Economics

Up until the late twentieth century, economic growth was the key indicator in economic development. If a country was seen to have high growth in real GDP then they were said to be developing. It was believed that the extra money would multiply throughout the economy thus creating development. However, many factors stop the money doing this. High Inflation, low standards of living, poor taxation schemes, high unemployment and an unequal distribution of wealth meant that any gains from growth were not being spread over the economy but rather concentrated on a small percentage of people. This is why there is often a huge gap between the rich and the poor in less developed county's (LDC'S). So even with high levels of growth, poverty remained the same. This can be shown through various African countries. In the December quarter of 1999 Mozambique recorded 10% growth in GDP, though the GDP per capita in 1998 was only 199 US dollars [1]. This is some $15000 lower than the GDP per capita in Australia, even though our growth rate is only at about 4%. This shows the poor relationship between economic growth and economic development. To truly define economic development you need to have sustained growth with reductions in poverty. Development should involve increased growth, though better education, increased standard of living, a cleaner environment, equal opportunity; greater freedom and a more diversified cultural life should accompany this. Thus economic growth can occur without development but development cannot occur without growth. Therefore economic growth is a necessary but not sufficient aspect of economic development. So to index countries by development more than growth must be considered, thus the Human Development Index (HDI) came into being. A composite indicator, which combines per capita GDP with life expectancy and adult literacy. Therefore development can be shown by improvements in the HDI of a country.

It is not easy for LDC'S to achieve sustained development, as there are many barriers to achieving this outcome. A key barrier to development is the lack of physical capital. This is a simple problem but is extremely hard to fix. As GDP per capita is extremely low in LDC'S there is little incentive to save, thus there are little funds to borrow. This then works in a cycle, as the lack of capital leads to low productivity thus creating low per capita income. Sierra Leone, the worlds least developed country, as shown by the human development index, has a GDP per capita of US$159 [2]. This creates terrible problems for a country as it leads to low demand for goods and services. This then leads to small markets and a lack of demand for capital goods. These after effects cause low income and thus it works in a cycle (the vicious cycle of poverty), which traps a country into underdevelopment. LDC'S can try and fix this problem by borrowing money from overseas to inject into the economy, though varied factors including, corruption, lack of human capital and the lack of entrepreneurs mean that this injection often goes to waste.

This borrowing from overseas is often directly related to the lack of savings in an LDC. Low-income levels result in low taxation and low savings. The low-income levels pressure the government into applying large custom duties and sales taxes, which are regressive and also very inflationary. Which then in turn means the government will run a budget deficit, which means the government, isn't saving either. This lack of saving results in borrowing from overseas and an increased NFD and problems with the balance of payments. To make the problem worse, consumers tend to spend any money they have on unnecessary luxury items, this is called conspicuous consumption and is spawned from the unequal distribution of wealth in LDC'S. The poor try as hard as they can to be more like the rich, so they spend money, which could be used for investment on conspicuous consumption. In order to promote savings some countries have brought in legislation to enforce superannuation type deposits. Similar to the Australian liberal party's measures. In Mexico the World Bank financed a loan of US$400 million to start the Second Contractual Savings Development Program [3] (DSDP II). This will implement a financially viable pension system, raise the level of institutional savings and enhance capital market development by stimulating private financial intermediation and long-term savings. This will enhance Mexico's sustainable growth and development prospects.

In LDC'S there is often a severe lack of infrastructure. Again this is directly linked to low-income levels and insufficient taxation revenue. LDC'S rarely have enough roads, ports, sewerage and water facilities, schools, hospitals, telephone services, airports and power. Governments in LDC'S have only small amounts of revenue so infrastructure is often overlooked. In many cases, any revenue is spent on weapons, as LDC'S are often run by the military. Nigeria has only been under non-army rule twice in sixty years [4]. These militaristic governments spend money on defence when realistically they should be injecting it back into the economy. The lack of infrastructure inhibits the free flow of goods and services and reduces the efficiency of businesses. This will lead to lower levels of employment and the poor education and health facilities reduce productivity of the labour force. This in turn will further restrict economic growth put a damper on sustained development. In Nigeria to get around this problem a non-military run government has spent millions on campaigning and has won presidency, claiming to re-vamp their crushed economy.[4]

Of the four factors of production, enterprise is one of the most integral. LDC'S often show a lack of entrepreneurship, due to low-income levels, the lack of savings shortening funds, the lack of infrastructure and poor education. There is often little incentive for enterprise in the private sector, as there is no profit to be made, so the government steps in and runs businesses, although though this proves not to be as effective.
Some LDC'S though are battling this problem. Cuba which is ranked 58 on the HDI [5] has started to overcome this problem. Cuba has introduced a group of people called the cuentapropistas, 170000 entrepreneurs marking the arrival of a new business sector in the islands socialist economy. They account for 8% of the labour force and manage to put food on the table for one in ten Cubans. These new small businesses have been a result of reduced subsidies to state enterprises, increased foreign investment, and introduction of incentives in the agricultural sector and the legalization of dealings in foreign currency. This has already had positive signs on the Cuban economy with growth in 1998 at 8.0% some 31% higher than two years before[6].

There is a distinct lack of technology in LDC'S, this has massive effects on the economy as it reduces productivity and slows down the production process. Cheap labour is the main reason why there is no adoption of new methods, as is shown in country's like Indonesia and China where some people are forced to work for less that US$1 a day.[7] This cheap labour acts as a barrier to technological advancements which also acts as a barrier to development. To see the extent of the lack of technology you need just need to look at some of the startling figures coming out of Africa. In Mozambique there is only 2 personal computers per one thousand people and only 4 phone line exchanges [8]. To solve this, governments need to increase foreign investment and also boost entrepreneurship as to move the economies away from the volatile commodity markets.
The Grameen Bank in Africa try's to promote business by lending out thousands of small loans to women to get businesses running, or for them to invest.

LDC'S often have a severe problem with overpopulation and rapid population growth. The birth rate in many African countries is over two percent. This is including the shocking death rated as well. In Mozambique the birth rate is 1.2% that is 323000 new births each year. Though sadly one in five of those children will die before they are 5, due to poor medicines and a lack of qualified doctors. In some LDC'S 50% of the drinking water is poisonous [9] . The rapid growth in population is detrimental to the labour force as it grows quickly while no more jobs are being created. This causes unemployment to rise. To solve this problem governments can try and educate the public to use contraception or like in china laws are set to control how many children you can have.

Inflation is a huge problem in LDC'S, the combination of scarce goods and services and high population growth equal demand pull inflation. Inflation has many negatives on an economy, it widens the gap between rich and poor, it encourages investment in non-productive assets, it will increase the current account deficit and finally may cause depreciations in the dollar. This will have terrible effects on the net foreign debt (NFD), and therefore on the CAD again. In Mexico they regularly have to make new currencies as hyperinflation deems the old currencies worthless. In some instances people have been seen burning money as firewood because it's real worth is basically nothing [10] .

The external balance is also a huge problem in LDC'S. The little exports they do have (mostly commodities) are small in comparison to the huge amounts they spend on imports. The need to borrow to finance the CAD's. This leads to the cycle of rising NFD and CAD's. To tackle this problem governments have had to try and promote exports. The WTO worldwide reduction of tariffs will assist this though government policies need to be implemented to seriously boost export revenue and turn the consumers away from imports (import replacement).

This reliance on export revenue often leads to further problems for the economy though. In Mauritius, they have cleared 25% of their forests in the last 19 years purely for export. [11]
This causes massive environmental effects and also is a serious concern, as when the resources run out the country's economy will fail to stay afloat.

Corruption in LDC's is often outrageously high. Nigeria is a perfect example. It has been estimated that in the last twenty years over two billion dollars of oil revenue for the country has been embessled. [12] This is mainly due to their last dictator who ordered the Nigerian Central Bank to deposit 15 million dollars a day into his own Swiss bank account [13]. This works out to twenty percent of GDP and when you take into consideration that NFD is over forty percent of GDP, the country is not left with much money. To solve this problem institutions such as the international monetary fund (IMF) have refused to lend money to support them. Though to truly solve corruption a democratic government must be elected. Australia has tried to force Fiji to create a democratic government by cutting trade [14].

Natural disasters and war also act as barriers to development in LDC's. Natural disasters have a much greater impact on LDC's than developed nations. Floods and earthquakes can have dire effects on the economy. War torn nations will very rarely be working at full capacity. If there is war or civil unrest production is slowed down as infrastructure is often damaged or workers are deterred from working. Governments also spend taxation revenue on weapons instead of stabilising the economy. A perfect example of this is East Timor.

Disease is often common in LDC's and can have a serious damper on the economy. In Africa over 24 million people are living with the Aids virus. This accounts to a lot of the labour force and obviously will have negative effects on production and growth. The IDA is the driving force in trying to solve this serious epidemic. Since 1985 they have sent more than US$400 million to Africa solely to promote aids awareness programs and educate the public about contraception [14].

Press freedom is a less talked about much very strong barrier to development. The media is a very large force in promoting elections and governments. In Mexico the government allowed Televisa (televsion company) a monopoly is they didn't play any anti-government shows and supported the government in everything they did [15]. In the eighties journalists were killed by the government police in Mexico City if they published any anti-government articles [16]. This kind of manipulation lets governments get away with corruption and gives them freedom to ruin the economy without opposition. International force needs to be applied to stop problems like this, and education of the public through school systems etc.

To support all of these strategies to boost development there are a number of international institutions set up, The World Bank is the major force behind giving untied loose loans to LDC's to promote development. The International Monetary Fund and International Development Association also are driving forces in the race to stop poverty. As well as these institutions individual nations contribute foreign aid. Though there is a distinct lack of it throughout the developed world and a lot of the aid is given out of fear of dispute rather than kindness. To truly solve this poverty and underdevelopment the world needs to put all efforts into foreign aid both monetary and advice.

Word Count : 1995

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