THE REPUBLIC OF UGANDA

Ministry of Education
and Sports

HOME-STUDY LEARNING

SENIOR 6

ECONOMICS

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NCDC
NATIONAL CURRICULUM DEVELOPMENT CENTRE

UGANDA NATIONAL EXAMINATIONS BOARD

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This material has been developed as a home-study intervention for schools during the lockdown caused by the COVID-19 pandemic to support continuity of learning.

National Curriculum Development Centre
P.O. Box 7002,
Kampala- Uganda
www.ncdc.go.ug

FOREWORD

Following the outbreak of the COVID-19 pandemic, government of Uganda closed all schools and other educational institutions to minimize the spread of the coronavirus. This has affected more than 36,314 primary schools, 3129 secondary schools, 430,778 teachers and 12,777,390 learners.

The COVID-19 outbreak and subsequent closure of all has had drastically impacted on learning especially curriculum coverage, loss of interest in education and learner readiness in case schools open. This could result in massive rates of learner dropouts due to unwanted pregnancies and lack of school fees among others.

To mitigate the impact of the pandemic on the education system in Uganda, the Ministry of Education and Sports (MoES) constituted a Sector Response Taskforce (SRT) to strengthen the sector's preparedness and response measures. The SRT and National Curriculum Development Centre developed print home-study materials, radio and television scripts for some selected subjects for all learners from Pre-Primary to Advanced Level. The materials will enhance continued learning and learning for progression during this period of the lockdown, and will still be relevant when schools resume.

The materials focused on critical competences in all subjects in the curricula to enable the learners to achieve without the teachers' guidance. Therefore effort should be made for all learners to access and use these materials during the lockdown. Similarly, teachers are advised to get these materials in order to plan appropriately for further learning when schools resume, while parents/guardians need to ensure that their children access copies of these materials and use them appropriately.
I recognise the effort of National Curriculum Development Centre in responding to this emergency through appropriate guidance and the timely development of these home study materials. I recommend them for use by all learners during the lockdown.

Alex Kakooza
Permanent Secretary
Ministry of Education and Sports

ACKNOWLEDGEMENTS

National Curriculum Development Centre (NCDC) would like to express its appreciation to all those who worked tirelessly towards the production of home–study materials for Pre-Primary, Primary and Secondary Levels of Education during the COVID-19 lockdown in Uganda.

The Centre appreciates the contribution from all those who guided the development of these materials to make sure they are of quality; Development partners - SESIL, Save the Children and UNICEF; all the Panel members of the various subjects; sister institutions - UNEB and DES for their valuable contributions.

NCDC takes the responsibility for any shortcomings that might be identified in this publication and welcomes suggestions for improvement. The comments and suggestions may be communicated to NCDC through P.O. Box 7002 Kampala or email admin@ncdc.go.ug or by visiting our website at http://ncdc.go.ug/node/13.

Grace K. Baguma
Director,
National Curriculum Development Centre

ABOUT THIS BOOKLET

Dear learner, you are welcome to this home-study package. This content focuses on critical competences in the syllabus.

The content is organised into lesson units. Each unit has lesson activities, summary notes and assessment activities. Some lessons have projects that you need to carry out at home during this period. You are free to use other reference materials to get more information for specific topics.

Seek guidance from people at home who are knowledgeable to clarify in case of a challenge. The knowledge you can acquire from this content can be supplemented with other learning options that may be offered on radio, television, newspaper learning programmes. More learning materials can also be accessed by visiting our website at www.ncdc.go.ug or ncdc-go-ug.digital/. You can access the website using an internet enabled computer or mobile phone.

We encourage you to present your work to your class teacher when schools resume so that your teacher is able to know what you learned during the time you have been away from school. This will form part of your assessment. Your teacher will also assess the assignments you will have done and do corrections where you might not have done it right.

The content has been developed with full awareness of the home learning environment without direct supervision of the teacher. The methods, examples and activities used in the materials have been carefully selected to facilitate continuity of learning.

You are therefore in charge of your own learning. You need to give yourself favourable time for learning. This material can as well be used beyond the home-study situation. Keep it for reference anytime.

Develop your learning timetable to ca ter for continuity of learning and other responsibilities given to you at home.

Enjoy learning

S.6 ECONOMICS HOME STUDY MATERIAL

Corona Virus Kills. You need to continue keeping yourself and family safe by observing the Standard Operating Procedures put in place by World Health Organisation and the Ministry of Health. Wash your hands regularly with soap or sanitize, wear a mask to cover the nose and mouth, observe the Social distance and avoid crowded places.

LESSON ONE TERM ONE

1.0 TOPIC: ECONOMIC GROWTH AND ECONOMIC DEVELOPMENT

1.1 SUB- TOPIC: ECONOMIC GROWTH

Resources Needed: Text books, pen, Internet if available, Exercise book, radio, telephone, ear phones.

LEARNING OBJECTIVES: By the end of this lesson, you should be able to; explain the meaning of economic growth, explain the factors that determine economic growth and asses the costs and benefits of economic growth.

In Senior Five you looked at National Income which is the monetary value of goods and services produced by a country in a given period of time usually a year. When quantity of these goods and services produced by a country continuously increase year by year then we say there is economic growth.

Economic growth refers to the **persistent increase** in the **volume** of goods and services produced in an economy over a period of time. It is the persistent quantitative increase in the GDP/GNP of an economy over time. However, you should note that the rate of growth of GNP should be greater than the population growth rate for one to say that there has been economic growth in an economy.

1.2 DETERMINANTS OF ECONOMIC GROWTH

All countries would wish to have a high rate of economic growth, some countries are developed while others are not developed. This is due to the following factors**: -**

Level of technological progress. The use of advanced technology creates an increase in output of goods and services which generates high rates of economic growth. However, use of poor technology gives rise to resource underutilisation and which leads to low output of goods and services produced which causes low economic growth rate. This implies that developed countries have advanced technology while less developed countries have poor technology.

Level of existing capital stock. A large capital stock expands investment and more output of goods and services is produced which causes high economic growth rate while a small capital stock results into low levels of investment hence low output of goods and services which creates low economic growth rates.

Political climate. A stable political climate gives confidence to both local and foreign investors resulting in increase in the volume of output hence high levels of economic growth. However, political instability scares investors and as a result low output of goods and services is produced which causes low economic growth rate.

Level of development of infrastructure. Well-developed infrastructure stimulates investment and as a result the volume of goods and services produced increases which leads to high rates of economic growth. However, poor infrastructure discourages investment and reduces the level of output of goods and services thereby leading to low economic growth rate.

Level of skills of labour. A big size of highly skilled workers is able to promote investment and production of more goods and services which creates a high economic growth rate. However, a small size of a skilled workforce reduces investment and there is low output of goods and services which creates low economic growth rate.

Level of planning and plan implementation. Proper planning and implementation of projects encourages effective mobilization and allocation of resources which increases the level of production of goods and services thereby leading to high rates of economic growth. However, poor planning and implementation of projects lowers the level of resource exploitation which leads to low productivity hence leading to low rates of economic growth.

Degree of availability and utilisation of natural resources. Greater and better exploitation of available natural resources increases the production of goods and services which creates high economic growth rate while low levels of resource exploitation brings about low volume of goods and services being produced which results into low economic growth rate.

Level of entrepreneurial ability. Better organisation of factors of production by entrepreneurs results into better use of the available resources which increases the volume of goods and services produced and hence high economic growth rate is attained. However, limited entrepreneurship skills result into underutilisation of resources and there is low output of goods and services and this causes low economic growth rate.

Cultural factors, for example conservatism. People with a positive cultural attitude are willing to change to modern methods of production and are able to produce more goods and services leading to high rates of economic growth. However, people with a negative cultural attitude are not willing to change from subsistence production and hence produce low volume of goods and services thereby leading to low economic growth rate.

The market size. A big market size encourages investors to increase production of goods and services which leads to a high rate of economic growth. However, a small market size discourages investors and results in a low volume of goods and services produced hence low economic growth rate.

Rate of population growth rate. A stable or controlled population growth rate encourages savings and investment which results in more production of goods and services hence high rates of economic growth. However, a rapid population growth rate creates a heavy dependence burden which discourages saving and investment thereby leading to low rates of economic growth.

Nature of government policies of taxation and subsidisation. Favourable government policy such as provision of tax holidays brings about increased output of goods and services leading to high rates of economic growth. However, unfavourable government policy such as high taxation reduces the volume of goods and services produced due to the high costs of production which creates low economic growth rate.

Size of the subsistence sector. A large monetary sector acts as an incentive for expanding investment and increasing production of goods and services which results into high economic growth rate. However, a small monetary sector does not provide an incentive for increased investment, resources remain underutilised and there is low volume of goods and services produced which causes a low economic growth rate.

Level of savings. A high level of savings brings about increased investment and results into production of more goods and services leading to high economic growth rates. However, low savings bring about low levels of investment and less production of goods and services leading to low economic growth rate.

The degree of corruption. A low level of corruption increases the money and resources available to government for investment which brings about production of more goods and services resulting into a high economic growth rate. However, high levels of corruption and embezzlement reduce the money available for investment and less goods and services are produced which creates low economic growth rate.

1.3 BENEFITS AND COSTS OF ECONOMIC GROWTH.

Economic growth has both positive and negative implications. Positive implications of economic growth are the benefits to a country while the negative occurrences are the costs of economic growth to a county. The benefits of economic growth include the following:

Creation of more employment opportunities due to increased investment and production levels of goods and services. Economic growth involves expansion of production firms and as more firms are set up, more jobs are created for the people. The employed people earn income which is used to buy their necessities.

Improved standard of living due to availability of a variety of goods and services. This arises because people are exposed to a variety of goods and services and they are able to make wider choices.

Increased government revenue from taxes. As the size of investment activities increases, such activities widen the tax base in the country leading to higher tax revenue for the government which it uses to finance its development programme.

Encourages the development or expansion of basic infrastructure. As more goods and services are produced, they are accompanied by improved infrastructure in form of roads, communication facilities and storage facilities.

Improved balance of payments position due to increased exports and reduced imports. Through economic growth, export promotion industries are developed to increase the volume of goods produced domestically which reduces importation hence reducing import expenditure and increases exports thereby increasing export earnings.

Import substitution industries are set up to produce those goods and services that a country would previously have imported from other countries. This helps to reduce expenditure on imports while increasing exports revenue hence better Balance of Payments (BOP) position.

Reduced income inequalities due to widespread employment opportunities. As a result of increased production of goods and services in the various sectors, there is better distribution of income among the producers and people involved in the various activities. This checks income inequality.

Encourages the development of skills. Business firms train workers to acquire better and new skills for example, they are equipped with skills of operating modern machines. This enables workers to become more efficient.

Facilitates promotion of industrialisation. Investment in industries rises in order to increase production of industrial goods. Industrial centers develop due to localisation of industries hence there is increased urbanisation and its associated benefits.

Social transformation due to the removal of obstacles to growth. As the rate of economic growth rises, people become more progressive and tend to adopt new ways of doing things, that is, they become less conservative.

Reduced external dependence. There is reduced dependence on imported goods because of increased domestic production.

Improved technology. In order to continue producing more volumes of goods and services, existing techniques of production are improved through research. This brings about technological progress and production of output of high quality.

1.4 COSTS OF ECONOMIC GROWTH

Costs of growth refer to the undesirable or negative outcomes that are generated as a country attains higher rates of economic growth. They include; -

Increased environmental pollution of noise, air and water. As the economy grows, industrial activities also expand. This creates irrational disposal of industrial waste that gives rise to air and water pollution. In addition, reclaiming of swamps to set up industries takes place thereby endangering the environment.

Results into congestion especially in urban areas. This is due to increased urbanisation and rural urban migration which increases the congestion of people and traffic in the towns.

Causes over exploitation of resources leading to resource depletion. Non-renewable resources like minerals get depleted through over-exploitation. This over use creates scarcity of these non-renewable resources.

Widens inequality in distribution of income. This happens when rapid economic growth is taking place in a few sectors while other sectors are stagnant. This creates uneven distribution of income among the various sectors since they are not expanding at the same pace.

Leisure is foregone since economic growth requires hard work. People exert a lot of effort in production activities and even forego leisure in order to increase the volume of goods and services in the country. Unfortunately, this over-working reduces the quality of life of the people.

Leads to technological unemployment due to technological progress. This is created by the use of capital-intensive techniques of production where machines replace human labour hence rendering some people jobless.

Leads to erosion of socio-cultural values. As a country economically grows, people adopt new ways of life since they get used to new goods and services. For example, due to new television technology and the internet, young people are exposed to programmes like Big Brother

Africa and other immoral literature which corrupts their minds and results into moral decay.

Current consumption is sacrificed for future investment. Business people sacrifice or suspend current consumption in order to save for future investment. This has a danger of reducing the current welfare of the people since they are doing away with certain goods and services at the present.

There is displacement of people from their land in a drive to set up industries and to create space for large scale farming.

ACTIVITY 1

1. Explain the factors that enhance the growth of an economy.
2. Account for the low levels of Economic growth rates in developing countries.
3. Why is it desirable for an economy to have a higher rate of economic growth?

LESSON: TWO

2.0 TOPIC: ECONOMIC GROWTH AND ECONOMIC DEVELOPMENT

RESOURCES NEEDED: Text books, pen, Internet if available, Exercise book, radio, telephone, ear phones.

LEARNING OBJECTIVES: By the end of this lesson, you should be able to; explain the objectives of economic development in Uganda, identify the indicators of economic development, analyse the circumstances under which economic growth may be attained without economic development.

2.1 SUB- TOPIC: ECONOMIC DEVELOPMENT

Economic development is persistent **quantitative and qualitative improvement in the volume of goods and services produced** in an economy **over a long period of time**. This is accompanied with structural changes like improvement in technology, having a more even income distribution, and providing basic education, increased self-esteem, increased freedoms of choice, and increased political freedom among others.

For a country to attain economic development, it must attain economic growth which must be followed by improvement in the quality of goods and services.

OBJECTIVES OF ECONOMIC DEVELOPMENT IN UGANDA

These development goals are always stated in the major government policy statements such as long-term National Development Plans, National Budgets and Ministerial Policy Statements. The National Development Goals are closely linked or related to the Sustainable Development Goals (SDGs).

In this case we consider the projected aims of the government as it strives to attain higher levels of economic development. We focus on how that objective is attained.

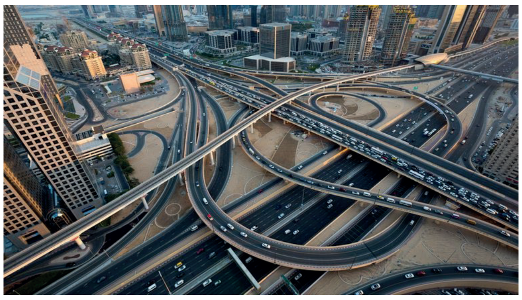
To reduce dependence of all forms. This objective aims at putting in place measures that promote self-reliance for example promoting local industries so that the country reduces dependence on imported goods.
To attain price stability by regulating money supply as well as increasing domestic production of goods and services in order to check inflation arising from scarcity of commodities.
To reduce unemployment in the economy. This objective involves putting in place measures to promote investment in order to create more jobs for the people.
To attain a fairer distribution of income. The government strives to achieve this objective by implementing policies like progressive taxation, supporting projects for the disabled people and so on. The aim of this is to reduce the income gap between the rich and the poor.
To attain higher economic growth rate. This objective involves promoting investment in the major sectors of the country so that more goods and services are produced. This helps to increase the rate of economic growth.
To improve the standard of living of the people. This aims at encouraging people to engage in income generating projects like commercial farming and small-scale industries. Such projects enable people to earn income that leads to a better standard of living.
To improve on the Balance of Payments position. This aims at expanding the export sector to increase export earnings. At the same time, efforts are made to reduce expenditure on imports by supporting import-substitution industries.
To consolidate security of life and property. The government achieves this objective by strengthening security organs of the state (the

army, Police e.t.c) so that a conducive environment for investment is created. By maintaining security, the government is able to improve the quality of life of the people.

INDICATORS OF ECONOMIC DEVELOPMENT

Indicators of Economic Development, refers to the political, social and economic factors intended to show the relative levels of economic development of individual economies. These include the following: -

The size of per capita income. High per capita income shows high level of development because it implies that nationals can afford the basic needs of life while low per capita income shows a low level of economic development because it means that some nationals cannot or can hardly afford their basic needs of life.



Highly developed Road Net work

Poor road network

Source: Internet Photos

The level of development of social and economic infrastructure. Developed economic infrastructure in form of roads, railway lines etc. which ease transportation of raw materials and goods and services, as well as developed social infrastructure that improve people's social wellbeing such as hospitals and recreation facilities among others, indicate a high level of economic development. However, where such infrastructure is underdeveloped, then that is an indicator of low level of economic development in such countries.

Literacy level. Developed countries have higher levels of literacy than less developed countries.

Level of technological development. Use of advanced technology which enhances efficiency is an indicator of high level of development while low level of technology which leads to low quality and quantity output is an indicator of low level of economic development.

Employment level. High level of employment indicates high level of economic development because it increases job creation and consequently leads to improved standards of living; on the other hand, low employment levels indicate low levels of development.

Life expectancy. This is the average number of years a person is expected to live after birth. Developed countries have high life expectancy compared to the less develop countries.

Population growth rate. Low population growth rate is an indicator of high level of economic development while high population growth rate indicates a low level of economic development since it increases the dependence burden which limits savings and investments leading to low output levels.

Level of political maturity and freedom. Developed countries have political freedom and well-developed political systems than less developed countries where political systems are not well developed.

Size of the subsistence sector. Economies of developed countries are more monetised than the less developed countries which still have a large subsistence sector.

2.2 CIRCUMSTANCES WHERE ECONOMIC GROWTH IS ATTAINED WITHOUT ECONOMIC DEVELOPMENT

It is possible for a country to have economic growth without necessarily attaining economic development. This is due to the following circumstances or conditions:

When there is unequal distribution of income. More commodities may have been produced in a country but when the majority of people are earning low Incomes, then their quality of life is poor. This means that the aspect of economic development is lacking although there is economic growth reflected in more quantities of goods in a country.

When the quality of goods and services is poor. A country may be producing more commodities whose quality is poor. It is true that there is economic growth but the aspect of development is lacking.

When there are high levels of unemployment in an economy. A country may realize more and more goods and services being produced but without creating more employment opportunities, this may be because of using capital intensive technology which uses very few people. This means that there is economic growth without economic development.

When there is political instability in the country. More goods and services may have been produced yet a country is experiencing political turmoil. The political instability lowers the quality of life of the people. This makes a country to attain economic growth without achieving economic development.

When there is high rate of inflation in the country. More goods and services may have been produced yet the country is experiencing high inflation rate. High rate of inflation increases the cost of living leading to a low standard of living of the people. This makes a country to attain economic growth without attaining economic development.

When people in an economy are being over-worked and they forego leisure. A country may be producing more commodities and it attains economic growth but the majority of the people are being over-worked and they have little time for leisure activities because they have to produce goods and services. As people forego leisure, their quality of life becomes poor despite the high economic growth rate.

When there are social costs like pollution. As the economy grows through the industrialisation process, negative externalities such as pollution of the environment are created. Pollution creates an inconvenience to the public and lowers the quality of life of the people despite the fact that more commodities are being produced. This makes a country to attain economic growth without achieving economic development.

When heavy direct taxes are being levied by the government. A country may be producing more goods and services yet the government is levying heavy direct taxes on incomes of the people. This reduces people's disposable incomes and their quality of life is reduced (they lead a low standard of living). Thus, in such a case, economic growth is attained without economic development.

When there is use of poor techniques of production by producers. This causes production of low-quality goods and services which results into low economic development despite the increase in the volume of commodities produced in the country.

When the country is producing more capital goods than consumer goods. The production of more capital goods increases economic growth yet these goods do not directly improve people's standard of living as the case is for the consumer goods. Hence a country attains economic growth (due to production of more capital goods) without achieving economic development.

LESSON: THREE

3.0 SUB- TOPIC: POVERTY AND UNDER DEVELOPMENT

RESOURCES NEEDED: Text books, pen, Exercise book, radio, TV, internet, telephone, ear phones.

LEARNING OBJECTIVES: By the end of this lesson, you should be able to describe the forms of poverty, describe the viscous cycle of poverty, explain the causes of poverty, discuss the effects of poverty on the economy, and assess government programmes put in place to fight poverty.

3.1 POVERTY

Many of us have ever said or you have heard people say, 'I am poor" but what does the term poverty mean?

According to World Bank, Poverty means 'the inability to attain a minimal standard of living'.

It refers to a state of having insufficient income to provide a minimum standard of living or a situation where a proportion or section of the population is only able to meet its bare subsistence essentials of food, clothing and shelter in order to maintain the minimum level of living.

FORMS OF POVERTY

Absolute poverty refers to a situation where a population or section of the population is unable to meet its bare subsistence of food, clothing and shelter. Such a population suffers from ill health, malnutrition, and lack of education.

Relative poverty is a situation whereby a section of the population is able to meet the bare minimum necessities of life and a bit of luxuries.

Absolute poverty
Source: internet Photo

CAUSES OF POVERTY IN UGANDA

Low incomes. Many Ugandans earn low incomes which lead to low savings, low investments, low productivity or output which again leads to low incomes and the phenomenon continues keeping many Ugandans in a vicious cycle of poverty.

High level of Unemployment. This is both in urban and rural areas where people are willing to work but are unable to get jobs at the ongoing wage rates and as such, they are unable to purchase certain goods.

Insecurity This is manifested through rebel attacks, armed conflict, robbery, physical injury and murder which are the primary cause of poverty in some areas of the country. Also, resources that would be injected in poverty alleviation programmes are devoted to curbing such insecurity.

Inappropriate education system. Uganda's education system trains more of job seekers than the job markers yet not all job seekers are absorbed in the labour market. This has worsened the unemployment rate and aggravated the problem of poverty in the country.

Besides, the high cost of education has worsened the situation; high school fees pose a big burden to households. Many are unable to afford the high cost of education hence forcing children out of school. This consequently limits their accessibility to employment opportunities.

Epidemic and endemic diseases like AIDS and Covid 19 have compounded the poverty state. AIDS has affected especially the young and productive people leaving behind a number of helpless dependents (the orphans), hence aggravating misery and poverty.

Poor performance of the agricultural sector. Agriculture is the main stay of the rural economy on which majority of the poor depends. However, factors such as prevalence of traditional farming methods, low soil fertility, poor and inadequate extension services, high cost of inputs, lack of water and pasture, animal diseases, and limited information on marketing have affected the output from the sector in terms of quantity and quality. The agricultural products' prices are also not only low but unstable mainly taking the down ward trend. This causes or accelerates poverty.

Existence of social strata and class exploitation in the society. These have widened the income inequality between the poor and the rich.

Inappropriate technology. This leads to low quality and quantity output consequently resulting into low incomes and poverty.

Underdeveloped infrastructure. Both social and economic infrastructure are underdeveloped for example poor roads and bridges which contribute to limited access to markets.

Limited markets. The ability to access both domestic and foreign markets affects one's levels of income. Those that are unable to access such markets to sell their products end up in poverty situations.

3.2 MEASURES TO REDUCE POVERTY IN UGANDA

The government of Uganda has taken/ is undertaking a number of interventions to reduce the poverty levels of the people. These interventions include the following:

Widening markets through economic integration for example the revival of the East African community is a good step in the right direction of widening markets to allow Ugandans have access to wide markets for their products.

Developing infrastructure. Government is making efforts to construct a good network of roads and railways to ease the transportation of raw materials to production units and finished products to markets. To this, a number of roads, railways, have been constructed. Water and air transport infrastructures have equally been expanded.

Providing skilled labour through training to equip labour with the relevant skills. Vocational institutions are being encouraged and supported. These promote hands on experience and impart skills required in the labour market and for self-employment aimed at reducing poverty.

Encouraging savings to increase investments so as to increase incomes and the level of capital accumulation. This is done through encouraging the operation of SACCOs and Cooperatives which are good avenues for mobilising savings and funds for borrowing.

Improving techniques of production to add value and also improve the quality and quantity output in order to increase incomes.

Improving land tenure system. So that the land -less are able to acquire and utilise land for increased incomes.

Controlling population growth rates. This is through encouraging use of family planning methods. Controlling the population growth rate helps to reduce the pressure on the available resources and also reduces the dependence burden.

Providing affordable credit for investment. For example, the youth fund, however, many youths have not accessed such.

Activity2

1. Assess the impact of poverty to Uganda's economy.
2. Explain the programmes undertaken by the Government of Uganda to fight poverty.

LESSON FOUR

4.0 TOPIC: ECONOMIC GROWTH AND DEVELOPMENT

4.1 SUB- TOPIC: POVERTY AND UNDER DEVELOPMENT
RESOURCES NEEDED: Text books, pen, Exercise book, radio, internet if available, telephone, ear phones.

LEARNING OBJECTIVES: *By the end of the lesson, you should be able to; explain the concept of underdevelopment, identify the indicators of underdevelopment, explain the causes of underdevelopment and suggest policy measures to overcome underdevelopment.*

4.1.1 THE CONCEPT OF UNDER DEVELOPMENT

Under development refers to the underutilisation of resources in an economy leading to low output and production of low-quality goods and services.

It refers to a situation in which the productive capacity (potential) of an economy is underutilised, that is, an economy has not yet fully utilised her productive resources and is characterised by low quality and quantity of output, limited and low quality of labour skills, use of mainly poor techniques of production and high levels of price instability.

Table 4.1: Social and Economic Indicators of Underdevelopment in Uganda

Social indicators of economic underdevelopment in Uganda	**Economic indicators of underdevelopment in Uganda**
• High illiteracy rates.	• Poor entrepreneurship.
• Low life expectancy.	• Low per capita income.
• High mortality rates.	• Dualistic.
• Poor health services.	• Prevalence of excess capacity.

- High levels of conservatism of the people.
- High population growth rate.
- Low self-esteem.
- Poor housing facilities.
- Preference of foreign values.
- Socially dualistic.
- High levels of malnutrition.
- Use of mainly poor technology.
- Widespread underemployment and unemployment.
- Small markets both at home and abroad.
- Mainly subsistence agriculture.
- High levels of price instability.
- Persistent Balance of payments problems.
- Dependent on other countries.

4.1.2 CAUSES OF UNDERDEVELOPMENT IN THE DEVELOPING NATIONS

ACTIVITY 3

Research on the causes of underdevelopment of developing countries including Uganda.

4.1.3 MEASURES TO OVERCOME UNDER DEVELOPMENT

All countries would wish to have all her sectors developed and achieve a higher level of economic development. The following measures could be taken to accelerate the development process in Uganda:

a) Lay down strong infrastructure.
b) Modernize agriculture since it is the backbone of the economy.
c) Encourage development of human resources through intensive training.
d) Attain political stability in all parts of the country.
e) Undertake further expansion of the market to facilitate the process of commercialisation.
f) Provision of capital to local investors.
g) Develop appropriate technology through technological transfer and development.
h) Control the high population growth rates through family planning.
i) Promote the industrial sector.
j) Provision of desired investment incentives.

ACTIVITY

Examine the policy measures to overcome underdevelopment in your country.

LESSON FIVE

5.0 TOPIC: AGRICULTURE AND INDUSTRY

SPECIFIC OBJECTIVES: *By the end of this topic, you should be able; to define agricultural development, evaluate the role of agricultural development in the economy, and examine the advantages and disadvantages of agricultural development strategy.*

Materials/Resources: Pen, pencil, notebook, Reference/ text book, earphone, Radio/T.V.

In this topic you are going to look at agricultural development. The backbone of Uganda is agriculture as you may have noted that most people in your village carry out farming. But what is agricultural development?

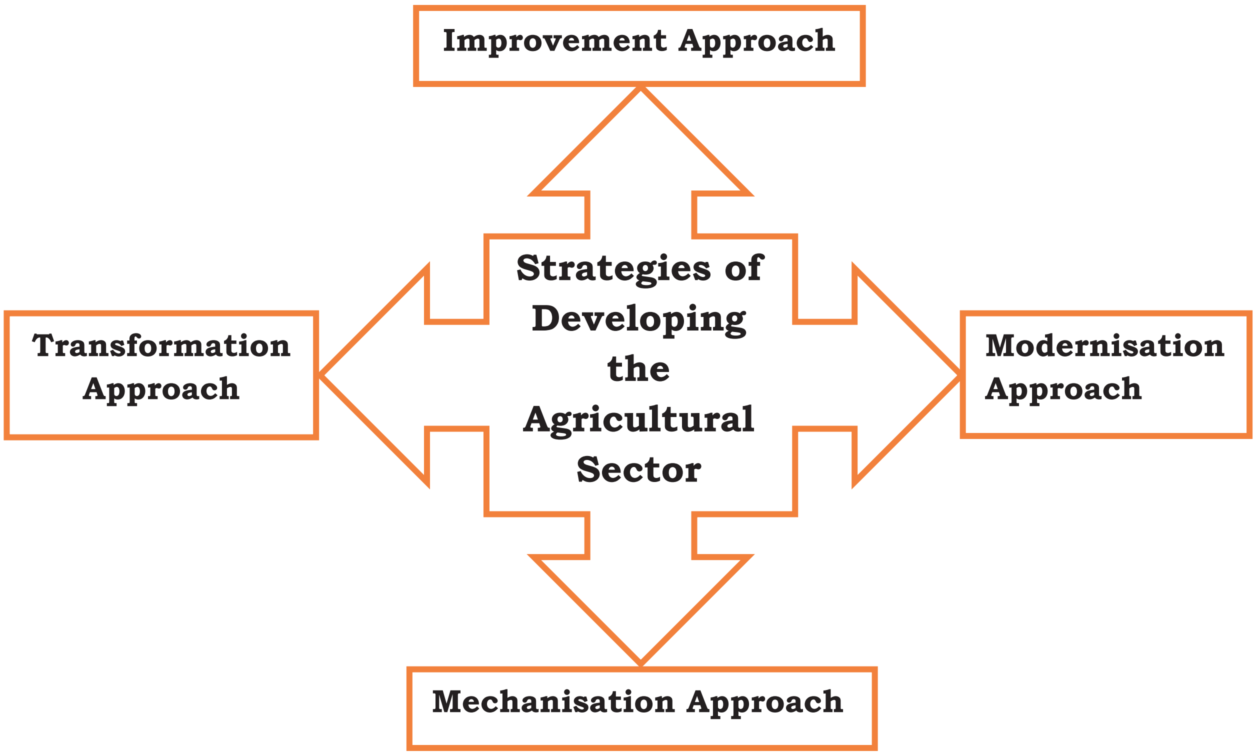
5.1 AGRICULTURAL DEVELOPMENT

This refers to the transformation or changing from traditional small-scale peasant agriculture to large scale modern agriculture.

OR, it refers to the changing of the agricultural sector from subsistence production to commercial production. Most developing countries emphasise investment in agriculture to attain higher rates of economic growth.

5.1.1 STRATEGIES OF DEVELOPING THE AGRICULTURAL SECTOR

Strategies to develop agriculture are used to change or transform the methods used in agriculture or to improve them. These strategies are as follows:



Improvement approach

This approach aims at providing existing methods of agriculture rather than shifting away completely from local methods in practice.

It aims at encouraging agricultural development within existing peasant production units. This is done in ways such as;

a. Farmers are advised and educated on how they can improve their farming systems or methods.
b. Provision of certain necessary inputs such as fertilisers, better seed varieties, acaricides to the farmers.
c. Extending short term credit facilities to the farmers.

Advantage of the improvement approach

1. Great amounts of capital are not required.
2. Fundamental social changes are not demanded of the farmer.
3. It creates employment for the unskilled people who are likely to improve upon their skills.

4. It improves the quality of labour in rural areas thereby leading to better, quality products. The likely disadvantage is that it may not lead to greater levels of output as compared to the transformation approach.

Problems faced in implementing the Improvement approach

a. Agricultural assistants or extension workers are not well facilitated by the government. They are provided with bicycles and motor cycles to ease their transport to farming areas which may not be useful during rainy seasons leading to poor road network. So, these agricultural assistants fail to visit many farmers.
b. The advice being offered may be either out dated or not applicable to the particular locality
c. Poor infrastructure.
d. High level of conservatism among the farmers.
e. Limited capital.
f. Poor land tenure system
g. Adverse climatic conditions

Transformation approach

It refers to the changing of the existing methods of agriculture so as to move away from traditional farming systems. Some of the existing traditional methods are conservative and out - dated. Therefore, there is need to be replaced with modern techniques of agriculture for the purpose of increasing production. It aims at a complete change of agricultural production. Transformation approach is associated with the following advantages.

1. It makes use of the modern techniques of production.
2. It promotes mechanisation techniques in production.
3. It encourages government participation through marketing boards and cooperatives.
4. It encourages collective farming where by many people work as a group on large-scale units. The major advantage of this approach is that greater quantities of output are achieved which implies more exports, more government revenue and greater employment.

Demerits of the transformation approach

1. It requires a lot of capital investment i.e. (tractors, irrigation equipment which are in short supply in developing countries).
2. Consolidation of land for large-scale production is not an easy thing to do because it may create social political problems.

3. People may resist working in groups as it could be misinterpreted to mean communism.
4. It may lead to unemployment since capital intensive technologies are employed.
5. It leads to transformation of cultural and traditional values.
6. It leads to changes in land ownership (land tenure system) which may be resisted by some people.
7. It gives rise to diseconomies of scale. Due to lack of management skills among the local entrepreneurs, an attempt to transform agriculture by introducing large scale farming methods at a certain level may lead to diseconomies of scale.

Agricultural mechanization strategy

It refers to the adoption and use of machines, tools and equipment in the production of agricultural products. Mechanisation therefore involves the use of tractors, combine harvesters, mechanical sprinklers etc. It is normally connected with large scale farming.

Mechanisation of agriculture refers to the strategy or policy of using modern techniques in the agricultural sector to increase output and incomes or It refers to the use of modern techniques of production (machines) such as tractors, ploughs, sprayers, sprinklers and combine harvesters (instead of labour intensive techniques) so as to increase quality and quantity of agricultural output.

Pictures illustrating Agricultural Mechanisation

Internet photos

Problems encountered in agricultural mechanisation in Uganda

Uganda has made several attempts to mechanise agriculture but with limited success. The reasons for this are as follows:

Limited capital. Since farmers have inadequate capital, they always fail or find it difficult to purchase the necessary agricultural machinery like tractors and other farm implements.

Limited skilled labour. There is shortage of skilled people trained in agricultural engineering. This makes it hard to keep the machines in proper working condition and this limits effective use of machines of the farms.

Conservatism of the farmers. The attitude towards agricultural mechanisation is still poor since many peasant farmers are still inclined to their traditional farming methods. Many farmers are not willing to use machines on their land. The poor land tenure system. In some areas of the country, land is highly fragmented yet agricultural mechanisation is possible and viable where large pieces of land exist without being fragmented. Therefore, with land fragmentation it becomes uneconomical to use machines.

Limited market for surplus agricultural products. A narrow market for agricultural products discourages farmers from embarking on mechanisation. This small market leads to wastage of agricultural output, which arises from increased mechanisation of farming.

Mechanisation is not applicable to all crops. The nature of some crops requires human judgement for certain activities like harvesting and weeding e.g. the harvesting of ripe coffee beans requires human judgement which makes machines not to be applicable in this case.

Poor infrastructure. Poor road network makes it hard to move agricultural machines to those areas where they are needed by the farmers e.g. farm tractors may not easily access rural areas with poor road network.

Unfavourable physical factors. Poor topography of some areas for example, the hilly and mountainous areas are not viable for agricultural mechanisation.

Limited entrepreneurship skills. There are few farmers who have the ability and necessary skills to use and manage the modern agricultural machinery and organise other factors of production as well.

Low and unstable prices for the agricultural products. This causes frustration among the farmers because the increased output arising from mechanisation is offered at low and fluctuating prices.

Underdeveloped technology. Sometimes the machinery bought for use in agricultural production is unsuitable to conditions prevailing in the country.

Political instability. This scares away potential investors discouraging them from installing agricultural machinery.

5.2 SUB- TOPIC: INDUSTRIAL DEVELOPMENT

You realise that the industrial sector in Uganda is small but steadily growing and expanding.

SOME KEY TERMS

Industry is a collection of firms that produce related products and are in constant competition with one another for the market and resources.

A firm is a unit of production under unified management or single control.

Forward linkages exist when setting up of an industry results into emergence of other industry or industries, with the newly established plants forming markets for products and by-products of an already existing industry examples of forward linkages in Uganda include: Sugar industry leading to the sweets industry, grain processing industry leading to animal feeds industry, iron and steel industry leading to the construction industry.

Backward linkages is where existence of an industry leads to setting up of new industries to supply existing industry with inputs, examples of backward linkages in Uganda include: food producers to the industrial sector, print Pack making cardboards to Bread and cigarettes industries, sugarcane out growers to sugar industries, tea out growers to tea processors.

Role of the industrial sector to the economic development of Uganda

Industrialisation plays a very important role in the development of every country including Uganda. The roles played by the industrial sector are both positive and negative:

5.2.1 POSITIVE ROLE OF THE INDUSTRIAL SECTOR IN UGANDA

Creation of more employment opportunities. This is due to increased investment and production in the industrial sector.

Facilitates infrastructural development. This is because the industries encourage the construction of better infrastructure like roads for the mobility of inputs and the final goods.

Encourages technology transfer and technology development. This is due to high use of capital-intensive technology in the industrial sector.

Improvement in Balance of Payments position. This is due to increased production of industrial products for export which leads to increased foreign exchange and reduction in the volume of imported manufactured goods due to setting up of import substitution industries hence saving scarce foreign exchange.

Facilitates resource utilisation. This is due to increased production in the industries and high demand for raw materials by the industries which results in utilisation of idle resources hence avoidance of wastage.

Improvement in the terms of trade. This is due to the value added to products which increases the prices of export products relative to the prices of imports.

Encourages production of high-quality output through adding value through processing or manufacturing. This is due to competition amongst the industries, use of advanced technology and highly skilled labour in the industries.

Promotes economic growth hence increased Gross Domestic Product (GDP). This is due to increased production in the industries.

Reduces (economic) dependence on importation of consumer goods. This is due to increased volume of industrial products and hence reduced dependence on imported manufactured goods.

Promotes the development of local labour skills. This is through training facilities provided by the industries.

Promotes the development of entrepreneurial skills. This is through training facilities provided that enable individuals take on risks of organising other factors of production through injecting capital in setting up industries.

Attracts foreign investment / capital inflow. This is because most of the large-scale industries are owned by foreign investors.

Promotes forward and backward linkages with other sectors. This is through provision of market to agricultural products and raw materials to subsidiary industries.

5.2.2.NEGATIVE ROLE OF THE INDUSTRIAL SECTOR IN UGANDA

Over-exploitation of non-renewable resources hence depletion. The industry sector leads to exhaustion of resources due to over exploitation since the objective of production is profit maximisation not resource exhaustion.


Source: internet Photos

Pollution hence environmental degradation. The industrial sector degrades wastes on the environment by dumping of industrial leading to high levels of air and water pollution which affects human life negatively. It also contributes to global warming and climate change.

Increased capital outflow. This arises from the dominance of foreign ownership of the large-scale firms and the reliance on imported capital and intermediate goods.

Imbalance in regional development. Since majority of the industries are established in urban areas neglecting rural areas thus there are better infrastructural developments like roads and social amenities in urban areas compared to rural areas.

Technological unemployment arises. This is because industrial development tends to be capital intensive thereby replacing human labour with machines.

Dependence on imported inputs. This is because there is need to import capital goods and spare parts to be used in the industries.

Leads to income inequality. The industrial sector contributes to the widening of the income gap by providing incomes to industries that are expanding and little or no incomes to industries which are declining. Likewise, majority of industries are owned by a few who are able to earn high incomes at the expense of the majority who have no industries.

Imbalance in sectoral development. This is due to more emphasis being put on the development of the industrial sector at the expense of other sectors.

5.2.3 FACTORS INFLUENCING THE GROWTH OF THE INDUSTRIAL SECTOR

The growth of the industrial sector is affected by a number of factors discussed below:

Political climate. Rampant political unrest chases away investors thereby discouraging investment in the industrial sector while political stability builds confidence in the investors thereby attracting more investment in the industrial sector thus promoting its growth.

Size of capital. Large capital encourages large scale industrialisation which promotes the growth of the industrial sector while limited capita- discourages large scale industrialisation thereby limiting the growth of the industrial sector.

State of technology. Use of better and advanced technology encourages production of high-quality industrial products which promotes the growth of the industrial sector while use of poor technology encourages production of poor-quality industrial products thereby limiting the growth of the industrial sector.

Land tenure system. Poor land tenure system limits access to land by the investors which discourages the growth of the industrial sector while a better land tenure system with individual ownership of land encourages access to land by the investors which promotes the establishment and growth of the industrial sector.

Skilled Labour. Limited labour skills result into low labour productivity and low output of the industrial products thereby discouraging the growth of the industrial sector but high labour skills result into high labour productivity and large output of industrial products and hence high industrial growth.

Size of market. Small market size limits sales and profits and thus causes wastage of resources thereby discouraging producers in the industrial sector and hence low industrial growth while a large market size encourages high sales and high profits which limits wastage and this leads to high production and growth in the industrial sector.

Entrepreneurial skills. Limited entrepreneurial ability leads to poor organisation in the industrial sector thereby discouraging industrial growth while high entrepreneurial ability leads to proper organisation of factors of production and a high level of industrial growth.

Infrastructure. Better infrastructure in form of good roads promotes the mobility of inputs and final products thereby encouraging industrial growth but poor infrastructure in form of poor roads discourages the mobility of inputs and limits access to market for the final products thereby limiting industrial growth.

Level of corruption. High corruption limits the amount of funds for industrial growth as most of the funds are channeled to individual interests while high level of accountability and financial discipline increases the amount of funds meant for industrial growth. Also, corruption makes the process of industrialisation difficult.

Government policy of taxation and subsidisation. High taxes and limited subsidies increase the cost of production thereby discouraging investment in the industrial sector while low taxes and high subsidies reduce the cost of production and this encourages more production and increased growth in the industrial sector.

5.2.4 THE CHALLENGES OF INDUSTRIAL DEVELOPMENT IN UGANDA

The Uganda government has made significant efforts to expand the industrial sector but has realised less success. The challenges for this are discussed below:

Limited capital. There is limited capital due to low incomes and profits and limited access to loans by industrialists. This discourages the buying of equipment and machinery for industrial development.

Limited markets. There are limited markets for the products from the industries due to low incomes at home and inability to access foreign markets due to poor quality goods. This leads to low sales and makes investing in the industrial sector not viable.

Underdeveloped infrastructure. Infrastructure such as roads, railways, inland ports and airports are in a poor state. This limits effective movement of raw materials and finished products from one place to another thereby limiting industrial growth.

Limited skilled labour. The efficiency of industrial investments is limited by use of mainly unskilled and semi-skilled labour due to the poor education system. This limits labour productivity and labour efficiency which results into low quality and quantity of output produced hence limiting industrial development.

Poor technology. This is mainly due to use of labour intensive techniques of production and importation of unsuitable technology for production which results into production of poor-quality industrial products thereby discouraging industrial development.

Political turmoil. This scares away investors because of fear of losing their lives and property thereby discouraging industrial development in Uganda because of frequent wars strikes and demonstrations.

Limited entrepreneurial abilities. This leads to poor management / high level of inefficiency in the industrial sector thus limiting industrial development.

Inadequate raw materials to be used for the production of industrial products because of poor performance of the agricultural sector that is the main source of raw materials for agro-based industries.

Unfavourable tax levels. This leads to high costs of production in the industries and stagnation in growth of some firms, thereby limiting industrial development.
Stiff competition from foreign goods. This further limit the market for local industrial products that cannot compete with the superior foreign products thereby limiting industrial development.
Unfavourable land tenure system. This limits access to land resources for industrial development.

Activity 5
Explain the measures being taken by the Uganda government to expand the industrial sector.

LESSON: ONE. TERM: TWO

1.0 TOPIC: POPULATION AND LABOUR

SPECIFIC OBJECTIVES:

By the end of this topic, you should be able to; discuss the Malthusian theory of population, explain factors that impact on labour force, assess the methods of wage payment, and examine the merits and demerits of wage payment.

Materials /Resources needed: Pen, pencil, note book, Phone, radio, earphones, computer, and internet

As you are aware, your country is one of those with a highest growing population in the world at 3.3% per annum. The next section explores some of the key concepts regarding population.

1.1 IMPORTANT CONCEPTS

Population, refers to the total number of people living in a specific area such as a particular country or town at a given time.
Population growth rate. Refers to the rate of increase of a country's population over time
Population density. The number of people per unit area of land, per square kilometer.
Fertility rate: This refers to average number of children born per woman in a given country yearly, number of children born alive per thousand women within the child bearing age bracket, normally between the ages of 15 and 49 years.

Under population: refers to a situation whereby a country's resources exceed its population i.e. with under population average product or output per head rises with an increase in population.
Over population: This is where the population of a country exceeds the resources available in that country or is the situation where population is beyond optimum in that there are too many people for the available resources.

ACTIVITY 1

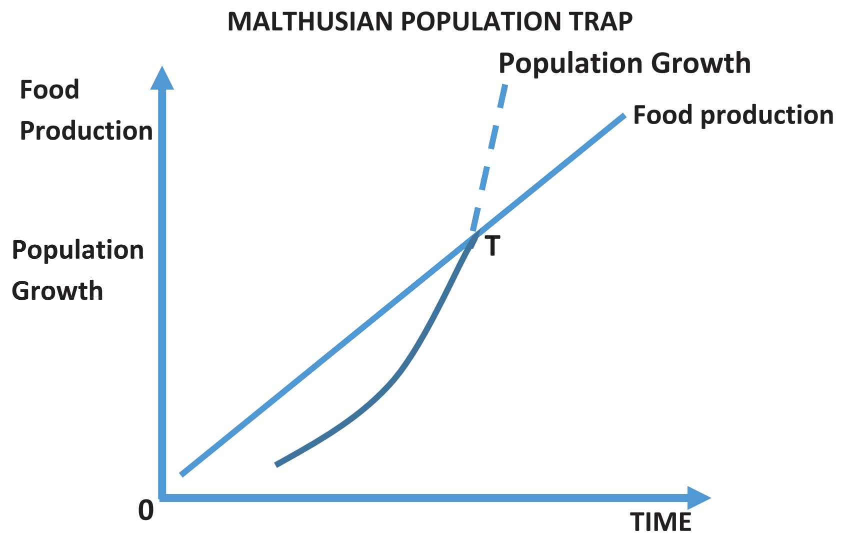
1. Research and write in your note books about:
   (a) The factors that influence the birth rate of a given place.
   (b) The factors that influence the death rate of a given place.
   (c) Explain the composition of Uganda's population structure and its implications
2. **(a)** Distinguish between under population and overpopulation
   (b) What are the merits and demerits of each?
3. Explain the significance of a rapidly growing population.

1.1.1 MALTHUSIAN THEORY OF POPULATION

In the day to day experiences, individuals struggle to be productive with the available resources, but people in a given country or the world also increase in number. It is useful to understand the relationship between available resources and the number of people.

Malthus' theory of population explains how population growth depends on food supply (resources available or means of subsistence), that is, shows the relationship between population growth and food supply.
The theory states that **population grows** at a **geometric rate** of 2, 4, 8, 16, 32… while **food production** grows at an **arithmetic rate** of 2,4,6,8, 10…. Therefore, the rate of increase in food production is slower than the rate at which population grows. Malthus said that due to the above trend, there is a point when population growth equals food production (**population trap**); beyond which food would not be enough to sustain the population leading to misery, sufferings, death and other calamities (which tend to reduce population thereby bringing a balance with food supply).
Therefore, there was need to control the population growth rate through preventive or **negative checks** like moral restraint (abstinence), celibacy, late marriages, otherwise **positive** or natural **checks** like famine, and diseases would set in to reduce the population growth. This situation can be illustrated as below:

Graph 1: Showing the Malthusian population trap



At **point T**, (the **population trap)**, population growth equals food production. Beyond point T (time period T), the dotted line of population growth curve, there is starvation, deaths, wars and diseases because population growth is more than food production.

Assumptions of the Malthusian theory of population

In developing the population trap, Malthus put forward the following assumptions:

Assumes a closed economy. The Malthusian theory of population assumes a closed independent economy with no international trade.

Assumes constant technology applied to food production. The theory assumes that technology used in the production of food does not change.

Land is fixed in supply and subject to the law of diminishing returns. Land is assumed to have inelastic supply and affected by the law of diminishing returns.

Food grows at an arithmetic rate while population increases at a geometric rate, this means that population grows faster than food production.

Population growth depends on food supply only. Population growth is determined by the availability of food.

1.1.2 RELEVANCE OF THE THEORY TO DEVELOPING COUNTRIES

The Malthusian Population trap is relevant to developing countries in the following ways:

Land supply being fixed and subject to the law of diminishing returns is what is being experienced in many developing countries and he envisaged this situation.

To some extent population is still being checked by natural family planning methods.
The positive checks on population exist in some developing countries. Therefore, population is being checked by wars and natural disasters such as floods, epidemics and earthquakes.

Land problems or disputes are common issues in many parts of the developing countries and in some cases has resulted into loss of lives.

Developing countries are facing food shortages (famine). This is evidenced by the food relief received by these countries.

CRITICISMS OF MALTHUSIAN POPULATION THEORY

It assumes constant technology which is unrealistic since technology is ever changing. This helps to increase food production and cater for the growing population.

Malthus ignored the role of international trade in increasing food supply since he assumed a closed economy. International trade enables countries with food shortages to import food and supplement local production.

Agricultural modernisation is not foreseen by the theory yet this is taking place in most developing countries. This helps to increase food production and avoid food shortage.

Failure of the theory to foresee the possibility of labour mobility from areas where opportunities are limited to areas where high wage employment opportunities exist.

Population growth does not depend on food supply alone as Malthus assumed. It also depends on other factors such as legal marriages, age, fertility rates, net migration rate which Malthus ignored.

The theory is based on the subsistence economy yet modern economies of developing countries are not predominantly subsistence any more. Commercialisation of production leads to specialisation and increased output for exchange thus averting any possibility of shortages in food supply. This too was not envisaged by the theory.

The theory did not foresee great improvement in transport that makes it possible to transfer food from areas of plenty to areas of scarcity hence developing countries can offset the problems of food shortages.

It did not foresee the possibility of getting foreign aid/resources from other countries. Foreign food relief aid from countries with food surplus can offset the problems of food shortages in the developing countries.

There is no mathematical relationship between population growth and food production as regards growth in food and population. There is no proof to show that population increases in a geometric progression and food production increases in an arithmetic progression.

The theory ignored the deliberate and scientific methods of birth control like use of condoms, vasectomy and contraceptive pills to reduce the population growth rate.

Malthus did not realise that rising living standards can cause a fall in birth rates and population growth.

It ignored the possibility of emigration to ease pressure on resources. People migrate from countries which are densely populated to countries which are less populated resulting into reduced pressure on resources in the overpopulated countries.

Malthus was influenced by the law of diminishing returns which is not always true. At times increasing amount of a variable factor, labour, to a fixed factor, land, results in increasing and constant returns.

1.1.3 REASONS FOR CONTROLLING POPULATION GROWTH RATES IN DEVELOPING COUNTRIES

Countries use a number of methods to control population growth because of a number of reasons including the following:

To reduce the dependence burden. This is because a high population growth rate leads to increased dependence burden on the small working population which leads to low level of savings, low level of capital formation and low level of investment.

For purposes of reducing unemployment. This is because a high population growth rate leads to unemployment and underemployment as the public and private sectors are not in position to create enough employment opportunities to match with the high population growth rate.

To reduce government expenditure on social services. This is because a high population growth rate leads to increased government expenditure on provision of social services like education and healthcare.

As a way of improving on the Balance of payments position. This is because a high population growth rate leads to balance of payment problem due to increased import requirements to supplement domestic supply of goods.

To minimise environmental degradation. This is because a high population growth rate leads to high social costs in form of accidents, congestion, pollution and sanitary problems which are due to the increase in the large number of people in different areas.

For purposes of increasing effective demand. This is because a high population growth rate leads to limited domestic market or low effective demand due to low income per capita.

To ease planning for the population. This is because due to a high population growth rate effective economic planning for the population becomes difficult due to limited resources.

To avoid over utilisation of the natural resources. This is because a high population growth rate leads to quick depletion of resources due to over exploitation by the people.

To reduce pressure on infrastructure. This is because a high population growth rate leads to the available social and economic infrastructure in form of schools, hospitals and housing that are overstrained.

As a means of reducing external economic dependence in general. This is because a high population growth rate leads to increased reliance on foreign aid, foreign manpower and foreign technology to meet the needs of the high population growth.

To minimise brain drain. This is because a high population growth rate leads to brain drain which robs a country of her productive labour that tries to look for better opportunities in other countries.

To improve labour productivity. This is because a high population growth rate leads to low labour productivity especially in the agricultural sector due to the law of diminishing marginal returns.

ACTIVITY 2

1. Research and make a write up on the following:
   (a) Consequences of a rapidly growing population
   (b) Effects of Population explosion.
   (c) Effects of Young and ageing Population.

1.2 SUB TOPIC: LABOUR

Let us define the term labour. Labour refers to any human effort, whether physical or mental that is utilised in the production process.

LABOUR SUPPLY
Labour supply is the number of hours of work labour is willing to work for at a given wage rate over a given period of time.

1.2.1 FACTORS THAT INFLUENCE THE SUPPLY OF LABOUR

A number of factors determine when supply of labour is high and when it is low. They include the following:

Health conditions of workers. When they are good, workers are active, they do not miss work leading to high supply of labour but when they are poor, workers are not active, they sometimes miss work leading to low supply of labour.

Size of the population. When the size of the population is big, it means there are more people to work hence high supply of labour but when the size of the population is small, it means there are few people to work hence low supply of labour.

The age composition of the population. When the majority of the population is a working population, then supply of labour is high but when few people are of working age, the supply of labour is low.

Working conditions. When the working conditions are good, many people are encouraged to work leading to high supply of labour but when the working conditions are poor, many people are discouraged to work leading to low supply of labour.

Political climate. When there is political stability, people feel secure to work hence high supply of labour but when there is political unrest, people are in fear for their lives hence low supply of labour.

Trade unions' influence. Trade unions that have great influence, restrict labour supply so as to raise the members' wages but trade unions with less influence cannot restrict labour supply since there is minimal influence on employers leading to high supply of labour.

The level of knowledge of job seekers. When the level of knowledge is high, the supply of labour is high as more people get jobs but when the level of knowledge is low, the supply of labour is low as fewer people get jobs.

Attitude of labour towards work. When the attitude is positive, people are willing to work hence supply of labour is high but when it is negative, people are not willing to work, hence low supply of labour.

The level of mobility of labour. When the level of mobility of labour is high, it means people are willing to move from one job or geographical area to another hence high supply of labour but when the level of mobility of labour is low, it means few people are willing to move from one job or area to another hence low supply of labour.

The level of wages. When the level of wages is high, many people are motivated to work leading to high supply of labour but when the level of wages is low, many people are demotivated and discouraged to work leading to low supply of labour.

The nature of the jobs. When a job is risky, people are discouraged to work for fear of contracting diseases or even losing their lives at work hence the supply of labour is low but when a job is not risky, people are encouraged to work because their lives are not in danger hence high supply of labour.

The level of skills required in a particular job. When the level of skills required is high, the supply of labour is low because not so many people have these skills but when the level of skills required is low, the supply of labour is high because many people who have those skills.

1.2.2 MARGINAL PRODUCTIVITY OF LABOUR

Marginal productivity of labour refers to the quantity of output that can be produced or realised from the employment of one extra unit of labour.

Limitations to productivity of labour in developing countries include:

Limited capital. Inadequate capital needed to buy equipment in order to improve the productivity of labour in many of these developing countries.

Limited skills. Labour with limited skills needed to open up and develop key sectors of the economy, labour that is not sufficiently trained will often have low productivity.

Poor techniques of production. Poor techniques of production reduce worker's efficiency hence leading to low labour productivity.

Poor attitude towards work. An individual's set of beliefs and attitude towards work will affect their performance. Poor attitude leads to low productivity.

Poor working conditions. Conditions of work affect employee motivation and workers in poor working conditions have low morale and hence low productivity.

Poor entrepreneurial ability. Entrepreneurs' capabilities determine the working environment of the workers. A poor working environment reduces labour productivity.

Having looked at the factors that determine the productivity of labour, let us now turn to labour force and its definition**.**

Labour force is the proportion of the population that is made up of the working age group, excluding full-time students and housewives. It is the total number of people of the working age group that is available for employment at a given time.

1.2.3 DETERMINANTS OF THE SIZE OF LABOUR FORCE

A number of factors determine when the labour supply is large or small. These include:

Size of the population. The higher the population, the bigger the size of the labour force and the lower the population, the smaller the size of the labour force.

Length of training period. The longer the period of training, the smaller the size of the labour force, the shorter the period of training, the bigger, the size of the labour force.

Health status of the population. The population with a good health status, the higher the size of the labour force, while that with a poor health status leads to a lower size of the labour force.

Government policy in terms of employment age / age structure.
Where government has a clear policy on employment creation there will be a bigger labour force and vice versa.

Activity 3

1. Discuss the theories of wage determination.
2. Examine the applicability of each theory to developing countries.
3. Assess the merits and demerits of maximum and minimum wage.

1.2.4 METHODS OF WAGE PAYMENT IN AN ECONOMY

There are a number of methods through which wages are paid, these include:

Time rate system. This is a method of wage payment where workers are paid according to the time they have worked for example per hour, day and month. The system involves clocking in and clocking out.

Piece rate system. This is a method of wage payment where workers are paid according to the amount of work done. The more amount of work done, the higher the wages and less amount of work done, the lower the wages.

TIME RATE SYSTEM OF WAGE PAYMENT

Time rate system is a method of wage payment where workers are paid according to the time they have worked for example per hour, day and month.

MERITS OF TIME RATE SYSTEM

Encourages hard work in terms of working overtime. This is because workers put in more effort to earn more wages leading to high output produced.

Better quality output is produced due to constant supervision of the work and absence of hurrying.

Proper records of time are kept for easy or correct payment. Therefore, it becomes easy to calculate the wages given to the workers for example multiplying the wage rate by duration of work.

Workers are encouraged to report in time for work. This implies that workers are self-driven.

Workers are able to receive regular wage payments. Employees receive wages even during periods of temporary idleness.

Less efficient / slower workers who take more time easily earn high wages as all workers are paid same wage.

Minimises conflicts between workers and employers thereby creating industrial peace.

In a situation where output cannot be measured for example health and education, it is difficult to apply piece rate.

Minimises destruction of delicate machinery due to absence of hurrying as is the case of piece rate.

DEMERITS OF TIME RATE SYSTEM

Encourages laziness by the workers. Lazy workers will thrive in the system as they will wait for the time of payment even when they are not working hard enough.

Leads to low production of goods and services. Due to Slower and less efficient workers can easily be paid more than the faster and efficient workers.

Poor quality output is produced where there is no supervision.
Leads to **high costs of supervision** and time checking.

PIECE RATE SYSTEM OF WAGE PAYMENT
Piece rate system is a method of wage payment where workers are paid according to the amount of work done.

MERITS OF PIECE RATE SYSTEM

Eliminates the need for constant supervision of the workers leading to reduced costs of production.
Minimises labour strikes (industrial unrest) because it limits conflicts or disagreements over payments.

Higher output is realized because workers are encouraged to produce more so as to earn high wages.

Promotes team work / spirit among the workers leading to increased productivity.

Workers do the work at their own pace thereby reducing overstraining.

It is easy to calculate the wages because output is measurable.

Dull and slow workers are stimulated to work hard in order to earn high wages.

Encourages innovativeness among workers so as to produce a large output of goods and services to earn high wages.

Faster workers earn more wages than slow / lazy workers which minimises cheating in the payment of wages.

Employers easily forecast output to be produced by the workers and this enables them to put aside the necessary amount of money for wage payment, that is, it simplifies employers costing calculations.

It helps employers in identification of suitable workers by enabling them to remove the lazy ones and maintain workers who put in more effort.

Tasks are completed faster since the system encourages hard work among the workers.

Employers are protected from falsified payments since wages are directly related to the level of output.

Output is increased and the cost per unit of a fixed factor of production employed reduces.

DEMERITS OF PIECE RATE SYSTEM

Workers tend to over work themselves to earn high wages and this negatively affects their health.

Reduces the quality of work because of hurried work for higher pay.

Leads to over production due to high output rates resulting into wastage of resources.

A worker who genuinely misses work or falls sick is not paid for the days missed. This causes wage / income instability.
Hard working people are resented by the slow workers leading to conflicts and income inequality.

Leads to high risks of accidents because workers try to increase the speed of work for higher wages.

It undermines trade union solidarity because of variations in piece rates from one place to another and due to the conflicts between the hard-working people and the slow workers.

Slow but careful and efficient workers are discouraged since they produce low output levels (and good quality output in a long time) that earns them low wages.

Workers may resist being transferred from one form of work where they have acquired more experience to another.

1.2.5 TRADE UNIONS
A trade union is an association or organisation formed by the workers with a primary objective of demanding for increased wages and improved conditions of work for its members.

Therefore, a trade union is formed by employees to ensure collective action against employers. Examples of trade unions in Uganda include: Uganda National Teachers' Union (UNATU), Uganda Law Society (ULS), Uganda Medical Workers Union, Makerere University Academic Staff Association (MUASA), National Organisation of Trade Unions (NOTU).

OBJECTIVES OF TRADE UNIONS

To demand for better working conditions, trade unions aim at enabling their members to enjoy better working conditions e.g. have a clean and safe working environment. They achieve this by representing their affected members in the negotiations for the better conditions of service.

To bargain for wages collectively. The unions aim at negotiating for wages for their members. This is always done when the cost of living increases or when the prevailing wages cannot provide an acceptable standard of living. This is achieved through collective bargaining and other tools.

To protect workers from abrupt or unfair dismissal. Trade unions aim at ensuring some degree of job security for the members. They achieve this through intervening with appropriate tools when members are unfairly dismissed by their employers.

To improve the skills of their members. They aim at ensuring that their members have high productivity so that they are employable. They achieve this by conducting regular workshops and seminars /short courses to enhance the skills of the members.

To advise government on issues pertaining to manpower planning (labour and wages). They achieve this by rendering advisory services to the government in forecasting and training the manpower needed by the country currently and in the future.

To advocate for the human rights of the workers. Trade unions are set to agitate for basic human rights for the people in the country and as critics for good government in the country.

To forge unity among workers. Trade unions are formed to devise ways of creating a sense of unity among all workers such that they are not exploited by the profit hungry employers.

Activity 4

1. Explain the objectives of trade unions.
2. Describe the tools used by trade unions while negotiating for higher wages.
3. Examine the challenges facing trade unions in Uganda today.
4. Under what situations or circumstances are employees justified to demand for wage increments?

CHALLENGES FACED BY TRADE UNIONS IN DEVELOPING COUNTRIES

Trade Unions in developing countries are not very effective in achieving the objectives for which they were formed. The challenges they face include the following:

Poor leadership. The leadership of trade unions does not have the necessary skills to manage them well. They have limited organisation and mobilisation skills. They therefore fail to consolidate the relationship between workers in the different unions. This limits their ability to convince employers to raise wages.

Limited membership or low level of unionisation. Many trade unions do not have all workers of the industry as members partly due to apathy and partly due to target working.

Limited funds. Trade unions do not have enough financial resources to finance their activities, for example, inadequate funds to sustain strikes. This is because most of the members are low income earners and are not able to pay reasonable amounts of subscription and membership fees.

Limited skills of members. Many of the trade union members are not trained. They do not have specialised skills. They are basically substitutable i.e. the employers can replace them any time. They thus fail their struggle to have a better pay.

High levels of unemployment. The level of unemployment in developing countries is so high due to factors such as seasonal variations in climate, change in techniques of production from labour to capital intensive techniques of production and other factors.
Low demand for products produced by members of the trade unions. This is mostly due to the high levels of poverty in most developing countries. This affects the sales and revenue of the employer.

Low demand for labour. Some employers have limited demand for workers because they can easily use machines, for example, some firms can easily substitute the workers with machines that are more efficient. They thus refuse to raise the wage of their workers and this renders trade unions weak.

High levels of corruption (low level of accountability). The union members especially the leaders receive bribes from the employers. They thus work against (sabotage) the activities of the unions. This leads to failure of achieving the general demands of the unions.

Government (political) interference into trade union affairs. Government interferes into union activities by influencing the election of union leaders and by threatening to sack union members and leaders. This is in particular the case with public sector workers.

Poor organisation of trade unions (disunity of members). Many trade unions are afflicted by the division of members on sectarian grounds such as on the basis of religion, tribe and political affiliation.

ACTIVITY 5

1. Explain the factors limiting the ability of trade unions to raise wages in your country.
2. Assess the possible effects of introducing a minimum wage policy in Uganda.

2.0 LESSON: TWO

2.1 TOPIC: UNEMPLOYMENT

SPECIFIC OBJECTIVES

By the end of the topic learners should be able to; identify types of unemployment, discuss the Keynesian theory of unemployment and its applicability to developing countries, examine the causes of unemployment and policy measures government is taking to reduce them.

Materials /Resources: Pen, pencil, book, Phone, radio, earphones

UNEMPLOYMENT PROBLEM

You may have noted that in your country and the world over, many young people look for jobs tirelessly at whatever wage rate but barely find them. That is unemployment. Unemployment therefore, is a situation where labour is willing and able to work at the ongoing wage rate but cannot find jobs at a particular period of time.

This unemployment is broadly categorised into voluntary and involuntary unemployment.

Voluntary unemployment. You have seen people who are able to work but are not interested in working even when jobs are available**.** That situation describes voluntary unemployment. Voluntary unemployment therefore is a situation where jobs are available but labour force is not willing to take on the jobs at the on- going wage rates. This situation is caused by:

Low wage rates /low remuneration. Some people of the working age may prefer to remain unemployed when they regard the current wage rate as too low to meet their current equipment.

Laziness of the unemployed. An individual of the working age may be unemployed because of laziness and fear of work.

Poor working conditions. Labour can decide to remain unemployed in an economy when he/she considers the existing jobs to have poor working conditions like existence of harsh administration, poor health standards at the place of work, working in toilets.

Expectation of better jobs in the future. When some labour force expected to get better jobs in the near future, they may not take up the current existing jobs making them unemployed.

Desire for leisure. Some labour force becomes voluntarily unemployed just because they prefer to enjoy leisure instead of working

Poor health of labour force. Some people who are physically sick may become voluntarily unemployed as they seek for treatment or find alternative ways of survival.

INVOLUNTARY UNEMPLOYMENT

Is a situation where labour is willing and actively looking for a job but cannot find any at the on- going wage rates.

TYPES OF UNEMPLOYMENT

Unemployment has a number of types, some of which are:

Seasonal unemployment. This is the type of unemployment which occurs as a result of climatic or seasonal variations especially in agriculture sector climatic variation from rain season to dry season makes some of the farmers unemployed e.g. harvesters and agriculturalists

Technological unemployment. Is that which occurs as a result of changes in the method of production when machines replace labour like in industries.

Structural unemployment. Is that which occurs as a result of imbalances in the supply and demand for labour and changes in the demand for products in an economy.

Frictional unemployment. Is that one which occurs when labour is changing jobs in the short run OR Is one that arises due to temporary adjustment in the forces of demand and supply for labour. In this situation or case, labour force becomes unemployed during the process or period of moving or changing from one job to another. It is therefore a temporally type of unemployment.

Cyclical unemployment (Keynesian type of unemployment). Is one arising out of fall or decline or deficiency in aggregate demand or one that occurs in times of depression in a trade cycle. When demand falls firms or industries will have to reduce their output and even lay off some workers or over dose down completely hence making labour unemployed.

Disguised unemployment. Is a situation where by labour force appears to be actively involved at work but the marginal product is either negligible, zero or negative. In this situation there are very many workers or some can be removed without causing any reduction in total output or product.

Residual unemployment. Is one that arises due to physical and mental incapacitation of a potential labour force e.g. due to blindness, deafness, extreme lameness which disabilities do not allow labour to actively and fully get involved in the production.

Open urban unemployment. Is a situation where labour in the urban areas has no jobs mainly involuntarily resulting majorly from massive movement of labour from the rural areas to the towns to look for jobs.

2.2 KEYNESIAN THEORY OF UNEMPLOYMENT

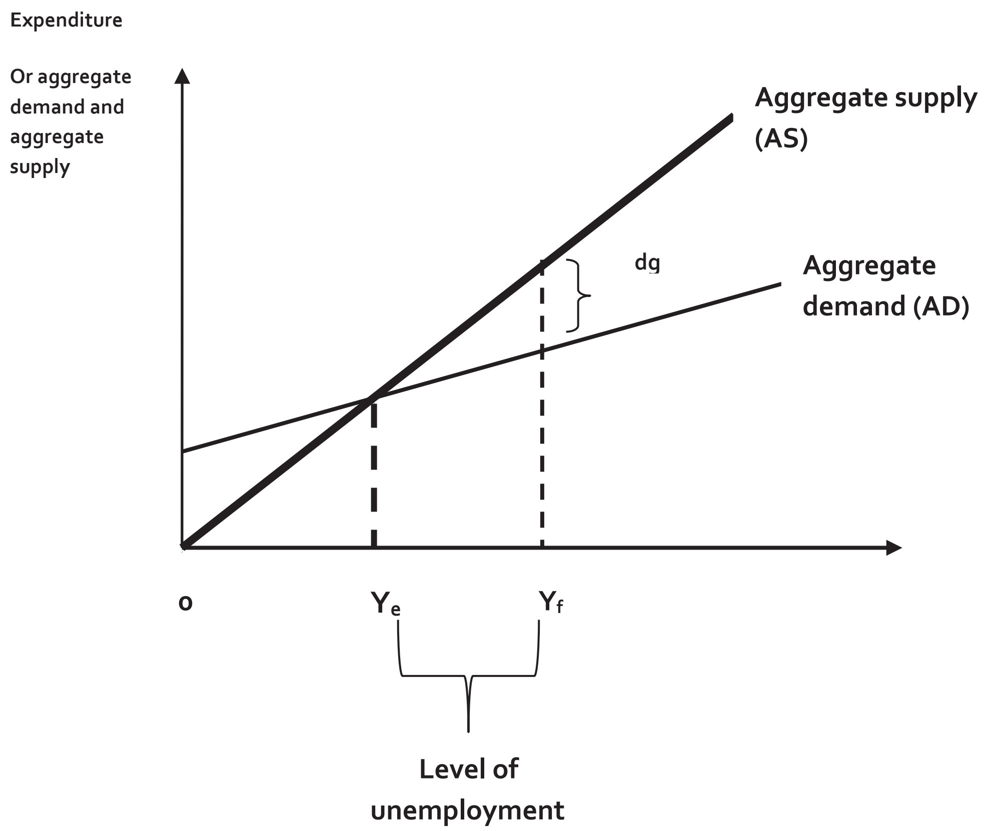
You should note that theories are based on individual opinion. They are therefore studied to evaluate their applicability in a given economy. The Keynesian theory of unemployment was advanced by John Maynard Keynes.

According to Keynes, unemployment arises due to deficiency of aggregate demand in the economy especially in times of a depression or recession. Therefore, due to a fall in aggregate demand for goods, firms are forced to reduce their level of output, income level reduces, the level of investment reduces, thus less labour and capital is employed.

According to Keynes, the major solution to such unemployment is to increase Aggregate demand in an economy. He therefore, gave the following solutions;

1. Reduce direct taxes on income so as to increase people's purchasing power.
2. Subsidisation of consumers so as to increase their purchasing power.
3. Use of expansionary monetary policy so as to increase the amount of money in circulation.
4. Increase government expenditure so as to increase money in circulation.
5. Increase wages of labour so as to increase the purchasing power of the workers.
6. Encourage private investment through provision of incentives like tax holiday.

Illustration 2 of Keynesian unemployment



From the illustration above, the level of unemployment ye-yf is due to the deficiency in aggregate demand dg.

ASSUMPTIONS OF THE KEYNESIAN THEORY OF UNEMPLOYMENT

Keynes made the following assumptions when analysing cyclical unemployment:

1. Existence of an industrialised economy.
2. He assumed conditions of full employment of resources.
3. He assumed the existence of a highly monetised economy.
4. He assumed existence of a big and strong private sector.
5. He assumed existence of a closed economy.
6. He assumed the existence of well-functioning and developed product, factor and money market.

RELEVANCE OF THE KEYNESIAN THEORY OF UNEMPLOYMENT TO DEVELOPING ECONOMIES LIKE UGANDA

To a smaller extent, the Keynesian theory of unemployment has some relevance in developing countries as justified below:

At times unemployment results into a fall in demand, both domestically and abroad. Domestically, a decline in demand for products produced by local firms forces them to reduce production or even close hence causing unemployment.

In developing countries there is an element of industrialisation hence the theory of Keynesian unemployment may be applicable in the industrial sector.

In the long run as supply of co-operating factors for labour increase, the theory becomes relevant.

Measures to stabilise export earnings through International Monetary Fund (IMF) compensatory arrangements to ensure stable export markets have reduced unemployment in some LDC'S.

Use of expansionary monetary policy as suggested by Keynes help to reduce unemployment since it increases the purchasing power of the people and promotes investment.

However, to a greater extent, the theory is **not applicable** or relevant in developing countries because it was designed in the context of a developed economy. This is justified by the following reasons:

It mainly affects industrialised economies yet developing countries are basically agro-based economies.

The theory is mainly concerned with deficiency in aggregate demand yet unemployment in developing countries basically arises from the supply side. This supply side involves shortages of basic inputs and other co-operant factors to labour.

The theory of Keynes works under conditions of full employment of resources yet such conditions are not found in developing countries which are characterized by under-utilisation of resources. This makes the theory of Keynes less relevant in developing countries.

The theory is based on an assumption of a highly monetised economy yet developing countries are basically subsistence economies.

Keynes based his theory on the existence of a big and strong private sector yet in developing countries, the private sector is still weak and small.

Keynes based his theory on a closed economy yet developing countries operate as open economies in which foreign trade plays a dominant role in developing them.

In developing countries, the product, factor and money markets are still under-developed and weak yet Keynes assumed that such markets are functional and well developed. This renders the theory less applicable in developing countries.

The theory of Keynes puts emphasis on the investment multiplier as the biggest contributor to employment creation yet in many developing countries it is the export multiplier which contributes greatly to the creation of employment.

Keynes suggested to increase aggregate demand by adopting an expansionary monetary policy. However, these measures cause inflation in developing countries when applied (too much money chasing few goods) thereby making the theory of Keynes to be irrelevant or less applicable in developing countries.

GENERAL CAUSES OF UNEMPLOYMENT

Unemployment in developing countries is attributed to the following factors:

Technological progress and the increased use of capital-intensive methods of production. You realise that of recent, technology has been improving steadily. This has resulted into replacement of labour with machines thus causing technological unemployment.

Unfavourable change of climate or Changes in seasons. You are aware that most developing countries like Uganda are Agro- based and activities in that sector mainly depend on nature. This leads to seasonal unemployment in the agricultural sector and agro-based industries due to shortage of inputs.

High population growth rates and consequent growth of labour force. This increases the size of the labour force at a rate that is higher than that of employment creation thus failure to match the job seekers with available employment opportunities.

Poor political atmosphere. This scares away potential investors as they fear for their lives and property thus discouraging investment. It also leads to destruction of existing enterprises.

Poor education system that mainly trains job seekers. This creates a big number of people looking for jobs yet those creating jobs are a few.

Rampant rural-urban migration. This increases the size of the labour force in urban areas thus failure of the urban labour force to match with the existing jobs.

Inadequate information about existing job opportunities. Some people are unemployed because they lack knowledge about existence of employment opportunities yet employment opportunities exist. This is due to the low level of advertisement of the existing jobs.

Underdeveloped infrastructure. This makes it difficult for investors to access sources of raw materials and finished goods, which increases the costs of production, reduces the profit level thus reducing investment.

Physical and mental incapacitation resulting into residual unemployment. The physical or mental disabilities make such people unemployable due to their low standards of efficiency.

COSTS OF UNEMPLOYMENT IN AN ECONOMY

Costs of unemployment are the adverse effects that unemployment has on the economy, the unemployed, their families and society at large. These are:

Leads to low aggregate demand for goods and services. This is because the unemployed people don't have a reliable source of income and they sometimes don't have money to buy goods and services.

Worsens income and wealth inequality. The unemployed people who are not earning income are not able to accumulate wealth while those people who are employed are able to earn income, save, invest and accumulate more wealth as the unemployed remain poor.

Leads to low government revenue. The unemployed people are not earning income and therefore, they do not pay direct taxes to the government and since they rarely buy goods, their contribution to indirect taxes is limited.

Leads to high crime rates and social evils (immorality). The unemployed people who are not earning income resort to all sorts of immoral acts like theft and prostitution so as to earn a living.

Leads to under exploitation of productive resources hence wastage. This is because there are a few people involved in the utilisation of the country's resources.

Leads to low standards of living and misery due to low or no incomes. Individuals who are jobless find it difficult to buy or access basic necessities of life. As a result, their standard of living drastically falls or declines hence causing misery and suffering.

Creates political tension or unrest. You should note that the biggest responsibility of the government is towards its citizens and therefore when people fail to get jobs, they blame the government among the masses. The unemployed people are easily mobilised to stage rebellions against the government and this has disastrous consequences.

Encourages rural-urban migration with its associated evils. You realise that the unemployed people in rural areas tend to think that there are employment opportunities in towns. This forces them to move from rural areas to urban areas in search for jobs leading to increased crimes.

THE POSSIBLE MEASURES TO REDUCE UNEMPLOYMENT PROBLEM IN UGANDA

As a learner, you need to understand the measures that can be adopted to control unemployment. What are some of these in your opinion? Some of these possible measures include:

Control population growth rates. Measures should be taken to control population growth rate through family planning programmes. This can be done to reduce the rate of growth of population so that population size does not exceed the available resources in the economy. This can reduce unemployment.

Undertake education reforms. Attempts should be made to make education more relevant to the needs of the country. This can be done through measures such as vocationalisation of education in order to make graduates of the education system job makers not job seekers.

Diversification of the economy. The government should diversify the economy in order to reduce dependence on only one sector, agriculture. The government can encourage growth of sectors such as mining, industry, fishing and tourism, in order to increase the rate of job creation and of the growth of the economy.

Improve the political atmosphere. Government should create law and order in most parts of the country. This can considerably reduce unemployment caused by political instability such as disruption of production activities, displacement of settled people and destruction of economic and social infrastructures.

Encourage use of appropriate technology. Unemployment should be fought through encouragement of the use of techniques which are more appropriate to the needs of the country, for example, the use of the ox-plough.

Advertise jobs. Measures should be taken to make information about existing employment opportunities available to job seekers through advertisements of existing job opportunities in the mass media.

Modernise agriculture. The agricultural sector should be modernised through research into better techniques of production, better seed and animal breeds, more drought and disease resistant varieties in order to increase output. The increase in commercial production can reduce underemployment and unemployment.

Promote industrialisation. Measures should be taken to encourage large scale industrialisation. Such industries can create linkages in the economy and are labour intensive in nature. This can help to create job opportunities for the people which may reduce unemployment.

Social programmes for persons with disabilities. The government should finance the income generating projects for disabled people. Such projects include shoe-making, tailoring, making crafts among others. The disabled people can earn income from these projects and they may become self- employed.

Activity 6

1. Distinguish between under employment and full employment.
2. Discuss the circumstance under which an economy can attain full employment
3. Suggest the measures that can be undertaken to overcome the unemployment problem in Uganda.

LESSON: THREE.

3.0 TOPIC: MONEY AND BANKING

SPECIFIC OBJECTIVES:
By the end of the topic, you should be able to; define money and barter as a medium of exchange, describe the evolution of money, explain the functions of money, discuss the quantity theory of money, discuss the Keynesian theory of money, explain the functions of a central bank, examine the role of banking institutions in the economy and evaluate the importance of financial intermediaries.

Materials/Resources: Notebooks, pens, pencils, Laptops, Internet connection, earphones, Text/Reference books, Radio/TV, Recorder.

During the previous lesson on Money and Banking in Phase one, the following were discussed:

1. The meaning of money,
2. The evolution of money
3. Characteristics of good money
4. Functions of money

5. Quantity theory of money
6. Keynesian theory of demand for money
7. Money supply.

You are therefore, required to revise the areas mentioned above.

In this second phase, the concentration will be on the concepts below:

3.1 BANKING

You may have seen banks on your visit to some towns in Uganda.

Activity 1

You browse the internet using Google and other search references or visit a bank in your town if any and

1. Find out the meaning of Banking and the role of banks. Make a write up to be presented to your teacher when the term reopens.

2. Explain the functions of commercial banks.

COMMERCIAL BANKS

A **commercial bank** is a **financial institution** that carries out the duty of accepting and safeguarding deposits from the general public and making the money available to the true owners on demand in addition to other services.

Roles of commercial banks in the development process of Uganda

Commercial banks play a very important role in the development of a country. In Uganda, they play the following roles:

Invest in directly productive activities. Commercial banks undertake investment in many fields for example buildings, agriculture bonds and Securities etc. This contributes to increase in economic growth.

Provide employment opportunities. Commercial Banks offer many employment opportunities directly like cashiers, accountants, managers etc and indirectly like Banking agents, Mobile money, and service providers. This leads to higher incomes of the people and better welfare.

Implement monetary policies. They assist the government in implementing monetary policies for example, the public buys and sells securities through them, they also participate in buying and selling securities, they charge interest rates according to the Bank Rate. Etc. This helps to stabilise the economy.

Lend money for investment. Commercial banks provide a safe place for people to save their money to enable those who need to invest to borrow from the bank. By lending money, they promote investment, production and availability of goods.

Provide revenue to the government. They are a source of revenue to the government in form of taxes charged on their services and staff. Commercial banks also act as collecting centers for government revenue.

They act as Guarantees to local investors and act as referees in international trade. Commercial banks provide guarantee letters to potential investors and act as referees to those participating in International Trade. This leads to a booming business environment and economic development.

Discount bills of exchange. By discounting bills, Commercial banks operate as money markets which are a source of short-term finance for development. Commercial banks provide short term loans to the businessmen by discounting bills of exchange.

They offer diversified and specialised services. Commercial banks provide a number of specialised services like Money transfers, travelers cheques etc which facilitate economic activities and therefore, economic growth and development.

PROBLEMS FACED BY COMMERCIAL BANKS IN DEVELOPING COUNTRIES

Commercial banks in Uganda are faced with a number of challenges which inhibit their activities. These challenges include:

Poor banking habits. Majority of the citizens especially in rural areas have a poor attitude towards the banking sector.

High liquidity preference. Many low-income earners in the country prefer to hold their wealth in cash form other than saving it in banks. This leads to low deposits in the commercial banks.

Conservatism. There is a high level of conservatism among the population. This limits the amount of deposits in commercial banks which lowers the ability of banks to give out loans.

Corruption. Some bank officials misuse customers' deposits for personal gratification thereby causing huge losses to commercial banks.
High rates of inflation. The high rates of inflation make people to fear to deposit money in banks for fear of loss of value which leads to low level deposits with the commercial banks.
Political interference. There is a high level of political interference in the activities of national commercial banks especially in obtaining loans without collateral security. Government also interferes with the confidentiality of the clients.

High levels of insecurity or political unrest. Political unrest in some parts of the country in form of riots, demonstrations and wars scare bank officials thereby causing the suspension of activities during such unrest.

Few credit worthy borrowers. Many of the borrowers access loans and fail to pay back which increases the bad debts in the banking sector and impacts negatively on banking performance.

Limited collateral security. The many would be borrowers do not have the collateral security required by the bank, for example, land titles. This means they fail to obtain loans leaving the surplus funds (deposits) idle in the commercial bank.

Interference by the central bank. The central bank sometimes interferes in the operation of commercial banks when implementing the restrictive monetary policies, for example, charging high interest rates. This aims at lowering the money supply in the economy but at the same time impacts negatively on commercial banks by lowering their lending capacity.

Ignorance of people about banking services. There is a high-level of ignorance among the population regarding the facilities and services offered by commercial banks. This results into low deposits and limited borrowing from commercial banks.

Activity 2

Research on the measures that have been undertaken in Uganda to promote Commercial banking.

3.2 THE CENTRAL BANK

A **central bank** is a **financial institution** set up by the government to control the monetary system in the country and to control the activities of all the financial institutions to ensure macro-economic stability.

The central bank is the apex institution of a country's monetary system. In Uganda, the central bank is the Bank of Uganda.

FUNCTIONS OF THE CENTRAL BANK

A central bank performs very important functions in the country. These include:

Issuing the country's currency. It has the sole authority of printing currency notes and minting coins. The currency of Uganda is the Uganda Shilling.

Banker to the government by keeping government funds and foreign exchange reserves like gold and US dollars.

A fiscal agent and advisor to government in formulating budgets taxation and economic policy.

A banker to commercial banks and other financial institutions. All commercial banks are required by law to keep a certain percentage of deposits with the Central Bank (legal reserve requirement).

Controls and regulates the operations of commercial banks. Commercial banks are directly controlled in their operations by the Central Bank.

Lender of last resort to commercial banks. The commercial banks borrow money from the Central Bank after failing in other sources.

A banker to international institutions working in the country such as I.M.F, F.A.O. and Red Cross. The Central Bank maintains close relations with these international institutions.

A clearing house for all commercial banks. All commercial banks clear their indebtedness through the Central bank.

Manager of the public debt. The Central Bank negotiates on behalf of the government for government loans, keeps debt records and monitors the repayment of the debts.

Regulates foreign exchange rates. The Central Bank intervenes in thr foreign exchange market whenever there is an appreciation or depreciation of the local currency to maintain stability.

Manager of the country's monetary policy. The Central Bank uses various tools of monetary policy to control the volume of money in circulation.

HOW THE CENTRAL BANK CONTROLS CREDIT CREATION

This is mainly done through manipulation of monetary tools; thus

Through the Bank rate. This is the charge by the central bank on loans given to commercial banks. An increase in the bank rate by the Central Bank discourages the commercial banks from borrowing money. The commercial banks therefore increase the interest rate on the loans given to the customers/ borrowers thereby reducing money supply in circulation. However, to increase money supply in circulation, the central bank lowers its bank rate so that the commercial banks are able to lower the interest rate charged on the customers/ borrowers, for them to take on loans.

Open market operations. This refers to the selling and buying of government securities like Treasury Bills and Bonds. To increase money supply in circulation, the Central Bank buys the securities from the public thus leaving money with the people. However, to decrease money supply in circulation, the Central Bank sells securities to the public and withdraws money from circulation.

Selective credit control. This refers to a situation where the Central Bank encourages commercial banks to give loans to some specific sectors of importance/priority and denying other sectors from acquiring loans to reduce money supply in circulation. However, when the Central Bank wants to increase money supply in circulation, it tends to relax the tool of selective credit control.

Use of special deposits. These are deposits the Central Bank demands from the commercial banks on top of legal reserve requirement. To reduce money supply in circulation, the Central Bank puts in place a special deposit on top of the legal reserve requirement. However, to increase money supply in circulation, special deposits are not required.

Moral suasion. This is a way of persuading/ advising the commercial banks and the public about the dangers of too much money or too little money in circulation. The commercial banks are persuaded to follow the policies, which the central bank believes to be in the interests of the country.

Regulation of margin requirements. Margin requirement refers to the difference between the amount of the loan advanced and the value of the collateral security pledged. Margin requirement is increased to discourage people from borrowing money from commercial banks so that money supply is limited while the Central Bank lowers the margin requirement to encourage people to borrow money so that money supply in circulation is increased.

Rationing of credit. The Central Bank regulates the amount of money to be lent to commercial banks. To reduce money in circulation, the Central Bank lends less money to commercial banks which limits the process of credit creation. However, when there is need to increase money in circulation, the Central Bank increases the amount of money, which is lent to commercial banks hence availing more funds for credit creation.

Use of minimum legal reserve requirement. This refers to the percentage of commercial banks' total deposits that is kept with the Central Bank according to law. To increase money supply in circulation, the Central Bank lowers the legal reserve requirement so that the commercial banks are left with enough money for lending. However, when the Central Bank wants to reduce money supply in circulation, it increases the legal reserve requirement so that the commercial banks have limited amount of money to lend out to the public.

Currency reforms. This is a tool applied when there is too much money in circulation resulting into total loss of money value and loss of confidence in the local currency. The government through the Central Bank orders for the replacement of the currency with a new one as a step of reducing money supply in circulation.

Cash ratio. This refers to the proportion or percentage of the commercial banks' total deposit that is kept in cash form to meet the daily demands of the customers. To increase money supply in circulation, the Central Bank lowers the cash ratio and to reduce money supply in circulation, the Central Bank increases the cash ratio.

Activity Three

You browse the internet using google and other search references, or visit a nearby bank and find out the credit creation process. Make a write up to be presented to your teacher when the term reopens.

3.3 MONETARY POLICY

Monetary policy is the deliberate government policy through which the central bank of **regulates** (increase or decrease) the volume of money in circulation in order to attain desired macro-economic objectives such as; full employment, economic growth rates, price stability, balance of payment stability among others or is the **deliberate** government policy through which the central bank regulates (controls) money supply in circulation so as to influence demand expenditure and the level of economic activities to achieve various objectives, for example, price stability, exchange stability, increasing rate of economic growth among others.

Objectives of monetary policy in Uganda

To attain full employment / to increase the level of employment. A decline in short- and long-term interest rates makes it cheaper to borrow, so people are more willing to buy goods and services and firms are in a better position to purchase items such as property and equipment to expand their businesses. Firms respond to these increases in total households and business spending by hiring more workers.

To attain high levels of economic growth / to increase economic rates. A fall in interest rates leads to increase in consumption which gives entrepreneurs confidence to invest. This encourages producers to expand output thus increasing the productive capacity of an economy.

To improve Balance of Payments (BoP) position / to reduce Balance of Payments deficits. The expansionary monetary policy lowers the exchange rate and makes the country's exports relatively cheaper and imports become relatively more expensive hence improving the Balance of Trade (BoT). However, a restrictive monetary policy raises the exchange rate and makes the country's exports relatively more expensive and imports become relatively cheaper hence leading to unfavorable Balance of Trade.

To attain and maintain price stability / to control inflation. Raising interest rates and reducing bank lending lowers investment and reduces consumer spending thereby controlling demand-pull inflation.

To ensure growth and stability of the financial sector. The primary aim of monetary policies is to lower the long-term interest rates, thereby improving financial conditions. This can be achieved through the lowering of the Central Bank Rate (CBR) to commercial banks. This enables commercial banks to reduce their commercial lending rate to the private sector hence boosting the growth of the financial sector.

To stabilise the foreign exchange rate. The Central Bank at times tries to influence the market rates under the floating exchange rate system to attain exchange stability, for example, Central Bank adjusts the interest rates to influence the flow of funds into and out of the country.

To promote or influence investment. A decline in short- and long-term market rates makes it cheaper to borrow, so households are more willing to buy goods and services and firms are in a better position to purchase items such as property and equipment to expand their businesses. Firms respond to these increases in total household and business spending by boosting production and investment. However, a fall in the money supply raises the interest rate which increases the cost of borrowing. This reduces the demand for loanable funds which reduces investment.

TOOLS OF MONETARY POLICY

Meaning: **Tools of monetary policy** are those planned and **deliberate actions** undertaken by the government through **the Central Bank** to **control the amount of money in circulation** with an aim of reducing inflation.

Broadly defined, tools of monetary policy refer to **guidelines or weapons or instruments** employed by the Central Bank to increase or reduce the money supply in circulation so as to achieve development objectives such as attainment of real employment, price stability and so on. They are basically used as methods of credit control.

These **tools** are listed below

1. Open market operations
2. The bank rate
3. The legal reserve requirement/Minimum legal reserve requirement.
4. Special deposits from commercial banks.
5. Selective credit control.
6. Moral Persuasion/ Moral suasion
7. Variable reserve requirement (cash ratio and liquidity ratio).
8. Margin requirement
9. Rationing of credit by the Central Bank.
10. Currency reforms.

LESSON: FOUR

4.0 TOPIC: INFLATION

By the end of the topic, the learner should be able to; Identify types of inflation, explain the causes of inflation, examine the effects of inflation and suggest policies to control inflation.

Materials/Resources Laptops, Internet connection, earphones, Text/Reference books, Radio/TV, Recorder.

In this topic you are going to acquaint yourself with a monetary phenomenon called inflation. Before going any further read the story below about inflation from a certain African country.
In a certain African Country by the start of the year 2000, an individual would keep money in his pocket (wallet) and dash to the supermarket to buy items worth a lot of money. 15 years later individuals would carry money in sacks to go to the same supermarket and buy a similar quantity of goods.

What has happened to the value of goods in a space of 15 years?

Inflation refers to the **persistent increase in the general price level of goods and services in an economy in a given period.**

Inflation is classified according to the degree of intensity, that is, the speed at which prices are rising and according to its cause. Therefore, according to the intensity, inflation can be Mild or Hyper.

Mild inflation also regarded as gradual or creeping is where the persistent increase in general price level proceeds at a slow rate usually not exceeding 10%.

Hyper / runaway / galloping inflation on the other hand is where the general price level increases at a **very high rate**; the increase taking place within hours, days or within few weeks, usually exceeding 20%.

Inflation as classified according to the causes is given in its various types as follows:

Structural or bottleneck inflation. This is the persistent increase in general prices due to supply rigidities in an economy that result into shortages of goods on the market or is the type of inflation that arises out of supply rigidities or occurs when prices are pushed up by supply rigidities making it impossible for supply of goods to meet demand.

Demand-pull inflation. This refers to the persistent increase in general price level arising out of excess aggregate demand over aggregate supply at full employment of resources.

Imported inflation. This is where the persistent increase in general price levels arise from importation of goods from inflation prone countries, resulting into price increase in the domestic economy.

Cost-push inflation. This refers to the persistent increase in the general price level due to a persistent increase in the costs of production.

CAUSES OF INFLATION IN UGANDA

You should have witnessed prices of some grocery products in your community increasing. Let us now explore some of the possible causes for the increase in prices of these commodities. They include:

Breakdown of infrastructure. You should note that when railway and road services breakdown, it reduces production activities giving rise to scarcity of commodities in many areas of the country. Consequently, aggregate demand exceeds aggregate supply thereby causing prices to increase and finally creating inflation.

Unfavourable natural factors leading to scarcity of goods. You should be aware that agricultural activities in Uganda mostly depend on nature. Therefore, unfavourable natural conditions like a long dry spell, crop pests and diseases and floods greatly lead to a fall in agricultural production which reduces supply of agricultural products hence leading to a rise in the prices of food items and this causes headline inflation.

Desire for excessive profits by business people. Many producers / traders aim at getting abnormal profits and end up increasing prices for their products / goods even when it is not necessary to do so. This increases market prices of goods hence causing inflation in Uganda.

Rising costs of raw materials or rising costs of production, for example, rising wages, rising rent, rising transport costs, rising electricity bills. This forces the producers to react by increasing the prices for their products sold to the final consumers in order to recover money spent during the production process hence causing cost push inflation.

Poor political climate in some areas. You realise that when areas are politically unstable, it limits production and destroys productive infrastructure thereby scaring away investors. This limits the level of investment thereby resulting into low supply of goods and services hence creating inflation.

Excessive issuance of local currency. This leads to excessive money in circulation which is not followed with an increase in production of goods and services. This consequently results into too much money chasing too few commodities. There is excessive demand for goods and services causing the prices to increase which leads to inflation.

Excessive government expenditure. You should note that sometimes the government spends a lot of money on the provision of services to the people causing a significant increase in the amount of money in circulation. This increases the purchasing power and the aggregate demand for goods and services by the people without a corresponding increase in supply, thereby forcing prices to increase. This finally causes inflation.

Persistent importation from inflation prone countries. This arises out of importers buying goods from countries experiencing inflation. They consequently sell the final products in the country at increased prices in order to recover the heavy costs of importation and to get some profits thereby causing imported inflation.

Speculative behavior of businessmen for example hoarding of some goods. Expectations of future price rise or decline in supply leads to hoarding of goods and price hikes by traders as well as a rush to buy consumer goods by the population. This leads to increase in the price level which is inflationary.

POLICY MEASURES TO CONTROL INFLATION

You realise that inflation is quite dangerous to a growing economy as noted earlier in its negative effects. The following therefore are some of the measures that can be adopted to control it;

Increase direct taxes on incomes. By increasing direct taxes, people's disposable incomes are reduced. Aggregate demand is thereby reduced and this helps to keep the prices stable hence controlling inflation.

Reduce government expenditure on non-essential goods. In this case the government implements tight budgetary expenditure controls on non-essential goods. This action reduces money supply and aggregate demand hence checking inflation.

Further liberalisation of the economy. Here government controls on trade are relaxed by the government. This encourages investors to produce more goods and services hence checking inflation.

Development of infrastructure. Improved road network facilitates the delivery of goods to market places to eliminate shortages. This helps to keep prices stable in the country hence checking reducing inflation.

Implement a restrictive monetary policy. In this case the government embarks on selling of treasury bills and government bonds to the general public. This helps government to reduce money supply which finally reduces demand and prices of goods and services are reduced.

Control issuance of currency. The Central Bank on the instructions of the government can regulate the volume of money in circulation. As a result, the aggregate demand is reduced hence helping to keep prices relatively stable.

Modernise agriculture to increase supply of food items in the country. By modernising agriculture, there is an increase in production of food items in Uganda. As food items become available on the market, prices become stable thereby reducing headline inflation.

Improve the political atmosphere or climate. By ensuring political stability, investment in industries, agriculture and other sectors is also promoted or expanded. More goods and services are produced. This reduces scarcity of goods thereby controlling inflation in Uganda.

Encourage the establishment of import substitution industries. These industries can produce more consumer goods that were formerly imported. This minimises the possibility of importing goods from countries experiencing inflation since they are now produced locally within Uganda.

Activity 4

1. Under what circumstances may inflation be desirable in an economy?
2. To what extent is inflation in your country a result of increased costs of production?

LESSON: ONE   TERM: THREE

1.0 TOPIC: PUBLIC FINANCE AND FISCAL POLICY

1.1 SUB TOPIC: PUBLIC FINANCE

Resources and Materials:

Notebooks, Laptops, Internet connection, text books, radio/TV, earphones, pen, pencil.

Learning Objectives

By the end of the topic, the learner should be able to; identify the sources of Public Finance, explain the sources of government revenue, describe the objectives of Fiscal policy, identify the principles and characteristics of a good tax system, assess the role of taxation in an economy, classify the types of taxes, examine the advantage and disadvantages of each category of taxes, evaluate the tax base and how to expand it, identify causes and management of Public debt, explain taxation financing and borrowing as instruments of fiscal policy, discuss budget as an instrument of social and economic policy.

As you may be aware, governments make several spending plans of the finances it gets from various sources. In the next section, Public finance is explored starting with the definition of Public finance.

Definition of Public finance

Public finance refers to a section of macroeconomics which is concerned with state revenue and expenditure. It is concerned with the various sources of public revenue and the different areas where the state spends money in order to achieve major objectives of national development.

OBJECTIVES OF PUBLIC FINANCE IN DEVELOPING ECONOMIES

We are aware that governments use public finance to achieve different objectives. The following are some of the objectives of public finance in developing countries.

To increase the levels of investment. This is done through provision of tax incentives such as tax holidays and tax rebates to investors so as reduce the costs of production and encourage them to invest in the economy.

To reduce income inequality. This is done through use of progressive taxation subsidisation of the poor.

To raise government revenue. Public finance is a means of raising revenue for the government through measures such as taxation, licences which enable the government to raise revenue for financing its budget.

To control inflation. This is done by increasing taxes on people's incomes so as to reduce their disposable income and control aggregate demand.

To protect local industries against foreign competitors. This is done by imposition of heavy tariffs on imports to make imported products relatively more expensive than locally produced goods.

To influence level of economic growth. This is through provision of investment incentives to investors to so as to reduce the production costs and increase investment and production.

To improve on the Balance of Payments position. This is done by increasing taxes on imports so as to reduce the volume of imports and control foreign exchange expenditure.

To reduce regional imbalance. This is done by investing more in areas that are lagging behind.

To reduce unemployment. This is done through provision of investment incentives to investors so as to reduce their production costs and promote investment or by giving money to the unemployed so that they begin their income generating activities and employ themselves.

To control the production and consumption of undesirable commodities by increasing taxes on them so as to make them more expensive.

1.2 TAXATION

All governments rely on taxation as their major source of revenue to finance their development plans as shown in the fig 1 below. In the next section taxation is discussed, by first providing the meaning of a tax.

Fig 1. Some of the illustrations of infrastructure development

Photograph: Southern by pass	**Photograph 2**
	
 *Source: internet Photos*	

What is a tax?

A tax is a compulsory contribution levied by a public authority irrespective of the exact amount of service rendered to the tax payer in return. In other words, a tax is a non-quid pro quo compulsory payment made to the fiscal authority for the administration of social services to the public as a whole.

Taxation is the compulsory transfer of funds from the public (households and firms) to the government as a source of government revenue to meet wants of society.

CANONS OR PRINCIPLES OF TAXATION

You may have noted that Canons of taxation refer to the governing laws of taxation. Adam Smith was the first economist who laid down four important canons of taxation to which were added more by subsequent economists. These canons or principles include:

Simplicity. The tax should be easy to understand by both the tax payer and the collector. Complicated taxes lead to delay in payment, tax evasion and high collection costs.

Equity or fairness. Tax payers should bear a proportionately equal burden of taxation. Those who earn more should pay more taxes than those who earn less.

Elasticity or flexibility. The tax rate should change according to changes in tax bases. For example, it should change with changes in the tax payer's income.

Diversity or comprehensive. It should have a broad coverage so that the government realises enough revenue for financing its budget.

Convenience. Taxes should be collected at the time which is favourable to the tax payer in respect of time, season and availability of income. Taxes should be collected at a time the tax payer has earned income but not after the tax payer has had opportunity to spend it.

Economy or cheapness. The cost of collection should be low to enable tax authorities realise enough revenue for the public authority.

Neutrality or impartiality. It should not discriminate among the tax payers.

Consistency. It should be in line with national economic objectives, especially in allocation of resources.

Certainty. The nature of the tax, its base, the amount to be paid, when to pay and where to pay the tax should be known to both the tax payer and tax collector.

Productivity. Taxes imposed should encourage production and investment. Government should avoid imposing taxes that discourage production in the economy.

Avoid double taxation. A tax payer should not be taxed more than once on the same tax base.

REASONS WHY GOVERNMENT LEVIES TAXES

There are several socio -economic reasons as to why governments levy taxes on citizens and these include: -

To raise revenue for financing both the recurrent and development expenditure such as payment of wages, provision of infrastructure etc.

For purpose of reducing income inequality. This is done by adopting a progressive tax system and subsidising the poor using the revenue raised through taxes.

To discourage consumption of undesirable products. Heavy taxes are imposed on such products as wine and cigarettes to make them less profitable to producers and less affordable to consumers and protect consumers' health.

To protect local industries /firms and domestic producers. Taxation is undertaken so that local industries are protected from competition by foreign producers through imposition of heavy duties on imported products that compete with locally produced products. This makes locally produced products more competitive than imports.

For controlling demand pull inflation. During inflationary periods, heavy taxes are imposed on incomes to reduce disposable incomes and aggregate demand and control demand pull inflation.

To control dumping. The government imposes high import taxes on cheap imported products so as to make them expensive and less competitive in the local market.

To improve on the county's balance of payments (BOP) position. This is done by imposing high taxes on imports so as to control the volume of imports and reduce foreign exchange expenditure.

To control monopoly power. Taxation especially the specific and lump sum taxes reduce monopoly profit levels of a monopolist thus reduced control over the market.

For purpose of influencing resource allocation. Taxation regulates the use of economic resources so as to prevent fast exhaustion and also ensure that they are utilised in the best way possible.

To ensure a steady economic growth. This is done through provision of tax incentives to the investors so as to reduce their production costs and increase the volume of output.

CLASSIFICATION OF TAXES

The next section analyses the classification of taxes into their various categories. The first classification considers the relationship between income and the percentage of the income paid as tax. A tax rate on the other hand is the proportion of income paid as tax. Tax rates show the way in which the ratio of tax to income varies. According to the ratio of income taken by a tax, taxes can be grouped into, proportional tax, progressive tax, regressive tax. These differ from each other on the basis of the percentage of the tax base paid as tax.

PROPORTIONAL TAX

This is a tax which takes a fixed proportion of one's income or it is a tax whose rate remains constant at all levels of income. Its percentage remains the same regardless of the size of the tax base. If the rate is 30% then every person pays the same rate regardless of his income.

Merits of a proportional tax

It is simple to apply/ easy to calculate, it is simple to understand. Therefore, it can easily be administered.

This tax is considered a fair system of taxation. Since it deducts an equal proportion from each taxpayer.

Demerits of a proportional tax
It tends to discriminate against low –income groups. Since they pay the same proportion of money with their richer counter parts.

It increases income inequalities. Since it has a big tax burden on the poor hence widening the gap between the rich and the poor.

Raises less revenue. The amount of revenue collected is less when compared with progressive taxes.

Lowers the level of savings and consumption in the economy.

PROGRESSIVE TAX
This is a tax whose rate increases with increase in income of the tax payer.

Table 1: Explaining a simple progressive tax:

Tax base in shs	Tax rate (%)	Amount of tax in shs
0 – 100,000	0	Exempt
100,001 – 200,000	10	10,000
200,001 - 300,000	15	25,000
300,001 - 400,000	20	60,000
400,001 – 500,000	25	100,000

Merits of progressive taxes
a. Yields more revenue to the government.
b. Reduces inequality of incomes.
c. Controls inflation.

Demerits of progressive taxes
a. Discourages savings and investment.
b. It is a disincentive to hard work among the high-income earners
c. Tax evasion and avoidance is encouraged.
d. Arouses resentment among the tax payers.

Reasons for imposing progressive taxes

a. To reduce income inequality.
b. To raise revenue for the government.
c. To control (demand pull) inflation.

REGRESSIVE TAX
A regressive tax is one whose rate increases as the income level of the tax payer increases and it reduces as the income level increases.

Table 2: Explaining a regressive income tax:

Tax base in shs	Tax rate (%	Amount of tax in shs
100,000	60	60,000
200,000	50	100,000
300,000	40	120,000
400,000	30	120,000
500,000	20	100,000
600,000	10	60,000

Thus, the lowest income earner pays a much higher tax rate of 60%, while the highest income earner pays the lowest tax rate of only 10%.

Advantages of regressive taxes

a. Reduces tax evasion and tax avoidance by the rich.
b. Encourages savings, investment and capital accumulation by the rich. The rich have an incentive to save and accumulate capital and wealth.
c. Encourages hard work.

DISADVANTAGES OF REGRESSIVE TAXES

Reduces aggregate demand. Since the poor with a high marginal propensity to consume are taxed highly hence reducing their disposable income.

Increases inequality in income distribution. By taxing the rich less it increases the gap between the rich and poor.

Leads to social unrest. The poor remain disgruntled and will often lead demonstrations for being overtaxed.

Leads to low tax revenue to the government. The overall revenue collected by government is small.

DIRECT TAXES

Direct taxes are those taxes levied on incomes, property of individuals and companies. The incidence of the tax rests on the person whom the tax has been imposed and the tax cannot be shifted to another person for example Personal income tax, property tax, corporate tax etc.

ADVANTAGES OF DIRECT TAXES

It yields revenue to the government. This enables it to raise sufficient funds for financing its budget.

It is convenient as its collection is during appropriate time. For instance, salary earners pay their tax at the end of the month when they have been paid.

It is progressive in nature. This helps to redistribute income and hence reduces income inequality among individuals.

Direct taxes control inflation. This is done by increasing taxes in order to reduce people's disposable income and their purchasing power.

It is economical. The cost of collection is low. This is exemplified in the case of Pay As You Earn (PAYE) where employers act as tax collectors for the government.

Direct taxes fulfil the principle of certainty. Taxpayers know how much, when and where to pay and this enables them to prepare the required funds in time.

It is equitable. Direct taxes are considered to be fair because it considers taxable capacity of the taxpayer.

Civic responsiveness. Direct taxes create a sense of citizenship. By way of obligation it encourages effort and sense of responsibility.

DISADVANTAGES OF DIRECT TAXES

Direct taxes discourage effort since they fall on one's hard earned income hence a disincentive to hard work.

They are difficult to review in a short run to raise revenue that is urgently needed.

They reduce the level of savings in an economy since they reduce people's disposable income.

They discourage entrepreneurship in the case of high corporation taxes on profits of entrepreneurs.

High rate of evasion. They are easily evaded especially when they are not collected by the employers.

They yield less revenue to the government since some categories of people are exempted from payment of such taxes.

Cost of collection in totality is high. Many are involved in assessment, collection and netting defaulters.

High rate of direct taxation is a disincentive to investment. Direct taxes discourage work and hence investment.

INDIRECT TAXES

Indirect taxes are those that are levied on goods and services and a person who pays the tax can pass or shift it onto another person in form of high prices for example import duties, export duties, value added tax or one levied on goods and services and only paid when consuming a good or service. The burden can be shared between the seller and buyer.

ROLE OF INDIRECT TAXATION IN THE ECONOMIC DEVELOPMENT OF UGANDA

Contributing to public revenue. Indirect taxation is a source of government revenue that enables government to meet her recurrent and development expenditure needs such as payment of wages, provision of infrastructure and provision of public utilities and public goods.

Improving Balance of Payments (B.O.P) position. Indirect taxation helps in correcting Balance of Payments disequilibrium through discouraging of expensive importation by imposing heavy taxes on imports. Heavy import duties make imports very expensive and less competitive at home thus reducing expenditure abroad.

Influencing resource allocation. Indirect taxation is a device for allocation and regulation of the use of resources for example by taxing heavily most profitable activities to prevent fast exhaustion of resources and through reduction of taxes on socially desirable but less profitable activities to encourage allocation of resources to their use.

Discouraging production and hence consumption of demerit goods. Indirect taxation is used to discourage production and consumption of demerit goods. Heavy indirect taxes are imposed on such products as wine and cigarettes to make them less profitable to producers and less affordable to consumers and protect consumers' health.
Protecting domestic firms. Local industries are protected from competition by foreign producers through imposition of heavy duties on imported products that compete with locally produced products. This makes locally produced products more competitive than imports.

Discouraging dumping. Anti-dumping duties are levied so as to shield the domestic market against foreign goods dumped at very low or below cost prices. For instance, plastic products imported from China, which can be cheaper than the domestic market rates.

Controlling monopoly power. Indirect taxation especially the specific and lump sum taxes reduce monopoly profits derived by controlling output and charging high prices. This forces monopoly to devise efficient production techniques so as to increase or maintain its profit margins thereby improving her efficiency in resource utilisation.

Influencing level of economic growth. Indirect taxation is an instrument for stimulating and guiding economic growth through giving of tax incentives such as tax holidays and tax reliefs to investors to encourage investment, output and economic growth.

ADVANTAGES OF INDIRECT TAXES

Indirect taxes are convenient because they are paid in small quantities and only when one buys a commodity.

They are flexible i.e, they can be varied easily to meet desired objectives of the state.

They contribute more to government revenue since they have a broader coverage i.e. whoever buys the commodity on which the tax is imposed pays the tax.

Indirect taxes promote hard work, in an effort to increase income, meet the high prices caused by the taxes and maintain high standards of living.

They assist in reducing the BOP problems. This is done by increasing taxes on imports so as to make them more expensive, reduce their purchase and control foreign exchange expenditure.

They are difficult to evade since they are imposed on goods and services and whoever buys the commodity pays the tax.

They are used to control the consumption of undesirable commodities by imposing high taxes on them so as to make them expensive.

They help to protect infant industries from foreign competition. This is done by imposing high taxes on similar imports so as to make them less competitive in the local market.

They reduce resentment to tax payment. This is because they are imposed on commodities and when people buy commodities, people do not realise that they are also paying taxes.

Indirect taxes can be employed to stabilise an economy, for example, by imposing taxes on imported goods excessive importation is avoided.
They are impartial. This is because they are imposed on commodities and whoever buys the commodity pays the tax imposed.

DISADVANTAGES OF INDIRECT TAXES

They are capable of causing inflation. This is because they force producers to increase prices of commodities so as to maintain their profit levels.

High indirect taxes lead to malpractice, for example, smuggling as importers try to dodge the high taxes.

They reduce the level of consumption especially among the poor since they buy less commodities as prices increase.

They increase income inequality. Since they are regressive in nature they widen the gap between the rich and the poor.

They result into misallocation of resources as producers divert their resources to the production of commodities on which less taxes are imposed.

They lower the volume and benefits of trade. This is because of the increased costs of trade and reduced profit level.

They discourage production. This is because they reduce aggregate demand by increasing prices of goods thus forcing producers to reduce the level of output.

They discourage investment in the economy. This is because they increase the production costs, reduce the profit level and scare away potential investors.

They lead to resentment of the government by the traders which is capable of causing political insecurity. This is because high taxes reduce the profit level.

Import duties promote local monopolies thus leading to inefficiency in the protected firms.

Activity 1
1. What is the meaning of the term tax base
2. Give reasons for a narrow tax base in Uganda
3. Suggest measure to widen Uganda's tax base

1.3 THE NATIONAL BUDGET

You may have noticed that every year the Minister of Finance, Planning and Economic Development (MoFPED) presents the National Budget to

Parliament for approval. The next section focuses on what a national budget is.
A government budget is an estimate of government revenue and expenditure in a financial year. It is an estimate of a country's expected revenue and anticipated expenditure for a given fiscal year.

OBJECTIVES OF A NATIONAL BUDGET

The objectives of a national budget in a country include:

To control inflation. This is done by increasing taxes on people's incomes to reduce their disposable income and control aggregate demand.

To reduce income inequality. This is done by adopting a progressive tax system and using some of the money raised to subsidise the poor.

To reduce unemployment. This is done by increasing government expenditure on the establishment of projects to create employment and also by providing funds to the unemployed so that they can begin their own income generating activities.

To improve Balance of Payments position. This is done by increasing taxes on imports so as to reduce their demand and reduce foreign exchange expenditure.

To protect infant (domestic) industries. This is done by increasing taxes on similar imports so as to make them more expensive and less competitive in the local market.

To raise revenue for the government. This is through different measures such as taxation, borrowing, licencing among others; which help the government to raise revenue for financing its recurrent and development expenditure.

To mobilise (solicit) foreign resources. It shows the donors how much money the government needs to accomplish its programmes and also indicates to them how it plans to utilise the foreign resources when acquired thus encouraging them to assist the country.

To discourage consumption of undesirable products. This is done by taxing such goods heavily so as to make them less affordable to consumers and discourage their consumption.

To promote economic growth. This is done by providing investment incentives so as to reduce the costs of production, increase the level of investment and the volume of output produced.

To reduce regional imbalances. This is done by allocating more funds to areas that are lagging behind in order to increase economic activities in such areas and promote their development.

To regulate investment or resource allocation. The budget aims at influencing and accelerating the rate of investment in the private and public sectors of the economy. This is achieved by using taxation whereby some forms of investment are discouraged while others are encouraged.

To reduce economic dependence. This is done by providing investment incentives to the potential investors so as to reduce the production costs and encourage the establishment of import substitution industries.

To mobilise the masses to participate in the process of national development. The budget aims at mobilising the local population to participate in government programmes aimed at developing their areas.

CLASSIFICATION OF BUDGETS

A balanced budget is one in which planned government expenditure is equal to planned government revenue during a given financial year while Unbalanced budget is the one where the estimated government expenditure is either greater than the estimated government revenue (deficit budget) or less than the anticipated government revenue in a given financial year. (Surplus budget).

A deficit budget is the one in which the anticipated government expenditure is greater than the anticipated government revenue in a given financial year.

A surplus budget is the one in which the anticipated government revenue exceeds the anticipated government expenditure.

REASONS FOR THE UNBALANCED BUDGET IN AN ECONOMY

Unbalanced budget is either a deficit or a surplus budget. There are several reasons why this is common as explained below;

Deficit budget

To overcome a deflationary situation in the economy. This is done by increasing money in circulation so as to increase aggregate demand and encourage production,

To encourage higher levels of investment in the economy by reducing taxes- imposed on enterprises.

To avoid negative effects of taxation on the public e.g. political insecurity which may result from high tax rates.

To overcome a recession in the economy by increasing money supply in the economy so as to increase aggregate demand and encourage production.

Borrowing is sometimes easier, cheaper, quicker and borrowed funds are easier to supervise as compared to tax revenue.

To win political support by reducing taxes that are imposed on either people, enterprises or goods and services.

To increase the level of consumption by raising people's disposable income through reduced taxes, this enables them to improve their economic welfare.

The revenue from taxation may be too low to finance the government budget.

Budgets can also be classified according to the purpose either as recurrent budget or Development budget.

Recurrent budget is anticipated day to day revenue and expenditure of the state. Recurrent revenue consists of returns on government investments, sale of short-term securities among others. If revenue exceeds expenditure, then the recurrent budget is a surplus.

Development budget is the anticipated government revenue and expenditure on establishment of development projects.

Revenue for development budget may be from abroad in form of foreign aid or it may be from internal sources.

Activity 2

1. (a)Distinguish between a surplus budget and deficit budget
(b). Explain the causes of the persistent budget deficits in your country.
2. Explain the role of the budget in development.
3. To what extent does government use the budget as an instrument of the fiscal policy.

1.4 DEFICIT FINANCING

Deficit financing is a deliberate government measure aimed at reducing the level of government revenue by reducing taxation while maintaining or increasing government levels of expenditure. It is undertaken to stimulate economic activity by increasing the purchasing power within the economy or Deficit financing is a planned government budget in which planned expenditure is in excess of revenue.

Shortcomings of deficit financing

Tends to be inflationary. This occurs when increase in aggregate demand is not accompanied by an increase in the volume of output.

Balance of payments problems. Government borrowing from abroad escalates Balance of Payments problems since it increases the debt burden.

Creates dependence on external resources due to the need to supplement tax revenue.

Government may fail to finance development projects due to failure to secure loans or grants in time.

PUBLIC DEBT

Public debt refers to borrowing by the government from within the country or from abroad
Plus borrowing by local government authorities and public corporations.
National debt refers to borrowing by the central government from within or from outside. It excludes borrowing by the local government authorities and borrowing by public corporations.

CLASSIFICATION OF DEBTS

Public debts can be classified into;
1. Internal /external debts
2. Dead weight debt and Reproductive debt.
3. Short term debts and long-term debts.

INTERNAL AND EXTERNAL DEBTS

Internal (domestic) debts are borrowings from people and institutions within the country by the government and includes sale of Treasury Bills, Stock, Bonds or domestic debt. Domestic debt is the money owed by the central government to domestic entities such as the public, central bank.

REPRODUCTIVE DEBTS

A reproductive debt is one which is used to finance projects that bring in returns which can help in payment of the debt. It is a debt which is self-liquidating while a dead weight debt is that which is used to cover unproductive expenditure for example buying fire arms, financing current consumption.

Short-term (floating) debt refers to one which is repayable after a short period of time (less than a year) usually in form of treasury. Such debts are

supposed to bridge the gap between current revenue and current expenditure.
While
Long-term (funded) debt is a long-term public debt that has no specific date of redemption.

REASONS AS TO WHY DEVELOPING COUNTRIES INCUR PUBLIC DEBTS

Government borrows both internally and externally for the following reasons:

To ease the burden of taxation on citizens in the short run. This is because it enables the citizens to remain with adequate disposable income to maintain their consumption levels since they are not taxed heavily.

To finance the Balance of Payments deficit in the short run. LDCs have less foreign exchange than what they need to finance their international obligations thus the need to borrow in order to fill the foreign exchange gap.

To raise funds needed for recurrent public expenditure. Tax revenue usually falls short of anticipated government expenditure thus the need to borrow so as to raise funds for financing such expenditure.

To fill the savings-investment gap. In order to finance its development expenditure. The savings that LDCs have are less than what they need for investment thus the need to borrow and supplement the local savings and attain the required level of investment.

To sustain market by leaving citizens with adequate disposable incomes so that they increase demand and promote investment.

To handle the effects of calamities or disasters. Natural calamities like floods, earthquakes and famine increase government expenditure in order to provide relief to victims. This necessitates urgent and substantial funding which developing countries lack hence need for borrowing.

To achieve and maintain high levels of employment. Borrowed funds are injected in productive ventures so as to promote economic activities and increase employment.

To control inflation. Internal borrowing reduces the amount of money in circulation which reduces aggregate demand and controls inflation.

To service and pay debts. This happens when debts mature when the government does not have the money to clear them.

To reduce the adverse effects of taxation on the population. Taxation reduces savings, consumption and investment thus the government borrows to avoid such problems.

MANAGEMENT OF PUBLIC DEBTS

The government of a country can repay debts incurred in a number of ways:

1. Raising revenue by levying taxes so as to mobilise the funds needed to pay the debt.
2. Sale of government securities like bond and treasury bills so as to acquire the funds needed to pay the debt.
3. Borrowing from cheaper sources so as to pay the debt.
4. Use of a sinking fund: the government can create a fund for the repayment of debt. The government deposits a fixed sum of money out of its revenues each year for the period of the loan. After the end of the period, the entire loan is paid back.
5. Disinvestment: this involves using surplus revenue realised from selling government assets especially parastatals; that is, disinvestment proceeds from parastatals help in debt redemption.
6. Operation of a surplus budget: The government pays the debt out of its revenues through a surplus budget. It makes a provision in the budget as to the amount to be paid during the year.
7. Debt repudiation: This is where the government refuses to pay the debt.
8. Debt rescheduling. This involves a request for postponement of the retirement date of a public debt.
9. Debt conversion: This is where the government gets a new loan at low interest rate and uses it to repay another loan carrying a high rate of interest.
10. Printing of money. This involves asking the central bank to print more money to finance government programmes.
11. Negotiating for debt cancellation / relief /waiver.

Activity 3

1. Account for the persistent indebtedness of the developing countries.
2. Explain the reasons for increasing government expenditure
3. Distinguish between a reproductive debt and a dead weight debt.
4. Explain the methods of settling public debts in developing economies

1.5 FISCAL POLICY

You may have noted that Government uses fiscal policy as an instrument of social and economic control. The next sections focuses on fiscal policy.

Fiscal policy is a deliberate effort under which government uses its expenditure and revenue (taxation) programmes to regulate the level of economic activities or it is a deliberate effort by the government to regulate and control the level of economic activity through public revenue (taxation) and public expenditure programs to achieve desirable effects on production, distribution and employment level.

OBJECTIVES OF FISCAL POLICY

To raise employment level. Through increased government expenditure, government is able to create more employment opportunities by undertaking public investment in various projects.

To maintain fair distribution of national income / to reduce income inequality. Through fiscal policy, the government is able to reduce income inequality by taxing the rich more heavily than the poor and subsidising the poor using the tax revenue.

To maintain economic stability / to control inflation / to ensure price stability. During inflationary periods, government is able to impose heavy taxes on incomes to reduce disposable incomes and aggregate demand and control demand pull inflation.

To increase the rate of economic growth. Taxation as a tool of fiscal policy is used to stimulate economic growth rate through provision of tax incentives such as tax holidays to investors to lower production costs, increase profits, encourage investment, increase production hence economic growth.

To protect domestic infant industries. Heavy taxes are imposed on imports to make them relatively expensive than local products hence making local firms more competitive at home.

To discourage the consumption of demerit goods. Heavy taxes on demerit products to increase their prices, make them less affordable to consumers, discourage their consumption and protect consumers' health.

To promote investments. Through increased government expenditure on public investments and provision of tax holidays, there is an increase in the level of investment.

To improve the balance of payments position. Balance of Payments is improved through imposing heavy taxes on imports to increase their prices and make the imports less affordable, discourage importation and reduce expenditure abroad.

To achieve the desirable political objectives. This is through providing tax incentives and reduction of direct taxes.

To achieve balanced regional development by taxing already developed areas and increase government expenditure in under developed areas.

To raise government revenue through taxation. Taxes are imposed on tax payers to raise revenue for the government to enable her meet her recurrent and development expenditure needs.

To control monopoly through heavy taxation of monopoly profits and subsidisation of other firms.

To influence resource allocation through tax holidays / relief. Tax incentives are given to firms in socially desirable but less profitable activities to encourage the allocation of resources from the highly taxed to less taxed activities.

Activity 4

1. In this activity use a textbook or the internet to find out the meaning of Public finance. Write down the Sources of government revenue.
2. Explain the methods of expanding government revenue.
3. Explain the functions of public finance

LESSON: TWO

2.0 TOPIC: ECONOMIC DEVELOPMENT PLANNING

RESOURCES NEEDED: Text books, pen, Exercise book, radio, telephone, ear phones.

LEARNING OBJECTIVES

By the end of the topic the leaner should be able to; justify the need for economic development planning, explain the principles of planning and examine the challenges of economic development planning in Uganda.

2.1 CONCEPTS USED

Economic development planning is a deliberate effort of influencing economic variables such as incomes, consumption, savings and investment to achieve specific objectives of national development within a specific time.

Economic plan a written document containing government political decisions on how the resources shall be allocated among different uses in order to attain a targeted rate of economic growth. Thus, an economic plan is a set of quantitative economic targets to be achieved in a stated time period combined with strategies or measures or policies designed to main the set objectives in the given time period.

Development plan is the documentation by a government planning agency showing the recurrent national economic conditions, public expenditures, likely development in the private sector, a macro-economic projection of the economy and review of government policies.

Macro planning or direct planning -a type of planning in which the central authority has a direct control over resources and management of implementation of projects in the plan as is always the case with socialist countries or planning by a central authority that covers all the sectors of the economy.

A **macro plan** is one which covers the entire (whole) economy or all sectors of the economy.

Comprehensive planning that covers all the sectors of the economy/ sets a target to cover all major sectors of the national economy.

Indicative planning is where government **identifies appropriate investment areas** and **provides incentives** and **required information** to **individual economic** units to **achieve pre-determined forecast and targets or** is a process where the government draws planned targets and productive political, social and monetary policies to guide the individuals in the private sector but it does not directly participate in implementation, for example in capitalist society.

Perspective planning refers to **long term** planning covering a period of **ten years.**

A deliberate effort of influencing a nation's principle economic variables such as incomes, consumption, savings and investment to achieve specific objectives of national development over a long period of time.

Planned economy -an economic system in which the key economic functions, what, how and for whom to produce are principally in satisfaction of merit wants not profit maximisation.

Unplanned economy (laissez faire economy) is an economic system in which resources are mainly owned by private individuals and resource allocation is by market forces of demand and supply.

Decentralised planning at a regional or sectoral level for example district and county. These plans are incorporated into the central government plan.

Centralised planning refers to planning by a central authority and encompasses (includes) all sectors of the economy (see also planned economy)

Project planning refers to planning of projects. Or it refers to project by project planning.

Micro planning refers to planning for specific sectors or sections or regions of the economy such as district agriculture or industry.

A **micro plan** is one which covers part or a section or sector of the economy.

Sectoral planning refers to planning for a specific sector of the economy such as agriculture industry, tourism and forestry.

Ambitions plans refer to plans which require more resources for their implementation than the available resources can allow.

The rationale for economic development planning in developing countries

Scarcity of resources thus need for proper utilisation. Resources such as capital, skilled labour and land are scarce relative to the demand for them. Planning is necessary in order to put the resources to the best possible use so as to optimise their utilisation.

To correct deficiencies (defects) in the price mechanism especially in responding to circumstances requiring rapid structural changes. Price mechanism does not adequately provide for social and economic overheads requiring huge capital investment provision for emergencies such as wars and natural disasters under which victims have no purchasing power and harmonious development of all sectors of the economy. All these require proper planning that cannot be undertaken by individual firms hence need for centralised planning.

To identify areas suitable for public and private investments. Economic development planning enables government to identify sectors which are highly profitable and attractive to private investors and areas that are unprofitable but essential for a country's development such as provision of infrastructure and merit goods hence such areas are identified as suitable for public investment.

To distribute income equitably / to reduce income inequalities. Under the price system wealth and incomes are distributed in favour of sectors that produce the most demanded for goods thus income inequality between individuals, sectors and regions. Through planning income inequality reduced by measures such as progressive taxation and subsidisation of the poor, induced simultaneous investment in all the sectors of the economy, provision of affordable capital for investment to the poor etc.

For resource mobilisation. Planning enables the government to mobilise resources through sources of public revenue such as taxation borrowing, licensing, fines and fees. These financial resources enable government to meet her recurrent and development expenditure needs.

To determine the rate of economic growth. Planning enables government to set growth targets and carry out measures to achieve targeted rates of economic growth for example provision of attractive tax incentives so as to stimulate investment. Increased investment leads to increased output hence economic growth.

To solve unemployment problems. Developing countries experience widespread unemployment and under employment. Capital being scarce and labour being abundant, the problem of providing gainful employment opportunities to an ever increasing labour force is a difficult one. Through planning, private investment can be induced and public investment undertaken to create employment for the masses. Manpower planning policies are also under taken to match labour supply with labour demand and limit unemployment problems caused by disproportionate supply of labour to certain occupations.

To attain and maintain price stability or to control inflation. Planning is done to attain stability through measures such as reducing government planned expenditure and increasing direct taxation to reduce aggregate demand. Measures to stimulate production, increase aggregate supply and contain inflationary pressure. During a deflation government reduces taxes to increase disposable income and undertakes expansionary monetary policy to increase aggregate demand and stimulate economic activities.

To solicit for foreign aid. Economic development planning enables government to show potential donors short falls between expected revenue as well as how aid is to be utilised when acquired. This is done to convince donors to part with funds to be used in the implementation of projects in the economy.

To encourage public participation in the development process. Planning makes it possible for members of the public to be involved in the process of development of the national economy by showing them their role in plan formulation and plan implementation. Planning also enables the government to solicit political support by showing the masses government programmes aimed at improving citizens' welfare as well as government successes in managing the economy. Planning can therefore, be used as an instrument for appealing to the electorate to maintain the existing regime in power.

To reduce external dependence. Planning enables the country to reduce dependence on external resources by raising revenue locally to avoid borrowing from abroad, training labour locally to reduce dependence on imported labour, import substitution industrialisation to reduce dependence on imports and diversification of the economy to reduce sectoral dependence.

For harmonious and consistent use of resources. Planning leads to harmonious use of resources by avoiding duplication of projects that have similar objectives. It also ensures consistency in the use of available resources by ensuring that planned targets are in line with the available resources.

To relate present activities to future trends /targets. Planning makes sequencing of projects possible. Through proper planning projects that produce outputs to be used as inputs by other projects are implemented first. For example, an industrial based long-term plan requires setting up projects in the long run to produce raw materials for industries yet to be established. This way, present activities are linked with future activities.

2.2 PROBLEMS ENCOUNTERED IN THE FORMULATION OF DEVELOPMENT PLANS

Limited data or information. Statistical data that are available are inaccurate and, in some cases, lacking due to poor record keeping. Availability of information is also limited due to reluctance by people to give information of their bio-data, income, and employment for purposes of privacy. Statisticians have difficulty gathering accurate information and data for plan formulation leading to either under gathering or inaccurate estimation of resources necessary for successful planning.

Limited control of natural phenomena leading to uncertainties especially in the agriculture sector. Due to unpredictability and limited control of natural factors, it is difficult to formulate realistic plans for the agriculture sector. It is for example difficult to predict severe droughts or floods in future so that plans can be made to reduce their effects on production and other economic activities. Limited control of natural factors also makes it difficult to estimate accurately output of planned projects.

Limited skilled labour. Proper formulation of plans requires highly skilled and experienced statisticians who are in short supply in developing -countries due to poor training and insufficient motivation of labour. This results in poor plan formulation due to the inability of statisticians to identify correctly projects to undertake, timing of the projects as well as project costs.

Limited government commitment. Politicians lack commitment to the drawing of plans due to uncertainty of tenure in power, love for the informal patronage and lack of concern for practical solutions. They therefore, do not commit sufficient resources necessary for formulation of plans.

Difficulty in identifying viable/ worthwhile projects. It is difficult to identify viable projects due to business uncertainties in developing countries. Market conditions are ever changing. Changes in market conditions make projects that are viable today not viable tomorrow. Consequently, medium term and long-term development projects are difficult to formulate.

Limited financial resources. Government has insufficient financial resources to be used for data and information gathering, hire and retention of skilled statisticians and purchasing of facilities necessary for plan formulation.

External influence. Donors make plan formulation difficult dictating conditionalities that recipient countries must meet, before funds for plan formulation can be released. They also dictate the projects and sectors to be planned for even if the projects are not central to the country's development. This causes disagreements between donors and local planners over plan priorities hence delaying the process of plan formulation.

Corruption on the part of plan formulators. Officials charged with plan formulation misuse (misappropriate) funds meant for the activity. This leaves insufficient funds for data gathering, purchase of facilities and hire of statisticians. Consequently, either poor quality plans are drawn or no plan is formulated at all.

2.3 CHALLENGES TO OR FAILURE OF PLANNING IN DEVELOPING COUNTRIES

High levels of inflation. High levels of inflation make the amount budgeted for planning inadequate due to continuous increase in the general price level. Costs of resources at the time of plan implementation are much higher than at the time of plan formulation. This necessitates a review of plan costs as well as sourcing for more funds for plan implementation hence delaying planning.

Political instability. Unfavourable political atmosphere leads to destruction of productive infrastructures hence halting or hindering planning or productive activities. It also leads to diversion of resources meant for planning to pacification purposes. It makes it difficult to rally the support of the population to play their role in planning as it creates unfavourable attitude in citizens towards government.

Lastly, it creates an atmosphere of fear of loss of lives and properties by project officials who keep away from insecure areas where plans are to be implemented.

Over-ambitious planning. Some plans require more resources than those that can be sourced both locally and abroad hence failure of planning.

Interference by politicians. At times politicians stop the implementation of ongoing projects in order to divert resources to other projects or to areas that suit their private and political interests.

Poorly developed infrastructures. The movement of project resources for example heavy machinery and labour is hindered by poorly developed infrastructures. Commencement of project implementation is at times delayed till the infrastructures are put in place. Infrastructure development as a pre-requisite for project implementation increases project costs beyond what was originally planned for.

Non responsive private sector. Plans are made by the central authority for all sectors of the economy. Some of the plans are indicative i.e. Government indicates to firms in the private sector potentials for investments. Government provides inducements such as tax incentives to the firms to invest in given industries or sectors. Since private sector firms are not under direct control of government yet are mainly profit driven, they sometimes do not respond to government inducements to invest in certain sectors, for example, in agriculture.

Corruption by planning officials. Corrupt planning officials fraudulently divert resources meant for projects to personal uses. This leaves insufficient resources for planning, for example for gathering data, purchase of facilities, hiring of labour. This results in either poorly implemented projects or non-implementation of projects.

Limited financial resources. Government has insufficient financial resources to be used for data and information gathering, hire and retention of skilled labour and purchase of facilities required for plan implementation.

Limited data or information. Statistical data that are available are lacking due to poor record keeping and lack of will by the population to give information on their bio data, income, expenditure and employment for purposes of privacy. Limited accurate data leads to over-estimation or under estimation of necessary resources for successful planning. It also leads to unrealistic planning targets and objectives being set.

Lack of control over natural phenomena leading to uncertainties especially in the agriculture sector. Due to unpredictability and limited control of natural factors, it is difficult to formulate realistic plans for the agriculture sector. It is for example difficult to minimise the effects of droughts and floods on production due to dependence on nature. Severe natural hazards can wipe out output from agriculture leading to failure of most or all planting activities especially in agriculture sectors.
Limited skilled labour. There is limited supply of skilled labour to identify viable projects to be undertaken, estimate project costs, set

realistic project objective as well as carry out various technical activities in projects for example, operate machines.

Limited government commitment. Politicians lack commitment to planning due to uncertainty of tenure for political patronage and pursuit of populism. Many plans are not implemented because politicians are reluctant to sanction the release of resources meant for implementation when they feel there is no political capital to be harvested from the under taking.

Difficulty in identifying viable projects. It is difficult to identify viable projects due to business uncertainties and economic volatility in the market. Market conditions are ever changing. Changes in market conditions make projects that are viable today not viable tomorrow. For example, a fall in price and demand of an agricultural product such as vanilla made a vanilla project that was viable in 2001 not viable in subsequent years.

Dependence on foreign aid which is inadequate, uncertain, inconsistent and tied. Donors provide funds which are not sufficient for purchase of resources for project implementation. Conditionalities that the recipient country must meet are also set before aid is given. This leads to both uncertainty as well as delay in planning. At times aid is also tied to projects that are not central to the country's development leading to disagreements between donors and recipients over plan priorities hence delaying the planning process.

2.4 THE QUALITIES OR PRINCIPLES OF PLANNING

The following are the principles of a good development plan:

Comprehensive. It should cover all sectors and all regions of the economy. It should be comprehensive so as to develop all sectors of the economy at the same time, create linkages between all the sectors and avoid imbalance regional development.

Feasibility. A plan should be achievable within the available economic means and the set time period. Targets that are measured should be set indicating when and how the plan is to be achieved. Targets should be expressed in measurable terms such as miles of roads to be constructed, saving and investments rates expressed as percentage of GDP to be achieved or economic growth rate per period of time. The targets should not be too ambitious to ensure success of planning.

Optimality. A plan should aim at utilising the available resource social relevance. It should be socially relevant by addressing the macro economic and social problems of the country such as unemployment most efficiently so as to produce maximum possible output with minimum wastage. This necessitates carrying out research to identify

the potentials of the economy and its weaknesses so that most of the available resources are allocated sectors where the potential is great.
Proportionality. Resources should be allocated proportionately to sectors or projects according to their significance to the economy or contribution to GDP. Significance of projects depends on national objectives and priorities. Resources allocation for development must be done according to the relative importance of each sector or project to the national economy, for example sectors that contribute most to GDP may receive more resources than those that contribute little.

Compatibility. The plan objectives should not conflict with the objectives to the already existing projects or government ideology or and socio-cultural morals of the people in the country. Compatibility of a plan is essential for its acceptance by politicians and people of the country.

Social relevance. It should be socially relevant by addressing the macro economic and social problems of the country such as unemployment, price instability, poverty and stopping crime. This ensures not only plan acceptability but popular participation of citizens in plan implementation.

Acceptability. A plan should be acceptable to the masses to ensure their participation in plan implementation. It should be acceptable to politicians to ensure allocation of resources to the plan as well as to avoid interference in planning. It should also be internationally acceptable so as to induce donors to fund it.

Sequence. It should enable the establishment of projects in a timely manner in order to create linkages between projects, sectors and the economy as a whole. Projects whose output is to be used as inputs by other firms should be established first, for example, construction of transport and communication network should precede the opening up of mines; projects aimed at producing raw materials must precede processing and manufacturing ones; and so on. Thus, short term plans should lead to medium term plans and medium-term plans should bear relationship with long term plans.

Continuity. The life of a project should transcend time. It should not be suddenly ended because the authorities of the day cannot identify with it despite its social and economic relevance. Government should not abandon a good plan and start a new one even if the project was conceived by people who are no longer in power.

LESSON: THREE

3.0 TOPIC: PUBLIC AND PRIVATE SECTOR

RESOURCES NEEDED: Text books, pen, exercise book, radio, telephone, ear phones.

LEARNING OBJECTIVES

By the end of the topic the leaner should be able to; identify the role of public enterprises, examine the advantages and disadvantages of public enterprises, advantages and disadvantages of privatization, explain merits and demerits of liberalisation, explain the role of private sector, challenges of the private sector, policy measures to boost private sector.

3.1 THE PUBLIC SECTOR

The public sector is a section of a country`s economy under the direct control and influence of the government. Such establishments are called state enterprises and may take the forms of local authority, public corporation or parastatal body.

PROBLEMS FACING THE PUBLIC SECTOR

Corruption and embezzlement of funds. There is use of funds by the top management to satisfy private interest in public bodies resulting into huge financial losses

Poor infrastructure ie poor transport networks, banking system, storage facilities, inadequate and unstable power supply which lead to poor services delivery of most of the public enterprises.

Excessive pressure from World Bank and IMF with their unfavorable conditionalities towards the public sector, like privatization, retrenchments etc. This forces the state to privatize some of the public cooperation in order to get financial assistance from these lending institutions.

Political instability and unrest in some parts of the country affect the smooth running of the state enterprises.

Shortage of skilled man power due to poor education system that emphasises theoretical work rather than technical and practical skills. This leads to scarcity of planners, evaluators, auditors etc

Insufficient funding and capital leading to low service delivery.

Ignorance of people about activities of public enterprise is a big set back to their operation.

Poor supervision and monitoring of the activities of state enterprises.

TABLE 1: ROLES OF THE PUBLIC SECTOR IN THE DEVELOPMENT OF THE COUNTRY

POSITIVE ROLES	NEGATIVE ROLES
• Creation of employment opportunities to people • Development of infrastructure that can enhance development in the country like ERA, URA, UDR [Health facilities] • Raises large capital and thus undertaking large scale corporations • Promotes economic growth and development since most of them aim at improving people`s welfare • Provision of essential services to the public at subsidized prices • Provision of non- profitable but essential goods and services. • Provision of revenue to the government • Ensures consumer protection against undesirable goods [UNBS] • They help in controlling private monopoly • Promotion of fair distribution of resources/balanced regional development	• They strain the government budget ie high government expenditure and publishing public corporations • Provision of poor-quality goods and services • Bureaucracy in decision making and implementation of policies negatively affect their efficiency • Poor accountability by public officials due to high corruption and embezzlement of funds leads to huge losses, • They tend to discourage private investment /discouraging private investments. • Large scale operation results into discouraging private investments • Large scale operation results into diseconomies of scale • Discouraging consumer sovereignty • The slow adaptation to structural changes • Public corporations lead to shortages in terms of breakdown.

3.2 THE PRIVATE SECTOR AND PRIVATIZATION

This is an act of transferring ownership and management in business from the public or government to individuals or private bodies or the transfer of ownership of public assets /state enterprises to individuals or private investors.

3.2.1 FORMS/TYPES/WAYS OF PRIVATIZATION

Divestiture: This is the total sell of a parastatal body to the private investors. In this form a private individual has full control and ownership of the solid public enterprise e,g. Uganda Airlines to Air Uganda, Uganda Commercial to Stanbic Bank.

Partial Sale: This involves selling a proportion of government`s ownership in a given business while another is owned by the private individual. This is common with business that have diversified activities such that a line of activity is retained by the state while the other by the private sector.

Joint Venture: This involves the government running business units jointly with the private entrepreneurs where by the government holds at most 49% of shares in every joint venture with at least 51% shareholding belonging to private individuals. e.g. Dairy Corporation Uganda.

Contracting: This is a form of privatization that involves selling of business management to private entrepreneurs for a specific period of time as per agreement after which control of the business may be returned to the government

Mortgaging: This is the temporary sell of public enterprises to the private sector with the aim of repossessing them by the state

REASONS FOR PRIVATIZATION /SELLING OF PUBLIC ENTERPRISES

To reduce government expenditure and hence reduced public debts and debt servicing. Privatization inform of retrenchment reduces government expenditure on civil servants and the danger of contracting debts to finance non performing parastatal bodies.

It encourages production of high-quality goods and services which improve on the welfare of people since most private firms are more effective and efficient.

It is seen as a form of retrenchment to countries with high public expenditure on parastatal bodies because it reduces the number of civil servants, bills on utilities like electricity, subsidisation of some of the public enterprises.

To increase productivity and efficiency or to promote economic growth. Public enterprises have been privatized in order to increase the level of opportunity since private individuals are profit driven leading to increased contribution to GDP and reducing structural inflation in the country.

To create more employment opportunities in the long run. This is because when public enterprises are privately owned, they become liable to expansion thus creating more employment opportunities with its advantages like improving of standards of living of people.

The need to create government revenue through taxation with privatization formerly state-owned businesses become liable to paying taxes and this will increase the taxable base hence increasing public revenue inform of corporate tax, license fee, pay as you earn etc

To fulfil the conditionality of international lending institutions like IMF and World Bank. The current privatization drive in developing countries like Uganda is due to conditionalities of IMF and World Bank of creating a private sector led economy in order for such countries to access financial assistance.

To encourage foreign investment. By privatizing their parastatals developing countries encourage foreign investment thus bringing the investment gap from such countries and experiencing high capital inflow.

To attract private initiatives /encourage the development of entrepreneurial skills with its multiplier effects like promoting investment, high quality output etc. This is because under the private sector there is a high degree of inventions and innovations which facilitate the process of economic growth and development because of the stiff competition existing.

To encourage technological transfer and development which leads to production of high level of production and of good quality .Privatization is seen as a means of technology transfer and development in the developing countries because as foreign investors and multinational corporations buy these public enterprises, they try to rekindle their performance by changing the methods of production to advanced ones.

To reduce corruption tendencies and embezzlement of funds which are rampant in public enterprises. This is because under the private sector there is a high degree of accountability leading to efficiency in private enterprises.

To reduce bureaucratic tendencies and resultant negative effects like slow decision making, discourages the would-be potential investors and wastage of resources.

To improve on a country’s Balance of Payment position. Most of the public enterprises are being sold to private individuals in order to increase on the volume of exports and to avail adequate goods and services in the domestic economy in order to reduce imports thus improving the country`s BOP.

To encourage economic diversification because private enterprises engage in various economic activities in order to experience huge profits.

To encourage competition in the country thus leading to production of high goods and services.

DISADVANTAGES OF PRIVATISATION

Pollution inform of air, water and their quick depletion.

It increases labour exploitation in the country inform of low wages given to workers and working conditions since most of the private enterprises aim at maximising profits and minimizing costs.

It leads to loss of money by the government in the long run due to under valuation of the sold public enterprises.

It promotes emergency of private monopolies and their associated disadvantages like exploitation of consumers inform of wrong measures, restriction of output, pressurising the government.

It encourages wastage of resources through wasteful competition existing among private enterprises thus losing some of the productive resources in the country.

Essential services become too expensive for the poor to afford because private investors are profit driven.

It worsens the problem of unemployment most especially in the short run when many workers are laid off in sold enterprises in order to reduce production costs and due to use of capital-intensive technology in private enterprises leading to technological unemployment.

Encourages foreign dominance in the economy since there are few local people who can afford to purchase the floated parastatals which can lead to cultural values and brain drain.

It worsens the problem of income inequality since the majority poor in LDCs are left out and the few who can afford to buy the sold enterprises earn abnormal profits.

It leads to profit repatriation since many of the floated parastatals are purchased by foreigners thus leaving the country underdeveloped.

It leads to provision of public goods since most of them are unprofitable though important leading to poor standards of living and the country underdeveloped.

It makes government planning difficult since it is intended to create a private economy resulting into limited government intervention in the economic activities in the country thus failing to implement important strategic plans.

It leads to high social costs due to irrational exploitation of natural resources leading to depletion of resources.

CHALLENGES OF PRIVATIZATION OF PUBLIC ENTERPRISES:

Opposition from the public. This is due to fear that privatization will lead to loss of economic control to foreigners while others oppose it on political grounds as they may not be in favour of the ruling government while others are just ignorant about the advantages of privatization.

Under developed capital and money markets have acted as a big impediment to privatization drive in LDCs. Because for successful sale of the publicly owned businesses there is need to have well developed exchange stock market where public enterprises can be traded thus making privatization an un successful policy.

General poverty in LDCs leading to very few individuals who are capable of purchasing shares in the solid public corporation is also a big setback in the privatization drive.

High illiteracy rates in LDCs making a big proportion of the 3rd World countries not willing to form joint ventures due to mistrusts thus delaying the process of privatization.

High uncertainty surrounding parastatals especially when there is change in government policy or frequent changes in regimes which discourage many potential buyers of the floated enterprises.

High degree of corruption involved in the selling of some of the public enterprises which discourages many potential buyers.

Poor valuation of public enterprises that are on sale which leads to loss of money by the government and public.

Ideological differences in the country i.e. socialism vis-à-vis capitalism thus creating resentment most especially from the socialist blocks.

Political sabotage e.g. blocking a bill in the parliament for the sale of public enterprises

3.2.2 THE PRIVATE SECTOR

It refers to that sector of the economy where economic activities and decisions are under taken by private individuals and firms. In Uganda private sector is dominated by foreign Multi-National Corporations, foreign private investors and a few local investors.

ROLES OF PRIVATE SECTOR IN ECONOMIC DEVELOPMENT OF UGANDA

Positive roles

It is a source of government revenue inform of taxes charged on private enterprises which increases government's income thus improving on infrastructural development like construction of hospitals, road rehabilitation among others.

Generates employment opportunities to people which enhances their earnings hence increasing on their savings to meet their basic necessities of life.

Encouraging exploitation of idle resources which increases the country`s productivity which leads to a faster rate in economic growth and development.

Widening of consumers choice due to provision of a variety of commodities thus improving on people`s standards of living.

Reduction of government expenditure on producing goods and services which may be produced by private sectors thus maintaining the would-be money for the development sector.

Increasing a country`s foreign exchange resulting from the high/increased output produced by the private sector.

Provision of capital both local and foreign which facilitates further capital accumulation thus accelerating the rate of economic growth and development.

Promotion of infrastructural development inform of road construction, setting up financial institutions etc which facilitate economic activities in the country.

It facilitates on job facilitating which increases labour skills thus its productivity increases.

Improving on a country`s BOP position due to increased volume of exports produced by private enterprises and reduced imports resulting from availing goods in the domestic market by private individuals.

Promotion of commercialisation of the economy. The private sector promotes commercial production in the economy by carrying out economic activities for the market thus reducing subsistence production in the economy.

Promotion of industrialisation of the country. It promotes industrial development due to the need to produce goods and services to satisfy the domestic and foreign markets.

PROBLEMS/CHALLENGES FACING THE PRIVATE SECTOR:

Inadequate capital needed to set up enterprises and run business organisations.

Limited entrepreneurial skills in the country which makes many businesses to operate on a small scale.

Small market size due to low purchasing power of the citizens.

Low level of technology. This limits productivity and yields production of poor-quality goods and services which can`t compete favorably on the world market.

Poor infrastructural development most especially the unstable and inadequate power supply which is the engine of most enterprises.

POLICY MEASURES TO IMPROVE THE PRIVATE SECTOR:

Privatization of public enterprises so as to allow more private enterprises to carry out different economic activities

Liberalisation of the economy involves removing unnecessary restrictions so as to widen the capital base of private enterprises thus expanding the private sector.

Putting in place/establishing strong and sound infrastructure e.g. adequate power supply, good road networks, modern banking systems etc to facilitate the activities of private enterprises.

Favourable government policies should be undertaken so as to attract more private entrepreneurs in the economic activities carried out in the country. Such government policies include subsidisation of private enterprises, tax incentives like tax reduction exemptions and holidays.

Improvement in the level of technology used through research and technology transfer so as to increase productivity in the sector.

Expansion of markets both local and foreign should be taken through regional integration, international public campaigns /advertising plus increasing the purchasing of the local people.

Formation of more investment bodies so as to identify investable opportunities and to guide private individuals on how and where to invest their resources e.g. Uganda Investment Authority etc

Maintaining a stable economic climate so as to make business environment predictable i.e. Making private entrepreneurs able to predict the returns on their investments. This involves stabilising prices of goods and services and ensuring adequate foreign exchange in the economy.

Under taking land reforms by re-distributing land from unproductive private entrepreneurs thus expanding the private sector.

Fighting corruption through anti-corruption legislation so as to attract more potential private investors.

Man power training should be under taken so as to reduce the problem of inadequate skilled labour.

DO NOT FORGET TO WASH YOUR HANDS OR SANITISE REGULARLY. STAY HOME STAY SAFE.

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We thank God for the continued protection against the Corona Virus. You need to continue keeping yourself and family safe by observing the SOPs. Wash your hands regularly with soap or sanitize, wear a mask to cover the nose and mouth, observe the Social distance and avoid crowded places.

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