Economic Development

Developed & Less Developed Economies
Differences....

Distinguish between economic growth and economic development.

In your comparison include the following points....

✓ How it is measured?
✓ Length of time (short/long)
✓ What type of country does each apply to.....
✓ Quantitative/Qualitative measurement
✓ Happens automatically/manually
<table>
<thead>
<tr>
<th>BASIS FOR COMPARISON</th>
<th>ECONOMIC GROWTH</th>
<th>ECONOMIC DEVELOPMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meaning</td>
<td>Economic Growth is the positive change in the real output of the country in a particular span of time.</td>
<td>Economic Development involves rise in the level of production in an economy along with the advancement of technology, improvement in living standards and so on.</td>
</tr>
<tr>
<td>Concept</td>
<td>Narrow</td>
<td>Broad</td>
</tr>
<tr>
<td>Scope</td>
<td>Increase in the indicators like GDP, per capita income etc.</td>
<td>Improvement in life expectancy rate, infant mortality rate, literacy rate and poverty rates.</td>
</tr>
<tr>
<td>Term</td>
<td>Short term process</td>
<td>Long term process</td>
</tr>
<tr>
<td>Applicable to</td>
<td>Developed Economies</td>
<td>Developing Economies</td>
</tr>
<tr>
<td>How it can be measured?</td>
<td>Upward movement in national income.</td>
<td>Upward movement in real national income.</td>
</tr>
<tr>
<td>Which kind of changes are expected?</td>
<td>Quantitative changes</td>
<td>Qualitative and quantitative changes</td>
</tr>
<tr>
<td>Type of process</td>
<td>Automatic</td>
<td>Manual</td>
</tr>
<tr>
<td>When it arises?</td>
<td>In a certain period of time.</td>
<td>Continuous process</td>
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</table>
Aims of economic development

Explain the following economic development aims:
1. Reducing widespread poverty
2. Raising living standards
3. Reducing income inequalities
4. Increasing employment opportunities
Stages of economic development

Less-developed economy
- Low level of human and economic development and diversification
- Low industrial development
- Lack of infrastructure
- Low levels of education and skills
- Low average incomes and poor living standards
- Low average life expectancy

Rapidly industrialising economy
- Expanding manufacturing and services sectors
- Rapid development of modern infrastructure
- Rising incomes and living standards
- Improving health care, diet and life expectancy

Developed economy
- High level of human and economic development
- Wide range of industries
- Well developed road, power and communications networks
- Skilled and educated workforce
- High average incomes and living standards
- Long average life expectancy
Why are some countries less developed?

- Over-dependence on subsistence farming to provide jobs and incomes
- International trade is dominated by developed nations who are able to control world prices for natural resources exported from less-developed economies
- Lack of capital to invest in modern infrastructure to support businesses and communities
- Insufficient investment in education and health care
- Low skilled and poorly educated workforce
- Low level of effective consumer demand
- Rapid population growth
- Famines, wars, corruption, etc.

Vicious cycle of low economic development
Economic growth and development methods

In small groups, explain how you would improve the economic growth of less developed countries.

Look at the reasons why some countries are less developed to help you.
Suggestions

• Natural factors
  land, minerals, fuels, climate; their quantity and quality
• Human capital
  the supply of labour and the quality of labour
• Physical capital and technological factors
  machines, factories, roads; their quantity and quality.
• Institutional factors
  which may include the banking system, the legal system and important factors like a good health care system
Does economic growth lead to economic development?

Outline the positive and negative implications of your suggestions for improving the economic growth of a country.

✓ higher incomes

✓ improved economic indicators of welfare

✓ higher government revenues

✓ creation of inequality

✓ negative externalities and lack of sustainability
Application

Using the points from the previous activity, make a link between economic growth and one of the following three problems. Refer to the concept of negative externalities.

• Deforestation
• Soil degradation/desertification
• Reduction in bio-diversity
• Water scarcity
To achieve their goals, the developing countries will need to address problems of:

- Land ownership and reform
- Involving local communities in their own development
- Engaging the poor and making them feel that opportunities will come their way
- Pricing in ways that include the real costs of development, so externalities need to be taken into account when considering development, but for many developing countries there will be a significant opportunity cost if they try to grow their economies while minimising externalities, because this requires investment (and therefore slower growth) and perhaps reform - both of which are expensive.

Do the developing countries:

- Ban certain activities or impose strict rules and controls?
- Extend property rights and force private enterprise to pay more for the problems they cause?
- Impose taxes on pollution and other externalities?
- Subsidise non-pollution methods of production?
- Award permits to pollute?
Common characteristics of developing countries

Todaro suggested the following list of characteristics to help classify developing countries:

- Low standards of living: low income, inequality, poor health, and inadequate education
- Low levels of productivity (output per person)
- High rates of population growth and dependency burdens
- High and rising levels of unemployment and underemployment
- Substantial dependence on agricultural production and primary product exports
- Prevalence of imperfect markets and limited information
- Dominance, dependence and vulnerability in international relations
Development in Brazil – pause for thought

Brazil has experienced high levels of economic growth over the last 15 years. Look at the photograph below of Sao Paulo in Brazil.

• Identify three pieces of evidence suggesting that Brazil is a developed economy and three pieces of evidence that also shows a lack of economic development.

• Examine the strength of evidence in both cases.

• Use the points from the previous slide

It is dangerous to generalize as there are many exceptions in each case, including low levels of GDP per capita, high levels of poverty, relatively large agricultural sectors, large urban informal sectors and high birth rates.
Measures of poverty

Absolute poverty
The inability to afford basic necessities such as food, water, education, health care and shelter.
Measured by the number of people living below a certain income threshold.

Relative poverty
Having far fewer resources than others in the same society.
Measured by the extent to which a person’s or household’s income falls below the average income in the economy.
Poverty and development indicators

- **GDP per capita** (i.e. average income per person)
- *But...* average measure will be distorted upwards by people with very high incomes
- *And...* it does not take account of what and how much people can buy with their incomes or their access to health care, education, clean water, etc.
- Population living on less than $1 per day
- Life expectancy at birth
- Adult literacy rate
- Access to safe water supplies and sanitation
- Ownership of consumer goods
- Proportion of workers in agriculture

[Bar chart showing percentage of population below $1 per day in selected countries 2009]
Reducing poverty

What can governments do to relieve poverty in their economies?

- Expansionary fiscal and monetary policies to reduce unemployment
- Progressive taxes to reduce income and wealth inequality after tax
- Provision of welfare services and benefits for households on very low incomes
- Subsidize the building of free or low-cost housing
- Minimum wage laws to raise the wages of the lowest paid employees
- Increase the quantity and quality of education available to improve skills and job prospects
- Attract inward investment from overseas firms to provide jobs and incomes
- Seek aid from overseas governments and international aid organizations
Overseas aid

- **Food aid**
  
  But food may be stolen and sold illegally; if too much is provided it will stop people buying produce from their local farmers causing them to cease production.

- **Financial aid**
  
  But many less-developed countries are poorly managed and do not have the skills they need to invest financial aid wisely; and some have governments that are corrupt and misuse overseas aid.

- **Technological aid**

  But local people will also need training to operate new equipment and to use new farming, building and other techniques.

- **Debt relief**

  But full or partial cancellation of public debt owed to overseas organizations may simply encourage some indebted governments to be financially irresponsible again.
Development Part 2

Objectives

- describe the factors that affect population growth (birth rate, death rate, fertility rate, net migration) and
- discuss reasons for the different rates of growth in different countries
- analyse the problems and consequences of these population changes for countries at different stages of development
- describe the effects of changing size and structure of population on an economy
- discuss differences in standards of living within countries and between countries, both developed and developing.
Population growth

The world population reached 1 billion in around 1804 and 2 billion by 1927. By 2010 the world population had reached almost 7 billion and is expected to grow to 9 billion by 2050.

Around 90% of all these people will live in countries currently considered as developing.
The dependent population

People in work and who are economically active produce goods and services for those who are not

The dependent population of a country includes the very young, schoolchildren, students, housewives and old-age pensioners

\[
\text{Dependency ratio} = \frac{\text{dependent population}}{\text{working population}}
\]

The higher the dependency ratio, the greater the burden on the working population and on scarce resources to support people who are not economically active

Dependency ratios are rising:

- There are high birth rates in less-developed countries
- The school leaving age is being raised in many economies
- There are low death rates and growing numbers of old people in developed economies (many governments have introduced compulsory pension savings schemes and are raising official retirement ages)
What causes population growth?

Births - deaths = natural rate of population growth

<table>
<thead>
<tr>
<th>Region</th>
<th>Population 2010 (thousands)</th>
<th>Births 2001-2010 (annual average growth from 2000, thousands)</th>
<th>Deaths 2001-2010</th>
<th>Net migration</th>
<th>Total growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>World total</td>
<td>6,908,688</td>
<td>135,014</td>
<td>311,432</td>
<td>0</td>
<td>79,332</td>
</tr>
<tr>
<td>More-developed regions</td>
<td>1,237,228</td>
<td>13,551</td>
<td>12,293</td>
<td>2,968</td>
<td>4,226</td>
</tr>
<tr>
<td>Less-developed regions</td>
<td>5,761,460</td>
<td>121,437</td>
<td>43,388</td>
<td>-2,943</td>
<td>75,106</td>
</tr>
<tr>
<td>Africa</td>
<td>1,033,043</td>
<td>33,753</td>
<td>11,874</td>
<td>-521</td>
<td>21,358</td>
</tr>
<tr>
<td>Asia</td>
<td>4,166,741</td>
<td>77,338</td>
<td>27,208</td>
<td>-3,285</td>
<td>46,845</td>
</tr>
<tr>
<td>Europe</td>
<td>732,759</td>
<td>7,530</td>
<td>8,416</td>
<td>1,505</td>
<td>619</td>
</tr>
<tr>
<td>Latin America and Caribbean</td>
<td>588,649</td>
<td>11,152</td>
<td>3,320</td>
<td>-1,090</td>
<td>6,742</td>
</tr>
<tr>
<td>North America</td>
<td>351,659</td>
<td>4,641</td>
<td>2,627</td>
<td>1,286</td>
<td>3,300</td>
</tr>
<tr>
<td>Oceania</td>
<td>35,838</td>
<td>589</td>
<td>236</td>
<td>115</td>
<td>468</td>
</tr>
</tbody>
</table>
Birth rates

Birth rate = births per 1,000 people in a population  
World average = 19

Highest birth rates  
(40 or more births per 1,000)
Niger, Uganda, Mali, Zambia,  
Burkino Faso, Ethiopia,  
Angola, Somalia, Burundi

Why are birth rates high in many less-developed countries?
• Living standards are poor
• There are high child mortality rates
• Custom and religion prevent contraception

Lowest birth rates  
(Less than 9 births per 1,000)
Czech Republic, Austria,  
South Korea, Singapore,  
Germany,  
Hong Kong, Japan, Monaco

What has caused birth rates to fall in many developed and rapidly developing countries?
• Living standards are rising
• There is increased use of contraception
• There is increased female employment
• People are marrying later in life
Death rates

Death rate = deaths per 1,000 people in a population

Factors that affect death rates are:

• living standards
• quality and availability of health care
• natural disasters and wars

Highest death rates
(15 or more deaths per 1,000)

Angola, Afghanistan, South Africa, Nigeria, Russia, Ukraine, Chad, Guinea-Bissou, Lesotho, Central African Republic

Lowest death rates
(Less than 3 deaths per 1,000)

Sint Maarten, Jordan, Turks and Caicos Islands, Bahrain, Qatar, Kuwait, United Arab Emirates
Most cross-border migration involves people of working age seeking employment, higher wages and improved living standards in other countries.

- Increases working population
- Increases demand for housing, schools, health care and other public services
- Increases pressure on resources

- Reduces working population
- Means loss of most skilled and productive labour and entrepreneurs
- Causes fall in output and economic growth
The structure of populations

Age and sex distribution

Occupational distribution

Geographic distribution
Age and sex distribution

- This is a typical population pyramid for a developing country (not all developing countries fit this pattern!)
- There is a high birth rate and a high death rate which means there is a small percentage that reaches older age
- What are the advantages and disadvantages of a young labour force?

High death rate
High birth rate and falling child mortality as health care improves

Dependency ratios rising due to increasing numbers of children

Source: U.S. Census Bureau
Young labour force?

Advantages
- Might be more adaptable to new ideas
  - More up to date with technology because they have an up to date education
- Might be more occupationally mobile so more willing and able to switch jobs enabling the economy to adjust to changes in demand and reduce structural unemployment
- Might be more geographically mobile reducing structural unemployment
- Might be physically stronger, having less health problems, being more productive, prepared to work longer hours and increase output/GDP

Disadvantages
- Less experience, not built up skills, less productive
- Require more training, increasing firm’s costs of production
- Less reliable and patient than the older population reducing demand for some products
The world’s oldest and youngest populations, 2010

<table>
<thead>
<tr>
<th>Youngest countries</th>
<th>Age group (%)</th>
<th>Oldest countries</th>
<th>Age group (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Under 15 years of age</td>
<td>Over 65 years and over</td>
<td>Under 15 years of age</td>
</tr>
<tr>
<td>Uganda</td>
<td>50.0</td>
<td>2.1</td>
<td>Japan</td>
</tr>
<tr>
<td>Niger</td>
<td>49.7</td>
<td>2.3</td>
<td>Germany</td>
</tr>
<tr>
<td>Mali</td>
<td>47.5</td>
<td>3.0</td>
<td>Italy</td>
</tr>
<tr>
<td>Congo</td>
<td>46.7</td>
<td>2.5</td>
<td>Sweden</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>46.2</td>
<td>2.7</td>
<td>Greece</td>
</tr>
<tr>
<td>Burkino Faso</td>
<td>46.0</td>
<td>2.5</td>
<td>Spain</td>
</tr>
<tr>
<td>Malawi</td>
<td>45.3</td>
<td>2.7</td>
<td>Bulgaria</td>
</tr>
<tr>
<td>Mozambique</td>
<td>44.1</td>
<td>2.9</td>
<td>Belgium</td>
</tr>
<tr>
<td>Yemen</td>
<td>43.5</td>
<td>2.6</td>
<td>Latvia</td>
</tr>
<tr>
<td>Madagascar</td>
<td>43.3</td>
<td>3.0</td>
<td>Switzerland</td>
</tr>
</tbody>
</table>
Age and sex distribution

In 2010, 11% of the world population was over 60. It is expected to reach 22%, or 2 billion people, by 2050. One in every three people in developed countries will be over 65 by this time.

- This is a typical population pyramid for a developed country
- There is a low birth rate and a low death rate
- This brings the issue of an ageing population (more detail later)

Dependency ratios rising due to ageing population

In 2010, 11% of the world population was over 60. It is expected to reach 22%, or 2 billion people, by 2050. One in every three people in developed countries will be over 65 by this time.
What is gender imbalance?

**Gender imbalance**, an excess of males or females, has been observed in a number of countries. Why? Possibly because of:

- **wars** resulting in many deaths among young males
- **violence towards females**, driving them from some societies
- **sex selection by parents** through abortion
- **gender-based infanticide** (selective killing of children of one sex)

High sex ratios at birth in some Asian countries are attributed to a strong preference for sons. This will affect future marriage patterns and fertility patterns, resulting in fewer births in future and an ageing population.

**sex-specific inward migration**, e.g. by male guest workers brought in to work in construction and other heavy industries

For example, large numbers of male expatriates working in the petrochemical industry in Qatar has resulted in recent times of having almost two males to every female.
Around half the world’s population currently live in urban areas. This is expected to rise to around 60%, or 5 billion people, by 2030. Rapid growth of cities is depleting resources, and increasing congestion and pollution.
Occupational distribution

% employment by main industrial sector

Developed

Developing

More than 80% employed in services
Andorra, Antigua & Barbuda, Gaza, Israel, Luxembourg, UAE, UK, USA

Less-developed

More than 90% employed in agriculture
Angola, Burkino Faso, Burundi, Chad, Lesotho, Niger, Rwanda

www.igcseeconomics.com - Resources, Past Papers, Notes, Exercises & Quizes
Causes of Population Growth

- Can grow as a result of a natural increase or net emigration
- Natural increases are when the birth rate exceeds the death rate
- The **birth rate** is influenced by the average age of the population, the number of women in the population and women’s fertility rate
- The birth rate is likely to be high when
  - Young average aged population
  - Women marry young
  - Infant mortality rate is high
  - Girl education is poor
  - Women are non-working
  - Cheap to bring up children
  - Lack of family planning
  - Government incentives to have children
- Why is the birth rate low in developed countries?
Causes of Population Growth

- **Death rate** is influenced by
  - Nutrition
  - Housing conditions
  - Medical care
  - Lifestyles
  - Working conditions
  - Involvement (or not) in military action

- Using the above how do you describe a country with a high death rate?

- **Net immigration** occurs when there are more people coming in to the country than leaving

- This will depend on
  - The relative living standards
  - Persecution of groups
  - Extent of control of movement of people

- Why does Europe have high levels of net immigration?
Optimum population?

- The term optimum population refers to the number of people which, when combined with the other factors of production and existing technical knowledge gives the maximum output of goods and services per head of population.

- It is about a balance between population and resources.

- A country that has a large geographical area and a small population may still be seen as overpopulated because there are a shortage of resources.

- A country will be underpopulated if it doesn’t have enough human resources to make best use of its resources.

- Thomas Malthus (a UK economist of the 18th Century) argued that population pressures would tend to prevent the rise of living standards.

- Population would double every 25 years and outstrip food production.

- According to him there are 2 checks that keep the population within its means of subsistence.

- Positive checks – epidemics, famine, infanticide and wars.

- Preventive checks – contraception and delaying marriage.

- Fortunately (so far) technology has allowed food production to rise more rapidly than population.
The effects of an increase in Population

Benefits of an increase in population

- If the population was below its optimum it can make **better use of resources**
- **Size of markets will increase** for firms – more customers to sell to leading to greater economies of scale
- **Increase in factor mobility** – expanding industries can recruit new workers who may be familiar with new ideas and methods reducing training costs
- **Extra demand** will stimulate investment and may lead to more new technology
- **A rise in the labour force** – net immigration will bring in more workers; more children being born will increase the dependency ratio in the short term but in the long term will result in more workers
The effects of an increase in Population

Concerns of an increase in population

- **Famine** – can the country feed the population?
- **Restrictions on improvements in living standards** – resources used for improving living standards may now have to be used to provide goods and services for the extra number of dependants
- **Overcrowding** – may put pressure on housing and social capital and cause traffic congestion
- **Environmental pressure** – more people may result in damage to wild life habitats, water shortages and the depletion of non-renewable resources
- **Pressure on employment opportunities** – an increase in people will create an increase in demand which should increase the demand for labour however if people lack the appropriate skills government may need to devote more resources to education and training
- **Balance of payments pressures** – more dependants may mean more imports and some of the products that were previously exported may now be required for the home markets
Ways of reducing the birth rate

- A country that is concerned about its population growing more rapidly will not want to raise its death rate!
- It could seek to reduce immigration and try to reduce the birth rate
- Improve educational and employment opportunities for women
- Educated women tend to be more aware of contraceptive methods, marry later and restrict their family size so that they can combine work with raising children
- Better information and increased availability of family planning services
- Improvement of health care can reduce the birth rate – often there are a high number of children in the family due to concern over survival
- Children are needed for support in old age
- Pensions and sickness insurance schemes can reduce the need to have so many children
- If government can
  - raises school leaving age
  - Reduce or stop financial support
  - Give incentives to restrict numbers e.g. make it illegal to have more than a specific number of children
The Consequences of an Ageing Population

- An number of countries including Japan, the USA and many European countries are experiencing ageing populations

- **A rise in dependency ratio** – more consumers than workers

- **A change in the labour force** – older works may be geographically and occupationally less mobile (although they may be more experienced, reliable and patient)

- **High demand for health care** – the elderly place the greatest burden on a country’s health service

- **Greater need for welfare services** – such as caring for the elderly at home and in retirement homes

- **Rise in cost of state and private pensions**

- **Change in the pattern of demand** e.g. demand for retirement housing will rise
Internal Migration

- Workers tend to migrate from rural to urban areas in search of better jobs and higher incomes

Benefits

- They may supply growing industries and result in a better allocation of resources
- They send money back to relative and improve living standards in the rural areas

Disadvantages

- If they were the most productive agricultural workers productivity may have fallen in the rural area
- There is no guarantee that there will be jobs available in the urban areas
- There are a large number of external costs such as overcrowding, congestion, pressure on social capital with rapid expansion of cities

The effects of Net Emigration

- Working population reduced
- Remaining have a greater burden of dependency
- Average age of labour force increases and is less mobile
- Sometimes more men emigrate than women – affects sex distribution
- Leaves shortages of skills
- Under utilization of resources with under population
- Those who emigrate may send money home to help relatives