

Market or government: what best promotes development?

1. development + growth
2. measuring development
3. domestic factors (eg micro credit scheme)
4. international trade
5. FDI
6. Aid
7. indebtedness
8. aid or trade?

5 approaches to Poverty Reduction

Aid/intervention/regulation/government solutions

1. Domestic Factors: education + health (merit goods)
2. Domestic Factors: Empowerment of women
3. Domestic Factors: income distribution
4. Aid
5. Indebtedness

Market/trade based solutions

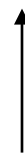
1. Domestic factors: microcredit
2. Domestic Factors: use of appropriate technology
3. FDI
4. Trade (WTO)

Market: = resource allocation system

- outward oriented strategy
- market based strategy
- free enterprise strategy
- free trade approach to development strategy
- laissez faire (let the market do/ Adam Smith)
- market function in terms of " signalling and incentive" i.e. resource allocation mechanism
- Profit motive " incentive function of market".
- Market mechanism allocates resources effectively : better resource allocation
- Privatization (firms privately owned)- firms and households benefit from higher wages and higher profits
- More growth: more resources available for development
- Government receives more tax revenue
- FDI encouraged.
- MNC's are welcome to do business in the domestic nation
- Market based / outward oriented strategy promotes free trade ie reduction of trade taxes (tariffs) and membership of the WTO (World Trade Organization) that supports free trade

Result:

1. Growth
2. Development (conditions necessary for)
3. Employment
4. Resource Allocation and efficiency



State: = resource allocation system

- **Intervention by government is common**
 - **planned/command economy is the extreme**
 - **import substitution strategy common**
 - **aid is key part of development strategy**
 - **state owned monopolies are common (these are inefficient producers)**
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- Government dominates economy and restrictions in place on markets or even an outright ban on market activity (command economy)
 - Nationalization (state owned enterprises) common
 - Low productivity (o/p per worker per hour low)
 - Low growth in economy: consequence of this is low development
 - Poverty common (including absolute poverty)
 - Problems with corruption

Result:

- 1. Economy stagnates**
- 2. Relative (to comparable nations) and absolute poverty (lack of food, shelter and clothing) evident**