Chapter-3

OBSTACLES TO ECONOMIC DEVELOPMENT IN DEVELOPING COUNTRIES

1. OBSTACLES OR CONSTRAINTS ON THE PATH TO ECONOMIC DEVELOPMENT IN DEVELOPING COUNTRIES

At present there are about **7.5** billion people living in the world. Out of these **80% (6.0 billion)** persons are living in developing countries. The per capita income in these countries is estimated at around **$ 3,700** per year whereas the per capita incomes in USA is estimated at around **$ 48,150** per year and in Germany **$ 45,620** per year. In developing countries it ranges from **$ 600** to **$ 5,000** per year. Why the economic growth in developing countries is low? What stops these countries from developing economically? The answer to these questions is not simple. However, the main obstacles which the under developed countries, including Pakistan are generally facing for promoting development can be identified as under.

Obstacles or constraints to economic development

1. **Political Instability.** In most of the developing countries, the governments are not stable. A new government. comes into. power overnight, either through coup data or army take over. The new government introduces a new system of rules for the operation of business which causes frustration and discontentment among the people. How does political instability affect growth is discussed in brief below.

(i) **Influence of political instability.** When there is lack of political stability in the country, it directly affects economic growth. It closes off sources of internal and external investments.

(ii) **The external investors.** The external investors do not invest in a country where there is political instability. The flow of investment in countries where there is civil war, coups, army take over etc. is either negligible or zero.

(iii) **Internal investment.** Political instability also limits internal investment. The wealthy class in developing countries have enough income to spare. They can invest their savings in profitable projects. Generally, they avoid investing funds in their own country for fear of nationalization of their projects, large scale interference by militant trade unions, harsh and exploitative attitude of the various govt. agencies involved in the setting and operation of the projects etc. The well off people including the politicians in developing countries prefer to take their money outside the country or channel their investment out of their own country. The developing countries are, therefore, deprived of investment funds which adversely affect economic growth.

(iv) **Internal disorder.** The defeated political parties, the rich landlords, the various ethnic groups etc. who are not able to capture power take up and support anti govt. activities by taking out processions, making bomb blasts, killing the innocent people by indiscriminate firing etc. All these activities result in creating political instability in the country and as such adversely affect economic development.

2. **Corruption.** Corruption is another obstacle to economic development in developing countries. The bribery or gift of money has become institutionalized. The govt. officials think bribery is built into their pay structure. The businessmen, if they are to stay in business, have to pay bribes to different departments of the govt. The employees give gift of money to their superiors. When bribery is an acceptable practice, it then becomes difficult for businessmen and industrialists to take part, stay and grow in business. Bribery thus limits economic development. It is one of the major obstacles to economic growth in Pakistan also.

3. **Lack of Investment.** For an economy to grow, it must have investment. The funds for investment can come either from domestic savings or from abroad. Both these sources of investment funds have their own peculiar problems which in brief are discussed as under.

(i) **Investment funding by domestic savings.** For economic growth we must give up unnecessary expenditure so that the economy can achieve even greater consumption in the future. In developing countries, the people with per capita incomes of as low as $ 600 per year hardly meet the bare necessities of life. They have little to put into savings. The middle class persons do save for their old age, marriage of children etc and put their money in saving banks. The rich people prefer to invest their savings abroad. The overall result is that domestic savings in most of the developing countries is as low as around 13% of GDP; whereas it should not be less than 25% of GDP to promote growth.

(ii) **Investment funding from abroad.** Another way to generate funds for investment is to obtain (a) Foreign loans or (b) foreign private investment or (c) both. The foreign loans or the foreign private investment has their own peculiar problems.

(a) Foreign loans. For financing development of the less developed countries (LDC's), the flow of capital comes from (i) individual national govts (ii) multinational assistance organizations and (iii) multinational companies. (i) The individual national govts give financial assistance to LDC's mainly for their own economic and political interests. So long as the developing country is protecting the interest of the donor countries, the flow of capital continues. It is stopped or very much slowed down when the recipient country is of no benefit to them (America stopped financial assistance to Pakistan after the Afghan War was over). A developing country, therefore, cannot rely on such foreign aid for economic growth. (ii) Same is the position now of the multinational assistance organizations like the Word Bank and International Monetary Fund (IMF). These organizations which are mainly funded by the developed capitalists countries of the world are also being used by them to promote their own economic and political interests. All the developing countries including Pakistan are now knee deep in debts of these organizations. The problem of debt servicing, rescheduling has adversely affected economic growth of the poor countries. (iii) As regards the flow of capital from multinational companies, they make investment in those countries where infrastructure facilities such as transportation, power, cheap labour force, raw material etc. are available. As these companies do not generally help in establishing infrastructure in poor countries, therefore they do not contribute much to economic growth of the LDC's. The problem of lack of proper investment, therefore, remains in developing countries.

4. **Right Education.** The provision of right education to the citizens of a country is a necessary component of any successful development strategy. In developing countries, the educational system is defective. There is mush-room growth of English medium schools in cities. The syllabi taught to the students at each level of education reflects the Western culture and not the culture and requirements of their own country. The result is that the students holding degrees remain jobless which creates discontment and frustration among them. The brilliant students of the developing countries go outside the country. The outdated syllabi of various classes, the mass failure of the students in various board and university examinations, outflow of the brightest students from less developed countries to the developed countries (**Brain drain**) create gaps in the availability of required labour for business and administrative circles and become obstacles to economic growth.

5. **Over Population.** In developed countries of the world, only 2 to 4% of the population is engaged in agriculture and produces enough food and fibre to meet the requirements of their citizens and also earn foreign exchange by exporting surplus goods. Through technological progress, they have avoided the fate predicted by Thomas Malthus. The developing countries, on the other hand, are struggling very hard to avoid the Malthusian fate. In these countries about 50% to 60% of the population is engaged in agriculture. **The diminishing marginal productivity has exceeded technological change**. The result is a falling output per person and a slow economic growth. The rapid population growth in developing countries is a major obstacle to economic growth. Effective measures shall have to be taken to reduce population growth failing which development of these countries will remain a dream.

6. **Inefficient Human Capital.** In addition to physical capital, human capital is also limited in developing countries. The quality of population as measured by its skills, education and health is far below the standard in developed countries of the world. Diseases, starvation, glut of unskilled workers stand in the way of economic development of the developing countries of the world.

7. **Dual Economy.** In developing countries, there are two types of economies which are generally functioning. These economies are somewhat unrelated to each other. One economy is the market economy and the other is a traditional non market or subsistence economy. The life style of the people, social customs, the methods of production etc. differ very much from each other in these two different economies. The occurrence of dualism stands in the way of optimum utilization of resources. Thus dualism is also considered an important obstacle to economic growth.

8. **Demonstration effect.** Demonstration effect on consumption level is also a major constraint on the path of economic development of under developed countries. The international demonstration effect increases propensity to consume of the people and reduces the rate of saving and investment in the countries.

9. **Inadequate infrastructure facilities.** The under developed countries suffer from lack of basic infrastructure such as transport and communication system, power supply, banking and other financial facilities. The provision of inadequate infrastructure facilities stand in the way of economic development of the poor countries.

10. **Inappropriate Social Structure.** Inappropriate social system such as outdated religious beliefs, caste system, irrational attitude toward family planning etc. is also a constraint on the economic development of developing countries.

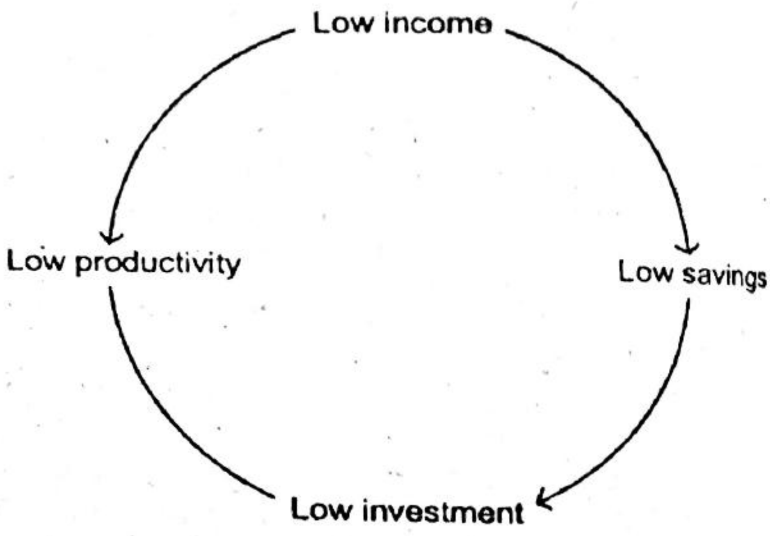
11. **Market imperfections.** Market imperfections in the form of immobility of factors of production, ignorance of market conditions, price rigidity etc. are serious obstacles in the path of economic development of the backward countries.

Summing up we can say that economic development is a complete process. It is directly influenced by economic, social, cultural, administrative and political factors. **Ragnar Nurkse has rightly said, "Economic development has much to do with human endowments, social attitudes, political conditions and historical accidents. Capital is necessary but not a sufficient condition of progress."**

2. VICIOUS CIRCLE OF POVERTY
OR
A COUNTRY IS POOR BECAUSE IT IS POOR

What is vicious circle of poverty?

There are number of factors which lead to underdevelopment and cause poverty in a country such as deficiency of capital, underutilization of natural resources, high rates of population growth etc., low rate of saving and investment etc., etc. These factors are so closely interconnected that they are said to **form a vicious circle of poverty**. Poverty is a great curse. It is the biggest hurdle in the way of economic development of a country Ragnar Nurkse in his book, "Problems of capital Formation in Underdeveloped countries" describes one part of Vicious Circle of poverty as the basic cause of underdevelopment of poor countries. According to him a country is poor because it is poor. Being a poor country, it has little ability or incentive to save. The low level of saving leads to low level of investment and to deficiency of capital. The low level of investment leads to low level of productivity. When the productivity per worker is low, the income of the worker will be obviously low and so there is poverty and its vicious circle is complete.



On the side of demand when people have low income, the demand for goods is bound to be low. In the small size of market, there is little scope of increased investment. When the rate of investment is low, the productivity of the factors of production is bound to be low. Low productivity leads to low capital formation which is rapidly absorbed by the rising population growth. The country, therefore, remain poor and has little chance to break the Vicious Circle of Poverty.

- Income is low, therefore, saving is low.
- Saving is low, therefore, investment is low.
- Investment is low, therefore, productivity is low.
- Productivity is low, therefore, income is low.

How to break this vicious circle of poverty?

Remaining poor is certainly no crime. The accepting of poverty and allowing it to continue is certainly a crime. Briefly, the vicious circle of poverty can be broken in developing countries including Pakistan by adopting following measures.

(1) **Increase in savings.** The vicious circle of poverty can be broken by making serious efforts in increasing the volume of real savings both at the level of individuals and the government. The government can also mobilize foreign savings for capital formation in the country.

(2) **Higher per capital growth rate.** The growth rate should be higher than the rate of growth of population. This objective can be achieved by increasing the level of employment in the country and reducing the rate of population growth. If the rate of increase in real income is the same as the rate of growth of population, the real income per person will remain unchanged.

(3) **Efficient use of natural resources.** The less developed countries (LDC) are not making the efficient use of the natural resources available to them. At present the multi national companies (MNCs) of the advanced countries are exploiting these resources more for their own economic benefits. The economic advantages of the natural resources must pass on to benefit the poor masses of the LDCs.

(4) **Employment of human resources.** Many of the less developing countries including Pakistan are faced with serious unemployment problem. The quality of labour force is also poor. The low level of literacy, malnutrition, absence of proper medical care etc are all barriers to economic development Effective measures have to be taken for sufficient investment in human capital to break the poverty barrier of the LDCs.

(5) **Increasing the stock of capital goods.** The LDCs can come out of the vicious circle of poverty if the wealthy class is motivated to make their savings available for investment in productive activities rather than using their wealth on the purchase of urban real estates, precious metals etc.

(6) **Technological advance.** The people in less developed countries (LDCs) can break the poverty barrier by adopting and applying advance technologies which are appropriate to the resources available to them.

(7) Role of the advanced nations. The advanced nations can help the less develop countries in breaking the poverty barrier by:

(i) expanding volume of trade with them.

(ii) increasing the flow of private and public capital in basic infrastructure.

(iii) provision of direct aid in basic social sectors such as education, health etc.

(iv) provision of soft loans for development.

(v) writing off loans.

(8) Role of the government. The government in the less developed country is in the k position to deal effectively with social institutional obstacles to growth and breaking o the vicious circle of poverty. It can greatly root out political corruption and bribery. It ca provide incentives to save and invest. It can increase agricultural production b introducing effective land reforms in the country.

3. OBSTACLES TO ECONOMIC DEVELOPMENT IN PAKISTAN

Pakistan inherited an extremely narrow economic base at the time of Independence i 1947. Since then, the Government of Pakistan has been making rigorous efforts to build u infrastructure and productive potential of the economy through the process of developme planning. The start for preparing the country for future advancement was made by launchir a Six Year Development Programme **(1951-57)** named as Colombo Plan. The Plan wa suspended two years before its completion due to the repercussions of Korea War. In additio to the Colombo Plan, Several other Five Year Development Plans were drawn up ar implemented.

If the economic performance since **1947** is evaluated, the overall results are not ver encouraging. The per capita income at market price is only **1,649** dollars per year in **2017-1** in Pakistan. The major portion of the population is just above the poverty line **(22.3%** belo poverty line). The disturbing feature of the economy is that whatever economic growth ha been achieved, it is accompanied by unequal distribution of wealth. This has created soci tension in the country and has slowed down the rate of economic growth. Pakistan ha devised various strategies to quicken the tempo of economic development but it has not bee able to break the vicious circle of poverty and enter into take off stage. The main obstacle which have affected the rate of growth in Pakistan are grouped under following heads.

(1) Economic obstacles (2) Social and cultural obstacles (3) Administrative obstacle These obstacles are now discussed in brief:

1 Economic Obstacles

(1) External debt: There was a rising trend in external debt which posed a serious threat t the economic future of the country. During the last few years, serious efforts have bee made to reduce the external liabilities as far as possible. The public external debt eve now stands at **$74.18** billion in **2019 (End March)**.

(2) Fiscal deficit. Another serious constraint on economic development is the higher level of budget deficits. The budget deficits faced over the last eight years has been as show in the table below:

Table 4.3: Trends in Components of Expenditure (As % of GDP)

Year	Total Expend-iture (A)	Current Expend-iture (B)	Interest Payments (C)	Defence (D)	Develo-pment Expend-iture (E)	Non Interest Non-Defence Exp (A-C-D)	Fiscal Deficit	Revenue Deficit / Surplus (TR-Total CE)	Primary deficit (TR-NI Exp)
2011-12	21.6	17.3	4.4	2.5	3.9	14.6	8.8	-4.5	-4.3
2012-13	21.5	16.4	4.4	2.4	3.5	14.7	8.2	-3.0	-3.8
2013-14	20.0	15.9	4.6	2.5	4.5	12.9	5.5	-1.5	-1.0
2014-15	19.6	16.1	4.8	2.5	4.1	12.3	5.3	-1.8	-0.6
2015-16	19.9	16.1	4.3	2.6	4.5	13.0	4.6	-0.8	-0.3
2016-17	21.3	16.3	4.2	2.8	5.3	14.3	5.8	-0.9	-1.7
2017-18	21.60	16.90	4.3	3.0	4.6	14.3	6.5	-1.8	-2.2
2018-19 B.E.	21.20	16.50	4.2	2.9	4.8	14.1	4.9	-0.2	-0.7

Source: Pakistan Economic Survey 2018-19.

The large fiscal deficits reduces the capacity of the government to spend on key development activities.

On the revenue side, the tax to GDP ratio stands at around **12.9%** during **2017-18**. It is mainly attributable to narrow tax base, inelastic tax system, complex tax laws, heavy reliance on foreign trade taxes, large tax exemptions and incentives, tax evasions, weak tax administration etc. On the expenditure side, debt servicing and defense are taking a very major share of the current revenue.

(3) **Persistent deficit in balance of payments.** Another important obstacle to economic development is the persistent deficit in the balance of payments over month of the years.

(4) **Financing the budgetary gap.** One of the serious factor distorting the fiscal system and obviously economic growth is the huge amount of borrowing to finance the budgetary gap. The budgetary gap is financed through three sources (i) External borrowing, (2) Domestic non bank borrowing, (3) Borrowing from the banking system. Excessive bank borrowing creates inflationary pressure in the economy.

(5) **Deficiency of Capital.** Deficiency of capital is an important obstacle in the way of economic development. If a country is to achieve rapid rate of economic growth, it must save at-least **25%** of GDP each year. In Pakistan, the rate of domestic saving is very low. It is about 4.2% of GDP which is hardly able to maintain current per capita income level in the country.

(6) **Scarcity of Foreign Exchange.** Pakistan is concentrating mainly on the export of cotton, carpets and manual labour leather, rice, sports goods. The excessive dependence on export of a few items has made the economy unstable and is a great obstacle to economic growth. The increase in the prices of imported goods and their rising flow in the country is a big strain on the foreign exchange resources.

(7) **Rapidly Growing Population.** The population is growing at the rate of about 2.4% annually in Pakistan. As a result of the rapid increase, the proportion of dependents below the age of 15 years and above the age of 65 has gone up to about **39.6%** which is a great burden on the meager resources of the country and a big obstacle to economic development.

(8) **Low Level of Technology.** One of the obstacles to economic development in Pakistan is the use of low level of technology in various sectors of the economy. We do not stress and even do not recommend that Pakistan should adopt most modern and sophisticated technology. **The technology to be applied in Pakistan should be appropriate to the conditions prevailing in the country.** For instance, we should preferably use cheap sources of energy, simple farm equipment, smaller plants and scale of machinery etc suitable to the local conditions.

(9) **Dualistic Economy.** Dualism is an another important obstacle to economic development in Pakistan. There is a vast regional disparity in income. The use of technology differs from sector to sector and region to region. There are differences in the social customs, habits and attitudes towards work of the people living in different provinces of the country. The occurrence of dualism stand in the way of optimum utilization of factors.

2 Social and Cultural Obstacles:

The socio-cultural attitudes of the people also stand in the way of economic development of our country. In Pakistan, about **37.7%** of the people are illiterate. They are ignorant of the development taking place in their own country as well as in the world. The majority of the people are extravagant. Ours is in fact a consumption oriented society. The people are mostly conservative in their habits. They feel pride in the native culture and are generally not receptive to foreign methods of production. People lack self confidence and initiative. The joint family system, though on the decline, has also killed the sense of initiative and the incentive to work. The caste system functioning mostly in terms of occupation tailors, carpenters, goldsmiths, etc restrict occupational and geographical mobility. The occupational classification which is mostly village centered impede the economic development. The religious beliefs of the people condemning the accumulation of wealth, dependence upon fate and the will of God only are also obstacles to economic growth. People forget here that God has also said, "Your duty is to do and then put the result in the hands of God."

The unnecessary expenditure on marriages, deaths, births, litigations, class pride etc. has reduced domestic savings and has adversely affected economic progress. About half of the population comprises women folk. Our social taboos and customs prevent them from working and improving the standard of living. The basic needs of the people remain largely unsatisfied. We do agree here that socio-cultural factors have impeded economic progress. We should not forget here also that the adoption of socio-cultural attitudes of the West have brought down the quality of life as well.

3. Political and Administrative Obstacles:

For accelerating the rate of economic development, there should be political stability in the country. If there is a change in the government set up due to elections, or of dictatorship, the planning job done by the previous governments should not be altered altogether.

The planning machinery and all others involved in administration should be loyal to the country. They should be competent, sympathetic and honest in the performance of the duties assigned to them. In Pakistan, since its inception, there have been rapid changes in governments. Each government which came into power condemned the planning work done by the previous governments. They framed their own plans, formulated their own strategies of development and left the scene without achieving the targets of the Plans. The history of planning shows that with the exception of the Fifth Five Year Plan, all other Plans have failed to achieve their targets. The overall line of the planning machinery in Pakistan is bureaucratic rather than professional. The administration working in various departments is generally weak, incompetent and unsympathetic. Self-interest is dominating over national interest which is a great barrier to economic development. Another administrative obstacle in the way of economic development is that we have not so far been able to decide about the nature of economic system to be adopted in Pakistan. Mixed economy, Socialistic economy, Islamic economy all are talked about but nothing concrete has actually been practiced. There should be clarity on this fundamental issue so that planning is drawn up according to the socio-economic objective of that system and a path of development laid out.

Remedial Measures for Economic Development

We have discussed the major obstacles to economic development. The practical means of setting aside the barriers to economic development are now to be sorted out. It is a big challenge to the planners. We are of the opinion that if following measures are earnestly applied, the rate of economic development can go up.

(1) **Expanding the tax base.** For expanding the resource base, it is necessary that the coverage of indirect taxes be reduced. In designing the tax reforms, care has to be taken to minimise burden on the common man. The share of direct taxes has also to be increased.

(2) **Tax on agriculture income.** The government can raise more revenue by bringing the agriculturists income in the tax net on proper footings.

(3) **Self-reliance.** Pakistan is knee deep in foreign debt. If we are really desirous of increasing the rate of economic development, we shall have to lessen our dependence on foreign assistance. The strategy of self-reliance, as far as possible, should be followed for financing development projects.

(4) **Export led growth.** For the rapid development of the economy, the strategy of export led growth should be carefully chalked out. The production of value added goods on large scale, having comparative advantage in production, will greatly solve the problem of limited size of the domestic market. The production of import substitutes at home will save the precious foreign exchange.

(5) **Industrialization.** Another approach to development planning within the framework of mixed economy is to give priority to the establishment of those industries which meet the basic needs of the various sectors of the economy. The production of improved basic agricultural implements will greatly help in raising the agricultural production.

(6) **Strategy of self-management.** In communist countries, the development planning is being decentralized. Development planning is declared a right and obligation of the planning agents. The system if adopted in a coordinated manner shall help in quickening the tempo of economic development in this country.

(7) **Development of agricultural sector.** The Government of Pakistan, in view of the importance of agriculture in the national economy, is attaching high priority to the development of this sector. Expanded credit facilities, provision of fertilizer, pesticides and improved seeds are the right steps in improving agricultural production which contributes **18.5%** of GDP and accounts for over **60%** of foreign exchange earnings in Pakistan.

(8) Improvement of the infrastructure. A great deal of improvement in the means of transport, power, roads, banking, education, etc. has to be made for economic development.

(9) **Constitutional cover.** The state owned industrial units which are being privatized and other private units should be given Constitutional cover. The state of uncertainty of their nationalization again should be removed once for all.

(10) **Stable fiscal and monetary policies.** In order to accelerate the rate of economic development, the fiscal and monetary measures should be carefully chalked out. There should not be frequent changes after a few months in the import and export policies, revision of taxes etc.

(11) **Promoting Technology.** For economic take off, it is very essential that we take effective steps in promoting science and technology. The technological development will help in keeping our products and exports competitive in the world market.

(12) **Administrative Reforms.** There should be far reaching administrative reforms in the country. The professionally qualified personnel should be inducted and assigned specific targets to be achieved in the allocated sectors. There should be reduction in the administrative expenditure also.

(13) **Development of physical and human capital.** Development of physical infrastructure, roads, railways etc. and increased investment on education, health and nutrition etc. can play a dominant role in increasing economic development in the country.

(14) **Slowing the rate of population growth.** High rate of population growth (about 1.86%) is also an intensifying constraint on the development of savings, foreign exchange and human resources. If we want the qualities of human life, prosperity in place of poverty, education in place of ignorance, health in place of illness, environmental beauty in place of deterioration, we shall have to take measures to control the family size.

4. MARKET IMPERFECTIONS AND PRICE DISTORTIONS AS OBSTACLES TO ECONOMIC DEVELOPMENT IN PAKISTAN

Most of the developing countries are facing a few general obstacles to economic development. These include political instability, corruption, excessive foreign debt, and their repayments, inappropriate education, unemployment inflation and particularly lack of investment etc. Market imperfections are the failures or defects which interrupt the smooth working of price mechanism in promoting the efficient use of resources of the country.

During the decade of **1960's** and **1970's**, there was a wide spread acceptance of government interference in economic affairs of the country. Planning in all the developing countries was considered more feasible and appropriate for the efficient use of scarce resources. There was an increased public sector activity for promoting economic growth. It was said at that time that market mechanism leads to misallocation of present and future resources and is therefore not in the interest of the less developed countries (LDC's)

However, in **1980's** and 1990's and with the dawn of **21**st century, the position has entirely changed. There is a growing dissatisfaction with the role of the public enterprises which are undergoing heavy losses, are inefficient and wasteful. Market imperfections and price distortions are now regarded key factors, standing in the way of promoting economic growth. The stress is now on the adoption of market economy. The World Bank, IMF and other developed nations of the world are persuading and pressing and preaching the virtues of free market systems for the efficient use of scare resources. The main arguments which are advanced for market imperfections and price distortions as obstacles to economic growth are as follows.

Market imperfections and price distortions as obstacles to economic development

(1) **Lack of full information about market.** One of the serious drawback of imperfect conditions prevailing in the market is that the producers due to lack of information do not have full knowledge about the size of a market for its product, the availability of inputs etc. Similarly, the consumers too do not have full knowledge about the price, quality and the availability of the goods which they need. Hence the producers cannot earn maximum profit and the consumers maximum satisfaction. All these lead to inefficient allocation of resources.

(2) **Lack of effective competition.** Lack of effective competition in the manufacturing sector is another important imperfection of the market in less developed countries (including Pakistan). Ineffective competition leads to concentration of monopoly power in the industrial sector. The monopolists or oligopolists produce goods on a comparatively limited scale, keep the prices higher than under perfect competition. There is also a transfer of wealth from consumers to a few producers.

(3) **Unequal distribution of wealth.** The prevalence of imperfect market in Pakistan has led to concentration of wealth. The unfinished business of the **21st** century is the eradication of poverty failing which there will be no political stability and social justice in the country.

(4) **Slow investment.** Another obstacle of market imperfection is the lack of investment. Private savings is very low in Less developed countries. The business and industrialist class quite content with their income make very little investment in modernizing the manufacturing sector. The long term investment is also not forthcoming. This slows down the rate of economic growth in the country.

(5) **Prices of goods fail to change.** When there is imperfections in market, the prices of goods and services do not move in line with costs.

(6) **Growing dissatisfaction.** The widespread imperfections in markets of LDC's have caused dissatisfaction among the people. The poor investment decisions, delay in construction of projects, low capacity utilization, inefficient maintenance of public

projects, massive inflation, high bad debt, deficits in balance of payments, rising public spending etc. etc. have mainly resulted due to government intervention in the operation of private markets.

(7) **Less product innovation.** In the absence of competition, incentives to innovate new processes or new products remain weak.

(8) **Price Distortions.** As regards price distortions, these too have played their role in inefficient allocation of resources. The fixing of minimum wage requirements, subsidized prices of consumer goods and agricultural inputs, credit allocation at lower rates of interest etc. have also created obstacles to economic development in Pakistan.

Establishment of market economy.

During the last two decades, the developed countries, World Bank and IMF are advocating to almost every developing country including Pakistan to liberalize and deregulate their economies. The role of the state as regulator is to be minimized and market economy is to be established. According to them, the well functioning market system ensures efficient allocation of resources in the country.

Requirements for a market economy.

There are certain requirements for the operation of effective market system. If the preconditions are absent or weak, the market system will not achieve the desired results. The requirements are:-

(1) Existence of a legal system that enforces contracts and establishes property rights.

(2) A stable and trustworthy currency.

(3) An infrastructure of roads which facilities trade.

(4) A well developed banking and credit system.

(5) Provisions of adequate information in every market about the quality and quantity of the goods produced

Since in almost all the developing countries of the world, the above basic requirements for the establishment of a market economy are often absent and weak, the government cannot and should not lay off its hands. We cannot rely solely on private sector to allocate resources and distribute income for achieving growth. It has also been observed that by rolling back the role of the state in the economic development of a country, there has been wrong allocation of resources, low investments, high capital flight from the country, poor performance in specific market like stock exchange etc. **The active regulatory role of the Government within the frame work of market economy is, therefore, considered essential.**

In order to promote competition in the market, the Government of Pakistan has taken the following measures.

1. The Government has enforced Monopolies and Restrictive Trade Practices Ordinance for controlling the concentration of economic power.
2. The Government is acting as protector, promoter and provider.
   (*i*) As a protector, it is the responsibility of the state to ensure competition through market mechanism. It is protect the interest of the consumers at large, ensuring competition, fair trading practices, investor's confidence, etc.
   (*ii*) *As a promoter,* the state is to provide sound economic infrastructure. It is to encourage and ensure appropriate research and development.

(iii) *As a provider,* the state is to ensure the provision of public goods such as street lighting; (ii) merit goods such as education and health, etc.

A good mix of market mechanism and public sector will be a blessing to the country.

QUESTIONS

1. Describe in brief the main obstacles to economic development in developing countries?
2. Do you agree that social, political, cultural and administrative factors have stood more in the way of economic development than that of economic factors?
3. What do you understand by vicious circle of poverty? How can a developing country break out the vicious circle of poverty?
4. Explain the vicious circle of poverty. How does it check the growth of capital formation in the country?
5. "A country is poor because it is poor." Discuss.
6. **Describe economic, political social and administrative obstacles in economic development of Pakistan.**
7. "Market imperfections and price distortions are the main obstacles to economic development in the country" Comment.

Short Answer Questions

Q.1. Are market imperfections an important and serious constraints on the economic development of a country.

Ans. Yes. Market imperfections in the form of price rigidity, immobility of factors of production, ignorance of market condition, rigid social structure etc., are serious constraint in the path of economic development of developing countries.

Q.2. What is vicious circle of poverty?

Ans. A vicious circle of poverty is represented by low productivity, and is the result of capital deficiency, poor development, economic backwardness and market imperfections.

Q.3. How does political instability affect economic development in a poor country?

Ans. The frequent changes of the government at the provincial and federal levels, threats of violence on behalf of the political parties, ethnic troubles, disturbed law and order conditions are important obstacles to economic development of the developing countries.

Q.4. Name four constrains which you think are the most important to the economic development of a country.

Ans. (1) Market imperfection (ii) vicious circle of poverty (iii) Inadequate infrastructure facilities (iv) Political instability in the country.