state (endowment). This enhances use of resources and excess capacity is avoided.
- It facilitates development of infrastructure. Capital intensive machines such as heavy tractors are used in road construction thereby helping in setting up basic infrastructure that supports further production.
- Leads to standardisation of output. By using machines during production, it is possible to make products of standard/same size, quality shape etc.E.g. if a Bakery uses machines to cut dough into uniform sizes, loaves of bread of standard size are produced.
- It may promote employment in the long-run. Many capital intensive industries are set up and they provide jobs to machine operators or technicians and professional engineers. As these firms expand, investment levels rise thereby creating more jobs in the long- run.

Demerits / negative implications of capital intensive techniques of production

- It is associated with technological unemployment. The use of machines in production units reduces the size of the manual workers. Tasks which could have been handled by manual labourers are executed by machines. This causes technological unemployment.
- It worsens income inequality. It creates an income gap between those employed in the labour intensive firms (these earn low incomes) and those employed in capital intensive firms, like engineers who earn higher incomes due their professional skills.
- It is associated with mass production which may lead to wastage especially where the market is small. This results into losses to the producers thereby limiting further investment.
- It requires complex skills which may not be readily available in developing countries. Many developing countries experience shortages of trained engineers and technicians who can competently handle machines in production firms. These countries resort to use of expatriates who are expensive to maintain and at the same time external resource dependence is worsened.
- It is mostly afforded by foreign firms whose owners repatriate profits to their mother countries. This causes a small multiplier effect in developing countries.

- It is associated with high costs. Heavy costs are incurred on purchase machines and related spare parts, repair and maintenance, salaries to machine operators etc. These heavy costs reduce the profits of producers.
- Over exploitation of natural resources which leads to resource depletion is bound to occur. By employing machines in the harvesting of timber from forests, there is a danger of depleting forests as a resource (there is reforestation).
- It generates social costs/ negative externalities to the public or society. Machines used in industries cause noise pollution. Dangerous gases are also emitted from industrial machines thereby causing air pollution. These social zests reduce peoples' welfare.
- Machines are not applicable in certain tasks or activities where human judgment is required /vital. A task such as marking handwritten examinations calls for personal human judgment of the examiner and a line is not applicable. Harvesting of ripe coffee beans and vanilla also - for human judgment hence rendering machines irrelevant.

Limitations of adopting capital intensive technology

- Limited funds / stock of capital to purchase machines repair them and maintain them.
- Limited labour skills to operate and repair the machinery.
- Small / limited markets for the technology and products i.e. the small markets cannot support mass production.
- Inappropriate where human judgement is required.
- Underdeveloped / poor conditions of infrastructure like poor roads to transport the machines.
- Political instability whereby investors are not willing to install their machines for fear of being destroyed.
- Conservatism / cultural rigidities whereby people are not willing to use machines and prefer to use their traditional production techniques.
- Poor land tenure system that cannot support production on a large scale.
- Low level of inventions and innovations due to limited research capacity.
- Limited entrepreneurial ability whereby there are few people with ability and skills to use and manage the modern technology.
- Poor topography, for example, hilly areas or rugged terrain that does not allow use of machines in production.
- Poor accountability or corruption leading to misuse of funds meant for the purchase of the technology.

Circumstances where capital intensive techniques can be applied in spite of abundant labour

The abundancy of labour does not mean that labour should always be used. There are situations that necessitate the use of capital intensive techniques. These include:

- Where capital intensive equipment is given to developing countries as a donation or grant, the abundant labour will not be utilised.

- Where labour is abundant but lacks the necessary skills, capital intensive techniques will be used.
- Where there is need to produce high quality products required in international markets, capital intensive techniques are preferred. Where the entrepreneur wants to acquire high levels of efficiency and productivity, capital intensive techniques are preferred to labour intensive. Where there is need for continuity in production process, capital intensive techniques will be used since the abundant labour may disrupt production through strikes.

- Where labour is abundant but expensive in the long run in terms of feeding, accommodation etc. yet capital is artificially cheap due to lowering of taxes or. the equipment by the government. This encourages the entrepreneur to use capital intensive techniques rather than labour which is abundant. Where there is need to encourage technological development and transfer, capital intensive techniques are preferred, for example, foreign investors are more used to capital than labour.
- Where there is need to save time and produce output at a faster rate, capital intensive techniques are preferred compared to the abundant labour that is slow and time consuming.
- Where there is need to produce standardized output in order to promote economic growth, capital intensive techniques will be applied leaving the abundant labour unemployed.
- Where there is need to maximally utilise the local resources, capital intensive techniques are preferred compared to the abundant labour which may result into excess capacity if applied.

ACTIVITY 9

5. Explain the contribution of private foreign investment in your country.

6. Examine the factors limiting the operations of private foreign investment in your country.

7. Explain why education is regarded as an investment.

8. Examine the role of education in development of your country.