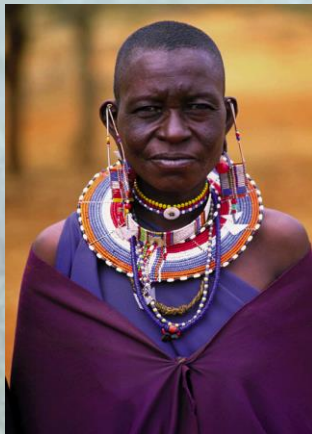




Barriers to & Domestic Factors Promoting Economic Development



IB Economics

P. Messere



Economic Development

Economic Development requires a solid foundation of institutions provided by or regulated by government

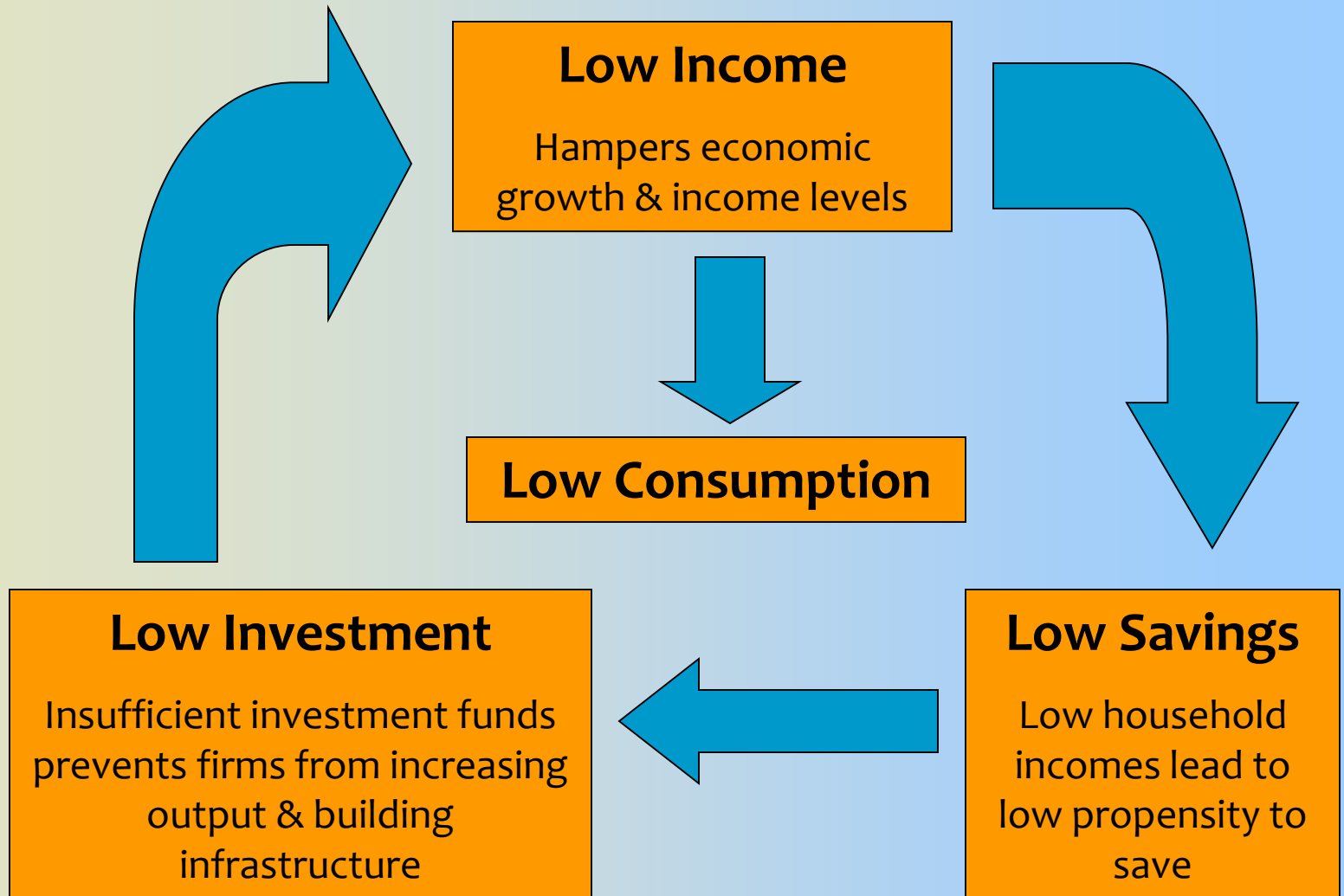
- Domestic factors contributing to economic development include:
 - Quantity and quality of resources available domestically (most important)
 - Promotion of education and health
 - Acquisition and promotion of technology used in industry and agriculture
 - Access to a stable banking system able to provide credit to businesses and entrepreneurs
 - Societal acceptance of women in achieving economic objectives
 - Functioning tax system allowing government to provide public goods otherwise not provided by the free market
 - Trustworthy and reliable governmental institutions promoting political rights, freedoms & respect for all members of society



Poverty Cycle

- Poverty is considered most obvious sign of lack of development
 - 1st UN Sustainable Development Goal (2012): “By 2030, reduce by at least half the proportion of men, women & children of all ages living in poverty in all its dimensions according to national definitions”
- Approx. 1 in 10 people live in extreme poverty -- less than \$1.90/day (*ourworldindata.org*)

Poverty Cycle





Institutional and Political Barriers to Economic Development

Ineffective Taxation Structure

- Inefficient taxation systems in developing countries contributes to lack of merit and public goods (education and roads) / welfare system
- Efficient tax system hindered in LDCs by:
 - Informal markets (black market) activities
 - Low profit taxes to attract domestic & foreign investment
 - Multinationals engaging in transfer pricing to hide profits
- Lack of tax base due to informal markets and weak tax administration causes gov'ts to overspend & run up deficits



Lack of Property Rights & Access to Credit

Lack of Property Rights

- Institution of civil ownership & property rights weak in LDCs
- Investment suffers since property cannot be used as collateral on loans for business
 - Hernando de Soto (Peruvian economist) coined term ‘dead capital’ to refer to assets that could not be sold, bought, valued or used as investment because no one actually owned them or had right to exchange them
- Lack of land ownership hurts poor as they have no incentive to improve land via capital enhancements eg. wells for dry season, planting trees to bind topsoil

Lack of Property Rights & Access to Credit: Argentina & Bolivia

Lack of Credit

- Many LDCs lack effective banking system to offer secure deposits to savers (HHs) and access to credit to borrowers (firms)
 - Leads to capital flight as savers seek safe havens and lack of productivity enhancing investments by small businesses

Domestic Factor Promoting Economic Development: *Micro Credit (Finance)*

- Micro credit provides financial credit or technology to entrepreneurs in poor communities to create small businesses
- Loans may be issued by community banks or international micro-finance institutions i.e. Grameen Bank in Bangladesh





Lack of Good Governance: *Political Instability*

Political Instability

- Absence of governmental institutions ensuring civil, political and legal rights are upheld leads to social instability, corruption, persecution of the weak, oppression, nepotism etc...
- Political instability often arises due to the absence of all or one of the following:
 - Rule of law
 - Legal institutions
 - Democratic institutions
- Estimates show that civil & armed conflict in Africa over last 30 years have kept investment (domestic & foreign) lowest in the world and approx. 40% of continent's wealth is held abroad



Lack of Good Governance: Corruption

Corruption

- Dishonest exploitation of power (*via bribes, extortion, fraud, patronage, influence peddling & nepotism*) for personal gain occurs in countries where
 - governments unaccountable to people (esp. military regimes)
 - official accounting practices not well informed or controlled/monitored
 - public officials not well paid
 - Elections non monitored (or don't exist)
 - Legal structure weak & freedom of speech/press suppressed by state
- Corruption stunts growth and development through several factors:
 - Electoral corruption means government in place not respecting wishes of majority ; less benefits & equitable policies put in place
 - Corruption hinders legal system as wealthy & powerful can buy their way out of trouble
 - Inefficient allocation of resources if contracts go to highest bidder vs. most efficient producers

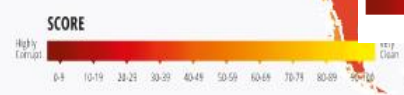
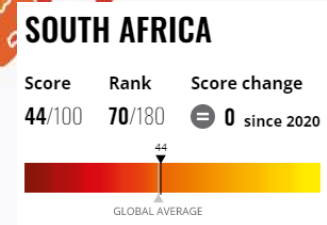
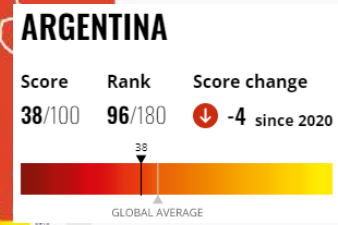
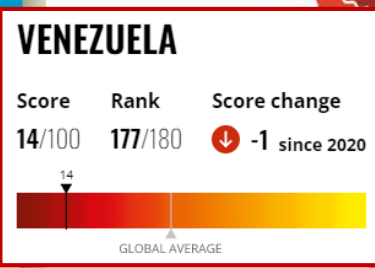
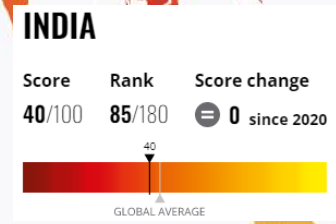
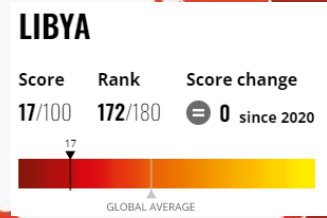
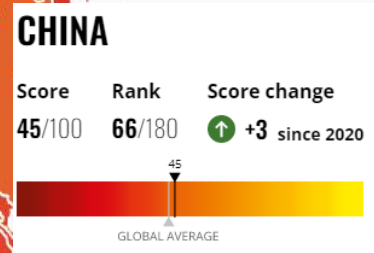
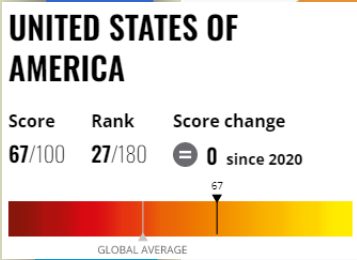
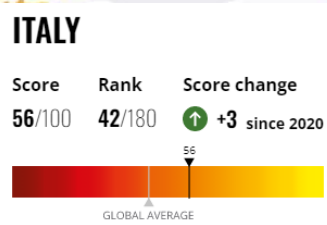
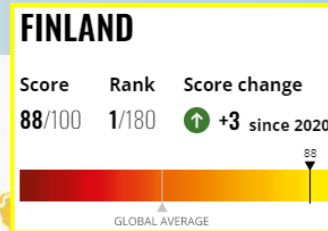
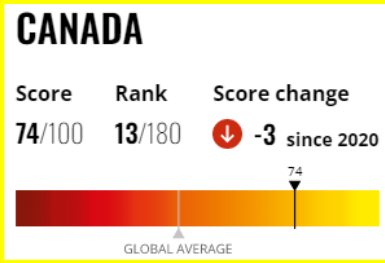


Lack of Good Governance: Corruption

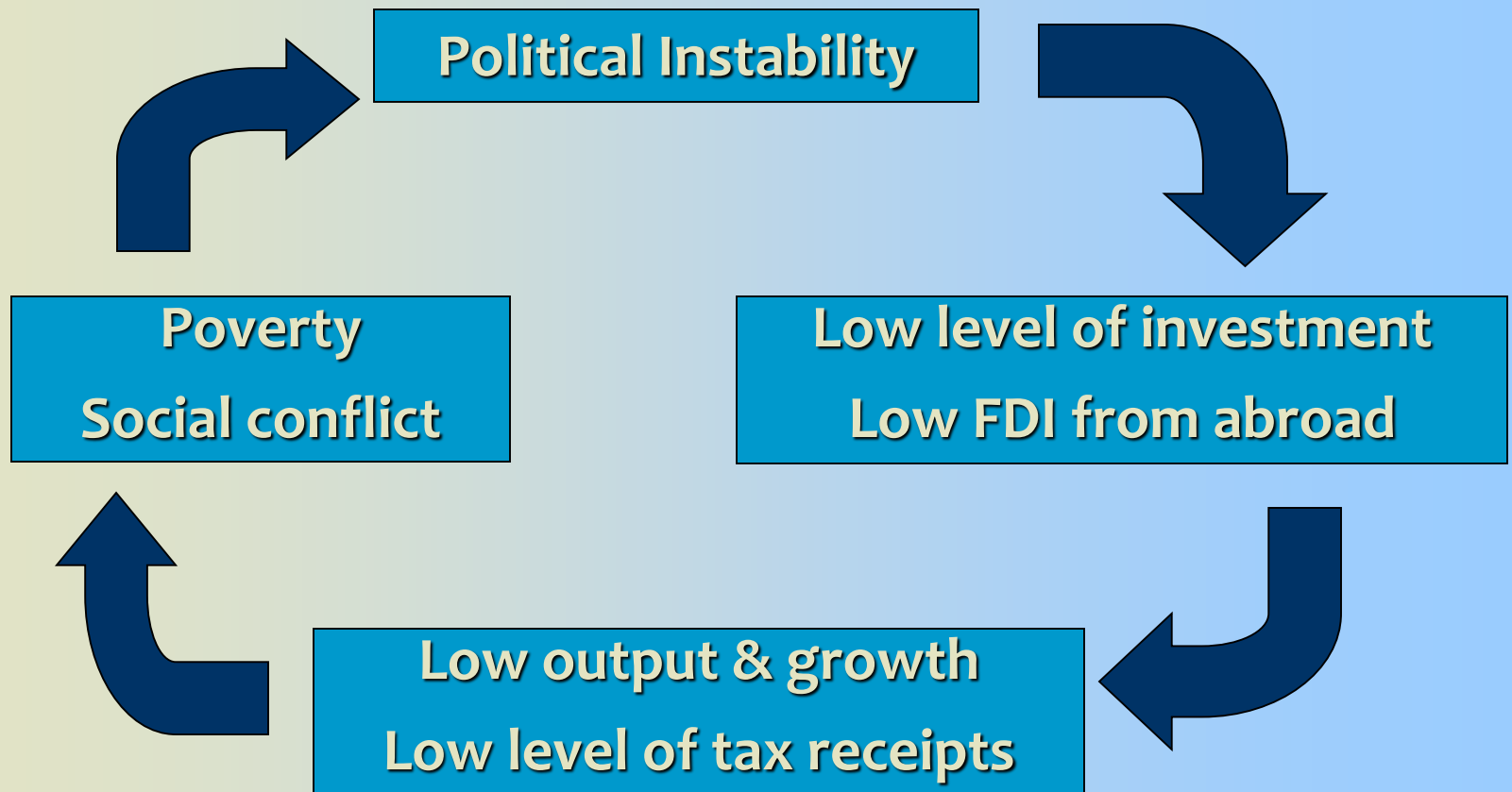
Corruption

- Corruption stunts growth and development through several factors: (continued)
 - Bribes raise cost of doing business
 - Corruption increases risks of contracts not being honoured and reduces trust in an economy → ↓ foreign & domestic investment
 - Corruption means blind eye turned towards regulations such as those governing construction & environment → hinders sustainable development
 - Corruption encourages officials to divert public tax dollars towards capital projects where bribes/kickbacks more likely → key public services such as education and health care suffer due to reduced investment
 - Monetary gains of corruption contribute to capital flight as money flees the country

Lack of Good Governance: *Corruption Perceptions Index (CPI)*



Results of Political Instability

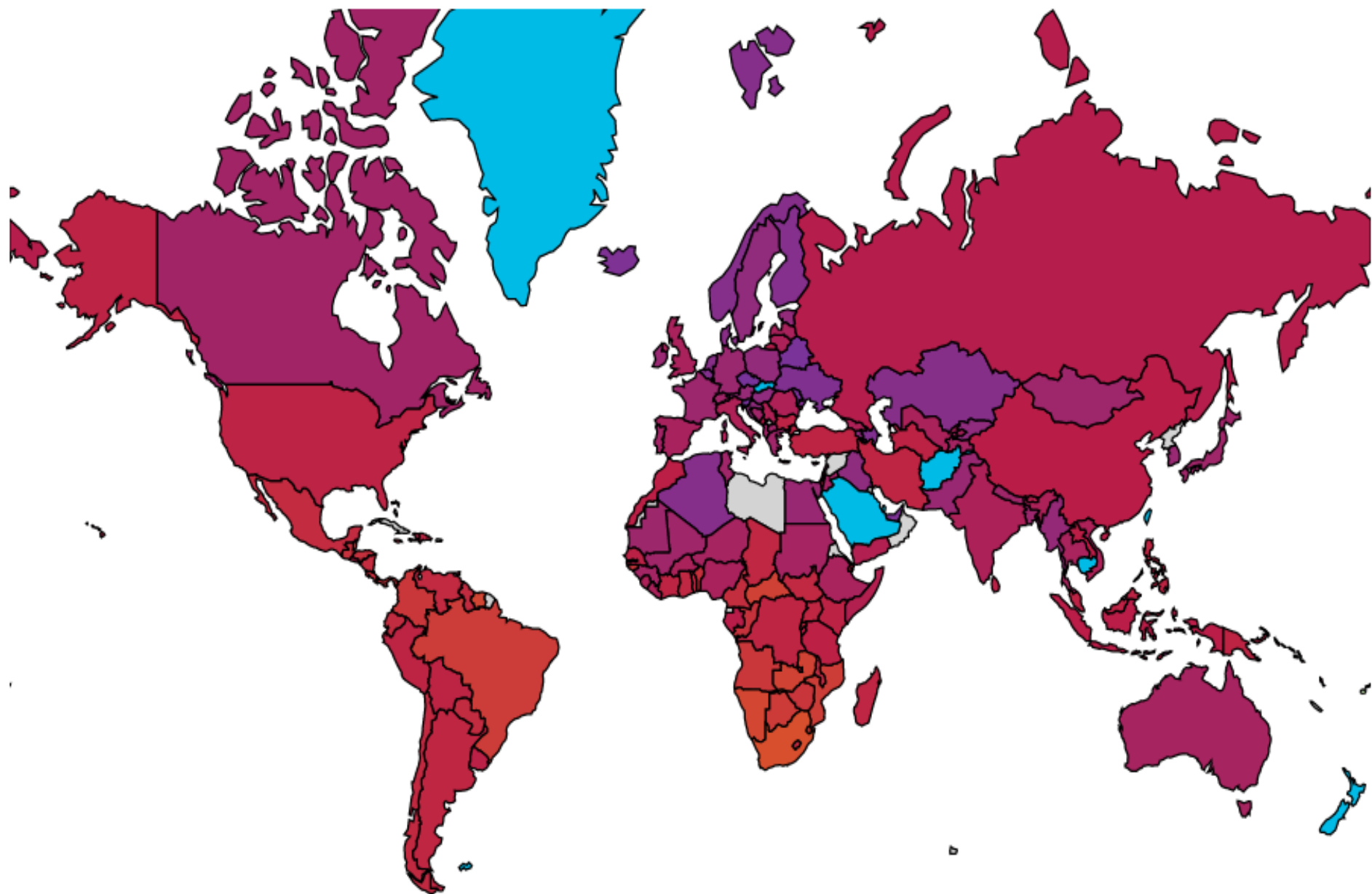




Inequitable Income Distribution

- More evenly distributed incomes contribute to greater economic growth, while a highly uneven income distribution leads to adverse effects on human development:
 - Higher poverty levels
 - Higher crime levels
 - Sub-optimal economic performance (low savings leads to low investment)
 - Poor neglected as rich exert control over economic and political system via favouritism & crony capitalism

Gini Coefficient by Country 2021



Gini % - World Bank





Lack of Infrastructure

- Basic infrastructure such as network of roads, communication, electricity and gas, health care and education, water & sanitation enable economic activity
- Good infrastructure vital for transportation, production, attracting investment (foreign) and improving living standard for citizens
- Low levels of infrastructure in LDCs can:
 - Increase the costs of trade due to lack of seaports, airports & transportation networks
 - Increase urbanization as people flock to find schooling, housing and health care in cities
 - Reinforce low economic benefits for society if infrastructure available in one area but lacking in another (eg. recent study showed irrigation scheme in Vietnam hindered by low literacy levels among adults)



Domestic Factor Promoting Economic Development: *Education*

- An educated population is able to contribute more to GDP of LDC
 - Strong correlation exists between education & income
 - As access to education increases, productivity of workers rise & improves potential individual & national income in process
 - Nepal – in 1981 only 20% of adult population could read & write & GDP/cap. = \$148. By 2008, literacy rates tripled to 58% & per capita income grew to \$440



Domestic Factor Promoting Economic Development: *Health*

- Improved health & longer life contribute to development in such areas as income & education
- Improved infant mortality & life expectancy help people shift focus towards becoming more productive members of economy & raising income levels & quality of life
 - Nepal – between 1960 & 2008 infant mortality ↓ from 250 deaths/1000 to 40 in 2008 & life expectancy improved from 40 to 64 years; subsequently over this time GDP/cap. ↑ 10xs



Social & Cultural Barriers to Economic Development

- *Religion, culture, tradition, customs and gender issues* facilitate economic development by:
 - Allowing people to adapt to economic changes
 - Providing rights to all citizens
 - Enabling citizens to partake in society
 - Providing social stability



Culture and Tradition

- Culture and tradition act as means by which way of life passed on and continuity provided
- Cultural values and traditions impact development by potentially obstructing change:
 - western legal and democratic institutions may not be readily adopted by vested interests and power elites
 - i.e. development initiatives based on implementation of private property rights in agrarian societies difficult given traditional communal landholding patterns



Gender Issues

- Gender inequality prevents women from partaking in education, civil rights and health care
- Key MDG of UN: “*Promote gender equity and empower women*”

Education:

- 2/3 of children not attending schools are girls
- Better educated women have
 - better career opportunities
 - marry later – which lowers birth rate & increases survival rate of children
- Female education is an investment that raises national income



Gender Issues

■ *Legal Rights:*

- Large differences exist between men's and women's right to own and inherit property in many developing countries
- Discriminatory laws and customs in LDCs prevent women from having 'bargaining power' within the household, which increases the dependence of women on men

■ *Health Care*

- Gender inequality in health care evident in high infant mortality statistics in developing world
- Social and cultural norms favour sons over female children – leads to selective abortion and outright infanticide in some LDCs



Domestic Factor Promoting Economic Development: *Empowering Women*

Reduced Fertility Rates

- More educated women tend to have fewer children and thus are able to better nourish and educate children and improve productivity of nation's workforce
- Slower population growth raises per capita income and improves nation's living standard

Women in the Work Force

- Women tend to be equally productive as men in LDCs and can contribute to economic activity by creating jobs & income through small businesses and partaking in the workforce
- Better educated women improve their productive potential and incomes while generating better lives for themselves & their children
 - improved access to health care & education promote potential economic growth & development