TD 638: Development Perspectives

Early Mainstream Development Theories

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Main Approaches to Development: 1950s Onwards . . . 1

Decade	*Main development approaches*
1950s	Modernization theories: all countries should follow the European model Structuralist theories: Southern countries needed to limit interaction with the global economy to allow for domestic economic growth
1960s	Modernization theories Dependency theories: Southern countries poor because of exploitation by Northern countries
1970s	Dependency theories Basic needs approaches: focus of government and aid policies should be on providing for the basic needs of the world's poorest people Neo-Malthusian theories: need to control economic growth, resource use and population growth to avoid economic and ecological disaster Women and development: recognition of the ways in which development has differential effects on women and men

Main Approaches to Development: 1950s Onwards . . . 2

Decade	*Main development approaches*
1980s	Neo-liberalism: focus on the market. Governments should retreat from direct involvement in economic activities Grassroots approaches: importance of considering local context and indigenous knowledge Sustainable development: need to balance needs of current generation against environmental and other concerns of future populations Gender and development: greater awareness of the ways in which gender is implicated in development
1990s	Neo-liberalism Post-development: ideas about 'development' represent a form of colonialism and Eurocentrism. Should be challenged from the grassroots Sustainable development Culture and development: increased awareness of how different social and cultural groups affected by development processes
2000s	Neo-liberalism: increased engagement with concepts of globalization Sustainable development Post-development Grassroots approaches

Early Thinking about 'Development': Keynes and Rostow

W W. Rostow (1950s):

Addressed concerns of US elites during ***Cold War***:

Concern: whether ***newly independent countries*** in the Global South will side with USSR.

Rostow proposal: ***US aid*** to ***developing countries could help newly independent countries***

to move rapidly through the ***stages of economic development***

while keeping them in the ***capitalist/Western sphere of influence***.

- **Rostow *postulated*** that economic development as done in Western industrialized countries
  - ***could be replicated*** in ***developing world by applying*** a ***five-stage model*** (Representative of ***modernization theory***).

Rostow's theory and advice was ***followed by*** US and Western European governments in providing ***Development Aid***

Early Thinking about 'Development': Rostow's Model . . 1

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Rostow's *Five-Stage Model of Development*

1. ***Initial Stage***: ***Traditional State*** of ***economy, politics,*** and ***culture***

- ***Economic: Developing societies*** mostly ***agricultural***, ***focused on subsistence (***no surplus***)***,

  and ***employing*** their ***economic surpluses*** for military or religious goals rather than for ***economic improvement***.

- ***Political:*** Though liberated from colonial masters, native ***Feudal interest groups*** have strong political control
  - ***Feudal interest groups*** thriving on ***agricultural rent*** and ***not*** interested in development of industries or markets.

- ***Socio-Cultural:*** Social norms and cultural practices ***restrict*** political and economic freedom
  - And ***restrict*** development of markets or industries

Early Thinking about ‘Development’: Rostow’s Model . . 2

2. ***Second Stage***: ***Transition Stage:***

- ***Subversion*** of previous stage ***through development of internal*** *and* ***external markets***
- ***Markets allow the sale of agricultural commodities*** and the ***import of new goods***, along with ***foreign technology***.
- This process ***creates interests groups*** in favour of ***increasing production*** and ***accumulating wealth***
- for ***secular*** and ***civil purposes*** (and ***not*** for ***military*** or ***religious*** purposes).
- These ***changes*** *in* ***economy*** force ***changes*** in ***traditional culture shake up*** the ***pre-existing political order.***
- The increased ***economic activity***, presence of ***interest groups***, and ***loosening of political and cultural constraints***
  - create a ***push toward more productive economic specialization in manufacturing***,

    and ***interest in the diversification*** of ***economic*** and ***trading opportunities***
- These ***developments,*** in turn, ***create*** the conditions for the ***third stage***.

Early Thinking about ‘Development’ : Rostow’s Model . . 3

Rostow’s *Five-Stage Model of Development* [Continued]

3. ***Third Stage***: ***Take-off Stage***: ***Crucial*** because this is when ***developing countries start switching***

   to ***large-scale agriculture*** and ***industry***, ***thus causing rapid urbanization*** and ***social change***.

   The ***pressures of urbanization*** and ***industrialization create demand for***

   significant investments in ***basic services*** such as electrification, roads, and seaports

   and ***drastic improvements*** in ***education systems***.

   For **Rostow**, ***these*** all were ***areas*** where ***Western aid*** and ***advice could*** and ***should be employed***.

Early Thinking about ‘Development’ : Rostow’s Model . . 4

Rostow’s *Five-Stage Model of Development* [Continued]

4. ***Fourth Stage***: ***Drive to Maturity Stage***: Tendencies from the ***Third Stage*** ***deepen***.

   Economic terms: ***Developing Countries*** ***more diversified*** and ***less reliant on imports*** to cover necessities.

   As ***local firms*** ***invest to increase*** the volume and quality of their ***Industrial*** and ***agricultural production***,

   and ***adapt*** or ***create*** their ***own technologies***.

Early Thinking about ‘Development’ : Rostow’s Model . . 5

Rostow’s *Five-Stage Model of Development* [Continued]

5. ***Fifth*** and ***Last Stage: Mass Consumption Society Stage***: Stage ***already attained*** by ***industrialized Western economies***.

   Economies of ***Developing Countries completely*** *industrialized,*

   with ***productive capacity*** enough to ***satisfy*** the ***consumption needs*** of citizens,

   including ***financing imports*** with ***exports*** of goods and services

- While **Rostow’s** stages of growth model is ***rarely invoked*** in ***development policy analysis*** today,
  - It has ***still remained*** as an influential undercurrent for ***Western policy-making toward the Global South***.

Early Thinking about 'Development' : Rostow's Model . . 6

What are the ***Main Drivers*** of ***Development: Comparing*** **Gerschenkron**, **Keynes**, and **Rostow**

Gerschenkron: ***premeditated planning will transform economy of newly independent countries*** in short time

Keynes: The ***state needs to make*** efforts ***to jump stages of development*** by ***accelerating economic growth***

Rostow: ***International Aid + State's efforts + International trade + Domestic investments***

will be required for *development* of *newly independent countries*

Core Keynesian idea applied to development

Jumping stages of development by ***accelerating economic growth*** and ***modifying economies***,

using forces other than the market, namely, ***the state.***

Development Economics: New Disciplines in Development Thinking . 1

Development Economics: New discipline (in the late 1940s and lasted until the early 1960s)

Paul Rosenstein-Rodan: ***"Big Push" Theory***:

- ***Concentrating development efforts*** in specific and large ***industrialization*** projects (***"Big Push")***
- Projects with high capability ***to create*** "***ripple effects***" in the rest of the economy.
  - "***Ripple Effects*** = (Such projects) ***enable technological development*** and additional ***economic activities***
    - ***in other sectors*** of ***economy*** and ***other sections*** of ***society*** (leading to ***economic growth***).
  - ***Measured by*** number of jobs and new businesses ***created*** in primary, secondary, and tertiary sectors of economy.
- <u>Example</u>: ***Creation of*** heavy industries such as steel plants (also seaports, road bridges, and energy generation plants)
    - the output of which would later ***be used*** in the production of other goods,
    - such as rail cars and train tracks, ships, and heavy trucks.

Development Economics: New Disciplines in Development Thinking . 2

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Paul Rosenstein-Rodan: ***"Big Push" Theory***: [***Continued***]

Construction and operation of these specific and large ***industrialization*** projects

also ***require transfer of*** significant ***technology*** and ***skills*** to developing countries from developed countries.

(technology and skills building, planning, and project management)

Due to their very high costs and ***requirements*** for technical knowledge,

these projects typically ***needed to be*** funded through ***foreign aid***,

thus establishing another powerful argument and agenda for official ***development assistance /aid*** .

Development Economics: New Disciplines in Development Thinking . 3

Albert Hirschman (economist and Advisor to World Bank): Also ***supported*** the idea:

Big ***industrial*** projects in strategic industries and large infrastructure investments ***triggering economic modernization***

Hirschman pointed out ***another gain*** from ***injections*** of ***foreign technology*** and ***capital***, through ***international aid***

Create ***linkages*** with the rest of the economy

Linkages (Concept) ***emphasizes*** that a given ***strategic industrialization can stimulate*** the ***development*** of other ***industries***,

including some local ***industries*** that ***provide*** inputs (***backward linkages***)

and other ***industries*** that ***process*** outputs (***forward linkages***) for these new ***strategic industrialization*** projects.

Backward and ***forward linkages could jumpstart*** multiple sectors of an underdeveloped economy

Condition: Such ***linkages would develop*** only if ***state*** policies ***required***

utilization of locally made inputs and local processing of outputs ***before exporting***.

Development Economics: New Disciplines in Development Thinking . 4

- **Arthur Lewis**: Another ***critical link***: ***Theory of Surplus Labour***
- **Arthur Lewis**: ***Pointed out*** that ***industrialization*** could be promoted in developing countries
  - by ***encouraging*** labour ***to move from*** rural areas, where they worked in subsistence farming or plantations,
  - to urban areas ***to work in industry***, ***without raising*** wages.
  - which ***would generate*** significant ***surplus***.
- ***Theory of Surplus Labour implied that such industrialization***
  - ***could achieve*** large profits in its early stages,
    - which ***could later be reinvested*** in ***technology adaptation*** or ***endogenous innovations***,
      - ***making economic development*** a ***self-sustaining project*** (Lewis 1954).

Development Economics: New Disciplines in Development Thinking . 5

Ragnar Nurske: Theory of Balanced Growth (of Industries and Agriculture) *through* **State Investment,**

Export Pessimism: *Observed* that much of the growth of imports in developing countries was wasteful.

consisted of luxury and superfluous consumption

Nurske *advocated* (instead) for increased taxation of commodity exporters and the wealthy

to finance state-led industrial and ***agriculture projects*** that ***would diversify*** the ***economy***,

substitute for ***imports of manufactured goods***, and ***repress*** demand for luxury items.

Such thinking dovetailed with

- Rosenstein- Rodan arguments for "big push" projects, and ripple effect
- Hirschman's ideas of "linkages,"
- and Rostow's stage sequencing of growth.

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Import Substitution Industrialization (ISI):

Premise: By ***protecting*** or ***shielding*** them from foreign competition,

local infant industries in developing countries ***could grow significantly***

Allowing them to ***earn*** great profits in local markets

that ***would be later invested*** in ***new industries*** and ***technologies,***

gradually creating a ***more industrialized economy***

with ***higher value-added production*** than one based on ***unprocessed commodities***.

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Rosenstein-Rodan arguments for ***"big push" projects***, **Hirschman**'s ideas of "***linkages***" and ***state intervention***, and **Rostow**'s ***stage sequencing of growth***, **Nurske idea of** ***heavy taxation***.

All ***involved departures*** in ***development economics <u>from</u> traditional free-market Economics*** (***Liberal Economics***)

This ***departures*** Quite common in the 1940s to 1960s, since many economists of this period

did not accord international trade a significant role in strategies for development.

Their recent experience had been formed by

the Great Depression, with its fall in international trade flows,

the Second World War, when ***international trade*** had pretty much ***stopped***,

and the early post-war period, when ***international trade*** remained ***heavily regulated***

while ***Marshall Plan*** worked as ***State-State Collaboration for Reconstruction of Europe*** .

Thank You