Principle of Economic Geography
UNIT – 1

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Introduction

- Economic Geography is the study of man and his economic activities under varying sets of conditions. Geographers are of different opinions as regarding the definition of the subject.
- In fact, different authorities have defined Economic Geography in a variety of ways but their opinions converge at a common point of accord, where it means the study of the spatial distribution of man’s economic activities in relation to its environment, be it physical or non-physical.

Definition of Economic Geography

- R. S. Thoman in his book ‘The Geography of Economic Activity’ has remarked, **“Economic Geography may be defined as an enquiry into the production,** According to Dudley Stamp, Economic Geography **“involves consideration of the geographical and other factors which influence man’s productivity, but only in limited depths, so far as they are connected with production and trade.”**
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- Professor E. W. Zimmermann pointed out that, Economic Geography deals with the economic life of man with relation to environment.
- **exchange and consumption of goods by people in different areas of the world. Particular emphasis is placed on the location of economic activity — upon asking just why economic functions are situated where they are in this world.”**

- J. MacFarlane describes Economic Geography as the study of “influence exerted on the economic activity of man by his physical environment, and more specifically by the form and structure of the surface of the land, the climatic conditions which prevail upon it and the spatial relations in which its different regions stand to one another.”
- In the words of Hartshorn and Alexander: “Economic Geography is the study of the spatial variation on the earth’s surface of activities related to producing, exchanging and consuming goods and services. Whenever possible the goal is to develop generalizations and theories to account for these spatial variations.”
- Surpassing all, Chisholmes says that Economic Geography is presumed to “form some reasonable estimate of the future course of commercial development,” as determined by geographical factors

Aims of Economic Geography

- We may consider the Earth as the abode of Man and its resources are his legacy. Being most dynamic, man is never satisfied with mere living. He has always tried to refine his living conditions and environment. He is; never satisfied with the simple food, nature has provided him; he has devised ways for preparing food.
- His shelters are not merely designed for simple protection, but should also be comfortable in every aspect and must match with the modern style. In fact, man satisfies not only his physical needs but also his cultural needs.

Scope of the Economic Geography

What is economic geography? This basic question has been explained by several scholars in their own way and also has undergone changes with the change in nature of the study of economic geography. Until recently, it was concerned largely with spatial distribution of economic phenomena.

The main sectors of the economy are:

Primary sector – extraction of raw materials – mining, fishing and agriculture.

Secondary / manufacturing sector – concerned with producing finished goods, e.g. Construction sector, manufacturing and utilities, e.g. electricity.

Service / 'tertiary' sector – concerned with offering intangible goods and services to consumers. This includes retail, tourism, banking, entertainment and I.T. services.

Quaternary sector (knowledge economy, education, research and development)

- Resource extraction, mining
- Farming, fishing

The primary sector is sometimes known as the extraction sector – because it involves taking raw materials. These can be renewable resources, such as fish, wool and wind power. Or it can be the use of non-renewable resources, such as oil extraction, mining for coal.

In the 1920s, over one million people were employed in the UK coal industry. It was a key part of the economy. However, improved technology and the growth of other energy sources has seen a dramatic decline in this primary sector industry.

The secondary sector makes and distributes finished goods.

- Manufacturing – e.,g producing cars from aluminum.
- Construction – building homes, factories
- Utilities – providing goods like electricity, gas and telephones to households
- The manufacturing industry takes raw materials and combines them to produce a higher value added finished product. For example, raw sheep wool can be spun to form a better quality wool. This wool can then be threaded and knitted to produce a jumper that can be worn.

Initially, the manufacturing industry was based on labour-intensive ‘cottage industry’ e.g. hand spinning. However, the development of improved technology, such as spinning machines, enabled the growth of larger factories. Benefiting from economies of scale, they were able to reduce the cost of production and increase labour productivity. The higher labour productivity also enabled higher wages and more income to spend on goods and services.

Service / tertiary sector

- The service sector includes
- Retail
- Financial services – Insurance, investment
- Leisure and hospitality
- Communication
- IT
- Transportation
- The service sector is concerned with the intangible aspect of offering services to consumers and business. It involves retail of manufactured goods. It also provides services, such as insurance and banking. In the twentieth century, the service sector has grown due to improved labour productivity and higher disposable income. More disposable income enables more spending on 'luxury' service items, such as tourism and restaurants.

Quaternary/knowledge sector

- Education
- Research and development
- Public sector bodies
- The quaternary sector is said to the intellectual aspect of the economy. It includes education, training, the development of technology, and research and development. It is the process which enables entrepreneurs to innovate better manufacturing processes and improve the quality of services offered in the economy. Without this growth of technology and information, economic development would be slow or non-existent.
- It is also known as the knowledge economy – this is the component of the economy based on human capital – IT, knowledge, education. It is primarily related to the service sector, but also is related to the high tech component of manufacturing

Private Sector vs Public Sector

The public sector is government (national and local). Public sector jobs include doctors, police, teachers and civil servants.

The private sector is private enterprises – retail, manufacturing, local services.

- **Public sector jobs as a share of total employment**
- UK 23.5% (2013)
- US 14.6% (2008)
- China 32.8% (2003). In 1978 China's rate was 100%. In 1995 (56.4%)
- India 4.5% (2008)
- France 20% (2014)
- Cuba 80% (2010)

In former Soviet bloc countries, state employment accounted for 70-90% of employment. In developing countries, such as India and Bangladesh, employment rates are low 4-5% (due to a smaller share of tax revenue and limited government size.

Which sector is best for job creation?

Free market economists argue that the private sector is more suited to job creation because firms respond to consumer preferences and market trends and provide employment in areas of high demand.

Strengths of the private sector

- **Profit Incentive**. Private firms have a profit incentive to cut costs and develop products demanded by consumers. In the government sector, this profit motive is often absent. Therefore government bodies have a greater tendency to be overstaffed and inefficient.
- **Bureaucracy**. For political reasons, it is sometimes more difficult to get rid of surplus workers in the public sector than the private sector. Private businessmen don’t have to worry about political popularity and so are more willing to make people redundant if it helps efficiency. The public sector, on the other hand, is more likely to employ surplus workers in unproductive jobs.
- **Crowding out**. If the public sector increases, then this is reducing resources for the private sector. For example, if we raise taxes to increase government spending then this means the private sector has lower resources for private sector investment. Therefore, if government spending can be reduced it will free up resources for more efficient private sector growth and job creation. Though there may be temporary problems from public sector spending cuts, in the long term, it will enable lower taxes and higher private sector investment.

- **Government spending that discourages productivity.**

Some government spending can discourage productivity. For example, welfare benefits can reduce the incentive to work and encourage economic inactivity. Reducing welfare benefits (e.g. making it more difficult to claim sickness/unemployment benefits may encourage people to get a work and become economically active. (though it may conflict with goals of equity

Arguments for the Public Sector

- **Public goods**
- The private sector is very unlikely to provide public goods because of the free-rider problem. Therefore, the government needs to provide nearly all goods with the characteristics of public goods. This includes street cleaning, military, police and the judicial system.
- **Merit goods and positive externalities**
- Goods with positive externalities will be under-consumed in a free market. For example, education and training could be provided in the free market, but generally there is under-consumption of the socially optimal level because private firms ignore positive externalities. Therefore, the government needs to intervene in public services such as health and education. By providing good quality training schemes, the government can help increase labour productivity and provide private firms with educated workers.
- The same argument applies to investment in infrastructure. e.g. New train links, and roads.

- **Macro-economic stability**
- Private sector jobs are more volatile with regard to the economic cycle. In a recession, we can see a sharp fall in private sector employment as firms cut back on labour. In a recession, public sector jobs act as a stabiliser – limiting the rise in unemployment. J.M. Keynes argued that in a severe recession, the government should intervene and create more employment. For example, public works scheme such as the New Deal of the 1930s.
- **No Crowding Out in Liquidity Trap**
- If the economy is at full employment and growing strongly, higher government borrowing and spending will cause crowding out. However, in a recession, there may be a sharp rise in consumer saving. This leads to a fall in spending and spare capacity. In this situation, an increase in government spending financed by government borrowing doesn’t cause crowding out because the government is using private sector savings that would otherwise remain idle.

Conclusion

- Both the public and private sector have a role to play. For general businesses without externalities, the private sector is likely to be more efficient and better at job creation. Reducing the scope of government spending could create more private sector opportunities for investment and job creation.
- However, the private sector also needs a good public sector to provide, education, healthcare and infrastructure investment. Also, the private sector needs a stable macro-economy which the government has a role to provide. In a prolonged recession, the case for government intervention to create jobs is much stronger than when the economy is growing strongly.

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THANKS