POLICES FOR ECONOMIC DEVELOPMENT

Prof. S.M Suresh

Dnyansadhana College Thane (W)

Abstract : Economic development implies an improvement in economic welfare through higher real GDP, but also through an improvement in other economic indicators, such as improved literacy, better infrastructure, reduced poverty and improved health care standards.

Key words:economic development , Policies , macro-economic .

INTRODUCTION

Policies for economic development could involve:

1.Improved macro-economic conditions (create stable economic climate of low inflation and positive economic growth)
2.Free market supply side policies – privatization, deregulation, lower taxes, less regulation to stimulate private sector investment.
3.Government interventionist supply side policies – increased spending on 'public goods' such as education, public transport and health care.

For developing economies, other issues could involve:

1.Export Oriented Development – Reduction in tariff barriers and promoting free trade as a way to improve economic development.
2.Diversification away from agriculture to manufacturing as a way to promote economic development.

Policies for Economic Development

Macro-Economic Stability

Macroeconomic stability would involve a commitment to low inflation. Low inflation creates a climate where foreign investors have more confidence to invest in that country. High inflation can lead to devaluation in currency and discourage foreign investment. To create a low inflationary framework, it requires:

•Effective monetary policy. E.g. given a Central Bank independence to control inflation through using monetary policy.
•Disciplined Fiscal Policy – i.e. avoid large budget deficits.
•For example, if you look at current situation of China and India – they both have high rates of economic growth, but the concern is that their economies could easily 'overheat' and cause inflationary pressures. Therefore, to keep a lid on inflation is an important underlying factor in sustainable economic development. A potential problem of macroeconomicstability, is that in the pursuit of low inflation, higher interest rates can conflict with lower economic growth – at least in the short term. Sometimes, countries have pursued low inflation with great vigor, but at a cost of recession and higher unemployment. This creates a constraint

to economic development. The ideal is to pursue a combination of low inflation and sustainable economic growth.

It depends on the economic situation, some countries may be in a situation where there is a fundamental lack of demand due to overvalued exchange rate and tight monetary policy. Therefore, economic development may require demand side policies which boost aggregate demand.

Macro-economicstabilization may involve policies to reduce government budget deficits. However, this may involve spending cuts on social welfare programs.

2. Less Restrictive Regulation and Tackle Corruption

Some developing countries are held back by over-restrictive regulation, corruption and high costs of doing business. To attract both domestic and inward investment, it is necessary to remove these costs and create a climate which is conducive to business. To tackle corruption may not be easy, but it is often one of the biggest constraints to economic development.

Also, in the effort to reduce levels of regulation, it is important that useful regulations such as protection of environment aren't discarded in efforts to attract inward investment. Otherwise economic growth may come at the expense of sustainable development.

3. Privatization and De-regulation

An important aspect of China's rapid economic development was the decision to move from a Communist economy to a mixed economy. Several state owned industries were privatized. This gives firms a profit incentive to cut costs and aim for greater efficiency. De-regulation involves making state owned monopolies face competition. This greater competitive pressure can help to create incentives to cut costs. Greater competitive pressures may also be gained through liberalizing trade and opening markets to international competition.

A potential problem of privatization is that it can exacerbate inequality in society. In Russia, privatization enabled a small number of oligarchs to gain control of key industries at low cost. Arguably, this does little for economic development because the nation's resources become owned by a small number of very rich individuals, and there is little 'trickle down' to poorer members of society.

4. Effective Tax Structure and Tax Collection

One of the challenges developing economies often face is to effectively tax and collect what they are supposed to. If the government is unable to collect sufficient tax from the richest aspect of the economy (e.g. production of natural resources) there will be little funds to finance necessary public sector investment in services with a high social benefit. For example, the average tax rate in Sub-Saharan Africa is only 15% of GDP – compared to an average of 40% of GDP in developed world.

But average revenue collection rates in Sub-Saharan African countries stood at only 13.3 percent of GDP during 1990 to 1994. They increased very slightly to 15.6 percent during 2000 to 2006…. And the researchers found that – and this is even more alarming – most of this slight increase came from sources such as value added taxes, which tend to burden the poor more heavily than the wealthy.

5. Investment in Public Services

In areas such as education, health care and transport, there is often market failure – the free market doesn't provide sufficient levels of education. A key factor in improving economic development is to increase levels of literacy and numeracy. Without basic levels of education and training, it is very difficult for economy to develop into higher value added industries.

Evidence on returns from investing in education are mixed. Often investment takes a long time to feed through into directly higher rates of economic growth. But, on its literacy is an aim of development.

6. Diversification away from agriculture

A constraint developing economies may face is that their current comparative advantage is in the production of primary products. However, these limit economic development due to volatile prices, low income elasticity of demand and finite nature. Therefore, economic development may require government encouragement of new industries in different sectors, such as manufacturing. This may require a temporary commitment to tariffs

See also: Lewis' model of a dual economy and arguments for shifting labour to manufacturing.

Attempts to diversify away from agriculture can have mixed results. Sometimes, countries with a poor basic level of infrastructure struggle to make effective use of capital investment in manufacturing. Some argue government attempts to encourage manufacturing industry is misplaced because they tend to have poor information about best kinds of industries to promote. It is better to allow free market to decide to which industries to invest in.

Role of IMF in Economic Development

The IMF can play a role in dealing with economic crisis. The IMF can give a country a loan to meet a temporary fiscal or balance of payments problem. This loan can be vital for helping the economy to deal with an unexpected crisis. Without the loan, the economy may have to experience a bigger fall in living standards to meet the creditors.

However, the role of the IMF is often criticised. In return for a loan, the IMF have often insisted on certain free market reforms in return for the loan. This has included

•Privatisation
•Tax reform
•Cuts in government spending (often on welfare payments)

These free market supply side policies have arguably often harmed economic development, e.g. reducing access to basic necessities and lower government spending on the poor.

However, the IMF often point out that they are usually asked to help only in crisis so there is often a difficult choice to make

World Bank and Economic Development

•The World Bank is a financial body committed to the reduction of poverty in developing countries. It offers long term loans for capital programs.
•The World Bank is committed to achieving its aims through the promotion of international trade, capital investment and foreign investment.
•The World Bank has often been criticised for its promotion of structural adjustment policies. These free market oriented policies have often caused, at least temporary, upheaval in the economy.
•In particular structural adjustment policies implement in sub-saharan Africa arguably failed to alleviate poverty when introduced in the 1980s.
•In response to these criticisms the World Bank has sought to change its policies of structural adjustment placing greater emphasis on maintaining social spending and improving education.

REFERANCE :

1.HarodDomar – model of economic growth – the role of savings and capital in promoting economic development
2.Economic development and tourism
3.The role of MNCs in developing economies Internet, Articlels