

ECONOMIC GROWTH AND ECONOMIC DEVELOPMENT:

SUB-TOPIC 1: ECONOMIC GROWTH:

Economic growth: This refers to the persistent quantitative increase in the volume of goods and services produced in a country over given period of time

OR: It persistent quantitative increase in the GNP/GDP of an economy over time.

.DETERMINANTS/FACTORS THAT INFLUENCE/AFFECT ECONOMIC GROWTH:

- **Level of exploitation of natural resources.** High level of exploitation of natural resources leads to increased volume of goods and services produced in a country due to presence of more raw materials thus high rates of economic growth and low level of exploitation of natural resources leads to reduced volume of goods and services produced in a country due to reduced thus low rate of economic growth.
- **Existing stock of capital.** High rate of existing capital stock leads to increased exploitation of natural resources leading to increased volume of goods and serviced produced in a country due to increased efficiency thus high rate of economic growth. On the other hand low rates of existing capital stock leads to low volume of goods and services produced in a country due to reduced efficiency leading to low rates of economic growth.
- **Availability of skilled labour.** Existence of skilled labour leads to high labour productivity and efficiency which leads to high volume of goods and services produced in the country thus high rate of economic growth. On the other hand, limited supply of skilled labour force leads to low labour of productivity and efficiency which results into low volume of goods and services produced and thus low rates of economic growth.
- **The level of technology/level of technological progress.** High level of technological progress results into increased productivity of other factors of production due to reduced production costs hence increased volume of output implying high rate of economic growth. Low rate of technological progress on the other hand implies high costs of production which discourages production limiting volume of output due to low profitability and thus low rate of economic growth.

- **Political climate/atmosphere.** Political stability instills confidence among the investors leading to increased volume of goods and services produced thus a high rate of economic growth. On the other hand political instability results into distortion of plans, diversion of resources and generally discourages investors to carry on production because they fear to lose their lives and property. This limits the volume of output produced in the country hence low rate of economic growth.
- **Availability of market/Size of the market.** Large market size leads to more earnings for the entrepreneurs this stimulates production leading to high volume of goods and services and thus high rate of economic growth. On the other hand small market size leads to low earnings for the entrepreneurs which discourages them to produce leading to low volume of goods and services and thus low rate of economic growth.
- **The level of entrepreneurial ability.** Higher levels of entrepreneurial ability lead to increased creativity which stimulates production, leading to increased volume of goods and services produced in a country thus higher rate of economic growth. On the other hand limited entrepreneurial reduces creativity which discourages production leading to low volume of goods and services produced and thus low levels of national income.
- **Availability of investment incentives/ Government policy on investment:** Favourable government policies on taxation and provision of subsidies promote investment by both foreign and domestic investors due to reduced cost of production leading to increased production of goods and services thus high rate of economic growth. On the other hand, unfavourable government investment policies of high levels of taxation and low levels of Subsidisation discourage investment in the country due to increased cost of production, leading to low volume of goods and services produced and low rate of economic growth.
- **Level of infrastructural development.** Highly developed infrastructure in form of roads, railways, power facilities lead to increased volume of goods and services produced due to reduced costs of production which accelerates the rate of economic growth in the country. On the other hand under developed infrastructure like poor roads, inadequate power facilities lead to high costs of production which limits the volume of goods and services produced in a country hence low rate of economic growth.

- **Level of monetisation of the economy.** High rate of monetisation of the economy implies increased commercial production which leads to increased volume of goods and services produced in a country because producers produce with the intention of selling and making profits thus accelerating the rate of economic growth. On the other hand, low rate of monetization of the economy implies low rate of production because people basically produce for their own consumption which leads to low rate of economic growth.
- **Level of savings.** High level of savings leads to increased investment in the country due to presence of more investment funds which results into increased production of goods and services thus high rate of economic growth. On the other hand, low levels of savings reduces the investment funds necessary which results into low production levels leading to low rate of economic growth.
- **Level of accountability.** High levels of accountability in the economy imply availability of funds for setting up productive infrastructure i.e. roads, railways, power facilities which facilitate production leading to increased volume of goods and services produced in a country and hence high rates of economic growth. On the other hand, low levels of accountability imply less funds used for setting up productive infrastructure such as roads, this discourages the production process in the country resulting into low volume of goods and services produced hence low rates of economic growth
- **Degree/level of conservatism.** High degree of conservatism implies that people are sticking to their old and traditional ways of production and they are not willing to adopt modern and efficient ways of production. This limits the volume of goods and services produced in a country and thus low rate of economic growth while low level of conservation implies that people are willing to adopt the modern and efficient ways of production which enables them to increase the volume of goods and services produced thus high levels of economic growth.
- **Attitude towards work.** Positive attitude towards work leads to increased labour productivity and efficiency resulting into increased volume of goods and services produced hence economic growth. On the other hand, negative attitude towards work leads to low labour productivity and efficiency resulting into low volume of goods and services produced hence low rates of economic growth.

- **The rate inflation.** Low rate of inflation in an economy encourages savings which avails funds for investment resulting into increased volume of goods and services produced and hence high rates of economic growth. On the high rate of inflation discourages savings which reduces funds for investment, leading to reduced volume of goods and services produced hence low rates of economic growth.
- **The population growth rate.** High population growth rate leads to high dependency burdens thus limiting/ discouraging savings which leads to low levels of investments, leading to low volume of goods and services produced leading to low levels of economic growth. On the other hand low population growth rate reduces the dependence burden thus encouraging savings which leads to increased investments leading to high volume of goods and services produced resulting into high levels of economic growth rate.
- **The land tenure system:** Favourable land tenure system is makes it to acquire land; This enables people to engage in productive activities which increases the volume of goods and services produced and thus high rate of economic growth . On the other hand land poor land tenure system makes it hard for people to acquire/access land this limits their ability to engage in the production of goods and services hence leading to low volume of goods and services produced which implies low rate of economic growth.

FACTORS THAT PROMOTE ECONOMIC GROWTH RATE:

- High level of exploitation of natural resources
- High rate of existing capital stock
- Existence of highly skilled labour
- High level of technological development/progress
- Favourable political climate
- High levels of entrepreneurial ability/skills
- Presence of investment incentives
- High levels of infrastructural development

- High rate of monetisation of the economy
- High levels of savings
- High levels of accountability in the country
- Low degree of conservatism
- Positive attitude towards work
- Low rate of inflation
- Low population growth rates
- Favourable land tenure system

FACTORS THAT LIMIT ECONOMIC GROWTH RATE:

- Low level of exploitation of natural resources
- Low rate of existing capital stock
- Limited skilled labour
- Low level of technological development/progress
- Unfavourable political climate/ Political instability
- Low levels of entrepreneurial ability/skills
- Limited investment incentives
- Low levels of infrastructural development
- Low rate of monetisation of the economy
- Low levels of savings
- Low levels of accountability in the country
- High degree of conservatism
- Negative attitude towards work
- High rate of inflation
- High population growth rates
- Poor land tenure system

COSTS AND BENEFITS OF ECONOMIC GROWTH:

Costs and benefits of economic growth are also known as externalities i.e. costs are negative externalities while benefits are positive externalities.

Positive externalities/benefits/positive effects of economic growth.

- The benefits of economic growth refer to the advantages which accrue to the society as a result of economic growth. These include the following:
- **Provide employment opportunities.** This is due to various investments/projects that are established. Such employment opportunities created help to solve the problem of unemployment in the concerned economy.
- **Improves Balance of Payment Position/ Increases foreign exchange earnings.** As the volume of exports increase, it leads to increased foreign exchange earnings. Increased domestic production also helps the country to reduce foreign exchange expenditure on imported goods because most of the commodities are domestically produced which helps to save the scarce foreign exchange.
- **Provides revenue to the government through taxation.** The government imposes taxes on the on the high output levels produced as well as taxing the profits earned by the various production units.
- **It widens consumers' choice.** This is so because a variety of goods and services are produced in the country.
- **Promotes infrastructural development.** The government is compelled to construct better road network, railway facilities in order to ease movement of raw materials to the production units as well as transporting the finished products to the market.
- **Enhances/promotes technological.** The competition between the various production units stimulates innovations and invention so as to ease the production process and thus enable such entrepreneurs earn more profits
- **Facilitates development of labour skills.** Entrepreneurs require skilled labour and this prompts people to acquire such skills as a means of getting the highly paying jobs in the production units In addition as a way of improving on their employees entrepreneurs tend to carry out specialised training.
- **Breaks /reduces conservatism/cultural rigidities/backwardness.** Economic growth involves adoption of modern values by the nationals due to interaction with the foreign investors, this makes them to drop the backward cultural.
- **Reduces dependence on other economies.** This is due to increased domestic production which makes the economy to reduce importation.

- **Promotes economic diversification/ promote industrialisation.** This due to increased economic activities in the country.
- **Reduces/controls inflation.** This is due to increased output; this reduces shortage of essential goods and thus controlling structural inflation.

COSTS/NEGATIVE EXTERNALITIES/NEGATIVE OF ECONOMIC GROWTH:

These are disadvantages which are imposed on society as a result of economic growth. They may be direct in terms of resources or in terms of opportunity cost. They include the following;

- **It leads to unemployment due to automation/leads to technological unemployment** as a result of substitution of labour by machines in order to increase output in the shortest possible time. Unemployment leads to a fall in people's standard of living because people are not able to meet the basic necessities of life since they are not earning.
- **It widens income and wealth disparities.** The inequality may be regional, sectoral or between individual groups of people. This is as a result of uneven distribution of benefits of economic growth.
- **Leads to decline in social and cultural values/cultural erosion/leads to individualism.** This is due to introduction of the western culture because of increased number of foreign investors in the country.
- **Leads to imbalance in regional development.** This is because most production activities are concentrated in urban areas where there is developed infrastructure such as roads, health facilities and power facilities. This results into uneven distribution of economic benefits of economic growth.
- **Leads to rural urban migration and its associated evils** since most production activities take place in urban areas. This attracts very many people from rural areas to come to towns in anticipation of getting better employment opportunities and also to enjoy other benefits that are found in urban areas, and unfortunately the majority fail to get employment opportunities and yet they are not willing to go back to the rural areas. This results into congestion in the urban areas, high crime rate and many other social evils.
- **Leads to high levels of occupational hazards due to the desire to increase outputs,** accidents occur during the production process and many employees fall victim of such accidents e.g. some workers may lose part of their bodies like hands and many others may die while at work.
- **It leads to environmental degradation/pollution /social costs.** High level of production results into negative effects on the environment e.g. noise, air and water pollution as a result of high levels industrialization and poor waste disposal.
- **It leads to exhaustion of nonrenewable resources.** This is due to over exploitation of such resources leading to their quick depletion.

- **It leads to profit repatriation.** This is so because many of the enterprises or investments are in the hands of foreigners since the natives are poor and thus unable to carry out investment. Profit repatriation limits the capital accumulation process in the economy.
- **Leads to increased or high dependence on external resources/leads to debt burden.** This is due to the desire to attain a high rate of economic growth, it necessitates borrowing which leads to high dependence on external resources and also widens the debt burden of the country.
- **It leads to low quality of output.** This is so because with economic growth, the investors/entrepreneurs are interested in increasing only the quantity of output produced and they mind less about the quality.
- **Leisure time is foregone.** This is because economic growth requires hard work and so in order to increase the volume of output produced, the workers are forced to work for very long hours which affect their health thereby leading to low standards of living.
- **Leads to foregoing current consumption/ Leads to sacrifice of present consumption.** This is done in order to save funds for investment.

SUB-TOPIC 2: ECONOMIC DEVELOPMENT:

Economic development. This refers to the persistent quantitative and qualitative increase in the volume of goods and services produced in a country over a given period of time, (usually a long time like 15-30 years).

OR: It is the persistent quantitative and qualitative increase in GDP over a long period of time. It includes qualitative changes in the variables that improve the lives of citizens such as freedom of choice, self-esteem and others.

Major differences between economic growth and economic development:

Economic growth mainly looks at quantitative increase in the volume of goods and services produced yet economic development looks at both quantitative and qualitative increase in the volume of goods and services produced in the economy.

Economic growth doesn't consider the fair distribution of goods and services among the nationals yet economic development takes into account the fair distribution of goods and services among the nationals.

Economic growth is realised in a relatively shorter period of time compared to economic development which is realised in a relatively long period of time.

Note:

Normally economic growth leads to economic development in the long run period. Many developing countries have somehow achieved some reasonable rate of economic growth but less economic development due to the unfair sharing of the national cake whereby the biggest percentage of the national cake is enjoyed by a few individuals while the majority is suffering.

REASONS WHY ECONOMIC GROWTH MAY NOT BE ACCOMPANIED BY ECONOMIC DEVELOPMENT:

- When there is uneven distribution of income/wide income inequality in the country.
- When the quality of goods and services produced is still low/poor.
- When there is increase in the production of capital goods at the expense of consumer goods.
- When there is more military spending rather than spending on social services.
- When people's attitudes have not changed/when there is still conservatism/when there is still large subsistence sector.
- When there is increasing levels of unemployment for example when capital intensive techniques of production are used i.e. most of the people remain unemployed which makes them unable to purchase goods and services which would improve their welfare.
- When there is high rate of inflation which leads to high costs of living. People are unable to purchase goods and services produced because they are highly priced.
- When people are overworking and foregoing leisure.
- When there are high social costs i.e. pollution which affects the health of the people
- When there is no change in the techniques of production/when the techniques of production used are still poor hence poor quality goods and services produced.
- When many nationals are illiterate.
- When there is rampant political instability leading to loss of lives and even destruction of property.

DEVELOPMENT GOALS:

A development goal is a target or an objective, economic, social or political to be achieved in a specified period of time.

OR: It is the intended growth and development objectives a country aims at achieving in a given period of time.

OBJECTIVES OF DEVELOPMENT:

The major development objectives of developing countries, Uganda inclusive include the following.

- Attaining high and stable economic growth rate. This is intended to increase the domestic production of goods and services so as to reduce dependence on other economies.
- Achieving price stability/to achieve price stability. This aims at minimising inflationary and deflationary tendencies in the economy which disrupts economic activities.
- Attaining full employment/to reduce the level of unemployment i.e. nations aim at achieving full employment of resources and to avoid resource wastage.

- Achieving a stable/favourable balance of payment position. This aims at ensuring the inflow of foreign exchange through increased exportation in order to ensure steady economic growth and development and also save the country from the begging position thus improving her international status.
- Attaining equitable distribution of income/attaining regional balance in development/creating fairer distribution of income and wealth. This aims at minimising the economic distance between the rich and the poor in order to reduce the problems associated with income inequality.
- To control population growth rate. This involves the improvement of the domestic factors which aims at reducing the population growth rate and the dependence burden.
- Eliminating illiteracy/to attain a large pool of highly skilled labour. This is achieved through promoting formal education so as to enable people acquire skills which makes them more productive and hence increased production levels in the economy.
- Reducing economic dependence/ to attain self sufficiency/building an independent and self-sustaining economy. One of the goals of development is to achieve rapid development growth to avoid dependence on imported commodities. This can be achieved by increasing savings and capital accumulation which leads to accelerated investment.
- To provide security to people and their properties/attain and maintain political stability/ to attain high levels of political maturity. This is attained/aimed at encouraging more investment which leads to increased production in the different sectors of the economy.

FACTORS FOR ECONOMIC DEVELOPMENT:

- Low population growth rate. This reduces the dependence burden, leading to increased savings which increases investment hence economic development.
- High levels of income. This leads to high levels of savings which results into increased investment, leading to economic development.
- High literacy levels/ High levels of labour skills. This increases productivity and efficiency of labour hence increasing the quantity and quality of goods and services, leading to economic development.
- High levels of commercial production. This encourages production for sale/ market which increases investment in different economic activities resulting into economic development.
- Favourable terms of trade. This is reflected in terms of increased export prices which motivate people to increase production for the export market leading to economic development.
- Large domestic and foreign market. This motivates people to produce more goods and services for the big market in order to enjoy the increasing profits thus leading to economic development.
- Favourable land tenure system. This leads to increased accessibility to land which increased production of goods and services which results into economic development.

- Presence of basic/strategic natural resources. These facilitate investment in the different sectors of the economy thus leading to economic development.
- High levels of technological development. This leads to efficiency and productivity of other factors of production which results into economic development.
- High levels of accountability. This promotes investment because the potential investors are not asked for bribes by government officials, thus leading to economic development.
- Low rate of inflation. This promotes savings which avails funds for investment and thus leading to economic development.
- Political stability. This instills confidence among the potential investors to invest in different sectors of the economy hence leading to economic development.
- High level of entrepreneurial ability. This encourages people to initiate businesses and sustain them, thus leading to economic development.
- Presence of well developed infrastructure. This facilitates easy transportation of raw materials to the production units and finished products to the market, thus leading to economic development.

FEATURES OF ECONOMIC DEVELOPMENT:

- Reduced economic dependence
- Political stability
- Developed infrastructure
- Increased literacy levels/Reduced illiteracy
- Improved technology
- Reduced cultural rigidities/Social transformation
- Expansion of the manufacturing sector
- Expansion of the monetary sector/production/reduction of the subsistence sector.
- Creation of more employment opportunities

INDICATORS OF ECONOMIC DEVELOPMENT IN UGANDA:

- Increased supply of skilled labour/Reduced illiteracy
- Increased incomes
- Increased investment/Entrepreneurship/capital accumulation
- Increased economic growth rate/output
- Increased utilisation of the available resources
- Improved technology
- Increased infrastructural development
- Increased monetisation of the economy
- Improved quality of goods

- Increased market/Increased level of employment/Reduced level of unemployment
- Increased industrialisation
- Decline in degree of conservatism/cultural rigidities
- Reduced economic dependence/ Increased diversification of the economy
- Rising level of urbanisation

SUB-TOPIC 3: THEORIES OF ECONOMIC GROWTH AND DEVELOPMENT

STAGES OF ECONOMIC GROWTH ACCORDING TO PROFESSOR WALT WHITMAN ROSTOW:

Professor WW Rostow, a classical economist in 1956 in his book. “**The stages of Economic Growth**” explained the process of economic growth in a historical perspective.

According to WW Rostow, all countries normally pass through these stages in order to attain development i.e. from transition to development.

He described his transition in terms of a series of stages/path through which an economy moves towards full development. Rostow identified five successive stages of economic growth as follows;

1. The traditional society stage.
2. The pre-condition to take off stage.
3. The take off stage.
4. The drive to maturity.
5. The high mass consumption stage.

Rostow noticed that it is possible to identify the society or an economy as lying under any of the above five stages by looking at the characteristics of such a society/economy. To him, the divisions of these resources are based more on people’s behaviour and level of capital accumulation and savings.

He emphasised that capital accumulation depends on the level of investment/savings and not consumption.

He also noted that his stages do not change abruptly; it is instead a long and gradual process.

THE TRADITIONAL SOCIETY STAGE

According to Rostow, this is the first stage of economic growth when the economy is still in its infancy. At this stage society is primitive and growth is limited to just the simple gains of settlement, animal and crop husbandry and crafts.

CHARACTERISTICS OF THE TRADITIONAL SOCIETY STAGE.

- There is low productivity generally due to the traditional methods used.

- Resource allocation and social organisation are determined by the traditional and cultural beliefs.
- The traditional and social organisations are still based on the traditional practices or setup.
- Exchange is mainly by barter due to subsistence production as a result of lack of monetary exchange.
- There is hardly any industrialisation and profit motivation thus almost no formal employment and organisation of income hence no savings.

THE PRE-CONDITION TO TAKE OFF STAGE/ TRANSITIONAL STAGE:

This is the second stage of growth according to Rostow and this is when the society is in the process of transition. At this stage society begins to transform itself from a purely traditional society to a modern one. The society gets in contact with the external world and the forces of growth that with it.

Economic progress begins to take place and subsistence sector begins to gradually reduce, giving way to a modern sector.

Features of the pre-condition to take off stage:

- Cultural barriers begin to reduce/ society becomes less conservative
- Improvement in socio-economic infrastructures.
- Savings rise to 5% of GNP/GDP/NY
- Investment increases to 5% of GNP/GDP/NY.
- The economy becomes dualistic in nature
- Illiteracy rates reduce.
- Emergence of foreign trade/ the economy becomes open/ the economy opens international trade where exports are dominated by primary products.
- There is high dependence on other countries especially for capital, skilled labour, technology, military hardware etc.
- Adoption of better and efficient methods of production/ Improvement in technology.
- Emergence of entrepreneurs in the economy.
- Industrialisation starts to take root/ Emergence of industrialisation.

NB; the pre-condition to take off stage is when the economy is setting itself to take off into self-sustained economy.

THE TAKEOFF STAGE:

According to Rostow, this is the third stage of growth which means taking off into self-sustained economic growth when it reduces significantly its reliance on foreign economies such that its growth is self propelled. It is a very critical stage and very important in the process of economic

growth. This usually happens when the obstacles of growth have been removed and thus the economy is able to grow without foreign assistance to stimulate growth.

FEATURES OF THE TAKE OFF STAGE:

- High levels of investment of about 10- 15% of GDP/NY/GNP
- High levels of savings of about 10- 15% of GNP/NY/GNP
- Self sustained growth/ self reliant economy
- High levels of employment
- Emergence of new economic and political institutions
- High levels of industrialisation/ a leading sector appears
- Emergence of new markets- domestic and abroad
- High levels of urbanisation
- High levels of technology/high levels of innovations and inventions.
- Social transformation/High literacy rates.
- High levels of infrastructural development.

THE DRIVE TO MATURITY STAGE

This is the 4th stage when the economy realises self-sustained economic growth. At this stage, the means of production and ways of living are guided by science and technology.

Characteristics of the drive to maturity stage:

- There is high level of technological progress due to research.
- High levels of savings of between 10 – 20% of the GNP/GDP/NY
- High levels of investment of between 10-20% of the GDP/GNP/NY.
- There are high levels of industrialisation i.e. greater industrial expansion occurs.
- There are high levels of infrastructural development i.e. roads, railways, power facilities.
- There is creation of high employment opportunities in the country due to high levels of investment
- The economy becomes self-sustaining and self-reliant.
- High levels of monetisation.
- There is use of high skilled labour

HIGH MASS CONSUMPTION STAGE:

This is the highest stage of economic growth according to Rostow where there are generally high standards of living in the country.

At this stage the economy experiences a shift in production from being predominantly producer of capital goods to predominantly producing consumer goods.

The tertiary sector becomes the dominant sector in employing people such that the greater percentage of the population is employed in service delivery and office work instead of manual work in factories.

FEATURES OF THE HIGH MASS CONSUMPTION STAGE:

- Very high per capita income which enables people to enjoy very high standards of living.
- There is a shift in production from heavy capital goods to mainly high quality goods and services.
- There is use of very high specialised and sophisticated technology.
- The country has a lot of influence on the world affairs, i.e. developing countries depend on such a country.
- There is consistent economic and political stability.
- There is a very high rate of savings and investments of about 30% of GNP.
- There is maximum production and consumption, industries now embark on production of luxury goods e.g. cars, TV sets etc.
- A large portion of the population stays in urban areas as opposed to rural areas.
- There is continuous improvement in the balance of payment position in such countries i.e. such countries enjoy balance payment surplus.

APPLICATION OF ROSTOW'S STAGES TO UGANDA:

Uganda's position according to Rostow's stages of economic growth

Uganda is at pre-condition to take-off stage reasons being:

- Improved institutional structures i.e. those to do with law and order, banking, insurance.
- Increased agricultural productivity or commercialization of agriculture.
- Emergence of entrepreneurial class.
- Presence of investors who are prepared to give financial assistance to new ideas.
- Emergence of industries to process agricultural commodities.
- Increased employment creation hence increased incomes leading to savings of 5% of GDP
- Dualistic tendencies i.e. traditional society co-exists with modern economic activities.
- Increased emergence of foreign trade.
- Breaking through conservatism.
- Reduction of illiteracy rates.
- Development of social and economic infrastructure.
- Improved technology.
- Growth of manufacturing sector as a leading sector.
- Improved formal education.

Criticism/Limitations of Rostow's growth Stages to Uganda:

- It is difficult to demarcate one stage growth from the other especially the fourth and fifth stage. There is over lapping in the stages, this disapproves Rostow's suggestion that these stages follow each other systematically.
- A large percentage of the countries in the developing world have already achieved high levels of savings i.e. above 10% of the GNP but they have never taken off. In other wards high level of savings may not necessarily lead to economic growth but other factors such as availability of natural resources, political stability.
- Rostow emphasised industrialization and capital accumulation as the only determinates of economic growth. This is not true because there are other determinants of economic growth such as the level of exploitation of natural resources, the level of political stability in the country, the market size, the state of technology etc.
- Not all countries go through all these stages of economic growth as argued by Rostow e.g. U.S.A and Japan are believed to have started from the second stage of the pre-condition to take off.
- Some countries have grown to the 4th stage through agriculture but not industrialisation as suggested by Rostow.
- Rostow assumed the continuous and systematic economic growth. This is not true because in any trend of growth there are periods of boom and recession i.e. ups and downs in the economy. In other wards in the road to development there could be discontinuity/delays or decline in economic growth.
- It does not consider external factors which affect the economic performance of the economy such as the role of foreign Aid.
- **Resources** are not **homogeneous** in all countries/societies
- It does consider the nature of distribution of income. Emphasis is on the leading sector.

BALANCED GROWTH STRATEGY:

Balanced growth strategy (according to Ragner Nurkes) advocates for harmonious and simultaneous investment in all the sectors of the economy so that they complement each other and grow more or less at the same pace.

Thus, the various sectors with one another should also match in terms of demand and supply i.e. considers expansion of the sectors without shortages e.g. the balance between agriculture and industry or between productive activities and social infrastructure, between capital goods and consumer goods etc.

Since investment is in all fronts, a certain minimum investment effort termed as the critical minimum effort is required to ensure that all sectors are developed simultaneously.

NB: Critical minimum effort: This refers to the minimum investment/sacrifice required to attain massive capital stock necessary for an economy to take off.

Advantages of a balanced growth strategy in developing countries.

- It leads to promotion of inter-sectoral linkages in an economy resulting in an integrated and self-sustaining economy.
- It encourages training of various labour skills which increases labour efficiency in the long run.
- It eases the problem of balance of payment through diversification in production by increasing export earnings and reducing import expenditure.
- It helps to widen the tax base. As a result of increased production in every sector, there is increased employment opportunities and also increased output on which the government imposes taxes hence fetching high revenue for the government.
- It leads to increased national income and accelerated economic growth rate. There is increased production in an economy which leads to increase in the country's net national income.
- More employment opportunities are created due to various economic activities being undertaken in the various sectors of the economy. This enables such people to improve on their standards of living because they are in a position to buy the basic necessities of life using the income they are earning.
- It leads to better/increased resource utilisation. The idle resources are exploited since a number of economic activities take place in the various sectors being developed.
- It widens the market for goods and services because of increased sources of income which increases their purchasing power.
- It reduces dependence on other economies or on one sector. As a result of increased domestic production, there is reduced importation of goods and also development of various sectors at the same time helps the country to reduce dependence on one sector and its associated problems.
- It reduces income inequality in the economy which may come as a result of developing one's sector, since there is development of various sectors of the economy. It helps various people to get access to the income and thus reducing income inequality which may come as a result of developing one's sector.
- It leads to regional balanced development. Developing all sectors at the same time helps to ensure that there is even development of the different regions of a country since such activities in the agricultural and industrial sectors would be widely spread in the different parts of the country.
- It leads to technological development; the development of various sectors of the economy encourages inventions and innovations which compels the economy to come up with modern forms of technology so as to produce more output.

- Promotes infrastructural development. Development of all sectors of the economy necessitates infrastructural development like roads, power facilities to ease transportation of raw material to the factories and finished products to the market.
- A variety of goods are produced hence widening the consumer's choice. This helps to improve the standard of living of the people in such an economy.
- It leads to creation of better quality goods due to competition. This leads to improvement in people's standards of living.

Disadvantages of a balanced growth strategy:

- The strategy is expensive to carry out because it requires a lot of capital to invest in all sectors of the economy hence it is costly to implement.
- Wastage may result due to limited market since it results into over production of the various sectors of the economy. The limited market for such goods produced leads to wastage of the resources.
- It leads to quick depletion of resources due to over exploitation of such resources.
- It results into a big debt burden since balanced growth necessitates a lot of external borrowing in order to get resources to invest in the various sectors of the economy.
- It is sometimes inflationary in the short run due to putting much emphasis on the development of social overhead capital or because of producing at high costs which leads to increase in the general prices of goods and services.
- It leads to dependence on external resources in terms of capital, technology and skilled labour making the economy a dependent one.
- It strains government planning machinery since the government has inadequate supply of skilled manpower and yet it has to plan for all the sectors of the economy.

Limitations of the balanced growth strategy in developing countries.

- Limited capital to invest in all sectors, this is so because most developing countries have low levels of savings therefore it becomes very difficult to acquire adequate capital to enable such countries implement such a strategy.
- Limited skilled labour; which leads to low labour efficiency and productivity. The implementation of a balanced growth strategy requires that the country has a large pool of skilled labour force; unfortunately most developing countries have insufficient skilled labour force making it very difficult to invest in all sectors at the same time.
- Limited entrepreneurial skills; which leads to a small number of firms being set up to produce goods and services.
- Inadequate market for goods and services which discourages investment in the various sectors of the economy for fear of making losses.
- Poor infrastructure e.g. poor road networks which limits production because producers find it difficult to transport raw materials to the factories and also goods to the market.

- Poor or un- coordinated planning and this reduces the Complementarity of all sectors and therefore reduces the rate of economic growth.
- Weak inter-sectoral linkages which reduces the rate of economic growth because the sectors fail to aid one another.
- Limited investment incentives i.e. high rate of inflation, high levels of taxation which discourages the investors due to reduced profit levels.
- Limited government control over the economy. This makes it hard for the government to coordinate and control the different economic activities in the economy.

THE UNBALANCED GROWTH STRATEGY:

Unbalanced growth strategy which was developed by Professor Albert Hirschman states that “the leading sector with strategic importance be selected first and expanded so that it pulls up or develops other sectors through linkages.

Thus, the strategy, advocates for investment in selected sectors other than in all sectors e.g. agriculture can be developed first, then industry and other sectors develop later thus in the end, all sectors will be developed.

The leading sector is one which has maximum effect on the economy through linkages.

According to this strategy, a sector with the largest number of linkages both forward and backward is described as the leading sector or the growing point.

A linkage is the effect of one industry on the other. It can be forward or a backward linkage.

NB: i) Forward linkage; this refers to the establishment of a firm/an industry to use the products of an already existing industry as inputs/raw materials

Forward linkage effect encourages investment in the subsequent stages e.g. the sweet industries develop because there exists the sugar industry, the construction of shoe making industry due to the existence of the leather turning industry.

ii) Backward linkage; This is where an establishment of an industry provides demand for inputs from a firm not yet in existence and such a firm will be established to supply the required inputs to the already existing industry.

Backward linkage effect encourages investment in earlier stages of production e.g. a sugar industry leads to establishment of a sugar cane industry, the paper industry has a backward linkage with the pulp and forest industry. Due to the existence of the paper industry, there is need to establish a forest industry to supply it with inputs.

Advantages of the unbalanced growth strategy:

- It is suitable for the limited resources in developing countries. This strategy can easily be implemented with the limited resources that are in developing countries. Developing countries have limited capital, skilled labour and such limited resources can be invested in the leading sectors and the rest follow later.
- It encourages specialisation and its related advantages: this is because it advocates for investment in the key sectors hence all the advantages of specialisation are enjoyed.
- It is easy to plan for the unbalanced growth strategy than the balanced growth strategy since planning is only for the leading sector.
- It leads to induced investment in other sectors thus in the end all sectors are developed.
- It suits the small market of the developing countries hence what is produced has adequate market as compared to the balanced growth strategy hence avoiding wastage.
- It is easy to administer this strategy. This is because; there is one or a few sectors which can be controlled easily as compared to the many sectors under the balanced growth strategy which are not easy to control.
- Leads to development in a defined order i.e. investment is done according to the scale of preference e.g. those leading sectors that are very vital are considered first and then others later.

Disadvantages of unbalanced growth strategy:

- The strategy calls for specialisation which has a number of short comings. E.g. emergence of monopoly and its related evils such as production of poor quality products etc.
- Since the strategy emphasises investment in the leading sector, it is likely to lead to unemployment in other sectors which are neglected by the strategy in the economy.
- It leads to sectoral and regional imbalance in development which accelerates the problem of income inequality.
- It leads to inflationary tendencies in the short run due to the fact that there are many supply rigidities in the developing countries as putting emphasis on social overhead capital in the initial stages of its development.
- The unbalanced growth strategy promotes dependency on other economies for the supply of goods that are not being produced locally which may accelerate the balance of payment problem

THE BIG PUSH THEORY:

This strategy states that “For a backward economy i.e. developing country to take off into self-sustained growth, a massive investment programme in industries and economic infrastructure is required.”

The theory discourages bit by bit investment; however for such a strategy to succeed, the following must be in place;

- Adequate capital
- Large market size
- Adequate supply of skilled workers.
- Presence of good entrepreneurial skills
- Presence of a conducive investment climate/ presence of investment incentives.
- Presence of good infrastructure.i.e.
- Good land tenure system must be present.
- Presence of transparency and good accountability.
- There must be political stability in the economy.

Advantages of the big push theory:

- Creates more employment opportunities as a result of emphasis on the industrial sector. Such employment opportunities help people to improve their earnings thereby leading to improvement in their standards of living because they are in position to buy the basic necessities of life.
- Investment in a variety of industries leads to variety of commodities produced. This widens the choice of the consumers hence leading to improved welfare.
- The strategy leads to improvement in labour skills as a result of training in industrial production and this makes labour more productive and efficient.
- It leads to improved resource utilisation due to increased industrial production where more resources are used.
- It reduces income inequality because of increased employment opportunities due to the high levels of industrialization in the economy.
- It leads to technological development in the economy as industries are promoted. This is done through research, innovations and inventions.
- It improves the infrastructure in the country since a lot of money is invested in infrastructural development to enable the easy transportation of raw materials to the industrial sites and finished products to the market.
- It accelerates the rate of economic growth as a result of increased industrial output.
- It improves the balance of payment position as a result of increased local production which reduces the volume of imports. At the same time, increased industrial production leads to increased volume of goods for exports which leads to increased foreign exchange earnings thereby leading to improvement in the balance of payment position.
- The tax base is widened which increases government revenue. This is because the industrial sector is promoted, the government generates more revenue by taxing products from industries and incomes got by people employed by these industries.
- It minimises/reduces the economic dependence because with massive investment in the industrial sector, the economy/country produces domestically goods formerly/previously

imported i.e. it is able to produce much of what it wants. This reduces dependence on other economies hence promoting self-reliance.

- The theory promotes creation of linkages between industries due to the ready market for the industrial products.

Disadvantages of the big push theory:

- It is quite expensive to undertake because it requires a lot of capital which is in short supply in developing countries.
- It leads to a big debt burden due to external borrowing in order to invest massively in industries and infrastructure.
- It leads to wastage of resources resulting from over production yet the market in developing countries is limited due to the low purchasing power by the majority of the people.
- It encourages economic dependence because of the increasing need for external assistance.
- It leads to quick depletion of resources due to over exploitation as a result of expanding industrial production.

Factors that limit the adoption of the Big push theory in developing countries:

- Inadequate capital. There is limited capital to purchase machinery, raw materials and land to be used in the establishment of economic infrastructure and industries.
- Limited skills/education and training. There is inadequate skilled manpower to be employed in industries and support infrastructural growth for example machine operators, mechanics.
- Small markets for final commodities. The markets in developing countries are small and this discourages production on large scale for fear of making losses.
- Limited entrepreneurial skills. There are limited entrepreneurial skills required in the establishment, running and managing of industries and economic infrastructure.
- Limited investment incentives. This is due to high taxation, limited subsidisation to local producers which discourages production.
- Limited basic economic infrastructure in form of roads, railways. Such infrastructure cannot sustain big push theory due to inability to transport finished products from and raw materials to various industries.
- Political instabilities. Political unrest in some developing countries destroys industries, economic infrastructure and scares away potential investors.
- Poor land tenure system. The poor land tenure system in some parts of developing countries leads to poor performance of agricultural sector yet it is supposed to be the main source of raw materials for industries.
- Poor technology. Poor technology hinders investment in industry and economic infrastructure due to fear of high production costs.
- Poor accountability. High rate of corruption diverts massive capital resources supposed to be invested in industries to personal interests which reduces funds for investment in industries.
- Conservatism or cultural rigidity. Too much attachment to cultural values limits generation of savings required for massive investment in industries.

- Weak policy implementation machinery. The administration in charge of implementation for example investment authority is generally weak in terms of decision making.

SUB-TOPIC 4: POVERTY AND UNDER DEVELOPMENT:

THE CONCEPT OF POVERTY:

Poverty is a condition in which a person has insufficient income to provide the basic minimum needs of life e.g. food, clothing, and shelter.

CHARACTERISTICS OF THE POOR:

- Inadequate supply of food which causes malnutrition especially in young age groups.
- Shortage of clean and safe water especially in rural areas.
- Poor housing conditions where shelter is made up of mud and wattle, and others grass thatched.
- Shortage of fuel in form of wood for cooking, paraffin for lighting.
- Shortage of essential commodities such as sugar, salt and soap.
- Poor social and economic infrastructures in form of roads which are impassable.
- High level of illiteracy where many people cannot read and write.
- Backward cultures and attitudes which hinder development/High degree of conservatism
- Predominance of subsistence production.
- Low life expectancy
- Low self esteem
- Heavy debt burden because of low incomes which forces poor countries to borrow
- High prevalence of curable and preventable diseases such as malaria

1. **Absolute poverty.** Absolute poverty is a situation where people are able to meet only their bare subsistence essentials of food, clothing, shelter and water in order to maintain minimum standards of living.

2. **Relative poverty.** Relative poverty is a situation where a given social way of living of an individual or a household is too low compared to a set value of others. For example Ugandans are relatively poorer than Americans.

NOTE:

International poverty can be demarcated using a line to separate the different categories of people as they are measuring their poverty rate. This line is usually expressed in a constant dollar unit which people use to find out how many people exist in the world and are living a minimum subsistence life. E.g. the line representing those people who have access to one dollar per day; anybody below that line is below the poverty line

GENERAL CAUSES OF POVERTY IN UGANDA:

- High level of unemployment. Many people especially the youth are unemployed and thus hardly earn any income.
- Inadequate access to markets where the poor people can sell their goods and services. This discourages commercial production and this makes people to remain poor.
- High population growth rates which increase per capita consumption and reduces savings among the people and thus remain poor.
- Political instability/unrest/turmoil in some parts of the country.

- Limited access to credit facilities/ capital due to inadequate collateral security. This limits commercial production and thus denies an opportunity to the earn income hence remain poor.
- Unfavourable natural factors especially in the agricultural sector. This discourages commercial production in the agricultural sector and thus denies an opportunity for individuals to improve their incomes.
- Poor infrastructure such as power dams, roads, railway facilities. This discourages investment thus limits employment and thus denying an opportunity for the nationals to earn some income.
- Mental and physical incapacitation. This limits some people from accessing opportunities to enable them earn a living.
- High levels of illiteracy/limited skills. This makes it hard for such people to acquire employment opportunities and this denies such people to earn some income.
- High degree of conservatism/cultural rigidities/negative attitude towards work. Many people are reluctant to engage in gainful economic activities and thus people hardly earn any income.
- Predominance of subsistence production. Many people produce for their own consumption, such people do not have hardly earn any income since they do not have any out to sale.
- Low levels technology which limits resource exploitation. This limits the scale of production which leads to low employment creation and thus denying many people an opportunity to earn a living.
- Low levels of accountability/ corruption. This leads to low levels of investment since potential investors are asked for bribes by government officials. Limited investment limits employment creation and thus denying an opportunity to such people to earn income
- Limited strategic natural resources. Limits investment in the country and thus denies an opportunity to people to earn some income.
- Limited entrepreneurial skills. This limits investment in the country since there are few people to initiate and sustain businesses; this limits employment creation and thus denies an opportunity for people to earn a living.
- Poor saving culture This limits funds necessary for investment and thus limits employment opportunities from which people would earn a living..

EFFECTS OF POVERTY IN AN ECONOMY:

- Leads to low life expectancy, this is due to poor nutrition, poor health facilities etc.
- It increases the crime rate in the country e.g. Defilement, robbery, prostitution, child sacrifice as the poor people finds means of survival.
- Leads low levels of literacy and high rate of school dropouts
- Leads to brain drain i.e. the highly skilled manpower such as doctors, engineers, planners leave their countries to go to developed countries to search for better paying jobs and overcome poverty.
- Leads to low tax revenue since the poor cannot pay taxes
- Minimises the level of economic welfare, this is so because the poor people cannot afford some basic necessities of life.
- Accelerates rural urban migration and its associated evils such as open urban unemployment, congestion in towns, etc,
- Leads to creation of social classes in society which kills national unity
- Worsens income inequality in the country, the poor people are unable to educate their children and therefore such children fail to get access to better paying jobs.

- It leads to social unrests and instabilities in families i.e. promote domestic violence.
- Leads to excessive government expenditure on provision of social services such as healthcare, education to the poor.

MEASURES CAN BE TAKEN BY THE GOVERNMENT TO FIGHT POVERTY:

- Build/Improve infrastructure, such as roads, railways, power facilities. This motivates the poor to engage in economic activities which help them to improve their earnings through improved access to markets.
- Modernise the agricultural sector. This involves encouraging people to produce for the market/commercial purposes; this helps such people to improve their earnings by selling the excess supply.
- Encourage provision of affordable credit facilities so as to enable individuals to set up their personal income generating activities and thus improve their earnings.
- Control population growth rate. This helps to reduce the dependence which helps people to save and invest in income generating activities and thus improve their earnings.
- Ensure political stability. This enables people to live a settled life which enables them to engage in a number of economic activities and thus improve their earnings.
- Subsidise the poor; this can be done by through the provision of universal primary and secondary education. This enables the children of the poor people to acquire knowledge and skills and thus be able to get employment in future thus improve their earnings.
- Reform the land tenure system. This enables the poor people to easily access land and thus engage in economic activities such as agriculture which helps them to improve their earnings.
- Provide investment incentives so as to promote investment in the country, such investment enables people to acquire employment opportunities from which they earn an income and improve their earnings.

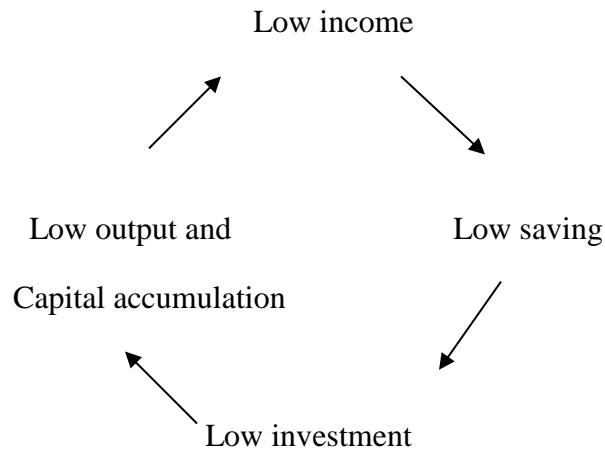
THE VISCOUS CYCLE OF POVERTY:

This refers to a self- reinforcing situation in which there are factors that tend to perpetuate in an economy leading to the creation of undesirable phenomenon or circumstances/trends.

OR: The cycle of poverty has been defined as a phenomenon where poor families become trapped in poverty for at least three generations i.e. for enough time that the family includes no surviving ancestors who possess and can transmit the intellectual, social, capital necessary to stay out of poverty or change their status.

It describes a series of unfortunate trends that intensify one another by feeding each other. E.g the viscous cycle of poverty in developing countries where low productivity leads to low incomes, which leads to low savings and investment, which in turn leads to low capital accumulation and further low productivity and poverty.

An illustration of the viscous cycle of poverty:



From the above it can be seen that at low levels of income, savings are low, a low saving level implies a shortage of loanable funds for investment and hence low investment. A low investment prevents rapid increase in capital stock and the capacity to produce and this keeps the economy at low income levels. At low levels of incomes saving and investments are again low etc.

THE CONCEPT OF UNDER DEVELOPMENT:

Under development refers to the underutilisation of resources in a given country.

CHARACTERISTICS OF UNDER DEVELOPMENT:

- **Low incomes/low savings/ low investment.** There is general poverty where the per capital income is extremely low. The low per capita income results into low standards of living. This is reflected in low nutritional standards, poor housing conditions, poor health conditions and poor sanitary conditions.
- **Dominancy of agriculture/primary production.** There is excess dependence on primary production which caters for about 80% of the population and this agricultural sector is dominated by peasants using backward means of production.
- **High population growth rate.** There is high population growth rate which is about 2.5% on average compared to 1% or less than 1% in the developed countries. Such high population growth rate results into high dependence burden leading to high marginal propensity to consume, limiting savings and capital accumulation.
- **High unemployment rate.** There are high and increasing levels of unemployment and underemployment. This is mainly due the high population growth rate compared to the rate at which the jobs are being created.
- **Low levels of life expectancy.** This is basically due to poor health conditions, poor sanitary conditions, poor nutrition etc.
- **High degree of illiteracy.** A large number of the population is illiterate leading to abundant supply of unskilled labour which retards the rate of economic growth and development because such labour is less efficient

- **Political immaturity/ Instability.** Developing countries are characterised by civil/internal wars which affect economic activities and leads to wastage of resources on non productive sectors such as the military sector.
- **High level of dependence on the developed economies.** Under developed countries highly rely on the developed economies in terms of aid, technology, private foreign investment, trade, foreign decisions, skilled labour hence making them vulnerable to problems faced in the major developed countries i.e. such dependence makes developing countries unable to withdrawal external shocks e.g. credit crunch, increase in oil prices etc.
- **Existence of dualism.** This is where there is co-existence of two contrasting phenomenon one being desirable and another undesirable such as the subsistence sector alongside the commercial sector
- There is **existence of income inequality.** Majority of the people in the developing countries are poor while a few are rich.
- **Weak and underdeveloped industrial sector/ There is excess at capacity in the industrial sector.** The industrial sector is small and weak producing a small range of consumer goods and at the same time most of these industries are producing below the installed capacity. This is due to inadequate capital, limited skilled labour, poor infrastructure, small market size etc.
- **Developing countries experience poor terms of trade.** This is due to dependence on primary products for exports which have less value compared to the imported goods.
- **Low productivity.** There is production of low output in most sectors of the economies of developing countries; this is due limited labour skills, limited entrepreneurial skills, limited capital.
- **Large subsistence sector.** A large number of people in the developing countries produce for their own consumption.
- There is **under developed infrastructure.** Most of the roads in the country are in a poor state while the social infrastructure like schools and hospitals are insufficient for the population

CAUSES OF UNDERDEVELOPMENT IN DEVELOPING COUNTRIES:

- **High population growth rates.** High population growth rates increase per capita consumption and reduce the level of savings thereby reducing the level of investment.
- **Low level of technology/ Poor state of technology.** This leads to low productivity of labour and thus low output levels of poor quality.
- **Low levels of income/ Limited capital stock** caused by low level of savings and vicious circle of poverty. This reduces the capacity to produce quality goods and services needed to promote development.
- **Poor attitude towards work/high level of conservatism.** This limits adoption of better methods of production and utilization of available resources leading to low output levels and thus underdevelopment.
- **Dominance of subsistence sector.** Many people produce for own consumption hence low volume of output of goods and services produced leading to low earnings and thus underdevelopment.
- **High debt burden and the problem of debt servicing.** Domestic revenue is inadequate and LDCS' resort to borrowing from friendly countries and international financial institutions which is expensive in terms of paying back the interest and principle sums borrowed. This implies that a big percentage of the revenue earned is used for servicing debts and paying back the principle instead of using the money for development purposes thus underdevelopment.

- **Limited strategic natural resources.** The available natural resources are limited in terms of quantity and variety which limits developing countries from producing highly demanded commodities on both local and foreign markets.
- **Limited entrepreneurial abilities.** There are a few entrepreneurs to initiate businesses and sustain them, to invent and innovate, so as to improve the productive capacity of developing countries.
- **Over reliance on foreign aid which kills the local initiative.** Foreign aid is inconsistent, uncertain and tied to specific projects thereby killing initiative of developing countries to plan effectively thus leading to under development.
- **High level of corruption/ Low levels of accountability.** High level of corruption and embezzlement of public funds leads to resource diversion thereby failing important projects, at the same time potential investors are asked for bribes by government officials in order to give the permission to invest, this discourages many to invest in such economies, thus underdevelopment.
- **Unfavourable terms of trade.** This is due to narrow foreign markets and ever fluctuating prices of primary commodities. The exports of developing countries are exchanged at unfair rates with imports due to their low quality; this discourages production and thus underdevelopment.
- **Narrow /Limited foreign and domestic market.** The domestic market is narrow because most people have low purchasing power and the foreign market is narrow due to poor quality products produced and foreign trade restrictions imposed on exports. This discourages producers since they fear to incur losses and thus underdevelopment,
- **Limited skilled labour/ limited skills.** This is due to high rate of brain drain and high illiteracy rates thereby leading to low labour productivity and efficiency hence low volume of output thus under development.
- **High rates of capital outflow.** This is because a good number of projects are owned by foreign investors who repatriate profits generated instead of re-investing such capital; this limits the capital accumulation process and thus underdevelopment.
- **Political instabilities/ Political unrest.** Political instabilities scare away both local and foreign potential entrepreneurs/investors in fear of losing their lives and property thereby retarding economic growth and development and thus under development.
- **Poor infrastructure.** Poor infrastructure in form of roads, railways, power supply discourages production due to increased costs hence low level of economic development.
- **Heavy dependence on agriculture.** Prices of agricultural products fluctuate constantly leading to fluctuations in government revenue limiting her ability to provide the necessary infrastructure and thus discouraging production which leads to underdevelopment in such countries.
- **Poor land tenure systems.** Poor land tenure systems limit accessibility to and proper usage of available land by potential entrepreneurs/investors leading to low level of economic growth and development.
- **Unfavourable/ Unfortunate structural adjustment programmes** such as privatisation, liberalization. Such programmes have slowed down the rate of economic growth and development since the government loses firm control over the economy.
- **Limited investment incentives.** High level of taxation discourages potential investors due to high cost of production which reduces the profit margins, hence low level of investment in the developing countries thus underdevelopment.

NOTE:

1. Least developed country is one which is stagnant with very low levels of income and persistent unemployment; characterized by very standards of living conditions and far below international poverty line.

2. **Underdeveloped country** is one which is developing although living conditions are still low. It is characterized by less than full employment level, slow growth of GDP, with majority of its people just affording bare minimum of life.

MEASURES THAT CAN BE TAKEN TO OVERCOME UNDERDEVELOPMENT:

- **Reduce/control population growth rates.** This helps to reduce the high dependence burden and encourage savings which are turned into investment funds which promotes the level of investment in the country and thus promoting development.
- **Improve labour skills.** This leads to increased labour productivity and efficiency hence production of more goods and services leading to economic development
- **Improve the terms of trade.** The increase in export prices over import prices encourages the country to produce more for the export market which leads to increased output of goods and services thus leading to economic development.
- **Fight corruption/ ensure high levels of accountability.** The funds allocated for infrastructural development are well utilised which promotes investment leading to production of more goods and services in an economy, thus leading to economic development.
- **Increase capital inflow/reduce capital outflow.** This avails funds necessary for investment leading to production of more goods and services and thus leading to economic development.
- **Improve the political climate.** This instills confidence among the potential investors which promotes investments in the country, leading to production of more goods and services and thus leading to economic development.
- **Widen market both domestic and foreign.** This motivates investors to increase economic activities due to the high profit levels, this leads to increased output and thus leading to economic development.
- **Improve infrastructure.** This promotes investment due to the easy transportation of raw materials to the firms and finished products to the market thus leading to economic development.
- **Reduce dependence on agriculture.** This helps to diversify the economy which leads to production in other sectors of the economy thus leading to economic development.
- **Improve entrepreneurial skills/ability.** This leads to number of economic activities being initiated and sustained, this leads to increased volume of goods and services produced thus leading to economic development.
- **Provide investment incentives.** This attracts more investors both local and foreign to invest in different sectors of the economy due to reduced production costs, this leads to increased production of goods and services in the economy leading to economic development.

- **Improve the land tenure system.** This allows investors to have easy access to land which increases economic activities in the economy thus leading to economic development.
- **Improve the state of technology.** This quickens the production produces and also reduces the cost of production which motivates many people to engage in different economic activities leading to production of more goods and services leading to economic development.