SENIOR FIVE ECONOMICS. [MR. KIBUUKA GODFREY & MR. KIZITO JAMES]

ECONOMIC GROWTH AND ECONOMIC DEVELOPMENT:

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's persistent quantitative increase in the GNP/GDP of an economy over time.

DETERMINANTS/FACTORS THAT INFLUENCE/AFFECT ECONOMIC GROWTH:

- **The level of exploitation of natural resources.** High level of exploitation of natural resources leads to high supply of raw materials which leads to high volume of goods and services and thus high rate of economic growth, while low level of exploitation of natural resources limits supply of raw materials which leads to low volume goods thus low rate of economic grow.
- **Level of skills of workers/Availability of skilled labour force;** High level of skills of workers leads to high level of efficiency and productivity of the workers which leads to high volume of goods and services and thus high rate of economic growth, on the other hand limited skills of workers leads to low level of efficiency of the workers which leads to low volume of goods and services and thus low rate of economic growth.
- **The land tenure system;** A good land tenure system makes it easy to acquire land and set up economic activities which leads to high volume of goods and services thus high rate of economic growth, while a poor land tenure system makes it hard to acquire land which limits investment leading low level of output and thus low rate of economic growth
- **Level of existing capital stock;** Adequate liquid capital enables producers to acquire sufficient factor inputs which increases production of goods and services and thus high rate of economic growth, on the other hand limited capital makes it hard for producers to acquire sufficient factor inputs which limits production leading to low rate of economic growth
- **Level/State of technology /the techniques of production;** Better techniques of production leads to increased volume of goods and services produced due to reduced costs of production and thus high rate of economic growth, on the other hand, poor state of technology lead to high costs of production which discourages production and thus low rate of economic growth
- **The political atmosphere/political climate:** Political stability encourages production because producers settle down to carry out production since they are not scared of losing their lives and property and thus high rate of economic growth, while political instability discourages production because producers are scared of losing their lives and property thus low rate of economic growth.
- **The market size:** Large market size encourages investors to increase production of goods and services in order to earn more profits thus high rate of economic growth, while small market size discourages investors from producing on large scale due to low profit levels thus leading to low rate of economic growth.

- **The level of monetisation of the economy/size of subsistence sector;** A large subsistence sector limits production because producers just produce a little for their needs thus low rate of economic growth, while a small subsistence sector encourages production because producers are keen to put more output on the market and increase profit levels thus high rate of economic growth.
- **The entrepreneurial ability/level of entrepreneurship;** High level of entrepreneurial ability encourages innovations and inventions which leads to high level of production and thus high rate of economic growth, while low level of entrepreneurial skills limit innovations and inventions among producers which leads to low levels of production and thus low rate of economic growth.
- **The level of infrastructural development;** High level of infrastructural development encourages production because it lowers the costs of production thus high rate of economic growth, while underdeveloped infrastructure discourages production because it increases costs of production thus low rate of economic growth.
- **The price levels/Rate of inflation.** Low rate of inflation encourages production due to the low cost of acquiring factor inputs thus high rate of economic growth, while high rate of inflation discourages production because of high cost of acquiring factor inputs thus low rate of economic growth.
- **The population growth rate;** High population growth rate leads to high dependence burden which limits savings leading to low levels of investment and therefore low rate of economic growth, while low population growth rate leads to a low dependence burden which encourages savings thus high levels of investment leading to high rate of economic growth.
- **Level of savings;** High level of savings leads to increased investment because it avails more funds to the investors which increase production of goods and services thus high rate of economic growth, while low levels of savings leads to low levels of investment because of limited investment funds which limits production and thus low rate of economic growth.
- **The level of accountability;** High level of accountability attracts more investors because they easily acquire licences and set up economic activities which leads to increased production thus high rate of economic growth, while low levels of accountability discourages investors because they find it hard to acquire licences which limits setting up economic activities leading to low production and thus low rate economic growth.

- **The degree or level of conservatism;** High degree of conservatism limits production of goods because many people stick to the traditional methods of production which are low yielding and thus low rate of economic growth, while low level of conservatism encourages production of goods because many people embrace modern methods of production which are high yielding and thus high rate of economic growth rate.
- **The attitude towards work;** Positive attitude towards work leads to high volume of output produced because workers put in more effort in doing economic activities thus high rate of economic growth, while negative attitude towards work limits production because people are lazy and not willing to put in extra effort to do economic activities and thus low rate of economic growth.
- **Availability of investment incentives;** High level of investment incentives to investors in form of tax holidays, subsidies reduce the cost of production and thus motivates producers to

produce more goods and services in order to earn more profits hence high rate of economic growth, on the other hand limited investment incentives increases the cost of production and thus discourage producers from increasing output leading to 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:

Benefits of economic growth.

- **Provide employment opportunities.** This is due to various investments/projects that are established which hire different categories of people in order to engage in the production of goods and services.
- **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 taxes the output produced and the profits earned by the various production units.
- **It widens consumers' choice.** This is so because a variety of goods and services are produced.
- **Promotes infrastructural development.** The government is compelled to construct better roads in order to ease movement of raw materials to the production units and the products to the market.
- **Enhances/promotes technological development**. The investors carry out innovations and inventions in order to improve technology and produce more output to earn more profits.
- **Facilitates development of labour skills.** People train to acquire the skills so as to be able get jobs in the various production units.
- **Breaks /reduces conservatism/cultural rigidities /backwardness.** Economic growth involves adoption of modern values by the nationals due to interaction with the foreign investors, this helps to reduce conservatism.
- **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 which reduces shortage of essential goods and thus controlling structural inflation.

Costs of Economic growth:

- **It leads to unemployment due to automation/leads to technological unemployment**. This is because entrepreneurs adopt capital intensive technology to increase output which makes them to hire fewer workers.
- **It widens income and wealth disparities**. Resource owners produce and earn more income as compared to those with fewer resources.
- **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 due to urban concentration of investment activities which develop faster than the rural areas.
- **Leads to rural urban migration and its associated evils.** This is because commercial activities concentrate in urban areas which attract people from rural areas to look for employment opportunities.
- **Leads to high levels of occupational hazards.** This is due to the desire to increase outputs and thus make people to hurriedly do the work resulting into accidents where some employees get bodily harm.
- **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 non-renewable resources due over-exploitation.** This arises due to increased demand for inputs/raw materials for use by the producers.
- **It leads to profit repatriation/ capital outflow**. This is because some of the enterprises are foreign owned and thus earned profits are repatriated.
- **Leads to increased or high dependence on external resources/leads to debt burden.** This is because the country borrows externally to increase investment and production.
- **It leads to low quality of output**. This is because more emphasis is put on increasing output by the investors.
- **Leisure time is scarified.** This is because more hours are spent at work to increase output.
- **Leads to foregoing current consumption/ Leads to sacrifice of present consumption**. This is because people and the nation save more of their disposable income to accumulate funds for investment.

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.

DEVELOPMENT GOALS/OBJECTIVES;

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:

- **To attain high and stable economic growth rate.** This will involve investment in many sectors to increase production levels.
- **To achieve price stability** This will involve use of fiscal and monetary policies.
- **To attain full employment** to reduce the level of unemployment. This will involve use of investment incentives to attract investors to set up more businesses.
- **To improve the balance of Payment position**. This will involve increasing domestic production and minimise importation of goods to minimise import expenditure.
- **To attain equitable distribution of income**. This will involve use of progressive taxation so as to take away more from the rich and less from the poor.
- **To control population growth rate**. This will involve encouraging people to use family planning methods so as to produce fewer children.
- **To reduce illiteracy /to improve labour skills/ to improve the education system**. This may involve making basic education free and therefore affordable by the majority.
- **To reduce economic dependence/ to attain self sufficiency**. This will involve increasing domestic production to reduce dependence on imported goods.
- **To provide security to people and their properties/To improve political climate**. This will involve strengthening the army and the police to make them more professional and vigilant.

FEATURES OF ECONOMIC DEVELOPMENT:

- Self sufficiency economy
- Political stability
- Well developed infrastructure
- High level of literacy
- High level of technology
- Reduced cultural rigidities/Social transformation

- High level of commercialisation of the economy
- High employment levels.

INDICATORS OF ECONOMIC DEVELOPMENTIN 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

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.

1. The traditional society stage

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.

- 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.

2. The pre-condition to take off stage/ transitional 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 comes 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 rate reduces.
- Emergence of foreign trade/ the economy becomes open/ the economy opens to 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.

3. The takeoff stage:

At this stage economic dependence reduces significantly and obstacles to economic growth are removed.

Features of the take off stage:

- High levels of savings of about 10- 15% of GDP/NY/GNP
- High levels of investment 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.

4. The drive to maturity stage;

At this stage the economy realises self-sustained economic growth. The means of production and ways of living are guided by science and technology.

Characteristics of the drive to maturity stage:

- 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.
- High levels of industrialisation
- High levels of infrastructural development
- High employment opportunities in the country
- The economy becomes self-sustaining and self-reliant.

- High levels of monetisation.
- High levels of skills of workers

5. High mass consumption stage;
At this level the standard of living is very high.

Features of the high mass consumption stage;

- Very high per capita income
- Concentration on production of high-quality consumer goods
- Very high specialised and sophisticated technology.
- The country has a lot of influence on the world affairs
- Consistent economic and political stability.
- High rate of savings of about 30% of GNP
- High level of investment of about 30% of GNP
- High level of production and consumption of luxury goods
- High levels of urbanisation
- Favourable balance of payment position

APPLICATION OF ROSTOW'S STAGES TO UGANDA;

Uganda's economy is at the pre-condition to take-off stage because of the following reasons;
- Increased agricultural productivity or commercialization of agriculture.
- Emergence of entrepreneurial class.
- Emergence of industries to process agricultural commodities.
- Increased employment creation.
- Dualistic tendencies emerge.
- 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/weaknesses of Rostow's growth theory

- It is difficult to demarcate one stage of 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, political climate, 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.

BALANCED GROWTH THEORY:

This theory was advanced by Ragner Nurkes and it 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.

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 the balanced growth theory in developing countries.

- **It leads to promotion of inter-sectoral linkages in an economy** resulting in an integrated and self-sustaining economy. This is because all sectors are developed at the same time and they provide market or support each other.
- **It improves labour skills.** This because there is training of labour to work in the various sectors of the economy.
- **It improves the balance of payment position.** This is because production level at home increases which enables the country to reduce importation and at the same time surplus output is exported.
- **It widens the tax base.** This is because the government imposes taxes on the various economic activities.
- **It leads to increased national income / economic growth.** This because there is increased production from the various sectors of the economy.
- **It leads to creation of employment opportunities.** This is because there are a number of economic activities in the various sectors of the economy from which people secure jobs.

- **It leads to increased resource utilisation.** This is because there is increased demand for raw materials in the various sectors of the economy.
- **It reduces dependence on other economies / on one sector.** This is because of increased domestic production which reduces importation of goods.
- **It reduces income inequality.** This is because there are increased economic activities in all sectors which evenly distribute incomes in the country.
- **It leads to regional balanced development.** This is because all sectors and regions are developed at the same time and output level increase in all.
- **It leads to technological development.** This is there is increased innovations and inventions by the producers which results into better techniques of production.
- **Promotes infrastructural development.** The government is compelled to improve infrastructure so as facilitate investment in the various sectors of the economy.
- It leads to production of a wide variety of goods which widens consumers' choice.
- **It leads to production of better quality goods.** This is due to competition by the various production units in the different sectors of the economy

Disadvantages of a balanced growth theory:

- **It is expensive to carry out**. This is because it requires a lot of capital to invest in all sectors of the economy which makes it costly to implement.
- **It leads to wastage due to limited market.** This is because it results into over production in the various sectors of the economy.
- **It leads to quick depletion of resources.** This due to the high demand for raw materials in the various sectors of the economy.
- **It results into a big debt burden.** This is because the strategy necessitates a lot of external borrowing in order to get capital to invest in the various sectors of the economy.
- **It leads to inflationary tendencies in the short run.** This is due to putting much emphasis on the development of social overhead and producing at high costs.
- **It leads to dependence on external resources**. This is because the country relies heavily on imported technology, externally borrowed capital and skilled labour so as to facilitate development in all sectors of the economy.
- **It strains government planning machinery**. This is because government officials have to plan for all the sectors of the economy.

Limitations to the adoption of balanced growth theory in developing countries.

- **Limited capital**. This limits acquisition of the input such as raw materials and skilled labour which limits investment in all sectors of the economy.
- **Limited skilled labour;** This limits investment in all the sectors of the economy due to low labour efficiency and productivity.
- **Limited entrepreneurial skills;** This limits inventions and innovations and the number of people who are ready to take risks in the various sectors of the economy.
- **Inadequate market**. This discourages investment in the various sectors of the economy for fear of making losses.

- **Poor/underdeveloped infrastructure.** This leads to high cost of production which discourages investment in the various sectors of the economy due to low profit levels.
- **Poor or un- coordinated planning;** this reduces the complementarity of all sectors and therefore reduces the rate of economic growth.
- **Weak inter-sectoral linkages**. This reduces the rate of economic growth because the sectors fail to aid one another.
- **Limited investment incentives**. High rate of taxation discourages investment in all sectors due to low 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 THEORY:

This theory was advanced by Professor Albert Hirschman and it states that "the leading sector with strategic importance be selected first and expanded so that it pulls up or develops other sectors through linkages.

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 to use the products of an already existing industry as inputs/raw materials. It encourages investment in the subsequent stages e.g. the construction of a shoe making factory due to existing leather turning factory.

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

Advantages of the unbalanced growth theory:

- **It is suitable for the limited resources.** This makes it easy to implement it since is easy to purchase the required inputs and carry out production.
- **It encourages specialisation.** This is because it advocates for investment in the key leading sector, this enables to enjoy merits of specialisation.
- **It leads to induced investment in other sectors.** This is because development of the leading sector enables other sectors to develop through linkages.
- **It leads to limited wastage.** This is because relatively low output is produced which is suitable for the small market in developing countries.
- **Leads to development in a defined order.** This is because investment is done according to needs of the country.

Disadvantages of unbalanced growth

- **It leads to limited employment creation.** This is because the theory advocates for the development of the leading sector where other sectors are left out and thus limiting employment creation.
- **It leads to sectoral imbalance in development.** This is because it advocates for the development of the leading sector.
- **It leads to economic dependence.** This is because development of one sector creates shortage of goods in the economy which necessitates importing goods from other countries.

THE BIG PUSH THEORY:

This theory 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 the theory be to successful, the following must be in place;

- Adequate capital
- Large market size
- Adequate supply of skilled labour
- Presence of good entrepreneurial skills
- Presence of investment incentives.
- Presence of good infrastructure.
- Favourable land tenure system
- Presence of proper 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.
- **Leads to production of a variety of industrial goods.** This is because different industries are set which engage in production of different types of goods; such goods widen consumers' choice.
- **It improves labour skills.** This is because people train to acquire the necessary skills so as to be able get jobs in the industries.
- **It leads to increased resource utilisation.** This is because of increased demand for raw materials by the industries.
- **It leads to technological development.** This is because innovations and inventions are encouraged so as to develop the technology to use in the industries.

- **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.** This is because it leads to increased industrial output.
- **It improves the balance of payment position.** This is because it leads to increased domestic production which reduces the volume of imports and the same time, increased exportation of industrial goods which leads increased foreign exchange earnings.
- **It widens the tax base.** This is because the government taxes the industrial products as well the profits earned the industries.
- **It reduces the economic dependence.** This because it enables the country to reduce importation of industrial goods.
- **It promotes linkages between industries.** This because the industries provide market to each other.

Disadvantages of the big push theory:

- **It expensive to undertake.** This is because it requires a lot of capital to purchase machines and raw materials needed by the industries.
- **It leads to a big debt burden.** This is because it requires external borrowing in order to invest massively in industries and infrastructure.
- **It leads to wastage due to limited market.** This is because it results into overproduction of industrial goods yet the market for such goods is inadequate in developing countries.
- **It leads to quick depletion of resources.** This is due to over exploitation as a result of high demand of raw materials.

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

- **Inadequate capital.** This limits purchase of machinery, raw materials and land for the establishment of economic infrastructure and industries.
- **Limited labour skills.** This leads to low labour productivity and efficiency which hinders industrial development.
- **Inadequate market.** This discourages production in the industrial sector for fear of making losses.
- **Limited entrepreneurial skills.** This limits innovations and inventions which discourages industrial development.
- **Limited investment incentives.** This leads to high cost of production which discourages investment in the industrial sector due to low profit levels.
- **Underdeveloped infrastructure.** This leads to high cost of production which discourages investment in the industrial sector due to low profit levels.
- **Political instability.** This discourages investment in the industrial sector due to fear of losing lives and property by the potential investors.
- **Poor land tenure system.** This limits accessibility to land by potential investors which limits industrial development.
- **Poor accountability.** This makes it hard for the potential investors to acquire licences because they are asked for bribes by government officials.
- **Conservatism.** People refuse to embrace change which limits industrial development.

- **Weak policy implementation machinery.** This machinery cannot adequately plan and coordinate the development of industries.

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.

Forms of poverty

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

CHARACTERISTICS OF THE POOR:

- Inadequate supply of food which causes malnutrition.
- Shortage of clean and safe water especially in rural areas.
- Poor housing conditions.
- Shortage of fuel in form of wood for cooking.
- Shortage of essential commodities such as sugar, salt and soap.
- Underdeveloped infrastructure.
- High level of illiteracy.
- High degree of conservatism.
- Predominance of subsistence production.
- Low life expectancy.
- Low self esteem.
- Heavy debt burden to individuals.
- High prevalence of curable and preventable diseases such as malaria

GENERAL CAUSES OF POVERTY IN UGANDA:

- **High level of unemployment.** The unemployed hardly earn any income and therefore have little or nothing to spend.
- **Limited market.** This discourages commercial production which makes people to remain poor.
- **High population growth rate.** This makes them to spend a lot on consumption and hardly save for investment.
- **Political instability/unrest/turmoil.** This discourages production because people fear to lose their lives and property.
- **Limited capital.** This limits acquisition of inputs leading to low investment.
- **Unfavourable natural factors.** This destroys crops and animals living farmers with low incomes.

- **Underdeveloped infrastructure.** This limits investment due to high cost of production.
- **Mental and physical incapacitation.** This limits some people from accessing opportunities to enable them earn a living.
- **Limited labour skills.** This makes it hard for such people to acquire employment.
- **High degree of conservatism.** Many people stick to their traditional methods of production which are low yielding.
- **Predominance of subsistence production.** Many people produce for their own consumption therefore they hardly earn income.
- **Poor state of technology.** This limits investment due to high cost of production.
- **Low levels of accountability/ corruption.** Money meant for poverty alleviation projects is stolen and the projects are not undertaken.
- **Limited strategic natural resources.** This 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.
- **Low levels savings.** This limits investment due to limited capital base.

EFFECTS OF POVERTY IN AN ECONOMY:

- Leads to low life expectancy.
- It increases the crime rate.
- Leads low levels of literacy.
- Leads to brain drain.
- Leads to low tax revenue.
- Accelerates rural urban migration and its associated evils.
- Worsens income inequality.
- It leads to social unrests and instabilities in families.
- Leads to excessive government expenditure on provision of social services.

MEASURES THA CAN BE TAKEN BY THE GOVERNMENT TO FIGHT POVERTY:

- Build/Improve infrastructure.
- Modernise the agricultural sector.
- Encourage provision of affordable credit facilities.
- Control population growth rate.
- Ensure political stability.
- Subsidise the poor.
- Reform the land tenure system.
- Provide investment incentives

THE VISCOUS CYCLE OF POVERTY

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.

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.
- Dominancy of agriculture/primary production.
- High population growth rate.
- High unemployment rate.
- Low levels of life expectancy.
- High degree of illiteracy.
- Political immaturity/ Instability.
- High level of dependence on the developed economies.
- Existence of dualism.
- There is existence of income inequality.
- Weak and underdeveloped industrial sector/ There is excess at capacity in the industrial sector.
- Developing countries experience poor terms of trade.
- Low productivity.
- Large subsistence sector.
- There is under developed infrastructure.

CAUSES OF UNDERDEVELOPMENT IN DEVELOPING COUNTRIES:

- **High population growth rates**. This increases per capita consumption and reduces 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.** This leads to low levels of savings which limits investment thus low production levels.
- **High level of conservatism**. This limits adoption of better methods of production which leads to low yields.
- **Dominance of subsistence secto**r. Many people produce for own consumption hence low volume of output of goods produced thus underdevelopment.
- **High debt burden and the problem of debt servicing**. The country loses a lot of foreign exchange due to debt repayment obligations which limits the amount of capital for investment.
- **Limited entrepreneurial abilities**. This leads to limited innovations and inventions which limits expansion of firms.
- **Over reliance on foreign aid which kills the local initiative**. Sometimes it delays; it is not sufficient which limits investment leading to low production.
- **High level of corruption/ Low levels of accountability.** This leads to resource diversion thereby failing important projects.
- **Unfavourable terms of trade**. This limits earnings from international trade which leads to shortage of foreign exchange thus limited investment leading to low production.
- **Limited market**. This discourages producers since they fear to lose their lives and property.
- **Limited skilled labour**. This leads to low labour productivity and efficiency hence low output produced.
- **High rates of capital outflow**. This limits capital for investment leading to low production.
- **Political instabilities/ Political unrest**. This discourages investment since investors fear to lose their lives and property.
- **Poor infrastructure**. This discourages production due to high cost of production thus low output.

- **Heavy dependence on agriculture**. Prices of agricultural products fluctuate which leads to unstable incomes of the producers which discourages them from carrying out further production.
- **Poor land tenure systems**. This limits accessibility to land thus discouraging investment and low output.
- **Limited investment incentives**. This discourages potential investors due to high cost of production leading tom low output.

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 procedures 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.