The Classic Question: Why does poverty exist?

Common answers to why there are less developed countries are overpopulation, underemployment, corruption, and poverty. These are difficulties but these are also implications of the root events which are the real problems in the countries. Using models of development and underdevelopment that are discussed in Economic Development written by Todaro and Smith, the actual problems that occur in a micro perspective are made clear. (Todaro & Smith, 2015)

Overpopulation is not in itself the reason why many countries are less developed. In comparison, both India and China are facing overpopulation, but the latter is more developed economically. Social problems which results to overpopulation are the common factors influencing the development of the countries. Women empowerment is an issue in all countries but expressing its significance is underrated. Todaro and Smith stated that when income rises the fertility rate falls. Giving women the opportunity to study and to take any job they are qualified to have increases income. By doing so, women work harder and experience the opportunity cost of possibly rearing a child at home. This not only positively contributes to Gross Domestic Product but also to population growth. (Todaro & Smith, 2015)

Low levels of human capital are the real problems why there is poverty, and underemployment. Todaro and Smith indicated in their book that the value of human capital is determined using health, education and skill levels. Low income countries have under-5 mortality rate seventeen times higher than developed countries. Education is also a challenge for developing countries despite improving percentage of enrollees which is evident in India wherein from 68% in 1990s to 94% by 2008. Increased numbers of enrollees don’t guarantee quality education and attainment of skills necessary to be hired in jobs. Ill-equipped citizens due to inadequate health care and education are forced to live a life of poverty. (Todaro & Smith, 2015)

Flawed government intervention is a problem which should be greatly addressed. Government intervention influences a nation’s economy and gives a lot of power to officials which could be manipulated leading to corruption. Government intervention doesn’t always lead to corruption rather it is very important in avoiding coordination failure and improving complementarities. According to Todaro and Smith, complementarities are actions of one entity which increases the probability of other entities to follow suit. For example, Singapore lost common commodities in 1965 after its separation from Malaysia. To prevent the economy to suffer, Singapore relied on government interventions like the Employment Act. The act was introduced in 1968 tightening employment conditions. Every firm complied to this regulation and by 1970s, Singapore achieved full employment. (Lam, 2000)

Each developing country faces social issues, low levels of human capital and challenging government interventions. These problems can’t be solved without coordination with both the public, industries and especially government. The government has the power to manage the country's social and economic health so it should be transparent and active. It is not enough for the government to launch projects or implement policies to stimulate the market. Firms should not only follow policies but also stimulate other entities in a competition towards development of better products that are cost effective. The public should in turn support government activities and patronize local products. Unity seems far-fetched now, but it is not impossible.

References:

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