

EC0 1201: Principles of Development Economics

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Topic 5: Determinants of Economic Growth

- Population growth
 - conflicting effect on growth
- Human Capital
 - education, skills, quality and productivity of the human resource. Skilled and well trained human capital accelerates growth and vice versa.
- Natural resources
 - Oil, minerals, soil, water
 - Discovery of new natural resources like oil and gas, gold, fertile soils facilitates growth.

Determinants ...

- Capital formation/accumulation
 - Level of investment, savings or technology
- Entrepreneurship
 - Ability to take risks to invest
- Foreign aid
 - If well utilized to finance development projects may spur growth and the reverse is true.

Population and Economic Development

- Rich countries are characterized by aged population while developing countries have a young population and more babies.
- Population refers to the total number of people in an area or a country.
- Population growth plays a conflicting role in the development process.
 - It can act as a stimulus and an impediment to growth and development.

Population and Econ Dev't . . .

- For developing countries like Uganda, rapid population growth is:
 - an obstacle to improved living standards
 - A burrier to capital accumulation and capital deepening. Hence a negative relationship between population growth and capital accumulation because high population lowers savings and put more pressure on existing capital.
 - Retards the rate of productivity and adds on the dependency burden

Population and Econ Dev't . . .

- Reduces per capita income and the ability of the governments to better living standards of the citizens.
- If rapid population growth outstrips the capacity of industry to absorb new labour either unemployment or underemployment will be exacerbated depressing productivity in the agricultural sector.
- Worsens environmental destruction. Take a case of Uganda where forests and wetlands are being cleared.
- Other challenges of high population growth include causing unemployment and increased government expenditure to look after the increased population.

Population and Econ Dev't . . .

- Population structure of a country may also have an impact on the country's growth efforts.

Task:

- Using information from UBOS (202) Uganda Population Pyramid/structure, discuss the implication on economic growth and development of Uganda

Population and Econ Dev't . . .

- However, high population can also accelerate growth and development through:
 - Availing cheap labour force to foster growth needs.
 - High population growth may provoke production leading to increased growth rates.
 - Economist Boserup argued that high population can stimulate green revolution due to pressure for food to feed the growing population.
 - Young population is more innovative, have new ideas and can shift resources from low productive ventures to high productivity thus growth

More positive effects of Population increase . . .

- Provides a larger market for goods and services which encourages more production and thus growth. This in turn attracts both local and foreign investors to invest in the country.
- Stimulates growth by providing a challenge to investors and government.
- It may spur technological process to cater for increasing needs including produced goods and services, agriculture thus leading to increased productivity and growth.

Population Demographic Transition

- Country's population changes over time. **Demographic transition** is the process by which fertility rates eventually decline to replacement levels. The process differs between developing and developed countries. Demographic transition comprises of three stages:
 - Stage 1: This is a stage of high fertility (birth) and mortality (death) rate. Because of this, this stage has constant population growth. This was experienced in 18th century in Europe.

Population Demographic Transition . . .

- High death rates were due to:
 - absence of modern sanitation, medicine, transportation and communication.
 - Food shortages due to floods, droughts, pests and diseases, civil wars, plagues
- Prevailing ideology, values, religion and social structure supported high birth rates, large families were considered a blessing from God.
- A woman gained acceptance in her community by bearing children.

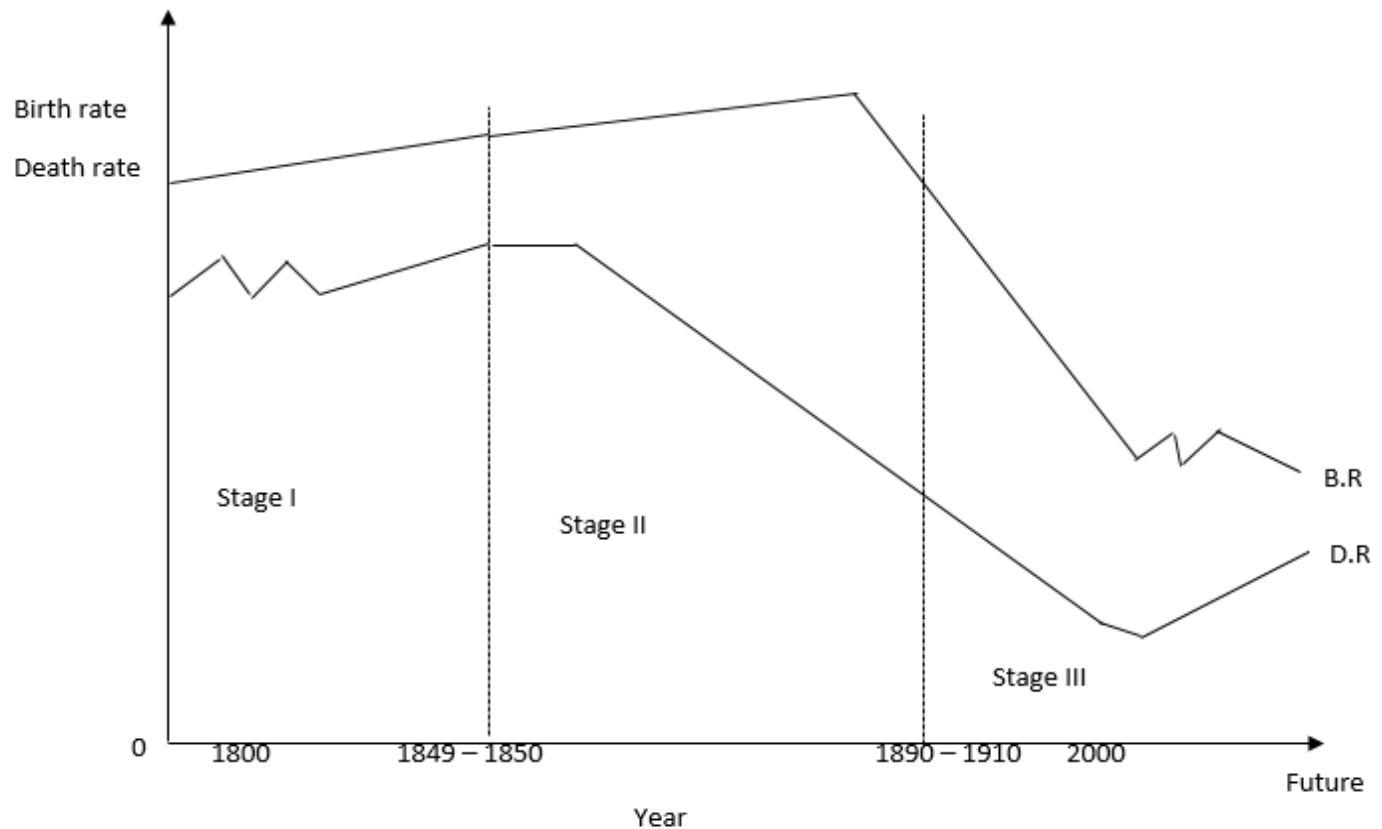
Stage II

- This stage consists of declining mortality but high birth rates.
- Death rates reduced due to:
 - Better health methods, healthier diets and higher incomes.
- Began in 19th century due to modernization
 - Due to reduced death rates with no immediate decline in birth rates, this led to high population growth rate. It marked the beginning of shift from stable or slow growing population to fast growing.

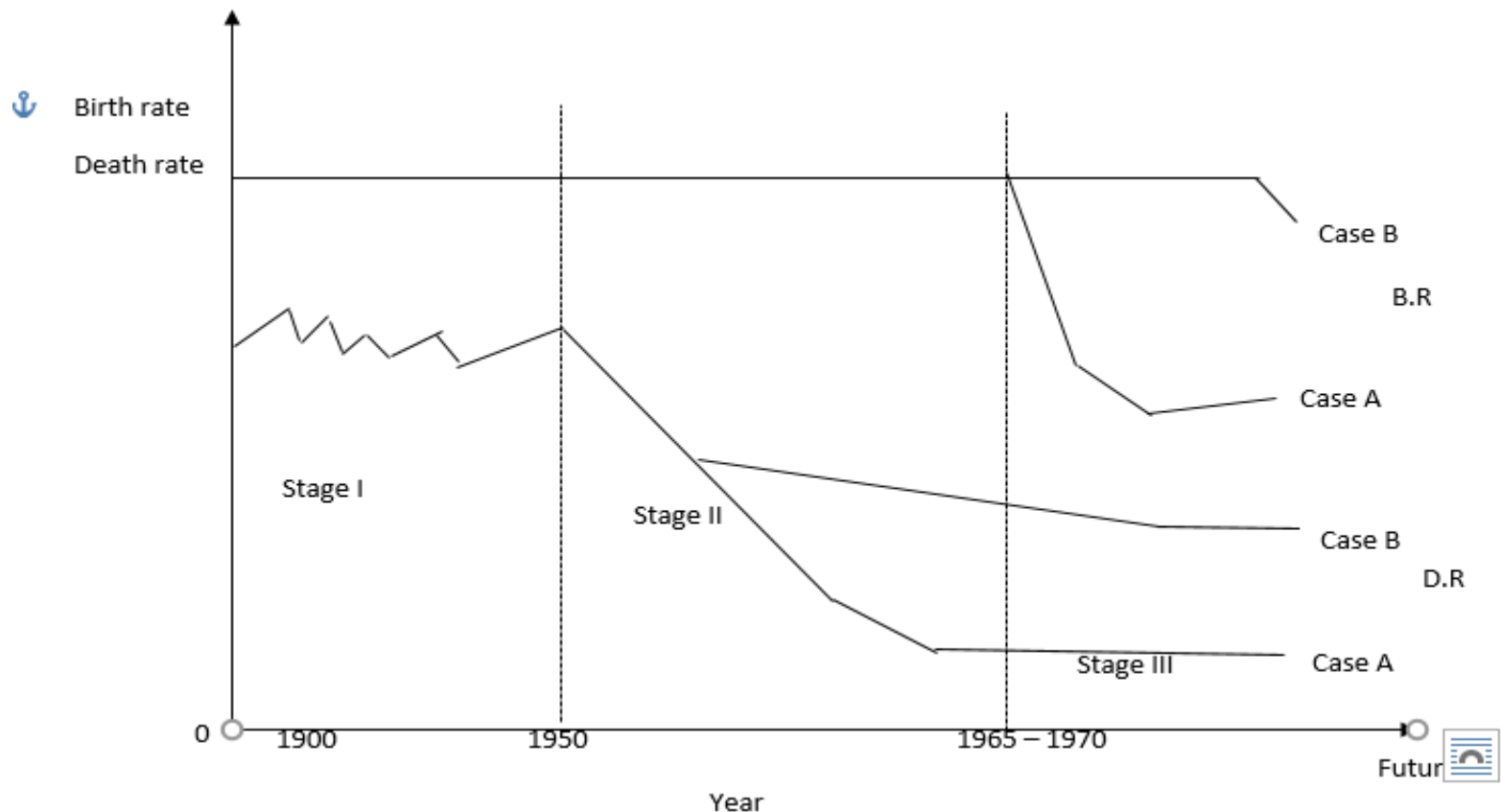
Stage III

- This involved declining fertility rate due to:
 - Forces and influences of modernization and development
 - Usually, high income is associated with low birth rates and vice versa.
 - In Europe, rising death rates could be due to high population of the aged people.

Demographic Transition in Western Europe



Demographic Transition in Developing Countries



- Stage I: This is characterized by relatively high birth and death rates.
- Stage II: Tremendous decline in death rates due to effective imported modern medical facilities, increased immunization and public health technologies. It also had high birth rates.
 - Case A represents those developing countries that have registered a decline in both birth and death rates such as Taiwan, South Korea, Costa Rica, China, Chile and Sri Lanka as a results of high levels of living.

- Case B represents those countries whose death rates have failed to reduce due to wide spread absolute poverty and low levels of living.
 - Examples of these countries include majority of African Countries and Middle East who are still in stage II of the demographic transition.
 - The question now is how can we reduce population growth rate ?

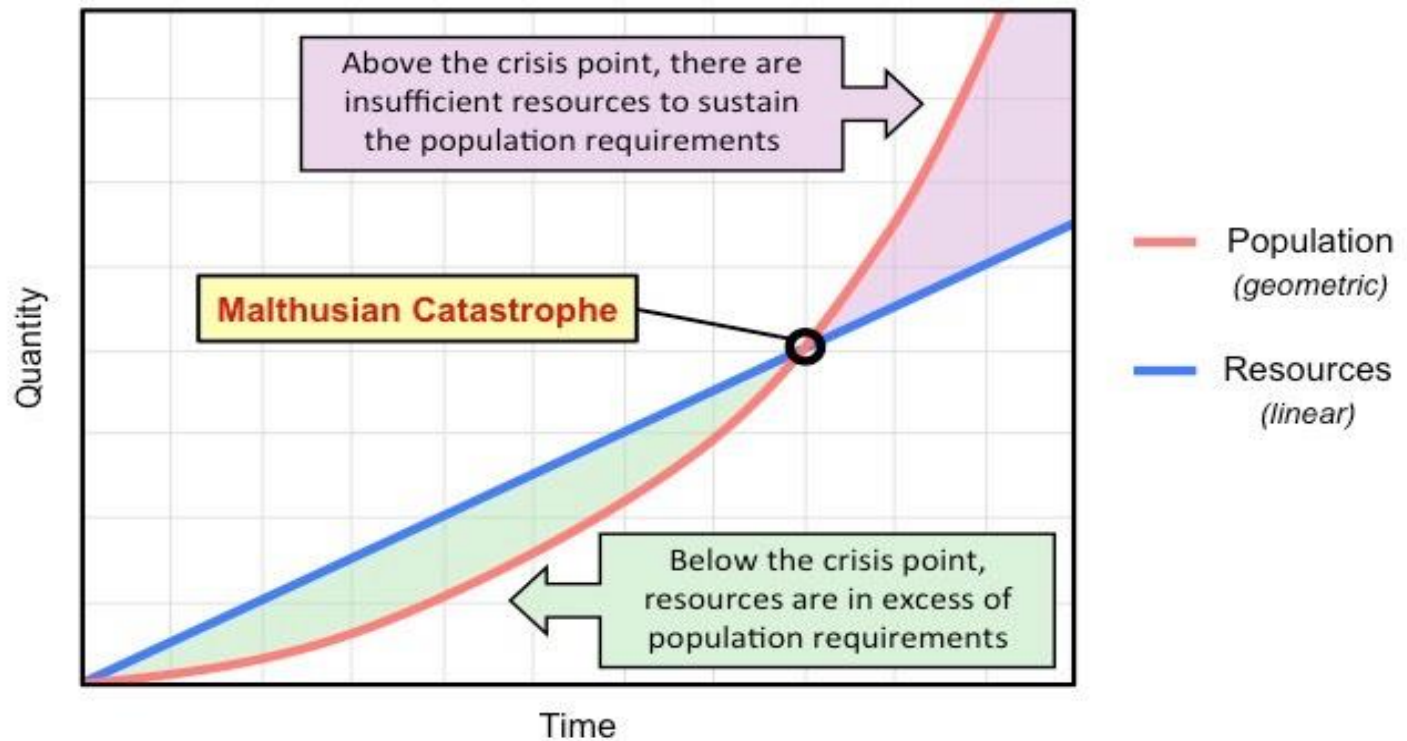
The Malthusian Population Theory

- Based on the law of diminishing returns, the theory stipulates that if population growth is not checked, it will grow at a geometric rate (doubling every 30 to 40 years), while food production/supply will grow at an arithmetic rate.
 - The theory relates food production with population growth.
- Malthus stipulated that food supply would fail to keep pace with the rapidly increasing population.
- This would lead to a what Malthus termed as Malthusian population trap, a point where food supply can not support the increasing population.

Malthusian ...

- Malthus recommended that the only way to avoid a such situation is to engage in moral restraint, celibacy and other ways so as to limit the rate of reproduction (preventive measures)
- Otherwise, other factors such as civil wars, pandemics, plagues (positive measures) will occur to check on the population growth.
- He thus recommended for birth control measures.

Malthusian ...



Malthus . . .

- Malthusian catastrophe is known as Malthusian population trap.
- Resources used interchangeably with food supply or income growth rate.
- Malthusian population theory is criticized on the following grounds:
 - Ignores the role of technological advancement in offsetting diminishing returns to factors of production. Technology can increase productivity of say land leading to increased production and thus a shift in income of food supply.

Criticisms ...

- Does not specify when the population trap will occur i.e. when will population growth exceed food production.
- Only considered food or income as the determinant of population growth and downplayed other factors such as social and economic institutions of a country and its philosophy of development.
- How applicable is Malthusian theory today?
 - Birth control methods are used
 - Increased land wrangles are witnessed today as predicted by Malthus.

Applicability . . .

- Positive checks as predicted by Malthus are being experienced e.g. there are many civil wars, pandemics (Ebola, COVID-19 etc.) among others.

Population control strategies

- For any population measure to achieve its goal, the following must happen:
 - Producing children must be perceived as disadvantageous.
 - Birth/fertility control measures must be morally and socially acceptable
 - Must be available and affordable.
 - Women's decisions over sexual and family planning should be respected.

Population control strategies

The following strategies can help control the rate of population growth:

- Incentives and disincentives. Families with few children can be rewarded (positive incentives) e.g. free education and medical care while those with many children penalized for example by charging them higher taxes.

Population control strategies . . .

- Legislations on the size of the family. The government can come up with law or legislation that each couple should only give birth to two or three children. The challenge with this strategy is that it is expensive to implement as it requires strict monitoring and enforcement.
- Promotion and availing family planning methods nearer to the people. These should be readily available and affordable.

Population control strategies

- Promotion of girl child education. Education delays ladies in schools and they by prolonging the time for marriage which automatically reduces the number of children.
- What else?