DEPM 625

Assignment 1

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Does it still make sense to use the concept of a developing country? Do you think that in spite of all their diversity less developed countries share enough common characteristics? Explain your arguments.

According to the World Bank (Todaro & Smith, 2003) countries are categorized as developed and developing depending on per capita income, degree of international indebtedness and according to the level of human development index or HDI.

The developing countries have some common developmental issues and hence, in spite of all the diversity, they share some common developmental goals. Some of the most common objectives are as follows.

- Minimizing poverty, unemployment and inequality

The most important developmental obstacle is poverty and unemployment. The population and the size of the country can affect per capita income. For example, the size of the USA is three times larger than that of India, but the population of India is three times more than that of the USA. This affects the economic development of India. Per capita income decreases due to the large population number. This, in turn affects the national income. The resources are limited and shared by a large population, hence the limited supply of food and water. The living conditions, the quality of life affect health and personal development and education.

- Increasing the levels of living

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Most developing nations struggle with healthy habits, proper housing, nutritious food, and clean water. The population and the geography as well as the politics and the social structure play an important role in development. For example, the countries in Africa are affected by natural calamities like droughts and non-stable political structures, which prohibit growth of a country. On the other hand, countries in Asia have ample natural resources, but the development is affected by the social or cultural differences.

- Promoting international aids and free trading policy

Many developing nations struggle in international markets. The trading rules in some developing countries are very rigid and thus limit economic growth of a country. The government interference in markets can affect the demand-supply cycle and resource allocations, which in turn affect the price and trades. Less exposure to foreign markets also affects the growth of a nation.

- Promoting healthy lifestyle

Often, developing nations face the problem of low birth rate, malnutrition in children and mothers, diseases and limited access to medical treatments. It is necessary to have a healthy society for a country's development. Healthy people

In spite of the above common goals, developing countries show some diverse characteristics. Religious and political views can affect economic growth and development. Inequality in some cultures, discrimination between the genders and religious indifferences can lead to instability. Countries like Singapore and Hong Kong (Todaro & Smith, 2003), which are culturally homogeneous, have shown remarkable development in recent years. High dependency, low productivity, low resources, dominance by the developed countries, dictatorship and primary agricultural economy hinder the economic development. Hence, by concentrating on the developmental objectives, the developing countries can achieve the developmental goals.

What is meant by the term neoclassical counterrevolution? What are its principal arguments, and how valid you think they are? Explain your answer.

Neoclassical counterrevolution is a type of economic development theory adopted in the 80's (Todaro & Smith, 2003) by the developed nations such as the United States, Britain, Germany and Canada, where the public sectors became private, and the macroeconomic policies and the rational expectation theories received a priority. Due to the neoclassical counterrevolution, the markets became free in the developing countries and the public sectors were broken down and governments controlled economic activities. This theory supports free trade and increase in export and the government has minimal control over prices and imported goods.

Some of the arguments by supporters of this theory are:

- The pricing policies were unfair which resulted in underdevelopment because of irregular allotment of the resources.

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- The governments got too involved in the nation's economic activities, which slowed the development of some developing nations.
- The developed nations do not control the economy of the developing nations. Corruption, government interference has slowed down the economic growth of developing countries.

According to this theory, the demand and supply determines the production and the resources allocation should be determined by producers and consumers instead of government, which is often corruptive in developing nations.

For the development of the third world several things are needed but not limited to such as, population control, increase in foreign aid, and promoting international free trades. According to the market friendly analysis, the producers know what to supply depending on demand and determining the prices based on resources. Since the producers and the consumers are directly involved in the demand-supply process, any external interference such as the government can definitely slow down the process and hence affect the economic development. The public choice theory goes one step further and concludes that any amount of government interference can be harmful for economic growth and hence adopts this theory of new political economic approach. The market friendly approach is a theory that supports some government interference in some fields such as education, health, and infrastructures.

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According to Skinner (2007), the Philippines is a good example of neoclassical counterrevolution theory. Political changes, promotion of free markets, foreign investments, international aids, and privatization of the industries in the Philippines made a difference in the economic growth of the country. The government also paid attention to the infrastructure of the country as the foreign money came in via international trades. The Asian Financial Crisis of 1997, therefore, did not affect the Philippines because of low international debts.

The government and the markets are the two sides of economic development. For accurate demand –supply system and for a fair pricing policy, the market friendly approach is essential. On the other hand, government role is important for building infrastructure and improving health and education fields. The balance between government interference and free market policy along with many other factors, can promote development of a country.

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