Market Oriented vs Interventionist policy Essays

May 2014, Qn 4(d)

Using information from the text/data and your knowledge of economics, evaluate the strengths and weaknesses of market oriented policies use by African governments to encourage economic growth

Market-oriented policies are policies that utilise the market forces of demand and supply to naturally correct the imbalances within the economy. Market oriented policies tend to have little role for the government as this interferes with natural market forces. Economic growth refer to a continual rise in the domestic output of a country measure by an increase in the gross domestic product or GDP. Economic growth is caused by 2 main factors, increase in aggregate demand or an increase in aggregate supply.

Commented [ek1]: Market oriented policies
- Increase efficiencies
- Reduce flaws of government policies

Interventionist policies
- Reduce flaws of market oriented policies
- Increase regulation

Market oriented policies, such as **privatisation**, has led to Africa having a higher economic growth. Privately owned companies tend to be **more efficient**, reduce costs of production and produce more as they are **driven by a profit incentive**, the higher production will lead to a higher GDP. Deregulation is also another market oriented policy that helps economic growth. State owned industries will face **greater competition** and this will create incentive to reduce costs and be more efficient, thus increasing the output of the country. These two policies will increase the aggregate supply within the country. Africa can continue to increase its output by using the unused resources, such as “60% of the world’s unused agricultural land” to maximise its output potential, shifting the LRAS curve. Reduction in government expenditure, means less government intervention. Some reference to the Washington Consensus – market oriented policies. Greater role for entrepreneurship (paragraph 5). May attract FDI, leading to more employment. More MNCs investing in consumer goods businesses, giving consumers increased access to goods and services (linked to development). Benefits of trade liberalisation = gains from free trade. Exploit comparative advantage.

However, market oriented policies tend to widen the income inequality within the people, which is a conflict of macroeconomic objectives. The wider the income gap, the harder it is for the poor to come out of the poverty trap. This will lead to an increase in unemployment and an inefficient allocation of resources. More often than not, these market oriented supply-side policies take a long time to come into effect. Under-provision of merit goods and public goods. Disease and hunger are still major problems that market-oriented policies are unlikely to solve. Privatisation mean that some essential goods may not be affordable to all. Possible vulnerability to external forces (e.g. FDI) dropped significantly in 2008). Growth is not enough to reduce poverty. The agricultural sector needs government intervention. Profit motive may lead to negative externalities of production. Unclear property rights (paragraph 6) may make it difficult.

The effectiveness of market oriented policies is only up to a certain extent. Some of the problems within the economy that restricts the maximum potential of the African economy require significant help from the government and thus some other interventionist policies could include education or training for the low-skilled labour force as there is an “ongoing shortage of skilled workers”. Furthermore, Africa has still **yet to build suitable infrastructure** to aid the long term growth in domestic output, which is a interventionist supply-side policy. Without the government intervening where the market forces do not reach, market oriented policies usually only favour the rich, since they are the major demand and supply forces in the market. Thus market oriented policies are only useful for Africa to a small extent.

May 2015, Question 4(d)

Using information from the text/data and your knowledge of economics, discuss the view that economic development may best be achieved through a balance of market-oriented policies and government intervention

Economic development refers to a holistic improvement of both quantitative and qualitative quality of life factors of people in an economy. Market oriented policies include policies that utilise the market forces of demand and supply to naturally eliminate the market failures. Market oriented policies include deregulation, privatisation, more flexible labour markets and free trade