GROWTH AND DEVELOPMENT.

TOPIC- 5

BALANCE
&
UNBALANCE
GROWTH THEORY

Balance & Unbalance Growth theory, Rodan, Nurkse big push
Balance growth theory developed by Ragnar Nurkse, and supported by Lewis, Allyn Young and Rodan.

Balance growth means investment in depressed sector of an economy, lead to harmonious growth of different sectors of the economy.

Acc. To this theory govt of any UDC’s need make large investment in a number of industries simultaneously.

This will increase the size of market.

- Increase productivity.

And provide incentives to pvt sector to invest.
Determinants of size of market.

Acc. To Nurkse expending mkt size will lead to increase inducement to invest— it will break vicious circle of poverty.
Acc. To Nurkse UDC’s should be increase their productivity and enlarge the market size by export.

Nurkse primarily focused on productivity.

In B.G theory growth rate of consumption, income and investment should be equal. \((C=Y=I)\)

B.G tackle demand side problems.

Balance growth is a dynamic and elastic model.

This theory applicable in UDC’s.
Investment is necessary to overcome indivisibilities on both demand and supply side.

Indivisibility on supply side is lumpiness of capital (SOC). Indivisibility on demand side is limitation imposed by size of market.

Nurkse used big push theory of Rodan for three indivisibilities.

1. Indivisibilities of production function.
2. Ind. Of demand.
1. Rodan – simultaneous development of industrialisation.

2. Lewis - balance bw agriculture and industry.

Acc. To Lewis - in UDC’s investment range should be 5% to 10% but actual required 15% to 20% of N.Y.

Inducement to invest depend upon size of market.

Demand for goods and size of mkt depend upon purchasing power.
2. UNBALANCE GROWTH THEORY

INTRO--

This theory given by Hirschman and further supported by Singer, Kindleberger, Paul Streeten and Rostow.

Book- the strategy of economic development.

Acc. To Hirschman- development is the chain of disequilibrium.

Unbalance growth means- unequal growth of investment, income and consumption.

\[
\frac{\Delta I}{I} > \frac{\Delta Y}{Y} > \frac{\Delta C}{C}
\]
This theory is applicable in UDC’s.

Acc. To him – investment should be made in strategic industries and leading sector.

Hirschman divide investment into two part.

<table>
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<th>1. convergent.</th>
<th>2. divergent.</th>
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<td>It create external economies.</td>
<td>It create less external economies.</td>
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<tr>
<td>It is profit motive and undertaken by the pvt entrepreneurs.</td>
<td>It is helpful in social welfare. And undertaken by govt.</td>
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<td>It include directly productive activities (DPA)</td>
<td>Include social overhead cost (SOC)</td>
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<td>Ie. Expenditure on final production.</td>
<td>Expenditure on railway.</td>
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If economy expending SOC then cost of production decreases and it is called **pressure relieving Investment**.

If expending DPA then cost of production increase and it is called **pressure creating investment**.
Hirschman introduced two linkages effects.

1. Backward linkages effects.
   It is made on earlier stage of production.
   Ie- raw material.

2. Forward linkages effects.
   It is made on final stage of production.
   Ie- Sale of the product, transportation.

Leather

shoes

Linkages are inter-industry complementary.
3. BIG PUSH THEORY.

Rodan was first economist to introduced famous coordination failure model. (Big push)

Acc. To him for balance growth rate of all sector we need big amount of investment, which enlarge the market.

This theory is applicable in UDC’s.

Economy is not able to export.

Acc. to him major hurdle in the process of industrialization is the small size of market.
Rodan used **three indivisibilities** to remove hurdles-

1. Indivisibilities of production function.
2. Ind. Of demand.

**Big push theory is based on external economies.**

To overcome the problem of coordination failure there is need **big push.**
4, VICIOUS CIRCLE OF POVERTY

Concept given by Nurkse.

To break down the vicious circle of poverty measure both demand side and supply side.

Supply side- flow of saving formation, capital formation, and role of fiscal policy.
CONCEALED SAVING POTENTIAL

Given by Nurkse.

Acc.to him disguised unemployment is potential source of saving/surplus.

Disguised unemp. Is potential source of saving but actual source.
15. The basic rationale of the theory of 'Big-Push' is based upon the idea of

\[ \boxed{(2)} \] external economies

(1) size of population
(3) internal economies
(4) None of the above
Rodan used **three indivisibilities** to remove hurdles-

1. Indivisibilities of production function.
2. Ind. Of demand.

Big push theory is based on **external economies**.

To overcome the problem of coordination failure there is need **big push**.
14. Who among the following, originally, formulated the ‘Turnpike Theorem’?

(1) Dorfman, Samuelson and Solow
(2) Radner
(3) Koopmans
(4) Von Neumann and Morgenstern

15. Backward and forward linkages are relevant for which kind of growth strategy?

(1) Unbalanced growth
(2) Trickle down growth
(3) Balanced growth
(4) Equilibrium growth

16. ‘Reserve Army of labour’ term was used by who among the following economists?

(1) J. Schumpeter
(2) J.R. Hicks
(3) Karl Marx
(4) T.R. Malthus
GROWTH AND DEVELOPMENT.

TOPIC- 6

INPUT-OUTPUT MODEL

Shadow prices and dependency theory.