Reducing the number of people living in absolute poverty

People

Absolutepovertymeasures the number of people living below a certain income threshold or the number of households unable to afford certain basic goods and services. Much of the poverty in developing countries, such as South Africa, tends to be absolute poverty. Economic growth can be defined as steady growth in the productive capacity of the economy.

Short term growth is measured by the annual percentage change in real national output, which is affected by shifts in short run aggregate supply curve (SRAS), whilst long term growth is shown by the increased in potential growth can is illustrated by an outward shift in a country's long run aggregate supply curve (LRAS). Whilst a rise in real GDP can lift millions of people out of absolute poverty, a reduction in the number of people living in absolute poverty can help to achieve economic development. In order to reduce the number of people living in absolute poverty, they would have to get jobs in order to gain a living.

This means that people would have more disposable income, thus increasing consumption which is a factor of aggregate demand and would therefore shift the aggregate demand curve to the right, causing economic development. This would also mean that the government would also have moremoneywhich can be used to invest ineducationand training or other forms of spending. A lack of education and training is what keeps people in absolute poverty as it prevents them from getting jobs and moving up, however, if education and training were to increase, more people would be getting jobs, thus increasing real GDP whilst resulting in economic growth.

Furthermore, government spending is also a component of the aggregate demand formula and therefore an increase in that would result in an increase in aggregate demand, thus causing an outward shift in the SRAS whig would eventually result in economic development. Gold and diamond are the major exports from South Africa although agricultural products are also exported. If the government were to spend their money on training in mining, those who were living in absolute poverty could get jobs as miners and not only would

this increase the real GDP of South Africa, but it would also increase exports which is another component on aggregate demand, thus again resulting in economic development. South Africa has debts similar to many other developing countries which are burdened with international debt which they cannot afford to pay and which acts as a constraint to economic development. However, if there was a reduction in the number of people living in absolute poverty in South Africa, the government would have more money to repay their debts.

Poor infrastructure make it difficult for a country to attract foreign and domestic investment thus providing a constraint on long term growth potential. The government could also invest the money which would have originally gone towards those in absolute poverty in infrastructure and healthcare. Better healthcare would mean that South Africa would have a more reliable workforce and an improvement in infrastructure would mean that workers would be getting to work on time and it would be easier to travel.

These are qualities which attract foreign and domestic investment; this would result in more jobs available, thus increasing employment as well as the real GDP of South Africa. Corruption and poor governance is one of the causes of absolute poverty, however, it is also a significant factor for a constraint on economic growth. High levels of deeply embedded corruption and bureaucratic delays can harm growth in many ways for example inhibiting inward investment and also making it more likely that domestic businesses will invest overseas rather than at home.

Governments need a stable and effective legal framework to collect taxes to pay for public services. However, in order to reduce the number of people living in absolute poverty, corruption would have be to decreased, thus resulting in economic development. Many poor countries have governments which are not democratically elected. Countries such as South Africa tend to spend money raised through taxation unwisely leading to governmentfailureand thus find it difficult to attract FDI. However, a correction in corruption and poor governance would mean that South Africa may be able attract FDI, thus increasing the real GDP and resulting in

economic development. South Africa is a primary-sector economy, which produces gold and agricultural goods and is therefore primarily product dependent. Primary product dependency is a constraint on economic development. The dependency makes South Africa very vulnerable in the event of natural disasters. Furthermore, downward price fluctuations caused by exchange rate movements or variable harvests can have a devastating impact due to the low price elasticity of demand for primary products.

Moreover, the Prebisch-Singer hypothesis claims that countries that specialise in primary products, such as South Africa, face declining terms of trade within time. This is because prices of primary products have declined over the long term due to increases in productivity in agriculture and less demand for other commodities. In addition, as the country gets richer over time dmand for secondary and tertiary products increases whilst demand for primary prices rises by only a little due to its low income elasticity of demand.

As a result, prices of manufactured goods and services rise relative to prices of primary products. This means that the country which is specialising in primary products experience declining terms of trade as the income they receive from their exports buys fewer imports over time. However, investment in education and training as well as FDI in South Africa would mean that it would not be such a subsistence economy. Many sub-Saharan economies, such as South Africa, are severely affected by droughts followed by flooding, making it difficult to establish any industry and attract any foreign direct investment.

However, if there is a decrease in the number of people who need aid and support, the money raised by charities and the money the government originally used to support those in absolute poverty could instead by used fix any damages caused by bad weather conditions which means that not only would the country come across as more appealing to FDI's, it would be easier to go crops, thus increasing exports and therefore leading to economic development as this results in an outward shift in the aggregate demand curve.

To conclude, all the factors above depend on the number of people who are no longer in absolute poverty; the less people in absolute poverty in a country, the more economically developed the country is going to be and therefore it depends on the magnitude. Economic development is an increase in living standards which could be measured by an increase in income per capita, life expectancy and access to education and healthcare.

Despite it being difficult to say whether a reduction in the number of people in absolute poverty would lead to economic growth because it is unknown whether that means that they would immediately get a job, thus increasing GDP, resulting in economic growth, it is safe to say it would lead to a rise in economic development as their living standards would increase as they are no longer living in absolute poverty and can therefore afford necessities.