

## Calculating The Aces and Scams of Supply Side of Economics and the Significance of Infrastructure in a Country's Growth

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### **Abstract**

*Why are the Western countries more advanced than many Asian countries? Why even China and South Korea have raced ahead of India and other Asian countries in the recent times? Or for that matter, why is India lagging behind many countries in terms of economic growth and poverty? There are many reasons and answers to these questions and one of them is the fact that all these nations have very good physical infrastructure. Indeed, the fact that they have better roads, ports, highways, airports, and other elements of infrastructure is one of the reasons why they have clocked faster economic growth.*

**Keywords:** *Economic Development, Economic Infrastructure, Country Economic Growth*

### **I. THE IMPORTANCE OF PHYSICAL INFRASTRUCTURE**

Why is physical infrastructure so important to a nation's development? The answer is that once goods are produced, they need to be transported to the ports and airports for transportation to other states and countries. This means that excellent roads are needed to transport the goods or otherwise, they would be delayed leading to economic and reputational losses. Indeed, if a manufacturer produces goods quickly but is unable to transport them to the destination as fast as they can, then there is no point in making the goods in an efficient manner in the first place.

#### *A. Roads, Ports, and Airports*

Moreover, good roads are also needed for manufacturers to obtain raw materials and other components. In addition, ports that are well functioning and where ships do not need to wait for longer periods of time or in other words, are not congested are very crucial for economic growth as otherwise, the loading, and unloading of goods from the ships would cause losses to the exporters and importers. Similarly, there is a need to develop airports that are modern and efficient for freer and easier movement of people in and out of the countries. For all these reasons, it is vital that the physical infrastructure needs to be as efficient and as productive as possible.

#### *B. Other Elements of Infrastructure*

There are other elements of infrastructure and they are the power and water situation apart from the development of a city's infrastructure. Indeed, if there is power outages and blackouts or what are known as "power holidays" or "industry holidays" wherein the manufacturers cease production on certain days, then these timeouts would lead to losses for them. Moreover, if a city is unable to cope with the influx of migrants and absorb the growing numbers of people, then the people working in the plants and factories would be unable to function effectively and work productively.

#### *C. Need for Massive Investments in Infrastructure as a Route to Faster Economic Growth*

No nation develops without investing in infrastructure and indeed, this is the reason why in the aftermath of the Second World War, the Western countries massively invested in infrastructure. It is also the reason why Japan and South Korea and later China undertook a drastic improvement in their infrastructure so as to ensure that it "enables" faster economic growth and development. Indeed, as we would discuss next, it is the enabling aspect which is important since infrastructure is supposed to facilitate and spur economic growth by providing better connectivity and enhancing productivity and efficiency.

#### *D. The Hardware and Software of Enabling Infrastructure*

Moreover, investments in infrastructure work as a force multiplier wherein the monies invested in building highways and ports and airports not only creates the "hardware" for a nation's development but also results in more growth because the huge amounts of money are spent on construction materials, wages, and production of other raw materials which help those industries to grow faster. Therefore, it is indeed the case that massive

investments in infrastructure enable the nation's economic development by ensuring that the hardware is in place and the software wherein the people needed to staff the plants and factories are also capable and work productively.

#### *E. Human Capital*

Indeed, while many experts talk about physical infrastructure, they forget to talk about another crucial element and that is the software or the skills of the employees and their productivity and productive capacities. This aspect which is developed through investments in healthcare and education enables a healthy and well educated workforce who would then lead to faster economic growth by ensuring that the necessary human resources are there for the industries and the technology companies to take advantage of.

#### *F. Urban Planning*

Another important element in a nation's infrastructure is the way in which the urban areas are managed and planned. For instance, most Indian cities are groaning under the weight of their residents and the creaking infrastructure results in poor planning and haphazard growth which would derail any chances of faster economic growth. Indeed, if there is anything holding back countries such as India, it is the sheer lack of planning as far as cities and the other components of infrastructure are concerned.

#### *G. Conclusion*

Which brings us to the final point and that is that there are no substitutes for infrastructure development and there are no shortcuts for faster economic growth. It is only when these aspects are taken care of that nations develop and there are lessons for India and other Asian countries that are trying to grow and leapfrog into the elite club of developed nations. Therefore, unless developing countries invest in all elements of the infrastructure component, their development would be slow and retarded and they would miss the bus again and lose out in the race for economic competitiveness. This is the hard truth and the bitter reality which should hopefully spur them to invest in their infrastructure.

## **II. EVALUATING THE PROS AND CONS OF SUPPLY SIDE ECONOMICS**

### *A. Supply Side economics*

Supply side economics is that branch of economics that deals with production of goods and services by providing incentives to the producers to produce more and hence ensure a steady stream of goods to the marketplace. This paradigm of economic growth assumes that lowering the tax rates provides incentives for the producers to produce more leading to a situation where there is an increase in incomes and hence the increase in tax revenues to the point where the shortfall due to the lower tax rates is more than made up due to the increase in the tax collections.

Supply side economics came into prominence with the Reagan administration in the US and the Thatcher stint in the UK. This led to an unprecedented boom in the economies of these countries that was touted as the example of "trickle down" economics that posited that wealth generated at the top of the pyramid trickles down to the members at the bottom.

### *B. Alternative Approaches to Supply Side Economics*

The alternative approaches to supply side economics is the one that has been espoused in the US after Ronald Reagan demitted office. This is the method of stimulating demand by cutting interest rates. The other methods that are often touted as alternatives is the Keynesian method that holds that only increased governmental spending can stimulate demand make the economy grow.

This dichotomy between encouraging the producers as opposed to encouraging the consumers lies at the heart of the debate between supply side economics and other approaches. While proponents of supply side economics argue that increasing governmental spending leads to higher inflation, the Keynesians point to the growing income disparities between the rich and the poor as a sign of failure of supply side economics.

*C. Effectiveness of Supply Side Economics*

In this section, we look at the ways in which supply side economics work and the perceived benefits of the same. The pillars on which supply side economics rests are privatization, deregulation, and reduction of taxes. As we shall discuss later, some of these foundations of supply side economics have been called into question in the wake of the current economic crisis. In the succeeding paragraphs, we look at each of the components of the supply side policies and the ways in which they bring about the desired benefits to the economy.

There has been much speculation on the role of supply side economics in stimulating demand and causing overall economic activity to pick up. The main criticism against supply side economics is that merely cutting taxes alone would not do the trick and other measures like controlling the money supply and lowering interest rates are the necessary conditions for economic growth.

The point about lowering interest rates and stimulating demand became more relevant in the 1990's when the manufacturing base of the US had shrunk and what the US economy was being driven was by growth in services. Thus, as opposed to growth in real manufacturing and production of goods and services, the economy was clocking impressive growth due to the rise in the growth of services. This growth in services was brought upon by the other pillar of supply side economics i.e. monetary policy.

*D. Some Questions about the Effectiveness of Supply Side Economics*

In the aftermath of the current economic meltdown, there are many who are questioning the viability of supply side economics and the lower interest rates paradigm as an alternative for the Keynesian paradigm. Considering the fact that the economy now had to be revived using massive stimulus packages in a throwback to the years of the great depression, it is worthwhile to note the return of classical economic paradigm in the US.

As pointed out in a previous section, the method of reducing taxes would lead to a situation where the people who benefit from this would be in a minority as opposed to the people who have lost out. This is the main criticism against supply side economics, namely that of the widening income gap between the rich and the poor. This approach has been criticized by many as contributing to increased alienation of the poor who have not benefited from the trickle-down theory propounded by the proponents of the supply side economics.

Supply side economics grew in response to the Oil crises and shocks of the 1970's when it was apparent that higher oil prices would have deflationary effects on the US economy. Hence, the government resorted to cutting down taxes and making products more affordable to the people by practicing the supply side equation of the curve. However, this did not lead to an overall increase in prosperity and has been called by many as "making magic" and "peddling prosperity". It is to the credit of the paradigm that many developing countries hitched themselves to this model of economic growth as well.

*E. Conclusion*

The inescapable conclusion that stems from the current global economic meltdown is that supply side economics has outlived its purpose and it is now time to go in for a new paradigm of growth that revolves around making everyone wealthy instead of a select few.

In conclusion, it is apparent that massive governmental spending is the only way out of the current crisis. Contrary to the claims of the supply side economists, a small government may not be the best possible solution particularly when deregulation breeds excesses of profit taking and speculation way beyond the acceptable levels and results in a systemic failure that threatens the entire global economy.

### **III. PROS AND CONS OF THE UBER ECONOMY**

*A. Uber Economy*

We all have heard if not used the services of the app based ride sharing and ride hailing taxi and car service, Uber. Indeed, Uber has become a household name worldwide because of its innovative and inventive approach to

providing cheap and reliable taxi and car services through its mobile and Smartphone app that “connects” the drivers with the passengers.

Further, Uber works in an entirely freelance model where the drivers need to be just registered with the company and can pursue other occupations when they are not driving. This means that Uber represents the cutting edge in the new and emerging economic model wherein anyone and everyone can work multiple jobs and take up employment on a part-time basis with everyone and everywhere.

This is the reason why this emerging freelance and gig work model has been called the Uber economy with its attendant advantages and disadvantages.

#### *B. Advantages of the Uber Economy*

To start with, there are many pros or advantages of the Uber economy. For one, it offers unparalleled flexibility and adaptability to the workers who can work multiple jobs and take up gig work during their spare time.

In addition, it offers workers the chance to partake in the exciting and promising reward and benefit system which because of the simplicity of the model means that they would be compensated more than what they would get when working for a traditional full time or part time job.

Of course, some might argue that full time jobs do have benefits that the Uber economy cannot provide and we would be taking that up subsequently. It would suffice to state here that the Uber economy represents the future of the work model wherein anyone and everyone can become gig workers and freelancers without having to give up their day jobs.

Indeed, research and surveys have shown that there are many full time workers who drive for Uber and other gig work companies during their spare time to supplement their incomes and make hay while the sun shines.

#### *C. Disadvantages of the Uber Economy*

However, is it the case that the Uber economy is a new dawn rising or is it the case that it represents another opportunity by the capitalists to fleece workers and make them work in a model where the only winners are the owners and not the employees? The answer to this depends on whom you talk to and whom you interview.

For instance, there are many who swear by the freelance model of work since they can masters of their time and pursue other occupations as well as decide to set the working hours themselves instead of being dictated and ordered by the straightjacket of the traditional work model.

Moreover, these people reckon that freelance work and gig work represent the future and hence, it is better to get in there early and reap the rewards of the emerging economic model where employment does not mean the earlier generation emphasis of a company that hires and keeps workers for life and instead, represents the brave new world of work where one is paid by the hour or for each parcel of work done.

Having said that, there are others who point to the fact that the freelance economy or the Uber economy is a model where the workers do not receive health, social security, and 401(k) or pension benefits, in addition to not receiving any paid leave or time off for medical reasons.

Indeed, there is a growing chorus of opposition to the emerging freelance and gig economy or the Uber economy since many believe that this is no different from the colonial model of exploitation of workers where hourly wages and per task payment is the norm with no longer term benefits, no annual bonuses, and above all no medical and pension benefits.

Further, when one is performing freelance work, there is no guarantee that such gig work or the Uber model would let them continue even if they fail once or twice.

In other words, unlike traditional occupations where the employers tend to take a longer term view and reward and take action on the workers depending on their performance over a broader time frame, the emerging world of work is a ruthless and Uber competitive place (literally as well as metaphorically) where one is as good as the last work or the gig done and there are virtually no laws or regulations that would protect the workers and their rights.

*D. The Emerging Debate on the Uber Economy*

Considering the pros and cons of the Uber economy, there are many who are filing for lawsuits and petitioning the government to regulate the emerging model of work so that the workers are not at the receiving end. Indeed, there are some class action lawsuits pending in the United States and upcoming to be heard in the next few months that seek more governmental oversight over the industry that specializes in freelance work.

While the petitioners are not asking for a complete overhaul of the freelance or the gig model of work, nonetheless, they want the government to ensure that the workers are not shortchanged and that companies such as Uber follow some work practices where the workers are not always at the receiving end.

Having said that, it must also be noted that the emerging Uber economy is something that no one can stop or slow down since the future of work would indeed be a model where there would be more sharing economic practices and companies such as Uber would be the go to employers for many.

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