chapter 14

OBJECTIVES

At the end of this chapter, students should be able to:

â€¢ define the term â€˜economic growthâ€™;

â€¢ explain the meaning of economic development;

â€¢ explain the differences between economic and development;

â€¢ explain the sources of economic development;

â€¢ explain the problems of economic development.

14.1 Introduction

Economic activity is concerned with the production of goods and services for human satisfaction. In order that the consumption of these goods and services might increase each year the economy must grow. For the best part of 200 years from about 1750, economies were left to grow by themselves with little or no effort by various governments to direct or influence the process of growth. But the period since the Second World War has seen great attention paid to the process of economic growth. Since then also, attention has increasingly been paid to the sources of growth, the changes that growth involves the benefits that result from it and its corresponding costs or disamenities. Unfortunately, however, little or no effort has been made by many countries especially the Third World to formulate appropriate policies which could ensure that a greater majority of the people share in the gains of development as much as they do in the resultant disamenities. The common practice is that lip service paid to this all important aspect of development problems (i.e. distribution problem) by leaders of the developing countries. The process of the economic growth and development can be directed or influenced in one of these three ways by various countries:

(i) Non-intervention i.e. laissez faire or the free economy;

(ii) Adoption of a middle course and intervening only in certain areas i.e. mixed economy;

(iii) Entire abolition of a free market i.e. planned economy.

In this chapter, we shall examine this important area of study in economics because it is only through economic growth and development that manâ€™s consumption and welfare needs may be optimally satisfied.

14.2 Meaning of Economic Growth

Economic growth refers to the steady process by which the productive capacity of the economy is increased over time to bring about rising levels of national income. Here, emphasis is on the rate of increase of an economyâ€™s Gross National Product (GNP) or Gross Domestic Product (GDP) between two periods. Based upon the enormous impression that standard of living is determined mainly by economic growth, efforts of economists, politicians and planners in Less Developed Countries (LDCs) had, in the past been directed towards ensuring rapid growth of the economy. However, as a human being can grow taller without being balanced, so also can a country have economic growth without being developed. Economic Growth as defined by Professor Kuznets is a longtime rise in the capacity of an economy to supply increasingly different types of economic goods to its people. In other words, economic growth means increased output over time or simply increase in output per head over time.

14.3 Meaning of Economic Development

This is simply defined as economic growth plus increase in the supply of infrastructural facilities such as good roads, schools, hospital, water and electricity in addition to changes in popular attitudes and beliefs which hinder growth. Thus economic development involves both the capacity of an economy in increasing the quality of goods and services available for human satisfaction and also those other things that will improve on the quality of life of the people. Economic development can be defined as the process whereby the real per capital income of a country increases over a long period of time subject to the stipulations that the number of people below an absolute poverty line does no increase and that the distribution of income does not become more unequal.

14.4 Difference between Economic Growth and Economic Development

Many people use the two terms interchangeably. However, a clear distinction will be made here betweeen economic growth and economic development. Economic development is brought about when there is sustenance of a considerable growth rate accomplished, by a distribution pattern that is generally considered good in terms of the reduction or elimination of poverty, inequality and unemployment. Hence, economists have argued that there may be no development even if per capita real income doubles, unless poverty, inequality and unemployment have all declined for the period concerned. Otherwise, all that would have taken place is mere economic growth. While economic growth simply refers to an increase in the real national income or real per capita income, this must have been coupled with wide or even distribution before economic development can be said to have taken place. For economic welfare, both the real national income and real per capita income are highly significant. However, an increase in real national income is only a necessary condition for an increase in economic welfare, but it is not by itself a sufficient condition. This is because as real per capital income rises, it is possible that the rich are getting richer and the poor poorer. Hence, it cannot be definitely said that economic welfare has increased even if real national income has risen unless the resultant distribution is also considered good. Then, it should be noted here that there cannot be economic development without economic growth plus wide equally distribution of resources, reduction or elimination of poverty, inequality and unemployment. There may be economic growth without economic development in existence, but there cannot be economic development without economic growth in existence.

14.5 Features of Developing Countries

Less Developed Countries (LDCs) exhibit some common features which include the following:

(i) Most developing or less developed countries suffer from low life expectancy, high infant mortality rates, poor health and high illiteracy rates.In Nigeria, Ethiopia and India, for example, life expectancy is 50, 30 and 51 years respectively when comparedwith 74, 70 and 71 years in America, USSR and Czechoslovakia respectively. The illiteracy levels in Nigeria and Afghanistan stand at about 65% when compared with those of 1% in Russia or 3.1% in Cuba. In the area of health, the doctor â€“ patient ratio is one doctor to 20,000 patients in Nigeria, and one doctor to 28,000 patients in Afghanistan. Also, it is one doctor to 94,000 patients in Ethiopia. There is a lot of difference when we compare these figures with one doctor to 678 patients in France and one doctor to 621 patients in America.

(ii) Many developing countries are characterized by low per capita output. Consequently, a greater majority of their people earn incomes below subsistence level i.e. incomes that cannot sustain a good level of living. Poverty, little or no savings and indebtedness are common features in all the developing nations.

(iii) Production is generally at the subsistence level i.e. this is the production for oneâ€™s own consumption only and rarely for the market. This is due to the fact that there is no large-scale application of scientific and technical methods to agriculture and small-scale cottage industries predominate in these economies.

(iv) There is little or no diversification of the economy, as most economic activities are geared towards the production of primary products such as agricultural or industrial raw materials. In economic terms, most developing countries run monocultural economies, centered mainly on agriculture while there is little or no manufacturing.

(v) Developing countries also suffer from high rates of population growth and dependency burden. Two-thirds of world population is located in the developing nations with an average population growth rate of 2.5% when compared with about 1% or less in the advanced countries. This means that growth ratio of the dependent population to that of the working population is very high. The economic implication is that each income earner in most developing nations has more people to care for than its counterpart in the developed nations.

(vi) The international relationship existing between all the developing countries and the advanced ones is one which has kept the former in a position of being dominated by the later. This relationship has also made the developing countries more dependent and valuable to external events. For example, there is hardly any third world country that is not heavily indebted to one Super Power or the other. Nigeria, in spite of her oil, owes N80 billion to foreign governments and organisations. Again, the pace of economic development in the third world countries has also been affected by the various activities of the more advanced countries.

(vii) All developing countries are also known for their chronic high unemployment and under-employment rates. A greater proportion of their labour force remains either without work or is under-utilised. Unemployment rate in Nigeria has remained high especially since 1984. It grew from 12.3% in 1984 to 12.7% in 1985 (June) and by June 1986 it stood at 16.8%. Since June 1986 to the present day, it need not be said how high the rate of unemployment is.

14.6 Sources of Economic Development

There are various factors which may bring about rapid economic development in a country. These are discussed in great detail below:

(i) Natural resources: Many countries that are gifted with such natural resources as crude oil, gold, iron ore, uranium, diamond, etc., usually achieve a higher rate of economic development than those that lack these natural resources. In Nigeria, for example, the exploitation of her crude oil deposits has greatly and positively influenced her rate of economic development since 1974. There are now better roads, no more additional universities, medical institutions and personnel, air and seaports, and manufacturing industries than in the 1960s. On the other hand, the rate of economic development has been very slow in countries like (Ethiopia, Niger and Chad) simply because they lack these essential natural resources which can be exploited.

(ii) Human resources: Labour is an important human resource input in the production process. The level of circle of poverty in which most of them are entrapped. In Nigeria, the Gross Domestic Investment (at current market prices) as percentage of GDP grew from 11.7% between 1950 and 1960 to 15.4% between 1960 and 1970 and between 1970 and 1981 was 26.2%. Its average annual growth rate was less impressive as it declined from 10.5% between 1950 and 1960 to 7.4% between 1960 and 1970 and rose again to 10% between 1970 and 1981, all measured at constant market prices. Although the percentage of GDP devoted to investment within these periods quoted above may look impressive, most of it represented investment in non-productive sectors such as real estate speculation and development.

(v) Economies of scale: Mass production often reduces the unit cost of production up to a certain level by making it more efficient. This serves as a great incentive to an entrepreneur to expand his business by employing more resources because it reduces his cost of production and increases his profits. Up to the point where mass production is profitable, the inducement to raise the level of production is itself considered as a positive contribution to the growth of output. Therefore, it is reasonable to ensure that economies of scale account for most of the growth that has not already been traced to increases in labour and capital or technological improvements.

14.7 Measurement of Economic Development

For so long, economic development has always been measured in terms of calculating the rate of change of GNP or more accurately of real GNP per head. But this is not all we need to know about development, for there are various other ways of measuring it, in addition to measuring GNP. A countryâ€™s rate of economic development may be determined by measuring the following:

(i) Its real output per head often referred to as real GDP per capita. In Nigeria, for example, the average annual real growth rates of GDP fell from 5.3% between I960 and 1965 to 4.5% between 1965 and 1970 and remained constant at 4.5% between 1970 and 1981. Per capita real output or the average has had a negative real growth rate of 2% since 1977 except in 1978 when it marginally grew by 1.7%. Although in monetary terms, Nigeriaâ€™s record of a substantial increase in her GDP real value has been greatly reduced by an ever growing inflation rate.

(ii) In terms of the number of people living in abject poverty, as measured by the number of people living below the international poverty line, according to the United Nations, any person living on less than $1.00 per day is said to be living below poverty line. Even in terms of output per head, the UN also defines a less developed or poor country as one with an output per head insufficient to buy N2.000 worth of resources at the prices as of 1960 or about N3,000 worth at the higher prices as of 1974. In the 1980s, it was estimated that about 55% of the people from the developing nations were estimated to be living below the international poverty line. An estimate of Nigerians living below poverty line in 1979 was put at over 27% of the total population representing over 20 million people. The greatest numbers of people living below poverty line are found in the Asian and African continents, affecting over 300 million people from India and over 19 million people from Ethiopia.

(iii) In terms of such social indicators as life expectancy, the level of illiteracy, roads, schools, hospitals, and doctorpatient ratio amongst many others. Any country which has high life expectancy, low illiteracy level and high doctor-patient ratio may be said to be developed as far as these social indicators of development are concerned. Life expectancy, for example, is higher in the developed countries than in the less developed ones. A rise in the amount of social capitals such as good roads, hospitals, educational institutions, railroads and electricity power stations is also an indication of economic development.

(iv) Equitable distribution of income or a reduction in the level of income inequality. One important point about economic development is that it cannot be measured only in terms of changes in the total and per capital national income. Its measurement becomes more useful only in terms of how that national income is distributed per head. Income inequality in many developing countries is very wide within and between social groups or classes. In Nigeria, for example, an officer on grade level 17 earns almost 10 times as much income as a minimum wage earner on grade level 01. The same is true in terms of income earned from farm and non-farm occupations. Even among the farmers themselves, a great income disparity exists between the small-scale or peasant farmers and the large-scale modern farmers. A reduction in this high income disparity indicates economic development.

(v) In terms of whether the standard of living of the masses is high or low. This is being determined by the amount of goods and services, including food available for satisfying the peopleâ€™s consumption needs. Balanced diet, good accommodation, and good environmental conditions are all factors which affect the peopleâ€™s standard of living and hence, the indicators of economic development.

(vi) By reference to the proportion of a countryâ€™s total expenditure devoted to capital goods in comparison to consumer goods. In developed economies, more resources are devoted to the provision of social capitals which help in increasing the productive capacity of the economy. This contrasts with the developing countries where a larger proportion of total government expenditure is devoted to consumer goods, 80% of which is imported. Frequent power failure and water shortage are the direct consequences of acute shortage of capital equipment necessary to ensure a regular supply of these essential services in almost all developing countries. Religious, traditional and burial ceremonies involve huge sums of money from the main structure of expenditure in the developing countries.

(vii) By the degree of urbanisation: The growth of large towns and cities with modern social amenities shows the extent of economic development. In all developed countries, the ruralurban differences is rarely visible as almost every nook and cranny of these counties is adequately supplied with modern basic social amenities.

14.8 Problems of Economic Development

The slow rate of economic development in many developing nations of the world may be attributed to many problems some of which are chronic. These problems include the following:

(a) Lack of skilled manpower: Economic development in many developing nations has been rather too slow due to acute shortage of skilled manpower at the managerial, entrepreneurial and technical levels. A stock of highly skilled manpower is necessary for the effective mobilisation of available resources needed to transform the structure of an economy. Although many less developed countries are thickly-populated in quantitative terms, and the quality of their population especially the labour force is very poor in most countries. There are many reasons for this phenomenon. First, education is generally low especially among the working classes. Second, health facilities are scarce and where available are very costly to obtain, hence, a greater percentage of the people are not physically fit to work for very long hours. Third, some of the worldâ€™s less developed nations especially in Africa are thinly populated, and have very low rates of population density that can hardly sustain any meaningful level of economic development. Consequently, many developing countries have to depend on importation of foreign skilled manpower which costs very much in terms of the foreign exchange involved.

(b) Shortage of capital: Economic development in the Third World countries has been greatly affected by low accumulation of capital. In fact, the ratio of capital to other resources is used as an indicator of economic development and is usually very low in many developing nations. Here, we are referring to the stock of physical capital such as productive machinery, factory building, railways, seaports and airports among many others. The low rate of capital accumulation in developing nations is principally due to their low marginal propensity to save. This in turn is caused by low income and even when incomes are increasing, these are quickly offset by very high average and marginal propensities to consume. Thus, the problem of low level of capital accumulation translates itself into a sort of vicious circle. A low stock of capital implies low output per head, which in turn means low income per capita, low rates of saving and little or no possibility for capital investment in the future.

(c) Shortage of productive infrastructure: Many developing nations lack an adequate supply of economic and social infrastructures, necessary for achieving rapid economic development. Examples include efficient and regular postal and telecommunication systems, poor information and communication technology infrastructures, regular power and water supplies, modern airports and seaports, good accommodation and provision of adequate and modern facilities. These infrastructures, apart from leading to a rapid increase in per capita and total output, will also improve on the general standard of living of the masses. Unfortunately, in many Third World countries, letters take several weeks to be delivered from one part of the country to another. Industrial establishments and the general public suffer from frequent power and water shortages. Accommodation is inadequate and often sub-standard. The absence of all these acts as a barrier to rapid economic development in the Third World countries.

(d) Unfavourable cultural and social attitudes: Some basic social and cultural values impede rather than promote national economic development. First, excessive religious duties and obligations of workers in many developing nations reduce the number of working hours and hence, lower productivity. Second, in Thailand and Burma, the only acceptable reason for dismissing a worker is disloyalty, and workers can hardly change their jobs voluntarily even when higher salaries are offered elsewhere because of the traditional relationship existing between the employer and the employee. Third, the desire of the policy makers of developing countries to gain international recognition for their countries sometimes creates faulty and questionable development priorities. From 1969 to 1974 for example, India which is one of the poorest countries in the world spent over N692 million ($173 million) for research design and development in the Government Department of Atomic Energy. Fourth, the incidence of bribery and other forms of political corruption endemic in many less developed nations impedes economic development. In most of these countries, national treasuries are looted by very high government officials and transferred abroad, with important documents falsified to satisfy selfish ends. Even in some cases, official and strategic secrets are often leaked to very close female and male associates of most government high ranking officials.

(e) Lack of advanced technology: The application of adapted modern technology in the production process is one of the ways through which rapid economic development may be achieved. But a high level technological research and development is a luxury which many developing countries cannot afford because of its huge financial cost. Another problem that is associated with the use of advanced technology in less developed countries is that it requires a highly skilled and trained labour force, which is often lacking in these countries.

Agricultural mechanisation and rapid industrialisation have been hampered in many developing countries because of the high level of illiteracy among many farmers and indigenous entrepreneurs. Consequently, old ways of doing things are still very much preferred to new ways. Absence of change, in turn, leads to economic stagnation and decline in many developing nations.

(f) Uncooperative attitudes of foreign interests: Many Third World countries are economically dependent on the more advanced nations. The activities of many multinational corporations (MNCs) are sometimes incompatible with national economic goals and many examples can be cited. First, many foreign business interests operating in the developing countries fail to provide managerial training for native employees, and make technological transfer virtually impossible. Second, they interfere in various ways in the political life of their host countries especially when their interests are threatened by such policies as nationalisation and indigenization of foreign controlled business. Third, they engage in various dubious and subtle activities which do not conform to the laid-down rules and procedures for repatriating incomes and profits. These foreign business interests sometimes succeed by collusion from unpatriotic indigenous entrepreneurs and corrupt public officers. We should, however, note that in some cases, foreign business interests have made some positive contributions to the economic development of many developing nations, especially in the Latin American Countries.

(g) Political instability: Another major barrier to rapid economic development in many developing nations is the frequent change of their government. Entrepreneurs whether indigenous or foreign are often reluctant to invest their capital in a political climate that is so uncertain and unable to guarantee maximum security for their investments. Political insecurity and its attendant social insecurity make investment planning and forecasting difficult. This is due to the fact that new governments formulate new socio-economic policies, after discarding previous ones. National development priorities also differ from one regime to another depending on the aims and objectives of the successive rulers. In Nigeria, political instability has often delayed the execution of very strategic national development projects such as the petrochemical complex, the standard gauge railway system and the liquefied natural gas project. Political instability, therefore, distorts and delays the implementation of strategic national economic development policies in many developing countries.

(h) High population growth rate: Many developing countries have witnessed a sharp rise in their population since the 1960s. It is estimated that over two-thirds of the world population is located in the Third World countries with only one-third of worldâ€™s resources. Population growth rate is at present estimated at 2.5% per annum while the rate of growth of output stands at 4%. This means that the real output growth rate is 1.5% as against 2.5% for population. The economic consequence of this is that many developing countries cannot feed their ever growing population, with millions of people starving to death. Apart from high population figures in the developing countries, their structure of population also poses some socio-economic problems. Over 44% of the population of the developing countries falls under the age of 15 years and when this is added to the aged people it can be seen that the proportion of dependent population is very high. The economic implication of this is that much of the resources of the Third World countries are used in providing social facilities such as schools and hospitals, with little or no short run effect or productive capacity of the economy.On the national and individual bases, there is hardly any savings available for productive investment or capital accumulation. Practical experience has shown that the worldâ€™s poorest are located in Africa, Asia and Latin America which ironically have the largest population in the world.

Summary

(i) Economic growth: This simply means increase in output per head.

(ii) Economic development: This means increase in output per head plus infrastructural facilities as well as changes in popular attitudes and beliefs.

(iii) Developed countries: These are the countries of the world that have achieved a high rate of economic and social advancement.

(iv) Less developed countries: These are the countries of Africa, Asia and Latin America that are characterised by economic and social backwardness.

Common Characteristics of Less-Developed Countries

(i) Low life expectancy

(ii) High infant mortality

(iii) Poor health

(iv) High illiteracy level

(v) Low per capita output

(vi) Subsistence production

(vii) Lack of diversification in the economy

(viii) High dependency ratio

(ix) High rate of unemployment and underemployment

Sources of Economic Development

(i) Availability of natural resources

(ii) Availability of human resources

(iii) Technological improvement

(iv) Availability of capital goods

(v) Economies of scale

Measurement of Economic Development (Alternative Explanations)

The following are the measures of economic development:

(i) Real output per head i.e. real GDP

(ii) Level of poverty

(iii) Social indicators, e.g. schools and roads

(iv) Income inequality or disparity

(v) Level of living

(vi) Expenditure on capital goods versus consumer goods

(vii) Degree of urbanization

Problems of Economic Development

(i) Lack of skilled manpower

(ii) Shortage of capital

(iii) Shortage of productive infrastructure

(iv) Unfavourable cultural and social attitudes

(v) Lack of advanced technology

(vi) Unco-operative attitude of foreign business interests

(vii) Political instability

(viii) High population growth rate

Class Activities

1. The teacher should demonstrate the links between economic development and economic welfare, inequality and poverty.

2. The teacher should explain the basic features of economic underdevelopment to the students.

3. Students should make a list of the developed and underdeveloped countries and show the basis of the classification.

Revision Questions

Objective Questions

1. Economic growth specifically refers to the:

(a) Reliance on imported goods in preference to home-made goods

(b) Sustained increase in the output of goods and services per head

(c) Changes in technical and institutional arrangements of the economy

(d) Continued increase in the depletion of a countryâ€™s natural resources

(e) Increase in the total number of people in the economy **(SSCE 1996)**

2. West African countries have low level of economic development due to:

(a) Underpopulation

(b) Inadequate labour

(c) Failure to plan

(d) Ineffective plan implementation **(SSCE 2000)**

3. Economic development is defined as:

(a) Outward shift of the production possibility curve

(b) Availability of more goods and services

(c) Growth accompanied by qualitative change in living standard

(d) Growth in the national income **(SSCE 2005)**

4. An increase in the quantity of goods and services produced in a country which raises her national income is known as:

(a) Economic development

(b) Economic growth

(c) Domestic investment

(d) Productivity **(SSCE 2006)**

5. Economic development is reflected in:

(a) Scarcity of capital

(b) Increase in the price level

(c) Decline in agricultural production

(d) Increase in productive capacity **(SSCE 2009)**

Essay Questions

1. What common characteristics are possessed by all developing countries?

2. Discuss the various factors which will lead to rapid economic development of your country.

3. (a) Distinguish between economic growth and economic development.

(b) How can economic development be measured?

4. What are the major obstacles to economic development in your country?

5. Even though some less developed countries have the problem of overpopulation, they nevertheless have a shortage of human capital. Why?

Glossary

Economic Growth: This is the increase in output over time or simply increase in output per head over time.

Economic Development: This involves both the capacity of an economy in increasing the quality of goods and services available for human satisfaction and also those other things that will improve on the quality of life of the people.