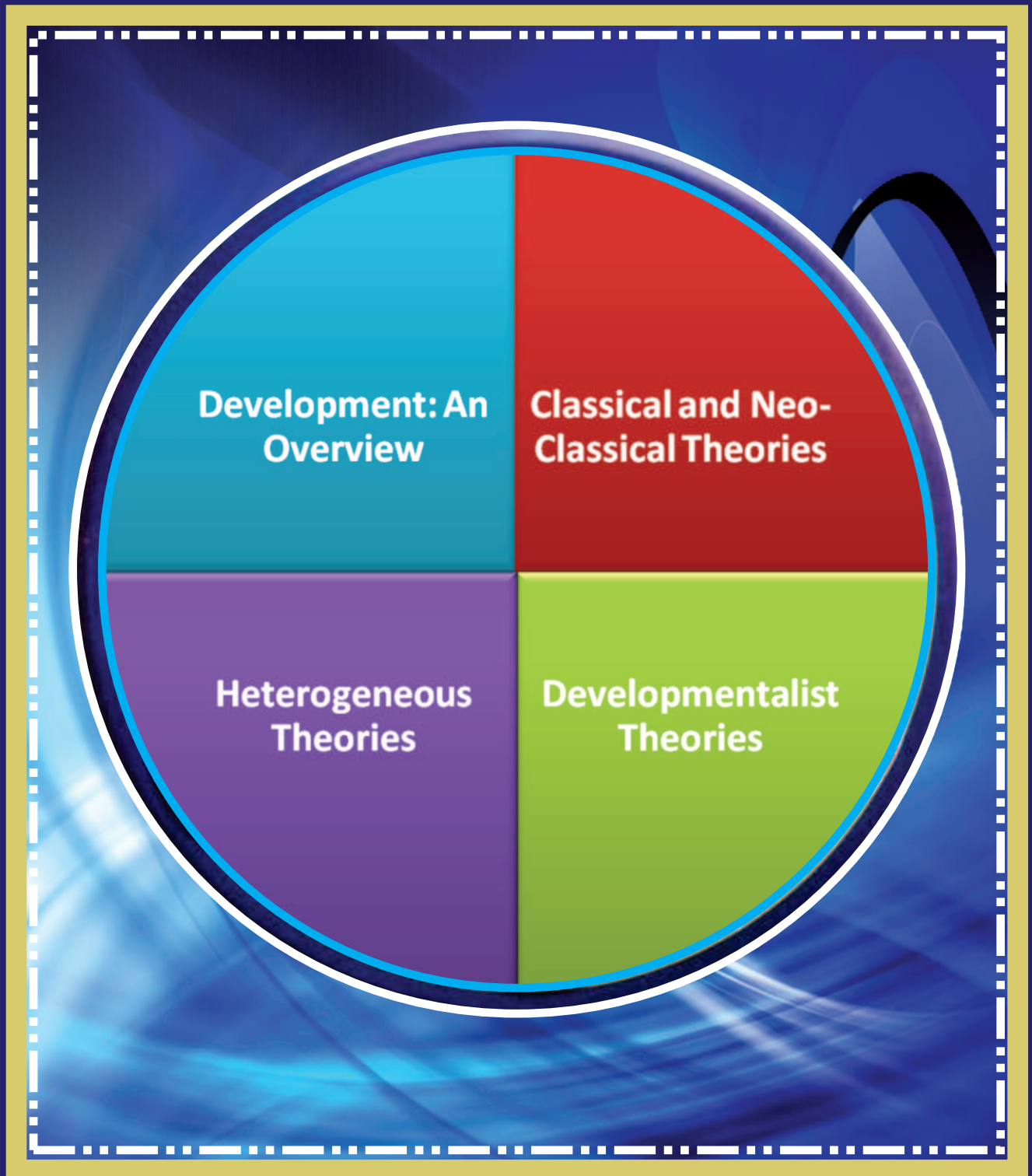




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3

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May, 2018

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ISBN: 987-

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Printed and published on behalf of IGNOU, New Delhi by Registrar, MPDD, IGNOU, New Delhi.

Laser Typeset by Rajshree Computers, V-166A, Bhagwati Vihar, (Near Sec. 2, Dwarka), New Delhi
Printed at:

BLOCK 3 DEVELOPMENTALIST THEORIES

Block-3 of Course MDV-101 consists of four units namely Balanced Development Theories, Unbalanced Development Theories, Rostow's Stages of Economic Growth and Development and Developmental State Theory.

Unit-1 on '**Balanced Development Theories**' deals with Rosenstein Rodan's Theory of Balanced Growth, W A Lewis' Theory of Unlimited Supply of Labour and Rangar Nurkse's Theory of Balanced Growth. It also discusses the merits and criticisms of the theory of Balanced Growth.

Unit-2 on '**Unbalanced Development Theories**', discusses in detail the Hirschman's Strategy of Unbalance and Leibenstein's Critical Minimum Efforts Theory. The merits and demerits of these theories are also discussed.

Unit-3 on '**Rostow's Stages of Economic Growth and Development**', discusses Rostow's stages of growth, its criticisms and appreciation.

Unit-4 on '**Developmental State Theory**', discusses the development state theories of Chalmers Johnson, Peter Evans and Gunnar Myrdal.

UNIT 1 BALANCED DEVELOPMENT THEORIES

Structure

- 1.1 Introduction
- 1.2 Balanced Growth: Concept and Meaning
- 1.3 Rosenstein Rodan's Theory of Balanced Growth
- 1.4 W A Lewis' Theory of Unlimited Supply of Labour
- 1.5 Rangar Nurkse's Theory of Balanced Growth
- 1.6 Merits and Criticisms of Balanced Growth Theory
- 1.7 Let Us Sum Up
- 1.8 References and Suggested Readings
- 1.9 Check Your Progress - Possible Answers

1.1 INTRODUCTION

The two important categories of theories of development propounded by the developmental economists are: (i) The theory of balanced growth; and (ii) The theory of unbalanced growth. In this unit, we will be discussing about the theory of balanced growth. The basic proposition of balanced growth theory is that there must be harmonious or simultaneous development of all the sectors, so that a holistic development in the economy can take place. Therefore, the propounders of the balanced growth theories suggested that the investment must take place simultaneously in all the sectors of development i.e. agriculture and industry; between domestic and export sector; and between social and economic overhead in order to facilitate balanced development.

After reading this unit, you will be able to:

- define balanced growth;
- describe Rosenstein Rodan's theory of balanced growth;
- discuss W A Lewis' theory of unlimited supplies of labour; and
- explain Rangar Nurkse's theory of balanced growth.

1.2 BALANCED GROWTH: CONCEPT AND MEANING

Just as a war cannot be won without a suitable strategy, similarly the objective of rapid economic development cannot be achieved without resorting to appropriate strategies. The development strategies help the nation to search for resources, have appropriate planning and implement them in a most appropriate way. The two important strategies advocated by the developmentalist theorists are balanced and unbalanced growth strategies. The advocates of the balanced growth strategy suggest that no single strategy will take us towards the attainment of the goal of economic development. Therefore, not only has the strategy to be changed from time to time as the situation may require, but it may be necessary sometimes to strike a balance

between the alternative strategies. This gave birth to the idea of balanced growth theory. The balanced growth theory emphasizes on the investment in a proportionate manner in all the sectors of development, so that goal of holistic development is achieved.

Some of the definitions of balanced growth given by different protagonists are follows:

According to P L Samuelson, “Balanced Growth implies growth in every wind of capital stock at constant rates.”

In the words of Benjamin Higgins “a wave of capital investment in a number of industries is called Balanced Growth.”

To W.A. Lewis “in development programmes, all sectors of economy should grow simultaneously so as to keep a proper balance between industry and agriculture and between production for home consumption and production for exports.”

According to C.P. Kindleberger “balanced growth implies that the investment takes place simultaneously in all sectors or industries at once, more or less along the lines of the slogan. You cannot do anything until you can do everything.”

Alak Ghosh said “planning with balanced growth indicates that all sectors of the economy will expand in same proportions, so that consumption, investment and income will grow at the same rates.”

R F Harrod viewed “balanced growth aims at equality between growth rate of income, growth rate of output and growth rate of natural resources.”

The three illustrious propounders of the balanced growth theory are Rosanstein Rodan, W A Lewis and Ranger Nurkse.

Broadly different types of balanced development strategies to be adopted in an economy are as follows:

(i) Balance between agriculture and industry

The balanced growth approach advocates that the industry and agriculture or primary and secondary sector are not competitive but they are complementary to each other. The growth of one sector depends on the development of the other. For example for the growth of agro-based industries, industries require rising productivity in the agriculture sector and similarly, for raising agricultural productivity, agriculture also requires implements which are supplied by the industries. Therefore, the development of complementarities promotes the development of both the sector. Lewis has remarked that “if agriculture stagnates, the capitalist sector cannot grow, capitalist profit remains a small part of the national income and savings and investments are correspondingly small. Smooth economic development requires that industry and agriculture should grow together.”

(ii) Balance between Domestic and Foreign Trade

Another important aspect of balanced growth is the balance between domestic and foreign trade. The domestic and foreign trades are interconnected. The expansion of domestic trade creates marketable surplus that leads to the expansion of foreign trade. More import and less export create imbalances in foreign trade, which favour mostly

developed countries as against the developing countries. Meir and Baldwin have remarked that the domestic sector must grow in balance with foreign sector.

(iii) Balance between Demand and Supply of Factors

One of the drawbacks of underdeveloped countries is factor disproportion in underdeveloped countries. In some cases abundant labour is pitched against the little capital and less resources are exploited, while in the contrary, too little of labour is pitched against plenty of resources. This type of allocation upsets the entire system which greatly hampers the balanced development. For example the primary sector has abundance of labour and the supply of skilled labour in the industrial sector is less as compared to the primary sector. This excess availability of labour in the primary sector create imbalance in supply of factors of production. This also applies to other factors of production as capital and land etc. Hence, it requires balance between demand for and supply of factors of production.

1.3 ROSENSTEIN RODAN'S THEORY OF BALANCED GROWTH

Rosenstein Rodan advocated “big push” theory which emphasizes that a “big push” or a large comprehensive investment is needed in order to overcome the obstacle to development in an underdeveloped economy. The theory states that investing in “bit by bit” or in piecemeal will not enable an economy to successfully be on the development path. Rather preferably a minimum amount of investment is necessary for enabling an economy to successfully be in the development and growth path.

The key factor in Rosenstein Rodan's theory of development is “indivisibility”. According to him, indivisibility of inputs, outputs or processes lead to increasing returns. He considered social overhead capitals such as power, transport and communication have greater indivisibility feature and are indirectly productive and have a long gestation period. They cannot be imported rather internally generated. Their installations require a ‘sizable initial lump’ of investment. The social overhead capital is characterized by four indivisibilities: (i) it is irreversible in time; (ii) it has minimum durability; (iii) it has long gestation period and (iv) it has an irreducible minimum industry mix of different kinds of public utilities. These indivisibility characteristics of social overhead capital are key to production process.

Not only indivisibility of production function or process, Rosenstein-Rodan also advocated for indivisibility in demand and supply of saving in order to keep the market dynamic and vibrant. Big-push investment in various types of industries will create multiple cross-cutting demands for each other industries product. According to Rodan unless there is assurance that the necessary complementary investment will occur, any single investment project may be considered too risky to be undertaken at all. The indivisibility of demand requires setting up of interdependent industries.

The other indivisibility which Rodan stressed is the supply of saving. A high quantum of investment requires a high volume of savings. However, in the underdeveloped economies savings are low because of low income. To reduce the gap between income and expenditure, the rate of saving should be created.

In the words of Rosenstein Rodan, a high minimum quantum of investment requires a high volume of saving, which is difficult to achieve in low income underdeveloped countries. The way out of the vicious circle is to have first an increase in income and to provide mechanisms which assure that savings are higher.

The application of Rosenstein Rodan's big push theory in under developed countries requires balance in three major sector-balance between social overheads (SOCs) and directly productive activities (DPAs); balance between consumers' goods industries and producers' goods industries and oriental and vertical balance within consumer goods sector.

Criticisms of Rosenstein Rodan's Theory

Some of the criticisms of Rosenstein Rodan's theory are as follows:

- (i) The 'big push' theory cannot be effectively adopted in developing countries because of lack of capital, skilled labour and dynamic entrepreneurial abilities
- (ii) Maintaining the coordination between different sectors is a big challenge. According to H. Myint, it is very difficult to coordinate the various plans of development in Big Push theory.
- (iii) The developing economies are basically agricultural economies. However, the Big Push theory lays emphasis on huge investment in industrial sector, which in a way neglects the agricultural sector.
- (iv) The theory gives too much importance to 'indivisibility'. Too much indivisibility will pose practical problems in the process of globalization which lays stress on flexibility and reforms.
- (v) Rosenstein Rodan has given limited importance to role of international trade in development. Jacob Viner pointed out that underdeveloped economies realize greater economies from world trade independently to home investment.

In these sessions you read about the meaning of balanced growth and Rosenstein Rodan's theory of balanced growth and now answer the questions given in *Check Your Progress-1*.

Check Your Progress 1

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1. Briefly describe meaning and concept of balanced growth.

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2. Give two criticisms of Rosenstein Rodan's theory of balanced growth.

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1.4 W. A. LEWIS' THEORY OF UNLIMITED SUPPLY OF LABOUR

W. Arthur Lewis' theory is based on his proposition of unlimited supply of labour. Like the classical economists, he believed that in underdeveloped economies supply of labour is unlimited at a subsistence wage rate. The economic development takes place when these surplus labour are withdrawn from the "subsistence sector" and are placed in "capitalist sector" through capital accumulation. In other words, transfer of labour from the labour surplus agriculture sector to the industry sector will promote the balanced development of both the sectors.

Lewis model divides the economy into two sectors i.e. the Capitalist sector and the Subsistence Sector. The capitalist sector is defined as "the part of the economy which uses reproducible capital, and pays capitalists for the use there of". In the capitalist sector, the use of capital is controlled by capitalist, who hire the services of the labour. On the other hand, the subsistence sector, does not use reproducible capital. In subsistence sectors the total productivity is lower as compared to capitalist sector. The labourers employed in the subsistence sector are generally backward, illiterate and unskilled. On the other hand, the labourers in the advanced capitalist sector are literate, sophisticated and skilled. In other words, marginal productivity of labour deployed in subsistence sector is negligible, zero or even negative. Whereas those labourers employed in the capitalist sector have high marginal productivity of labour and are more productive. In this dualistic situation, for the development of the economy, new industries can be established or existing industries can be expanded by transferring labour from the subsistence sector. However, the industries require skilled labour, according to Lewis, skilled labour is only a 'quasi bottleneck or a temporary bottleneck' which can be removed by providing training facilities to the unskilled labour. Lewis proposed that gainful employment of the unlimited labour force requires that rate of savings and investments should be at least 15 percent of national income. This is a central problem for the developing countries having low capital formation. The development of the developing countries therefore requires high capital accumulation. On the basis of above analysis, it can be concluded that unskilled labour is not a bottleneck to economic development in majority of under developed countries but the capital formation is a sine-qua-non..

The key to economic development in Lewis' model is capital formation and this is possible when the capitalist use a part of its surplus in reinvestment for creation of new capital. They lead to increase in employment and productivity. In the process, the capitalist draws labour from the subsistence sector and this reinvestment of profit continues till entire surplus is absorbed. Thus, profits and their reinvestment have great importance in economic growth.

The three important components of Lewis theory are: (i) role of technology in development; (ii) role of private capitalist in development process, (iii) role of government and (iv) role of bank credit. Lewis describes that the relationship between capital, technological progress and productivity is critical determinant of development. Capital and technological knowledge are critical factors for higher economic growth and development. Lewis is of the opinion

that the growth of technological knowledge outside the capitalist sector is important, as it raises the level of wage and reduces capitalist surplus. Secondly, according to Lewis, neither the salaried class nor the petty businessmen were to add to capital formation. He therefore opined that the state capitalists and indigenous private capitalists create capital out of profits and therefore, the earned profit should be promoted for the purpose of capital formation and subsequently economic growth. Thirdly, saving plays a crucial role in the development of an economy. Lewis observes that savings are to be done by people who receive profit or rent. Higher the saving higher will be investment and finally the capital formation which will promote economic development. It is because of increased savings, the capitalist sector of the economy expands leading to expansion in national output and level of employment. Lastly, bank also plays a critical role in the economic development of a nation. Capital is not only created out of profits earned, it can also be created as a result of net increase in money supply, especially bank credit. Creation of banks acts as a stimulator of growth in national income. It raises both output and employment.

According to Lewis, this growth process will not continue forever, but will come to a halt for the following reasons i.e. growth of capitalist sector will reduce the surplus labour in subsistence sector, resulting in rise in wage of labour in capitalist sector. This will further result in fall in the capitalist surplus. It will reduce capital formation and reverse the expansionary process.

1.4.1 Criticisms of Lewis' Unlimited Supplies of Labour Theory

Some of the criticisms leveled against Lewis' theory are as follows:

- (i) The theory assumes that in the capitalist sector wage rate will remain constant till surplus labour in the capitalist sector is exhausted which is unrealistic.
- (ii) The assumption of unlimited supplies of labour in developing countries is also unrealistic.
- (iii) This is a one sided theory, reason being that it considers expansion of capitalist sector and does not talk about the role of agriculture or subsistence sector in development. However, agriculture plays an important role in development.
- (iv) The Lewis' theory assumes that the marginal productivity of labour in over-populated underdeveloped countries is zero or negligible. However, Schultz was of the opinion that the marginal productivity of labour in over populated underdeveloped countries would not be zero.
- (v) It is also very difficult to find out the exact number of surplus labour who would move from the subsistence to the capitalist sector. Furthermore, the mobility of labour is also not easy.
- (vi) Lewis assumes that withdrawal of labour from the subsistence agriculture sector to capitalist sector will not affect the productivity in the subsistence sector. However, in actual, it will affect the productivity.

1.5 RAGNAR NURKSE'S THEORY OF BALANCED GROWTH

R. Nurkse's theory of balanced growth believes that the underdeveloped countries are suffering from the vicious circle of poverty, which is detrimental to economic development in these countries. According to him "a circular constellation of forces, tending to act and react upon one another in such a way as to keep a country in a state of poverty". This vicious circle of poverty adversely affects the accumulation of capital in economically underdeveloped countries. If this vicious circle of poverty is broken then development will follow. According to Nurkse "the expansion of market can be realized only through a process of balanced growth, where people in different countries, working with new and better tools, become each other's consumer."

The vicious circle works on both demand and supply side. On the supply side, there is small capacity to save due to low level of income, the low level of income result in low productivity which is again due to deficiency of capital which is the effect of low capacity to save. On the contrary, on the demand side, the inducement to invest is low due to low demand in the economy, which is because of low income. This is how the vicious circle works on both supply and demand side. Operation of vicious circle of poverty limits the size of the market in underdevelopment countries.

Nurkse believes that the vicious circle of poverty can be broken through balanced growth. He was of the view that vicious circle can be broken by enlarging the size of the market which cannot be done by individual investor. It would be possible with the help of a group of investors in the market. Therefore, enlargement of market is possible with the help of development of complementary industries. This can break the vicious circle of poverty and release the forces of growth and expansion. He also suggested that market size can be expanded by salesmanship and advertisement and infrastructure development.

Nurkse was of the view that the principle of balanced growth needs a balance between different sectors of the economy during the process of economic growth and development. These are: (i) balance between agriculture and industry; (ii) balance between domestic and foreign trade; and (iii) balanced between demand and supply factors. While talking of the balance between agriculture and industry, Lewis viewed that if agriculture stagnates, the capitalist sector cannot grow, capitalist profit remains a small part of the national income and saving and investments are correspondingly small. Smooth economic development requires that industry and agriculture should grow together. Secondly, the balanced growth must promote trade within and across the countries. In other words, there should be rise in trade within the country and also enhancement of foreign trade. Nurkse suggested that balanced growth is a good foundation for international trade as well as a way of filling the vacuum at the periphery. Thirdly, the balanced growth implies that different parts of the economy should grow in a smooth and harmonious manner so that no part is ahead of the other. It requires balance between the demand and the supply of factors of production.

Some of the benefits of balance growth are as follows: (i) balanced growth can better promote equitable and balanced regional development: (ii) balanced growth can pare the way for division of labour and thus can raise the

specialization and productivity of labour force; (iii) when there is balanced growth of both agriculture and industrial sector, it will lead to creation of social overhead capital for the effective growth of all these sectoral activities; (iv) it will boost foreign trade as expansion of both internal and external markets of the product of an economy will to a great extent promote foreign trade; (v) it will lead to better utilization of both natural and human resources of an economy.

1.5.1 Criticisms of Nurkse's Theory of Balanced Growth

Following are some of the criticisms of Nurkse's theory of balanced growth:

- (i) Nurkse's type of growth is difficult to achieve. Hirschman and Paul Streeten and others have argued that due to the lack of capital in developing countries, it is difficult to achieve balanced growth.
- (ii) One of the most important question remains that for balanced growth in the underdeveloped countries they require a huge investment for which the underdeveloped countries have to depend on the developed countries which is a difficult proposition.

1.6 MERITS AND CRITICISMS OF BALANCED GROWTH THEORY

1.6.1 Merits of the Balanced Growth theory

Some of the benefits of balanced growth theories are as follows:

- (i) The balanced growth theory emphasized that all the sectors should develop simultaneously and no sector will be discriminated. In a way, it will promote balanced regional development.
- (ii) The balanced development will create external economies. The benefits created in one sector will push investment in the other sector and will provide boost to the new industries from the existing industries.
- (iii) The balanced growth approach will create social overhead capital. When different industries develop simultaneously, the investment is called for in social overhead capital for the promotion of various sectors.
- (iv) The balanced development will reduce the dependence of underdeveloped countries on the foreign countries. The principle of balanced growth leads to enlarge the extent of the market and external economies. This process will lead to self-generating economies and as a result, there is less dependence on foreign countries.

1.6.2 Criticisms of Balanced Growth Theory

The balanced growth has also been criticized. According to Singer "balanced growth can neither solve the problem of underdeveloped countries, nor do they have sufficient resources to achieve balanced growth". Some of the criticisms of balanced growth theory are as follows:

- (i) The balanced growth theory is more suitable to developed countries than developing countries. The developed countries can effectively implement balanced growth process as they possess sufficient resources, technology and entrepreneurs.
- (ii) One of the drawbacks of the balanced growth theory is disproportionality

in the factors of production due to deficiency of capital and surplus manpower. In many of the developing countries too much of labour is employed against too little capital. This disproportionality will create many hurdles in the path of development.

In these sections you read about the Lewis' and Nurkse's theories of balanced growth and now answer the question given in *Check Your Progress-2*.

Check Your Progress 2

- Note:** a) Write your answer in about 50 words.
b) Check your answer with possible answers given at the end of the unit.

1. Briefly describe Nurkse's Vicious Circle of Poverty.

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2. What are important merits of Balanced Growth Theory?

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1.7 LET US SUM UP

This unit comprises of three important balanced growth theories such as "big push" theory of Rosenstein Rodan, Theory of Unlimited supply of labour by A. Lewis and balanced growth theory by R. Nurkse. The "big push" theory emphasizes on the large comprehensive investment in order to drag the underdeveloped economy from underdevelopment. The Lewis' unlimited supply of labour theory emphasizes on transfer of labour from the subsistence sector to the capitalist sector for development. Finally, Nurkse's balanced growth theory lays emphasis on balanced development of all the sectors in order facilitate development of underdeveloped economies.

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1.9 CHECK YOUR PROGRESS - POSSIBLE ANSWERS

Check Your Progress 1

1. The balanced growth is that type of growth where there must be harmonious or simultaneous development of all the sectors, so that a holistic development in the economy can take place. The propounders of the balanced growth theories suggested that the investment must take place simultaneously in all the sectors of development i.e. agriculture and industry; between domestic and export sector; and between social and economic overhead in order to facilitate balanced development. According to W.A. Lewis “In development programmes, all sectors of economy should grow simultaneously so as to keep a proper balance between industry and agriculture and between production for home consumption and production for exports.”
2. The two important criticisms of Rosenstein Rodan theory of balanced growth are as follows:
 - (i) The ‘big push’ theory cannot be effectively adopted in developing countries because of lack of capital skilled labour and dynamic entrepreneurial abilities.
 - (ii) Maintaining the coordination between different sectors is a big challenge. According to H. Myint, it is very difficult to coordinate the various plans of development in Big Push theory.

Check your Progress 2

1. The operation of vicious circle of poverty is one of the main reasons of backwardness of underdeveloped countries. The vicious circle works on both demand and supply side. On the supply side, there is small capacity to save due to low level of income, the low level of income result in low productivity which is again due to deficiency of capital which is the effect of low capacity to save. On the contrary, on the demand side, the inducement to invest is low due to low demand in the economy, which is because of low income. This is how the vicious circle works on both supply and demand side.
2. The two important merits of balanced growth theory are: (i) Firstly, the balanced growth theory emphasized that all the sectors should develop simultaneously and no sector will be discriminated. In a way, it will promote balanced regional development; and (ii) the balanced development will create external economies. The benefits created in one sector will push investment in the other sector and will provide boost to the new industries from the existing industries.

UNIT 2 UNBALANCED DEVELOPMENT THEORIES

Structure

- 2.1 Introduction
- 2.2 Hirschman's Strategy of Unbalance
- 2.3 Leibenstein's Critical Minimum Efforts Theory
- 2.4 Let Us Sum Up
- 2.5 References and Suggested Readings
- 2.6 Check Your Progress – Possible Answers

2.1 INTRODUCTION

Unbalanced growth as a strategy for development of the underdeveloped nations was propounded by Hirschman, Fleming, Leibenstein and Singer. Owing to scarcity of resources in less developed countries, the theory lays emphasis on investment in strategic sectors of the economy rather than in all the sectors simultaneously. The theory further states that the other sectors would automatically benefit through linkage effects. According to Hirschman, if the economy is to be kept moving ahead, the task of development policy is to maintain tensions, disproportions and disequilibrium. In this unit we will discuss in brief, the theories of the two most famous propounders of unbalanced growth viz. Hirschman and Leibenstein.

After reading this unit you will be able to:

- discuss Hirschman's strategy of unbalanced growth; and
- describe Leibenstein's Critical Minimum Effort Theory.

2.2 HIRSCHMAN'S STRATEGY OF UNBALANCE

The doctrine of unbalanced growth was propounded by Hirschman in a systematic manner. The economists like Singer, Kindleberger, Streeten etc have also expressed views in favour of this theory. Considering the limited capital and other resources possessed by a country, investment should be made in a few selected sectors. The returns accruing from them should then be ploughed-in to develop the other sectors. Hirschman opined that the theory of balanced growth can be pursued only by developed countries and if a country were willing to apply the doctrine of balanced growth, it would not be underdeveloped in the first place. He advocated unbalanced growth on the grounds of shortages of capital, capital goods, skilled persons and essential raw materials. Hirschman regards balanced growth unattainable and undesirable.

Some theorists have advocated a strategy of selective investment as the engine of growth in developing countries. Hirschman promulgated the idea of making unbalanced investments in economic sectors to complement the imbalances that already exist within the economy of a nation. Hirschman argued that LDCs do not have access to build a balanced big-push investment strategy. Investments should be made instead in strategically selected economic areas in order to provide growth in other sectors through backward

and forward linkages. Backward linkages spur new linkages in input industries while forward linkages do so in those sectors that buy the output of the selected industry. Thus in Hirschman's scheme, careful analysis must be made of the situation in each country as to what investment constitutes the best means to reach an ultimate balance among all investment sectors.

2.2.1 Forward and Backward Linkages

Creating imbalances is the prerequisite of economic growth. However, the main question is to identify the activities in which to create imbalances. This necessitates the knowledge of inter-linkages across different sectors of the economy. Hirschman classifies these linkages as forward and backward linkages.

Backward Linkages: The growth of a set of industries stimulates the growth of those industries which supply raw materials Eg. Setting up a steel plant would increase demand for steel scrap and coal thus increasing the production of these commodities.

Forward Linkages: refer to growth of certain industries which utilize the output of the proposed activity. For example, expansion of steel industries would encourage industries making machine tools etc. which use steel as their basic input.

2.2.2 Features of the Theory of Unbalanced Growth

1. To accelerate the process of growth, investments should be made in key sectors of the economy.
2. It is the inducement or pressure generated by the initial investment that calls for subsequent investment in other activities.
3. The theory corroborates the hypothesis of 'Big Push'.
4. The theory is based on real life observations.
5. The theory recognizes the importance of public sector.

Hirschman bases his theory on the argument that the ability to invest is one serious bottleneck in underdeveloped countries and also that the ability to invest depends mainly on the investment that has already been made. Therefore, he contends that deliberate unbalancing the economy according to a pre-designed strategy is the best way to achieve economic growth in an underdeveloped country. However, the investments have to be in strategically selected industries or sectors of the economy which will lead to new investment opportunities and hence further economic development. He regards development as a chain of disequilibria that must keep alive rather than eliminate the disequilibria. When investments are made in selected sectors, they appropriate external economies created by previous investments and also create external economies that can be exploited by new sectors. There are certain sectors that appropriate more external economies than they create. Such investments/ sectors are called convergent series of investments. There are other sectors which create more external economies than they appropriate. These are called divergent series of investments. A good development policy should aim at prevention of convergent series of investment and promotion of divergent series of investment. Development can take place only by balancing the economy which can be done by

1. Investing in social overhead capital (SOC)
2. Investing in directly productive activities (DPA)

SOC as a Means of Unbalancing the Economy

Social overhead capitals are those services which are essential for the functioning of primary, secondary and tertiary productive activities eg. Investments in education, public health, communications, transportation, light, water, power, irrigation, drainage etc. Investments in these sectors today will encourage private investments in DPA later. For instance cheap supply of electric power may encourage establishment of new industries. Green revolution in agriculture happened when government subsidized power and chemical fertilizers and plant protection chemicals. Thus the SOC approach to unbalance the economy stimulates investments in DPA.

DPA as a Means of Unbalancing the Economy

Another way of creating unbalance in the economy is through DPA. If DPA investments are undertaken first, the shortage of SOC facilities is likely to raise the production cost. With the production prices going high, in course of time, political pressures might stimulate investment in SOC also. Thus profit expectations generate the sequence of investment from SOC to DPA and political pressures from DPA to SOC.

Linkages: The problem with Hirschman's theory lies in identifying the kind of imbalance that is likely to be most effective. Any investment may have forward or backward linkage effects. Forward linkage effects encourage investment in subsequent stages of production and backward linkages affects in earlier stages of production. Development should aim at discovering projects with the largest total linkages. According to Hirschman, iron and steel industry has the highest combined linkage score but industrial development cannot start in every country with an iron and steel industry due to lack of linkages in developing countries.

Last Industry First: Hirschman advocates the setting up of last stage industries first. He suggests that a developing country can begin with the manufacture of durable consumer goods at the final stages of production. The country can import converting, assembling or mixing plants and can produce finished consumer goods that it was earlier importing. The country may further move on to intermediate goods and machines through backward linkage effects. Hence, when the demand for import replacing commodities increases, it justifies some domestic last stage production. Thus when demand of a product reaches a certain threshold it is advantageous to manufacture the product at home. So long as the threshold is being reached, it pays to import the product. When the threshold is reached, Hirschman suggests subsidies or protection to import replacing industries. Hirschman calls last stage industries as import enclave industries. There are also export enclave industries which produce products only for exports and in LDCs the export enclave industries are generally those engaged in minerals. The exports of LDCs do not expand and fail to create forward linkage effects. Hirschman suggests export promotion via import substitution which is the only way of achieving industrialization.

2.2.3 Limitations of Hirschman's Theory

There are certain limitations to the doctrine of unbalanced growth which are listed as follows:

1. Lack of clarity on the composition, direction and timing of unbalanced growth: Paul Streeten criticized the theory of unbalanced growth stating that in this theory, the crucial question is not whether or not to create imbalance but what is the optimum degree of imbalance, where and how much to imbalance so as to accelerate the growth.
2. Neglects resistance: Streeten also criticizes the theory stating that Hirschman neglects the resistance created due to imbalances. When there is an imbalance in the economy, the business attitudes change due to shortages and tensions, and there is lot of hostility and opposition from the existing institutions where the imbalance has not favoured.
3. Beyond the capabilities of underdeveloped countries: It is also argued that the pressures and tensions caused due to induced imbalances may actually hamper the process of development.
4. Lack of basic facilities: Even if the imbalance is to favour a certain sector of the economy, the developing countries may lack in basic facilities like power and transport and even an adequate domestic or foreign market for the products produced by these sectors.
5. Lack of factor mobility: Imbalanced growth is possible only where there is internal flexibility to move the resources from one sector to another which is not a possibility in underdeveloped countries.
6. Emergence of inflationary pressures: When large amount of investments are being done in certain sectors of the economy, it raises the income and thus demand for consumer goods in relation to their supply. This inflationary rise in prices becomes difficult to control in underdeveloped countries.
7. Linkage effects not based on data: Hirschman's analysis of the linkage effects is not backed by data pertaining to an underdeveloped country where social overhead facilities are not fully developed.
8. Too much emphasis on investment decisions: Hirschman in his theory lays too much emphasis on investment decisions as compared to other equally important decisions needed for development like administrative, managerial and policy decisions.

In these sections you read about Hirschman's Theory of Unbalanced Growth. Now try and answer the questions given in *Check Your Progress-1*.

Check Your Progress 1

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1. What are the main features of the Hirschman's theory of unbalanced growth?

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2. Give two limitations of Hirschman's theory.

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2.3 LEIBENSTEIN'S CRITICAL MINIMUM EFFORTS THEORY

This theory evolved as a result of a PhD thesis submitted by Leibenstein. The essence of this theory is that if the development efforts are of size less than the 'critical minimum size', they will come to nothing. There are always some factors that pull down development and some factors that push up development. There are positive sum factors, negative sum factors and zero sum factors of economic development. The economy can move forward only when the first set is greater than the last two sets. The first set of factors should be at least of critical minimum size.

The theory is based on the relationship between the three factors, viz. (i) per capita income, (ii) population growth, and (iii) investment. Leibenstein identified population also as an income-depressing factor, whereas investment is an income-generating factor. Growth in an economy is possible when the income-generating factors turnout to be more powerful than the income-depressing factors. A small additional investment may generate a small income. The additional income would be eaten up by the additions to the population which may come in the wake of the additional income, and hence the effort may fail to generalise a cumulative process of growth. What is required is an initial substantially large volume of investment that may create conditions which should outweigh the growth of population, i.e., if necessary it is necessary that the initial effort or the initial series of efforts must be above a certain minimum magnitude.

The critical minimum efforts thesis suggests some conditions that are required to push development. These conditions are as follows:

- 1. Development requires that economic variables of positive sum set be greater than the sum total of negative sum set and zero sum set**

The positive sum activities include all production activities. The first task of development planning is to see that the positive sum activities are much more than the sum total of zero sum and negative sum activities. The negative sum activities are population pressure, inflation, balance of payment problems, corruption etc. Zero sum activities include opportunities for exploitation. Distribution activities are zero sum activities because they just transfer the income from 'haves' to 'have nots'. Distribution activities involve individual gains but not social gains.

- 2. Development will require that positive sum incentives persist and do not degenerate and disappear as also they do not stimulate zero sum activities**

One of the problems of development is the degeneration of positive sum activities into zero sum activities. Some such examples are the

reduction of mortality due to development which again leads to increase in population (here the positive sum activity of reduced mortality is leading to increased population which he considers as an income depressing factor), inflation brought about by massive development expenditure and technological improvement rendering many unemployed. It should be seen that these degenerated zero sum and negative sum effects become positive sum effects as soon as possible.

3. Development will require growth and development of growth agents

Factors of production have to be made effective growth agents. The same population can become doubly effective if its training, motivation and efficiency go up. Capacities are more important than mere size or number. Entrepreneurs and technical organizers are very important growth agents. Entrepreneurs discover investment opportunities, invest resources of production, promote new ventures and most efficiently engage other agents of production. Entrepreneurial function is promoted only when government provides facilities for entrepreneurs to flourish. They should be allowed to earn their legitimate profits.

4. Positive sum activities to be of critical minimum size

The vicious circle of poverty can be broken only if the initial thrust given to the economy is of a critical minimum size. For example, if agriculture develops at a rate lower than the critical minimum size, whatever is produced will be consumed and there will be no reinvestible surplus. Critical minimum efforts are necessary to overcome production, technical and psychological indivisibilities to get out of the vicious circle trap.

5. Critical Minimum Effort most relevant in the stage of demographic transition or explosion

Leibenstein says that a large population is a big drag on development but one cannot wait for reduction in birth rate to bring down population to such level that it is no longer a burden. Leibenstein was of the opinion that if development efforts are of critical minimum size, the decline in birth rate itself will surely take place whereas if the efforts are not of critical minimum size, demographic transition will always be a depressing factor for growth.

In an economically poor nation, the efforts to bring down birth rate will not show quick results because the fertility decline in such nations lags behind the mortality decline. Leibenstein's thesis is "the less the fertility lag, the less the critical minimum effort necessary for growth. The point at which fertility decline sets in will determine the height of critical minimum level."

Leibenstein discusses four critical points of population growth:

(a) When income levels are low

When the levels of income are low, fertility rates are high and mortality rates are also high. There exists an antagonism between individual survival and fertility. Fertility has to be kept high because mortality is high and hence more children are needed for possible losses. Then because of high fertility mortality is high because child care is poor. The costs of rearing children are low and utilities from them are high.

(b) When income levels rise above 'very low levels'

Mortality declines due to some development efforts. However, there is a lag in decline in fertility. This lag is due to late realization by the families that they are saddled with children. The utilities are declining, though not low and hence there is no motivation for reducing fertility.

(c) When income levels go still further

The security and production utilities go down substantially and the direct and indirect costs go up and hence the number of children desired by the parents will be low.

(d) When per capita income is very high

Birth rates come down and the gap between mortality and fertility closes gradually and the country starts on the stage of self-sustaining growth. The critical minimum effort becomes necessary when the country is passing through the second stage of the demographic transition. The critical minimum effort will shorten the period of transition or will reduce the fertility lag period.

Inter-relation between Per Capita Income Level and the Rate of Population Growth

Leibenstein states that for every level of per capita income above the subsistence level, the rate of national income growth will always be larger than the rate of population growth. In this type of progressive economy, the critical minimum efforts thesis will not apply.

Rising income may lead to a rising population but only to a maximum point. Upto subsistence levels of income; neither population nor national income grows. Beyond this level, population grows at a faster rate than income till the critical minimum income is attained. It is only at and beyond the critical minimum point that we reach a level of per capita income that generates rates of national growth that are equal to or greater than the induced rates of population growth. In developed countries however, the growth rate of per capita income is higher than population growth and hence critical minimum thesis does not apply.

6. Investment in Physical and Human Capital Formation on Critical Minimum Effort Criterion

Leibenstein says that investment in terms of both physical and human capital should be made in such a manner that it brings adequate gains to the investors to enable them to reinvest. He argues that for a given tempo of change, a certain minimum per capita income level has to be achieved in order to generate sustained per capita income growth in the economy. If the per capita income is below the critical minimum level, it can be raised to a necessary minimum level by a sufficiently large investment from outside the economy.

7. Higher Productivity key to Development, as Incremental-Capital-Output Ratio will Decline

Leibenstein rejects the hypothesis that Incremental-Capital-Output Ratio (ICOR) will rise during the process of development. He argues that ICORs will go down and gives the following arguments:

Developmentalist Theories

- (i) As investment in education, training and public health measures is made, the quality of labour goes up and output rate shall also go up.
- (ii) Increasing national income and investment will help in extension of the division of labour, and when all sectors develop in a complementary manner, external economies are generated on a wider scale which will enable the firms to avail greater internal economies.
- (iii) In a developing society, new resources are discovered and the use of old resources in a new way is found. ICORs will go down.

Critical Appraisal of Leibenstein's theory:

- Some economists do not agree with Leibenstein's assumption that if initial investment is less than the critical minimum size, population will increase. In a low income country also, population decline can set in, provided the government action is rigorous as in China in recent years.
- It is not necessary that the economy shall slide back to the low level equilibrium level if the effort is of less than critical minimum size. Things cannot be exactly the same as before. One cannot come back to the same level or standard, or structure and volume of the income. Alternatively, it is also not necessary that once the critical minimum effort has been made, there will follow a period of uninterrupted and sustained take off and growth.
- Leibenstein is also not on sure grounds that the fertility decline will be the consequence of growth. It is now increasingly being found that first the fertility increase is to be checked and then only anything like critical minimum is possible. If substantial fertility decline sets in, even less than critical minimum effort may suffice.

Appreciation:

- Leibenstein has given us new terms like positive sum, negative sum and zero sum activities and they are very relevant.
- He has very correctly analyzed that the bane of the development problems in less developed countries is that there are more distributors than actual producers.
- The critical minimum effort thesis is novel and important as well. Leibenstein solved the problem by conceding that the critical minimum injection can be optimized into smaller doses.

In these sections you read about Leibenstein's Critical Minimum Efforts Theory. Now try and answer the question given in *Check Your Progress-2*.

Check Your Progress 2

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1. Why is it necessary that positive sum activities be of critical minimum size to push development?

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2. Discuss the appreciations of Critical Minimum Effort Theory.

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2.4 LET US SUM UP

The theory of unbalanced growth, in contrast to the theory of balanced growth emphasizes on investment being made on selected sectors of the economy instead of the economy as a whole. The other sectors will develop by utilizing the economies accruing from them. In this unit you have read about the theories of two important propounders of the theory of unbalanced growth viz. Hirschman and Leibenstein. According to Hirschman, deliberate unbalancing the economy according to a pre-designed strategy is the best way to achieve economic growth in an underdeveloped country. According to Harvey Leibenstein, the vicious circle of poverty keeps the underdeveloped countries at a low per capita income equilibrium state. According to him, it would require a certain critical minimum effort to raise the per capita income to a level at which sustained development can be maintained.

2.5 REFERENCES AND SUGGESTED READINGS

Jhingan, M.L. (2011), The Economics of Development and Planning. Vrinda Publications (P) Ltd, Delhi

Richard Peet and Elaine Hartwick (2015), Theories of Development – Contentions, Arguments, Alternatives. The Guilford Press, New York

2.6 CHECK YOUR PROGRESS – POSSIBLE ANSWERS

Check Your Progress 1

1. The main features of Hirschman's theory of unbalanced growth are
 1. To accelerate the process of growth, investments should be made in key sectors of the economy.
 2. It is the inducement or pressure generated by the initial investment that calls for subsequent investment in other activities.
 3. The theory corroborates the hypothesis of 'Big Push'.
 4. The theory is based on real life observations.
 5. The theory recognizes the importance of public sector.
2. Two limitations of Hirschman's theory are:
 1. Lack of clarity on the composition, direction and timing of unbalanced growth: Paul Streeten criticized the theory of imbalanced growth stating that in this theory, the crucial question is not whether or not to create imbalance but what is the optimum degree of imbalance, where and how much to imbalance and so as to accelerate the growth.

2. Neglects Resistance: Streeten also criticizes the theory stating that Hrishman neglects the resistance created due to imbalances. When there is an imbalance in the economy, the business attitudes change due to shortages and tensions, and there is lot of hostility and opposition from the existing institutions where the imbalance has not favoured.

Check Your Progress 2

1. It necessary that positive sum activities be of critical minimum size to push development because the vicious circle of poverty can be broken only if the initial thrust given to the economy is of a critical minimum size. For example, if agriculture develops at a rate lower than the critical minimum size, whatever is produced will be consumed and there will be no reinvestible surplus. Critical minimum efforts are necessary to overcome production, technical and psychological indivisibilities to get out of the vicious circle trap.
2. The positive points about Critical Minimum Effort Theory are:
 - Leibenstein has given us new terms like positive sum, negative sum and zero sum activities and they are very relevant.
 - He has very correctly analysed that the bane of the development problems in less developed countries is that there are more distributors than actual producers.
 - The critical minimum effort thesis is novel and important as well. Once Leibenstein concedes that the critical minimum injection can be optimized into smaller doses, he has solved a big problem.

UNIT 3 ROSTOW'S STAGES OF ECONOMIC GROWTH AND DEVELOPMENT

Structure

- 3.1 Introduction
- 3.2 Rostow's Stages of Development
- 3.3 Criticisms and Appreciation of Rostow's Theory
- 3.4 Let Us Sum Up
- 3.5 References and Suggested Readings
- 3.6 Check Your Progress – Possible Answers

3.1 INTRODUCTION

Many development economists were of the view that in their process of development, the countries pass through several stages. According to Adam Smith, an underdeveloped country passes through the stages of hunting, pastorals, agricultural and manufacturing stages before reaching the high level of economic growth. Similarly, the stages of development as perceived by Karl Marx are primitive society, ancient slave stage, Feudalism, capitalism and socialism. W.W. Rostow was one of the most profound protagonist of the stages of economic growth. In his book *The Stages of Economic Growth: A Non-Communist Manifesto*, published in 1960, he says that before achieving high economic growth, a country would pass through five stages of development. In this unit we discuss in detail about Rostow's Stages of Economic Growth.

After reading this unit, you will be able to

- Discuss the various stages of economic growth as propounded by Rostow
- Analyze Rostow's theory in terms of its criticisms and appreciations

3.2 ROSTOW'S STAGES OF DEVELOPMENT

Rostow conceived economic development as a process. According to him development passes through certain stages. The stages of development as conceived by Rostow are:

1. Traditional Society or Pre-industrial Stage
2. Pre-conditioning phase
3. The 'Take-off' Stage
4. Stage of 'Drive to Maturity'
5. Stage of Self-sustained Growth of Mass Consumption

Let us discuss each of these stages in detail.

1. Traditional Society or Pre-industrial Stage

According to Rostow, all the stages of development from primitive agricultural development, animal husbandry and feudalism are covered under this stage. This stage existed world over before the 19th century

‘Industrial Revolution’. This was a period of stagnation, when society remained ‘traditional’. Technical conditions and economies of scale were static and birth and death rates used to be very high. Whatever changes that used to happen during this stage did not qualify to be called as the symptoms of development.

2. Pre-conditioning phase

To move forward, away from the traditional society, there was a need for ‘the urge to development’. This urge came from the elite class and an entrepreneurial class emerged which mobilized savings and invested them. They provided for the infrastructural facilities like transport, education and medical facilities. Some development took place in the communication system also. Agriculture started developing; death rates started falling but not the birth rates. Few small scale industries developed during this stage and the investment hovered around 5 percent of the GNP in this stage.

3. The ‘Take-off’ Stage

This was a stage that was discussed in detail by Rostow. In this unit it is being discussed under the following heads:

- i. Meaning and Characteristics
- ii. Change in the rate of investment
- iii. Take-off as a function of entrepreneurial and elite class
- iv. Leading sectors will lead
- v. Time period

Let us discuss each of these heads in detail

i. Meaning and Characteristics

In this stage rate of investment increases from around 5% to 10% of GNP. The real output per capita increases and both rate of investment and real output per capita maintain an increasing trend. This stage is also characterized by the emergence of a group in the society which has the will and the authority to take the economy up. Entrepreneurs, corporations and the government become capable of mobilizing the financial and real resources for further development. A leading sector, also known as the ‘growth pole’ emerges and it is because of this leading sector the development takes place.

ii. Change in the rate of investment

In economies attempting to take off, the rate of investment becomes around 5 to 10 percent. Rostow opined that if the population growth is above 1.5 percent per year or the capital output ratio is more than 3:1 then upto 12.2 percent of GNP should be invested.

iii. Take-off as a function of entrepreneurial and elite class

Take off is a function of entrepreneurial and elite class. They are traditional savers and form capital which is invested. Urge to earn profit makes them invest in new industries and innovations. This class is instrumental in getting the credit structure expanded, and in bringing about a change in the exports-imports pattern. Natural resources and labour are put to use by them.

iv. Leading sectors will lead

Rostow defines leading sectors as those sectors which have new production functions of high productivity that generate a maximum of re-investible surplus which can be ploughed back into productive investment. This will turn industrialization into an automatic process and a spiral of effective demand for other products will be started. A rapid growth of one or more new manufacturing sectors is a powerful and essential engine for economic transformation. More income is placed in the hands of those whose propensity to save is high and reinvest their profits into highly productive investments. As a result, new urban areas develop and their population and market organization help to make industrialization an ongoing process. External economies are generated to such an extent that they help to produce new leading sectors when the initial impulse of the take-off-leading sectors begins to wane. Thus while the old sectors decelerate, the acceleration in the growth of new sectors keeps the process of growth sustained.

v. Time Period

A country can be in a take-off period for two or three decades. Certain signs of take-off are:

- a. Less than 40 percent of the population is left in agriculture and the rest migrates to urban and non-agricultural sectors.
- b. The rate of growth in national income outstrips the rate of growth in population.
- c. The rate of accumulation goes up.
- d. The relative contribution of agriculture to GNP goes down and that of the manufacturing sector goes up.

Take-off is a function of certain crucial things like greater emphasis to manufacture in the leading sectors, shifts from agriculture to industrial sector, high rate of savings going up to at least 10 percent of GNP, definite policies regarding fiscal, monetary, education and income pattern.

4. Stage of 'Drive to Maturity'

In this stage, the rate of investment increases from 10 percent of GNP to higher limits up to 20 percent. Important industries come up including many imports-replacement and exports-replacement industries. Technical knowledge spreads to other sectors. Real income per head starts rising as GNP growth rate becomes substantially higher than the growth rate of population. A country may remain in this stage between four to six decades. Specialization and division of labour become complex. Production of most things becomes possible.

5. Stage of Self-sustained Growth and of Mass Consumption

In this stage the per capita real income becomes so high that the consumption pattern rises beyond mere food, clothing and shelter to goods of comforts and luxuries on a large scale. Leading sectors change the basic structure of the society and new types of durable consumer goods industries become the new leading sectors.

Kindleberger illustrates these stages with Gompertz or 'S' curve. A typical growth follows Gompertz 'S' or leaning curve in which growth starts off

slowly, picks up gradually and then proceeds very rapidly before slowing down at some later stage to become asymptotic at some limit or ceiling. In this stage the society becomes affluent society, free of hunger and extreme poverty.

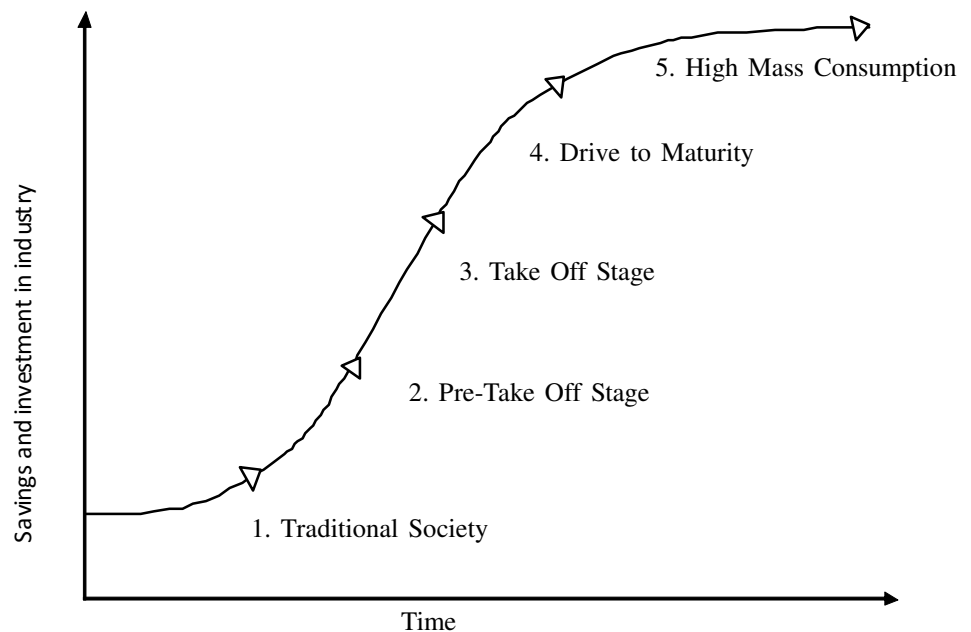


Fig. 3.1: Rostow's Stages of Development

3.3 CRITICISMS AND APPRECIATION OF ROSTOW'S THEORY

Some important points against Rostow's theory are:

1. The teleological approach to development is incorrect

Myrdal is against the teleological approach to development. In this approach, policies are not chosen and adopted but they are functions of certain situations or in the nature of things. Myrdal argues that according to Rostow's model, development is not the result of policies but policies are the result of development. This approach leads to logical confusion. Policies are chosen and should be chosen.

2. History does not repeat itself

Some economists state that every country will have the same history of economic development and shall pass through the same experiences or times. There is nothing like linear conception of history. Every country cannot have a common past and a common future,

3. Leading sectors may not lead

If we examine the development linkages of industries, we can find that the cotton textile of Manchester and the automobile industry of USA did not bring about all the development there. A leading industry is one where productivity is high and profitability is also high.

4. Stage overlap and work spill over to the next stages

Kuznet opines that the things that are supposed to happen in a particular stage may spill over to other stages also. The characteristics of the past

stage and the traces of future stage can be found in present stage also. The pre-condition things may continue in take-off and beyond take-off stage also.

5. The take-off stage is not empirically justified in the same manner in which Rostow presented it

Kuznets and Myrdal, after having examined the economic history of various nations, came to the conclusion that all that is elaborated in Rostow's stages is not realized in the same fluid manner. Rostow's approach is criticized for being conceptually vague, empirically superficial and theoretically non-vigorous. Rostow could not give estimates of the duration of take-off stage under different conditions.

6. An Economy need not pass through these stages before reaching self sustenance

A country with low population burden and abundant natural resources may reach the self-sustaining stage of mass consumption early by bypassing one stage. Canada and Australia entered the stage of mass consumption even before reaching maturity. In recent years this is seen happening in oil rich countries.

7. The take-off may be extremely delayed

Even when the economy starts having 10 percent to 12.5 percent investment, take off may not be realized specially when the population growth cannot be brought under control.

8. The last stage of Mass Consumption may not be reached at all

Rostow presumes the stage of mass consumption to be an irreversible stage. Kuznets have raised doubts as to whether the last stage of mass consumption can continue eternally.

9. There are limits to growth

Natural resources, manpower and capital set upper limit to growth. A time comes when a country should be regarded as fully developed even if it has not reached the standards of countries like USA.

Appreciations for Rostow's theory

Rostow's term "the take –off" has caught the imagination of planners and they do try to do what is supposed to be done for the take-off. In fact all less developed countries try to create conditions of take-off.

Some of the criticisms seem uncalled for especially because Rostow himself wrote that he could not emphasize too strongly that the stages of growth are an arbitrary and limited way of looking at the sequence of modern history. The stages of growth analysis does not pretend to explain history. He further states that the stages are not merely a way of generalizing certain factual observations about sequence of development of modern societies but have an inner logic and continuity.

Till now you have read about Rostow's stages of growth, its criticisms and appreciations. Now try and answer the questions given in *Check Your Progress*

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Check Your Progress 1

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1. What are the characteristics of the stage of 'Drive to Maturity'?

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2. List out the criticisms of Rostow's theory.

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3.4 LET US SUM UP

W.W. Rostow was one of the most ardent advocates of the stages of growth model of development. According to him, the transition of a country from underdevelopment to development can be viewed in terms of a series of steps or stages through which all countries must proceed. In this unit you have read in detail about the various stages of economic growth as propounded by Rostow. You have also read about the criticisms and appreciations of his theory.

3.5 REFERENCES AND SUGGESTED READINGS

Richard Peet and Elaine Hartwick (2015), Theories of Development – Contentions, Arguments, Alternatives. The Guilford Press, New York

Todaro M.P. and Stephen C. Smith (2014), Economic Development. Dorling Kindersley (India) Pvt. Ltd., New Delhi

3.6 CHECK YOUR PROGRESS – POSSIBLE ANSWERS

Check Your Progress 1

1. In this stage, the rate of investment increases from 10 percent of GNP to higher limits up to 20 percent. Important industries come up including many imports-replacement and exports-replacement industries. Technical knowledge spreads to other sectors. Real income per head starts rising as GNP growth rate becomes substantially higher than the growth rate of population. A country may remain in this stage between four to six decades. Specialization and division of labour become complex. Production of most things becomes possible.
2. Some important points against Rostow's theory are:
 1. The teleological approach to development is incorrect
 2. History does not repeat itself

3. Leading sectors may not lead
4. Stage overlap and work spill over to the next stages
5. The take-off stage is not empirically vindicated in the same manner in which Rostow presented it
6. An Economy can reach self sustenance without passing through these stages
7. The take-off may be inordinately delayed
8. The last stage of Mass Consumption may not be reached at all
9. There are limits to growth

UNIT 4 DEVELOPMENTAL STATE THEORY

Structure

- 4.1 Introduction
- 4.2 Chalmers Johnson's Development State Theory
- 4.3 Peter Evans' Development State Theory
- 4.4 Gunnar Myrdal's Development State Theory
- 4.5 Let Us Sum Up
- 4.6 References and Suggested Readings
- 4.7 Check Your Progress – Possible Answers

4.1 INTRODUCTION

The developmental state approach has been and was popular during nineties mostly in Asian, African and Latin American countries, where State played a pro-active role in the development of the underdeveloped economies. State is defined as developmental, if the economy is developing, economic success is equated to state strength and the latter is measured by the presumed outcomes (UNCTAD, 2009). The key proponents of the development state theory are Chalmers Johnson, Peter Evans and Gunnar Myrdal. The development state approach follows a mixed approach falling between the capitalist and planned economy. Basically the development state theory emphasizes on the proactive role of state in the process of development.

After reading this unit, the learner will be able to:

- Narrate Chalmers Johnson's development state theory
- describe the features of Peter Evans' development state theory
- discuss the Gunnar Myrdal's development state theory

4.2 CHALMERS JOHNSON'S DEVELOPMENT STATE THEORY

The two illustrious propounders who initiated work on the concept of "developmental state approach" are Chalmers Johnson and Peter Evans. Chalmers Johnson's pioneering work on 'developmental state' is based on his study on Japan. To define the developmental state, Johnson juxtaposes Japan's plan rational system on the one hand and the market rational system on the other. Johnson advocated three arguments with regard to developmental state in Japan. According to Johnson, the markets do not exist and act in isolation but that they are being created by the state and political system of a country. Secondly, before fixing any developmental priorities and initiating any development actions the creation of a developmental state first came to being. Finally, the most crucial element of the developmental state is not its economic policy, but its ability to mobilize the nation around economic development, even within a capitalist system.

The three distinctive features of Johnson's developmental state model are: (i) developmental state has a small number of bureaucrats who are less expensive to initiate the activities of development policies and programmes; (ii) the political atmosphere provides sufficient grounds to foster a high degree of prestige, legitimacy and authority in establishment of effective ties between the government agency and the private sector; (iii) finally state ensures policy instruments which give necessary authority to the bureaucrats to carry forwards state intervention in the economy without undermining market principles. Basing on all these arguments, Johnson was of the view that the development state has to directly interfere in the development affairs of the economy rather than depending on the market forces to allocate resources for development. He was of the opinion that the state must first of all be a development state and only then a regulatory state, a welfare state, an equality state or whatever kind of functional state, a society may wish to adopt.

4.3 PETER EVANS' DEVELOPMENT STATE THEORY

Peter Evans 'developmental state' is based on a pertinent question that is "What kinds of State structure facilitate industrial transformation?" In order to find an answer to this question he conducted studies in four countries i.e. Zaire, South Korea, India and Brazil. Peter Evan's contribution in the form of development state is an important contribution to development economics. His development model talks of three archetypes of states. This is an illustrious work in the field of economic development. The three types of state as conceptualized by Evans are: (i) The predatory state; (ii) The intermediate state and (iii) The developmental state. Evans (1995) viewed that states are the result of complex historical forces and relationships, but they are also actors of agents potentially capable of shaping and influencing the ongoing process of historical evaluation.

Some of the important characteristics of predatory state are: (i) The predatory state is very selfish in nature and the government employees try to maximize their wealth in minimum shortest possible time, by resorting to corruption mode; (ii) The political system is also corrupt who are interested to amass wealth for their own and family benefits and hardly interested to serve society; (iii) corruption is quite common in the predatory state where both the bureaucracy as well as political system indulge in corruption; (iv) some dominant and privileged class are found to be positioned in the political as well as bureaucratic system and therefore characteristics of pre-capitalist societies are largely seen; and (v) there are scarcity of trained bureaucrats and educated political leaders ; in other words, bureaucracy lacks capability.

The second category of archetypes states is called intermediate state. The intermediate states are largely managed by the bureaucrats. It shows a mixed result, it performs better in those sectors where the bureaucracy is efficient and discharge their duties and responsibilities effectively and efficiently. The sectors which lack efficient bureaucracy, their performance is low as compared to their counterpart having efficient bureaucrats. Corruption and inefficiency are observed in many places of the economic functioning. There is also scarcity of efficient bureaucrats. It is also seen that the public sector in a few

developmental sector work in tandem with the private sector in order to perform its assigned duties and responsibilities. In some sectors development projects and programmes are efficiently implemented while in others it is being observed there is corruption leading to the ineffective implementation of developmental projects and programmes.

The third type of Evans archetype state is development state. One of the important characteristics of the development state is “embedded autonomy”. According to Evan the development outcome of any country are largely conditioned by the various forms of state organization, the bureaucratic elements executing the developmental projects and programmes as well as the nature of its relationship with the society and social groups. The state along with the bureaucracy and with the private and social groups in continuous interactions performs various developmental projects and programmes. Evan argued that development outcome of any country are largely condition by the form of state organization, the bureaucratic elements as well as the nature of its ties with dominant societal interest (Evans, 1989). Evan has outlined four roles for developmental state i.e. (i) The Custodian role- to formulate and enforce rules and regulations; (ii) The Demiurge role- directly compete with the private investors, rather than simply playing a complementary role; (iii) The Midwife role- acts as a facilitator by steering, assisting and inducing challenges in areas which are of higher priority; and (iv) The Husbandry role- creating necessary environment for the successful emergence of new industries (Evan, 1989).

According to Evans the developmental state will continue to play an important role in the socio-economic development as well as in promoting economic growth of the developing countries in the coming centuries. It is remarked that the developmental state steams from the amalgam “embedded autonomy” in which the government, private sector and social society organization work together to achieve various developmental goals of the developing countries. The Key actors in the development state are the government, the private sector, and the bureaucracy and synergy of action between these three are crucial for economic growth and development in a developmental state. According to Evans (1989) the efficiency of developmental state depends on a meritocratic bureaucracy with a strong sense of corporate identity and a dense set of institutionalized link to private élites. Further, in the developmental state, the state capacity in respect of the relationship between the state and private enterprise is critical in determining the developmental role of state (Evans,1995).

The developmental state models as developed by Johnson and Evan are vital approaches to development of underdeveloped countries. The description of developmental state as given by these two exponents is based on the empirical analysis; therefore, it holds sufficient ground of reliability in its applicability to the Third World countries. In developmental state, State plays an important role in directing and associating the role of other actors such as private sector, NGOs and local self government institutions in the process of development through policies.

In these sections you read about the Johnson and Evans development state theories and now answer the questions given in *Check Your Progress-1*.

Check Your Progress 1

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1. What are the different features of Johnson development theory?

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2. Describe the role of development state in development according to Peter Evans.

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4.4 GUNNAR MYRDAL'S DEVELOPMENT STATE THEORY

Gunnar Myrdal is an outstanding contemporary development theorist. His illustrious book “The Asian Drama” and another book, “Economic Theory and Underdeveloped Regions” give an understanding about his argument on the causes of underdevelopment in underdeveloped countries and how the role of state is instrumental to promote institutional reforms for raising development.

The two key terms Myrdal used in his development analysis are “Cumulative Causation” and “Backwash Effects”. According to Myrdal, it is the Cumulative Causation that enables an economy to progressively move a society from the specter of underdevelopment towards development. Myrdal was of the view that most of the underdeveloped nations suffer from “dualism” of developed. Because of this dualism in the underdeveloped regions of the underdeveloped countries, when these nations receive stimulus to growth, it is largely enjoyed and goes to the more prosperous regions of the economy. As a result, the advanced regions surge further ahead leaving the more economically deprived regions of the country lagging behind. This is what is called the “Cumulative Causation”. Another cause of the cumulative causation in the underdeveloped countries is the migration of population and movement of capital from less developed regions towards more developed regions. When more youthful and better trained people migrate from less developed regions for better employment opportunity to more developed regions, then the less developed regions again are left with unskilled and dependent population. This further adds to their agony and underdevelopment of the regions. Besides, high fertility in the underdeveloped regions of the underdeveloped countries also reduces per capita income, enhances poverty and sustains the low level of development in the underdeveloped regions of the underdeveloped countries. Like population, the capital also moves from the poorer regions to the prosperous regions, because capital investments in the developed regions as compared to the underdeveloped regions are more secure and the rate of

return is high. In other words, the scope for better investment is more in advanced regions than those of backward regions of the underdeveloped countries; this attraction towards developed region creates capital shortage in backward regions. Myrdal(1957) observes that ‘studies in many countries have shown how the banking system, if not regulated to act differently, tends to become an instrument for siphoning off the savings from the poorer regions to richer and more progressive ones where returns to capital are high and secure’.

The cumulative movement of trained people and capital investments, which tend to economically weaken a region, were termed as “backwash effects”. Contrary to “backwash effects”, Myrdal advocated “spread effects”. Myrdal perceived that with the help of “spread effects”, industrial expansion in more developed regions of the underdeveloped countries will have positive repercussion in its less developed regions in terms of demand, market avenues and technology through the transfer of surplus capital from the more developed regions to the less developed regions. These favorable effects, which the more developed regions would produce on the socio-economic development of the less developed regions, are termed as “spread effects”. The main task before the underdeveloped countries is to ensure that the positive impact of “spread effects” will help to neutralize the negative impact of “backwash effects” to a great extent. However, according to Myrdal, the “spread effects” in the underdeveloped countries is weak and therefore would not be capable enough to balance the “backwash effects” as a result of regional imbalances in the underdeveloped countries. Myrdal was of the opinion that it is not possible to attain equilibrium between “backwash effects” and “spread effects” in the underdeveloped countries. As a result regional inequalities are much wider within various regions of the poorer countries than those of the richer countries. For which the regional inequalities are increasing in poor countries and diminishing in the rich countries. Thus according to the Myrdal development state theory, regional disparities and imbalances in terms of socio-economic development in underdeveloped countries are the outcome of ‘cumulative causation’.

According to Myrdal, a crucial difference found between the advanced countries and the poor countries, is the existence of strong state in the former and the weak (or soft) in the latter (Myrdal, 1970). With the help of strong state, advanced nations formulate and implement a coherent national policy which helps economic growth and development across the regions of the country. On the other hand, in the poor countries, the State lacks effective policies to either ensure that there is a movement toward national economic integration or to address the impact of backwash effects (Cypher and Dietz, 2006). Myrdal observed that political power is largely concentrated in the hands of top social strata in the underdeveloped countries. These elite groups through their money and muscle power accumulate all power and do not fear and even violate state power through muscle, money and political maneuvering. These people escape punishment by adopting means of political pressure on the bureaucracy and other executive functionaries.

Myrdal advocated institutional reforms in the underdeveloped countries in order to usher economic growth and development in these countries. According to Myrdal (1984), “the institutional approach meant enlarging the study to include what in a summary way I referred to as “attitudes and

institutions’.” Therefore, Myrdal emphasized that the institutional reforms are important for the development of the underdeveloped countries. Examples of some of these reforms as advocated by Myrdal are fight against corruption, land reforms, and displacement of elite from the commanding heights of state policy. He advocated that the less corrupt institution/arrangements are needed for the underdeveloped countries in order to augment their economic growth and development.

In this section you read about the Gunnar Myrdal’s development state theory and now answer the questions given in *Check Your Progress-2*.

Check Your Progress 2

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1. Distinguish between “spread effects” and “backwash effects”.

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2. Briefly explain the meaning of ‘cumulative causation’.

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4.5 LET US SUM UP

The development state theory is one of the important theories of development as propounded by the developmentalists. The main propounders of the development state theory are Johnson, Evans and Myrdal. Both Johnson and Evans theory are based on the premises of three categories of states such as predatory state, intermediate state and development state. While Myrdal theory is based on his important concepts of cumulative causation, spread effects, backwash effects. He suggested for a strong state for the effective development of the underdeveloped countries.

4.6 REFERENCES AND SUGGESTED READINGS

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4.7 CHECK YOUR PROGRESS: POSSIBLE ANSWERS

Check your Progress 1

1. The three distinctive features of Johnson's developmental state theory are: (i) developmental state has a small number of bureaucrats who are less expensive to initiate the activities of development policies and programmes; (ii) the political atmosphere provides sufficient grounds to foster a high degree of prestige, legitimacy and authority in establishment of effective ties between the government agency and the private sector; (iii) finally state ensures policy instruments which give necessary authority to the bureaucrats to carry forwards state intervention in the economy without undermining market principles.
2. According to Peter Evan the developmental state play four important roles those are as follows:(i) The Custodian role- to formulate and enforce rules and regulations; (ii) The Demiurge role- directly compete with the private investors, rather than simply playing a complementary role; (iii) The Midwife role- act as a facilitator by steering, assisting and inducing challenges in areas which are of higher priority; and (iv) The Husbandry role- creating necessary environment for the successful emergence of new industries.

Check Your Progress 2

1. The cumulative movements of trained people and capital investments, which tend to economically weaken a region, were termed as "backwash effects". Contrary to "backwash effects", Myrdal advocated "spread effects". Myrdal perceived that with the help of "spread effects", industrial expansion in more developed region of the underdeveloped countries will have positive repercussion in its less developed region in terms of demand, market avenues and technology through the transfer of surplus capital from the more developed region to the less developed region.
2. According to Myrdal, it is the Cumulative Causation enables an economy to progressively move a society from the specter of underdevelopment

towards development. Myrdal was of the view that most of the underdeveloped nations suffer from “dualism” of developed. Because of this dualism in the underdeveloped regions of the underdeveloped countries, when these nations receive stimulus to growth, it is largely enjoyed and goes to the more prosperous region of the economy. As a result, the advanced regions surge further ahead leaving the more economically deprived regions of the country lagging behind. This is what is called the “Cumulative Causation”.

MDV-101: INTRODUCTION TO DEVELOPMENT AND DEVELOPMENT THEORIES (6 CREDITS)		
Block	UnitNos	Unit Titles
1	Development: An Overview 1 2 3 4	Development – Concept and Paradigms Economic Development Human Development Political Development
2	Classical and Neo-Classical Theories 1 2 3 4	Classical Theories Neo-Classical Theories Marxian Theory Schumpeter Theory
3	Developmentalist Theories 1 2 3 4	Balanced Development Theories Unbalanced Development Theories Rostow's Stages of Economic Growth and Development Developmental State Theory
4	Heterogeneous Theories 1 2 3 4	Neo-Liberal Theories Dependency Theory Human Capabilities Theory Gandhian Theory