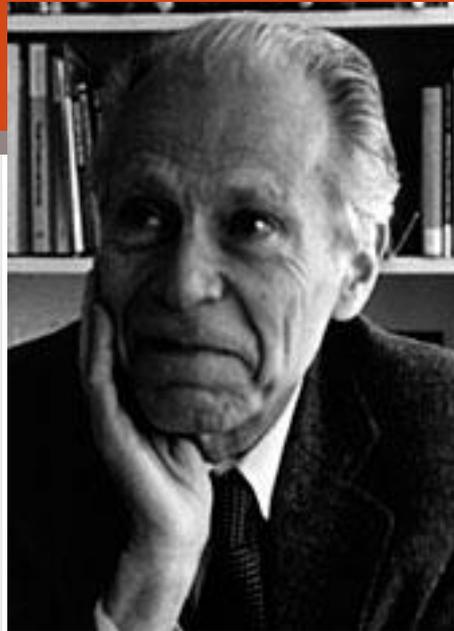


# *Theory of Unbalanced Growth*

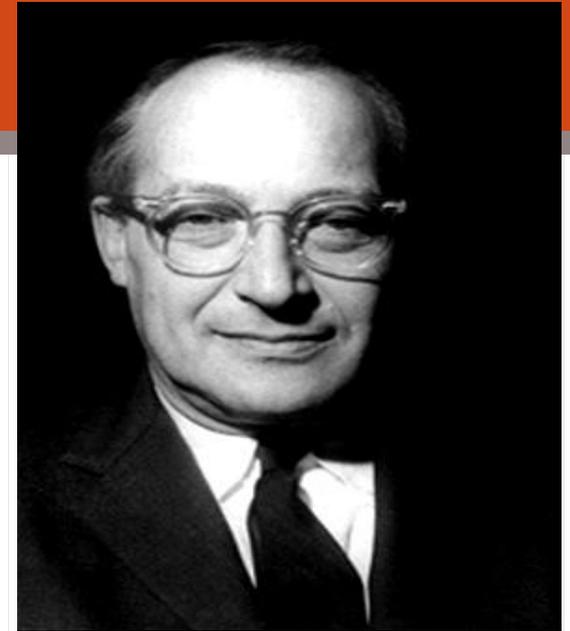
Hans Singer



Alfred O Hirschman



Walt Whitman Rostow



As Presented by:

Namrata Sangha (1045)  
Girinandini Singh(1165)

Guided by Poonam Arora

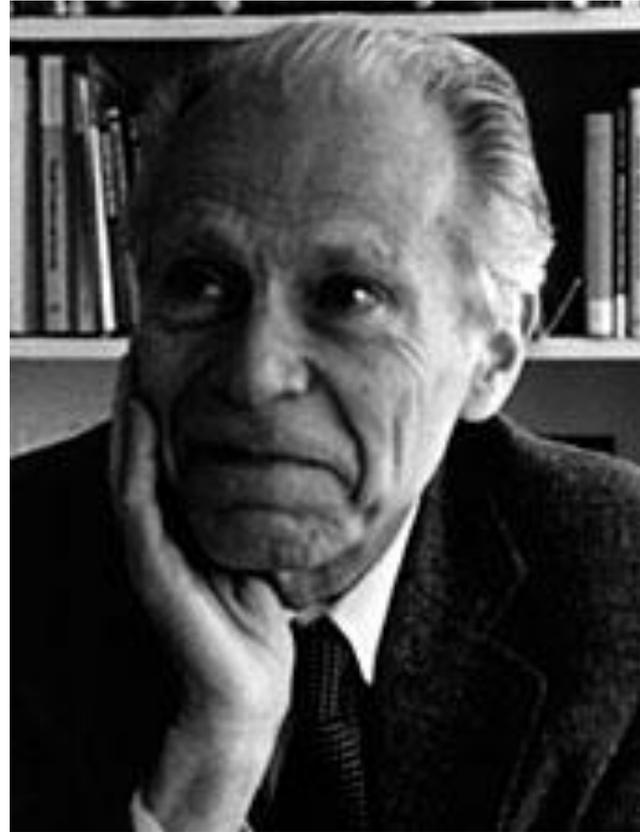
Yukta B. Singh (1157)  
Sakshi Bajaj (1806)

# Meaning of Unbalanced Growth

- Scholars such as **Hirschman, Rostow, Fleming** and **Singer** propounded the theory of unbalanced growth as a strategy of development to be used by the underdeveloped countries.
- This theory stresses on the *need of investment in strategic sectors of the economy instead of all the sectors simultaneously.*
- According to this theory the other sectors would automatically develop themselves through what is known as “*linkages effect*”.

# Explaining the theory of unbalanced growth

- **Prof. Hirschman** that creating imbalances in the system is the best strategy for growth. Owing to the lack of availability of resources in the less developed countries, the little that is available must be used efficiently. Accordingly strategic sectors in the economy should get priority or precedence over others where income is concerned.



*Prof A.O Hirschman*

In continuation.....

## 1. External Economies:-

Unbalanced growth according to **Prof. Hirschman** generates *externalities*. Further explaining, we could say that the growth of *industry A* leads to or stimulates the growth of *industry B* and *C* and so on, similarly the growth of *industry B and C* will lead to the subsequent growth of industries *E and F*. Thus, the growth of a *strategic industries* apart from providing the benefits belonging to itself also stimulates the growth of other set of industries. The existing externalities are explored, and fresh ones generated.

## 2. Complementaries:-

Growth of output of *industry A* may generate the *demand* for the products of *B and C* and also may reduce the marginal cost of production in these industries. There are technical complimentaries which stimulate the growth of related industries, following the atrategy of unbalanced growth.

**Thus states Prof. Hirschman**, “Economic growth follows the course of imbalances in the system. Competitions, tensions as well as inducements are the inevitable outcome of the unbalanced growth, and more these are, greater the prospects of growth.”

# Classification of Investment by Hirschman:

- (A) Social Overhead Capital or SOC:

Social overhead capital comprises of those basic devices without which primary, secondary and tertiary activities cannot function. This includes in it the expenditure on roads, irrigation works, power, transport and communications. The investment on these projects create more economies and this is called divergent series of investment. Such investments are undertaken by *Public agencies*.

- (B) Direct Productive Activities or DPA:

These are those activities which are a consequence of some investment, add to the flow of final goods and services. It is called convergent series of investment because these project appropriate more economies than they have created. These series of investments are undertaken by private entrepreneurs. Thus investment in agriculture or industry would be deemed as that belonging to *Direct Productive Activities*.

- Therefore both SOC and DPA cannot be taken up simultaneously in less developed countries, owing to the general lack of resources. Initially, we should concentrate on either of the two, the other one would be automatically stimulated.

**Hirschman**, thus suggests the growth of the economy in two ways:

- **1) Unbalancing the economy through SOC:** Growth of SOC, according to **Hirschman** would stimulate investment in DPA. For example, availability of cheap electricity is expected to encourage the growth of small scale industries. Similarly, the development of irrigation works is expected to stimulate the growth of agricultural works.
- **2) Unbalancing the economy with Direct Productive Activities or DPA:** Investment in DPA would press for investment in SOC. Demand for irrigation, roads, transport and communication would increase, pressing for greater investment in these activities. It is through this process of linkages that the economy will grow.

# PATH OF DEVELOPMENT

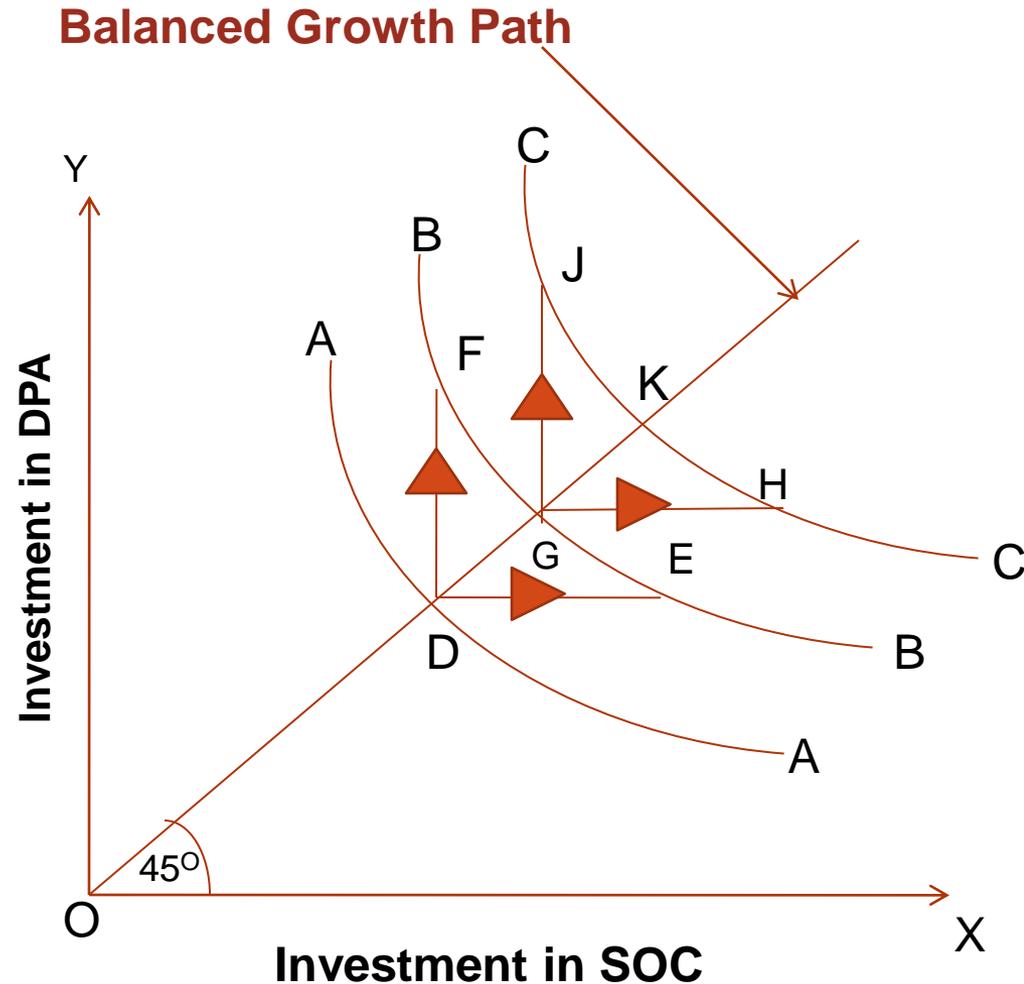
Fig 1 demonstrates the path of development, using strategy of unbalanced growth.

X-axis: Investment cost in Socially Productive Activities

Y- axis: Investment Cost in Direct Productive Activities

AA, BB, CC curves: equi-productive curves indicating various combinations of SOC, DPA corresponding to given level of national income

**HIGHER THE CURVE  
GREATER THE LEVEL OF  
OUTPUT!!**

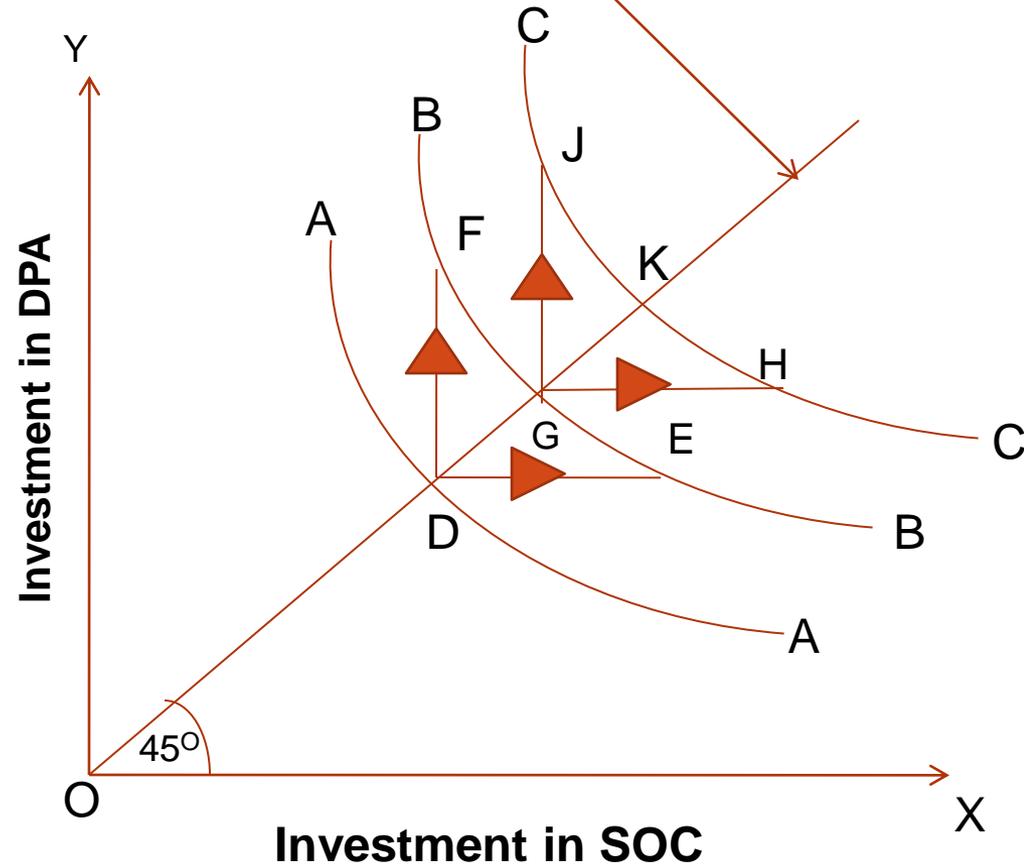


# PATH OF DEVELOPMENT

## Balanced Growth Path

Growth process may be explained by making initial investments either to DPA or SOC. It is because it is assumed that in underdeveloped countries SOC or DPA cannot be expanded simultaneously.

While the former is called *Development by Excess Capacity of SOC*, the latter is known as *Shortage of SOC*.







# FORWARD AND BACKWARD LINKAGES

Creating unbalances are a pre-requisite of economic growth, according to Hirschman. However the question arises, how to identify the activities with which to create imbalances in the system. This necessitates the knowledge of inter linkages across different sectors of the economy.



The following are classified as linkages by **Hirschman**:

- **Backward linkages**- growth of a set of industries stimulates the growth of those which supply raw materials. Setting up a steel plant for example, would stimulate the demand for steel scrap, coal and other related goods. Production of these goods will accordingly increase.

- **Forward linkages-**

**Forward linkages refer to the growth of certain industries owing to the initial growth of those which supply raw materials. Expansion of steel industry, for example, will encourage industries making machine, tools, etc. using steel as their basic input..**

**Study of these linkages facilitates the choice of activities through which growth with imbalances should be generated in the system. Industries with maximum linkages ought to be developed first.**

# Features of Theory of Unbalanced Growth

- The theory propagates that with a view to accelerating the process of growth, investment should be first made in the key sectors of the economy.
- The theory is based on the principles of inducement and pressures. It is the inducement or pressure generated by some initial investment that calls for subsequent investment in other activities or production.
- The theory corroborates the hypothesis of the “*BIG PUSH*”.
- The theory is based on real life observation.
- The theory recognizes the significance of public sector with regard to SOC activities.

# Merit of The Theory of Unbalanced Growth

- **Realistic Theory:** *The theory of unbalanced growth is a realistic theory. The theory suggests appropriate utilization of the scarce resources in less developed countries. The theory considers all aspects of growth planning.*
- **More Importance to Basic Industries:** *The theory underlines the significance of basic industries in the process of growth. This will automatically press for the growth of consumer-goods industries.*
- **Economies of Large Scale Production:** *The strategy of unbalanced growth generates economies of large scale production. Establishing key industries calls for the establishment of ancillaries, generating all round increase in income and employment.*
- **Encouragement to New Inventions:** *Unbalanced growth generates pulls and pressures in the system, calling for new inventions and innovations.*

# Merit of The Theory of Unbalanced Growth

- **Self-reliance:** *Self-reliance is the under-current of the theory of unbalanced growth. It starts with the realistic assumption of chronic scarcity of resources in less developed countries and contemplates to initiate and accelerate the process of growth in accordance with the needs and means of the country concerned.*
- **Economic surplus:** *The strategy of unbalanced growth is expected to generate greater surplus in the system. This is because of its emphasis upon the capital-goods industries. This strategy is also expected to produce a very strong multiplier effect in the system, stimulating income and employment.*

# Criticism of The Unbalanced Theory of Growth

- **Inflation-** *The theory gives undue emphasis to development through industrialization, not withstanding the significance of agriculture. Because of long gestation lags in industries, flow of goods is expected to be constricted during the short period, causing inflation.*
- **Wastage of Resources-** *Being concentrated on a couple of industries, resources may not be appropriately utilized. Some sectors of the economy will grow at a faster rates while other sectors will remain neglected.*
- **No mention of obstacles-** *Paul Streeten observes that the theory only mentions the establishing key industries presses for the establishment of other industries. But the theory is oblivious to the possible difficulties in establishing key industries to begin with. It is not an easy task to establish key industries right at the beginning of a development programme.*
- **Increase in uncertainty-** *The theory inherently assumes that the success of the growth process depends on external trade and foreign aids. This increases uncertainty of the growth process.*

## Criticism of The Unbalanced Theory of Growth

- **Unbalance is not necessary**- *The critics are of the opinion that deliberately introducing unbalances in the system is not so much needed in the less develop countries. These imbalances are caused on their own due technical indivisibility and uncertain behaviour of demand and supply forces.*
- **Neglect of the degree of unbalance**- *How much to imbalance and where to imbalance are not known by the theory of unbalanced growth. It only tells of the need to imbalance.*
- **Linkages effect are not based on empirical data**- *Prof. Hirschman has advocated to start only those industries that have maximum linkages effect. But these effects are not based on statistical data pertaining the less developed countries.*
- **lack of basic facilities**- *'Unbalanced Growth Theory' assumes the availability of certain basic facilities in terms of necessary raw materials, technical know how and developed means of transport. However in less developed countries mostly these are insufficient.*

# Dissimilarities between Balanced Theory and Unbalanced Theory:

- **The theory balanced growth advocates the simultaneous growth of all sectors of the economy. The theory of unbalanced growth, on the other hand, focuses on the growth of some key sectors of the economy to begin with.**
- **Balanced growth hypothesis seeks to accelerate the process of growth through simultaneous investment across all sectors of the economy. The unbalanced hypothesis however, seeks to accelerate the process of growth through imbalances in the system.**
- **Balanced growth requires a lot of capital investment right from the beginning of the growth process. Unbalanced growth requires relatively much less investment.**
- **Balanced growth strategy is a long period strategy of growth, while unbalanced growth is a short period strategy for growth.**
- **Size of the market is the principal limiting factor as according to the balanced growth theory. But according to the unbalanced growth theory, it is decision making and entrepreneurial skill.**

That's the End!

THANKS FOR LISTENING

Footer Text Goes in Here