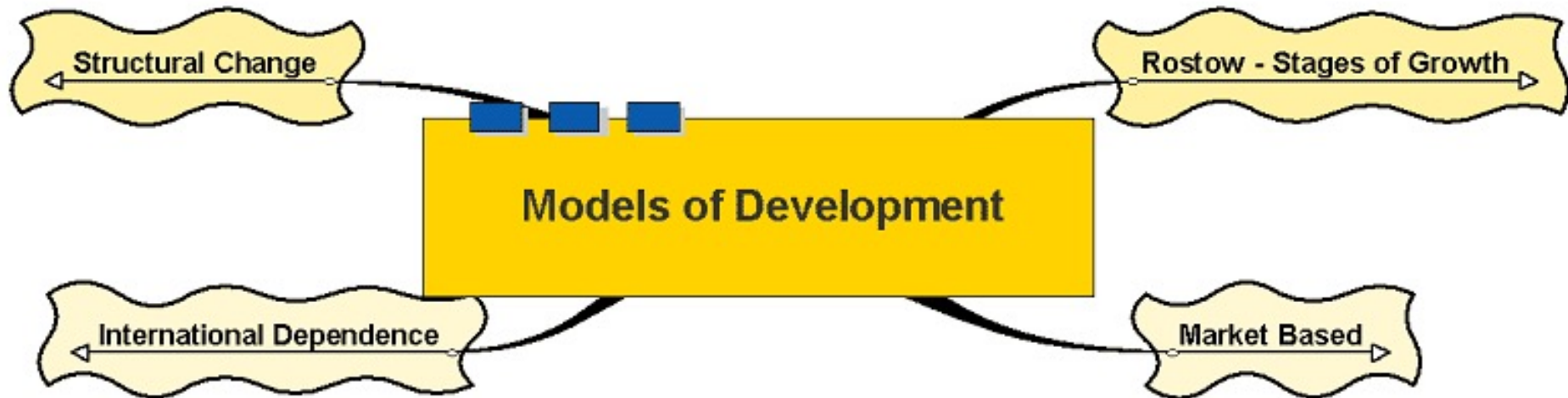


# Models of Development

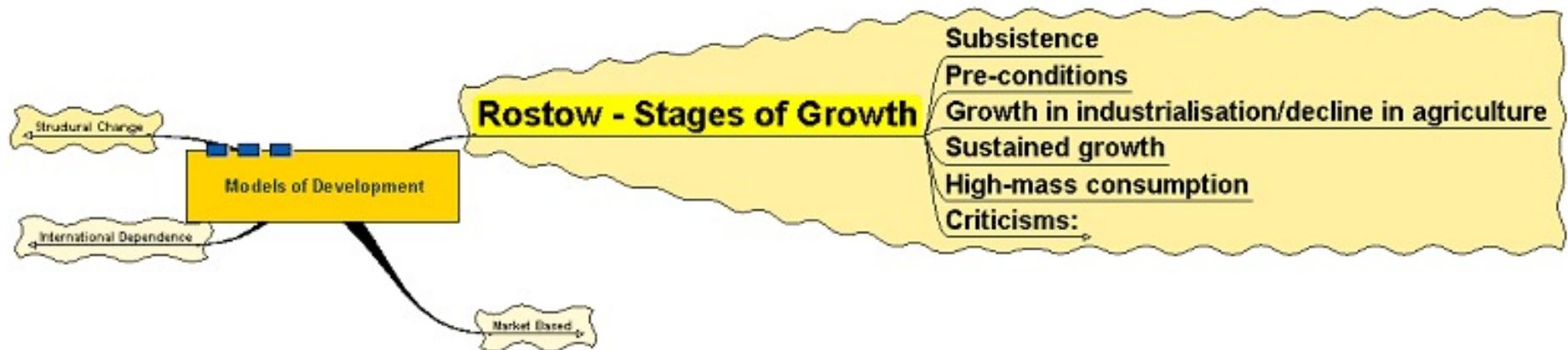
# Models of Development



# Models of Development

- How do countries develop?
- If we can understand how development occurs, strategies can be adopted to help countries to develop
- Number of approaches:

# Rostow - Stages of Growth



# Rostow - Stages of Growth



A child in Sierra Leone making breakfast.  
Which stage would a country like Sierra Leone fit in?

Copyright: Dave Dyett, <http://www.sxc.hu/>

- The work of American Walt W. Rostow
- Rostow is an economic historian
- Countries can be placed in one of five categories in terms of its stage of growth:

# Rostow - Stages of Growth



Village in Lesotho. 86% of the resident workforce in Lesotho is engaged in subsistence agriculture.

Copyright: Tracy Wade, <http://www.sxc.hu/>

## 1. Traditional Society

- Characterised by
  - subsistence economy – output not traded or recorded
  - existence of barter
  - high levels of agriculture and labour intensive agriculture



# Rostow - Stages of Growth

## 2. Pre-conditions:

- Development of mining industries
- Increase in capital use in agriculture
- Necessity of external funding
- Some growth in savings and investment



The use of some capital equipment can help increase productivity and generate small surpluses which can be traded.

Copyright: Tim & Annette, <http://www.sxc.hu>

# Rostow - Stages of Growth



At this stage, industrial growth may be linked to primary industries. The level of technology required will be low.

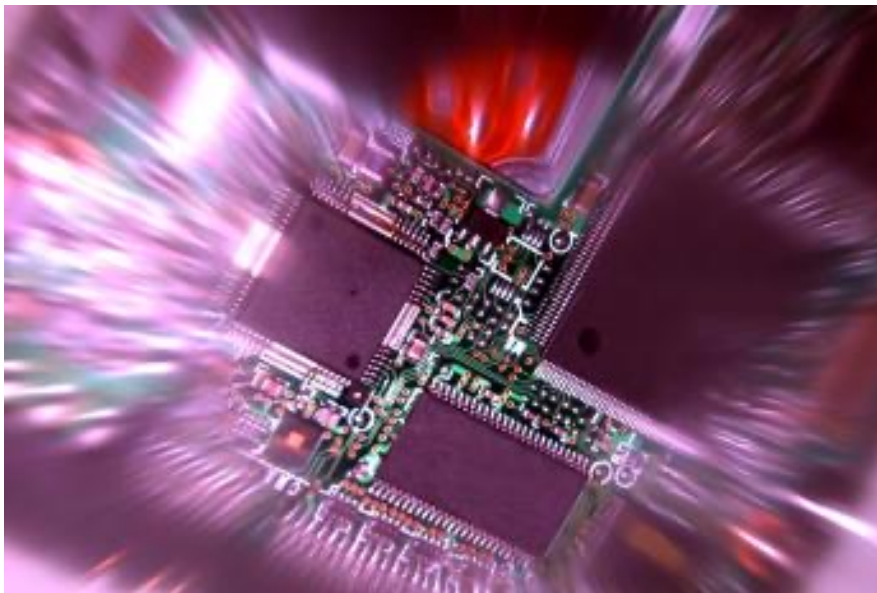
Copyright: Ramon Venne, <http://www.sxc.hu>

## 3. Take off:

- Increasing industrialisation
- Further growth in savings and investment
- Some regional growth
- Number employed in agriculture declines



# Rostow - Stages of Growth



As the economy matures, technology plays an increasing role in developing high value added products.

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## 4. Drive to Maturity:

- Growth becomes self-sustaining – wealth generation enables further investment in value adding industry and development
- Industry more diversified
- Increase in levels of technology utilised

# Rostow - Stages of Growth



Service industry dominates the economy – banking, insurance, finance, marketing, entertainment, leisure and so on.

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## 5. High mass consumption

- High output levels
- Mass consumption of consumer durables
- High proportion of employment in service sector

# Criticisms:

- Too simplistic
- Necessity of a financial infrastructure to channel any savings that are made into investment
- Will such investment yield growth? Not necessarily
- Need for other infrastructure – human resources (education), roads, rail, communications networks
- Efficiency of use of investment – in palaces or productive activities?
- Rostow argued economies would learn from one another and reduce the time taken to develop – has this happened?

# Market Based



# Market Based

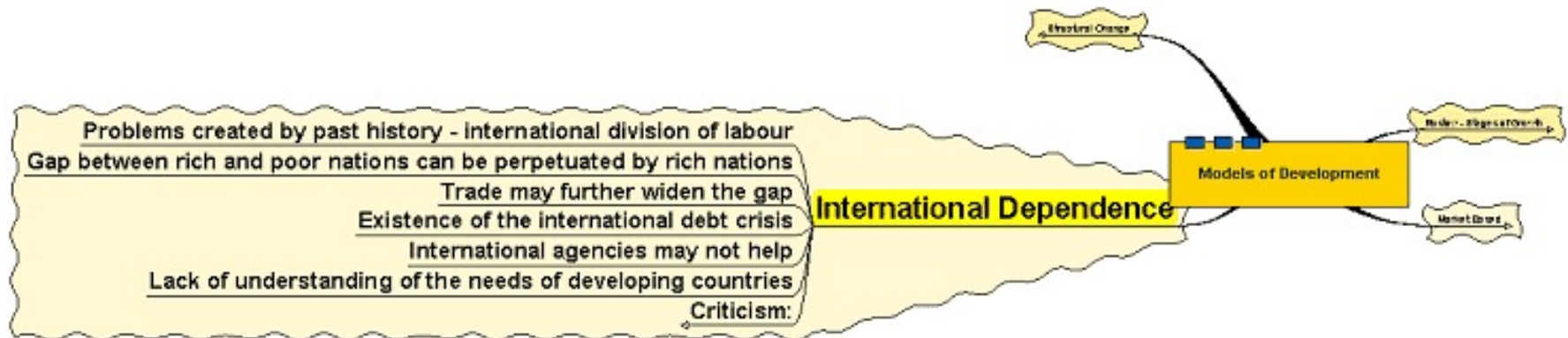
- Development is determined by the extent to which the market is able to allocate resources
- The price signal acts to allocate scarce resources
- Governments limit interference in the working of the economy
- Government role is to encourage enterprise and to reduce regulation and inefficiencies in free markets and establish ownership of property rights

# Problems:

- Existence of market failure – externalities, monopoly power, public goods
- Problems of lack of infrastructure – education and health, public transport, legal structure
- Problems of equity in allocation – wealth and income distribution



# International Dependence



# International Dependence

- International division of labour – rich in high value activity, poor in low value, can be traced back to colonial and imperial dominance
- Dominance of political decision making in the hands of a few wealthy and powerful groups who aim to maintain the status quo
- Such interest groups also exercise power over international institutions and initiatives such as the World Trade Organisation, International Monetary Fund, Kyoto talks, etc.

# International Dependence



The International Dependence model can perhaps be exemplified by the lack of progress on reducing emissions to restrict climate change and freeing up international trade.

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- Advice given to poorer nations has been poor – e.g. lending to less developed countries, investment advice, etc.
- Inability to solve the debt crisis and protectionism continues to prevent development of poorest countries

# Criticism:



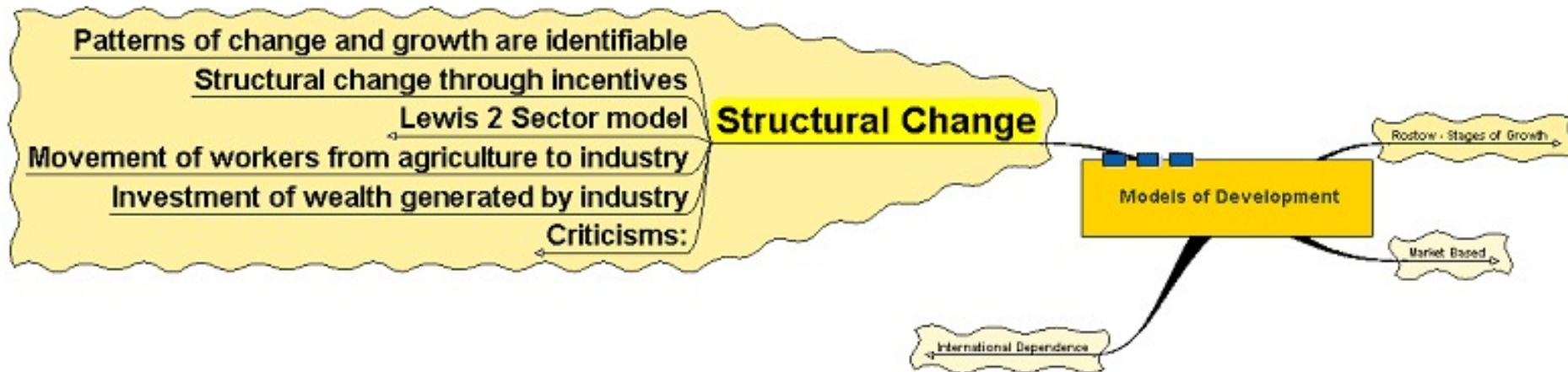
- Offers causes but no solutions

Talks to free up trade have been going on for many years; progress is slow.

We know that protectionism is disadvantageous to developing countries but how do we go about putting in place solutions to help solve the problem?

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# Structural Change



# Structural Change

- Structural change models focus on the different productivity levels of economies
- Process of structural change determines the rate of development
- Can such structural changes be accommodated?



# Structural Change

- Less developed nations – tend to be dominated by primary industries – low value added, difficult to generate wealth and thus sources of investment
- Developed nations – diverse economies, high value added, high levels of investment
- Structural change can be encouraged by incentives

# Lewis 2 Sector model

- Agriculture - low value added
- Industrial sector - higher productivity and wealth generation
- Incentives to encourage workers to migrate from rural economy to urban
- Rural workers have very low if not zero marginal productivity
- Wage premiums in urban industry 30% above rural wages would encourage migration from rural to urban whilst still allowing profits to be made
- Re-investment of profits would lead to a self perpetuating development

# Criticisms:

- Labour re-allocation not always productive
- Wealth not re-invested locally
- Wealth goes abroad
- Imperfections in the labour market
- Importance of complementary policies by all countries involved