highly capital intensive technique & vice versa

Balance Growth
VS
Unbalanced Growth.

Balance growth:-

The theory of balance growth States that there should be simultaneous & harmonious development of diff sectors of the economy so that all sectors grow in union. The doctrine of balanced growth requires 3 types of balance in the economy →

1) Balance in supply
2) Balance in Demand
3) Sectoral balance:

Balance in Supply — Balance in supply side implies complimentarity & external economy among industries & vertical sector of an Economy. It is desirable due to external economies & for ensuring adequate supply of raw-materials. It is the inter-related sector which leads to development of intermediataries goods, raw material, power, agri & irrigation & transport and all industries producing consumer goods. Therefore, expansion of each field of prodn should take place in keeping with the national income, elasticity for demand for the product,

ii) Balancing Demand

It refers to the complimentaries among valuable industries, specialy among consumer goods industries, agriculture & horizontal sector where investment is made in number of industries at a time. The generated income would provide demand for one anothers product & further create investment.

iii) Sectoral Balance - It means a balance development ~~in~~ of all the independence sectors ~~being interdependent of various~~ sector of an economy. As agri & industry are complimentary to each other thus expansion of industry will require expansion of agri

& vice versa.

The doctrine of balance growth has been advocated by Rosenstine Rodan, Ragnar Nurkse, ~~Art~~ Arthur Lewis, Scitovsky, Harvey Labenstine.

Rodan emphasised on the scale of investment necessary to over come in-divisibilities of both the supply side & demand side of development process. Indivisibilities of supply side refer to the lumpiness of capital & the fact that only investment on large no. of activities simultaneously can take advantage of external economies of scale. Indivisibilities on the ~~In~~ demand side refer to the limitation imposed by the size of the market on the profitability & hence feasibilities of economic activities. ~~The~~

The Doctrine was later extended to refer the path of economic develop-ment & pattern of investment necessary to keep the diff sector of the economy in balance so that lack of development in one sector doesn't impade (hamper) develop-ment in other.

There are 2 diff version of balance growth doctrine:-

1) The scale of investment necessary to over come

indivisibilities on the productn process on both side of the market ⟹

According to Rodan, the demand side is limited by the sudden activities which may not be economically viable. If, however, several activities are established simultaneously each could provide a market for the others product so that activities that are not profitable ~~either~~ are also considered in the context of a large scale development programme.

On the supply side, the arguement for a big push is bound up with the existance of external economies for scale. In the context of development theory External economies of scale are refered to the impact of large investment program on the profit functn of partici-pating firms. If there exist external economies, the social return of an activity exceed the private return.

2) The path of development & the Pattern of investment necessary for the smooth functioning of the economy ⟹

The proponents of this version of balanced growth doctrine were R. Nurkse & Arthur Lewis. This version stress the necessity of balance bet'w sectors of the economy to prevent the bottle neck developing in some sector which may be a hindrance to development & excess capacity in others, which would be wasteful. They emphasise on achieving a balance betw a agricultural & industrial sector of developing economies. This is for 2 main reasons both of which recognise the interdependence betw 2 sectors & a mutual assessment & stimulus that each can give the other.

Limitations :-

The doctrine of balance growth has be criticized by Hirschman, Singer, Kurihara on the following grounds :-

1) Rise in cost – Simultaneous estb of a no. of industries is likely to raise money cost & real cost of productn & so make them economically unprofitable to ~~operate~~ operate.

2) ~~Low~~ No attention to reduce cost – This theory doesn't consider the possibility of cost reduction in existing industries instead of starting new industries

3) Wrong Assumption :- The doctrine of balance growth is based on the wrong assumption that an UDC start from a scratch.

4) The principle of balance growth overlooks the inefficient administrative capacity of UDCs.

Theory of unbalance Growth:-

The theory of unbalance growth is opposite of the doctrine of balance growth. According to these concept, investment should be made in ~~sect~~ selected sector rather then simultaneously in all sector of an economy. NO UDCs possess capital & other resources in such quantities as to invest ~~synro~~ simultaneously in all sectors. Therefore investment should be made in selected sector or industries for their rapid development & the economies accruing or deriving from them can be utilised for development of other sector.

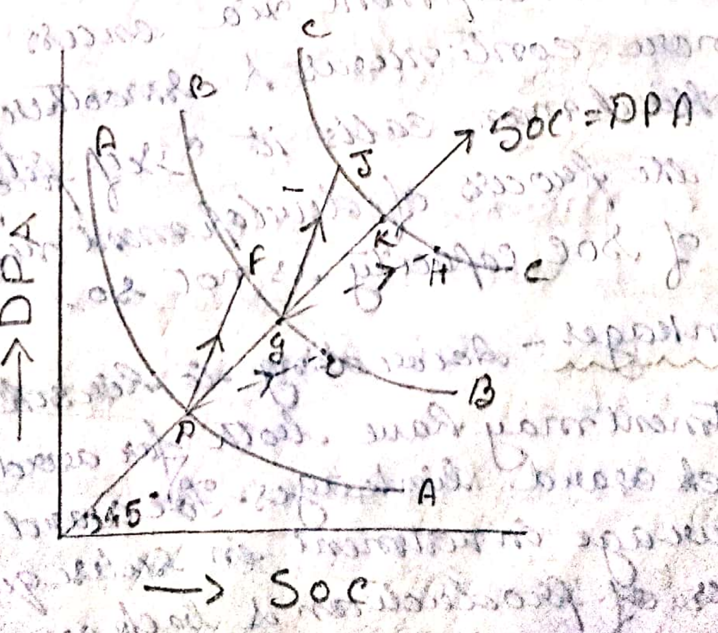
The concept of unbalance growth has been popularized ~~ft~~ by Hirschmen. According to him, investment in strategi-cally selected sectors of economy will lead to new investment oppurtunities & have the way to further economic development.

Hirschmen distinguishes two types of investment choices-

1) Substitution choices
2) Postponement choices

① Substitution choices are those which involve a decision as to either project A & B i.e which should ~~be~~ preceed the other. Hirschmen is mainly concern ~~2) Hirschmen is mainly~~ with postponement choices & how they are made. According to Fleischmen in postponement choices, emphasise should be given to that sequence of project which maximize induce decision making. Fleischmen elaborate in this argument by the relation betw social overhead capital & directly productive activities.

Social overhead capital (SOC) as comprising those basic services without which primary, 2ndary & tertiary productive activities can't function. The case in which (SOC) proceeds directly productive activities (DPA) is called 'development via excess capacity' & the case in which DPA proceeds SOC is known as 'development via shortage.' Both sequences create inducement pressures conducive to development which can be explain with the help of the following figure.



In the figure the curves AA, BB & CC are isoquants showing various quantities of DPA & SOC. As we move to a higher curve it represents higher G.N.P.

Hirschman makes 2 assumption—

1) SOC & DPA can't be expanded simultaneously.

2) The sequence of expansion should be adopted which maximizes induce decision making.

If the path of development is followed via S excess capacity the economy will follow the sequence DEGHK. If the other path to development via shortage is followed, the economy moves along the line DFGJK. ~~It is to be noted that~~ According to Hirishman, development via shortage is a instance of disorderly compulsive sequence while via excess SOC capacity is essentially permissive. It is pointed out that development via excess capacity is more continuous & smoother & ~~Hir~~ Hirchman calls it "self propelling". But the process of development via ~~SO~~ shortage of SOC capacity is not so.

Linkages – According to hirschman, any investment may have both forward ~~&~~ linkage & backward linkages. Forward linkages encourage investment in subsequent stages of production & backward linkages effect in earlier stages in production. The problem is to choice project which will have this greatest 'total' linkage. The projects with greatest linkage vary from country to country & they can be found out only through studies of input output tables.

Hirschman points out that operations some ~~which~~ in the middle of the pro-duction process may have higher total linkage effect than operations ~~on~~ at the beginning or end of the production process. This is because in the UDCs, the interdependence & ~~or~~ linkage effects are week. According to Hirschman a meaning full concept of linkage would be investment decisions up~~ward~~ or down the line which are promoted by creation of a perticular industries.

In case of UDCs, backward link-age is more reliable then forward linkage. In this connection Hirschman is not in favour of ~~two~~ too ~~early~~ encourag-ment of import replacing industries. He regards forward linkage as an imp, powerfull reenforcement to backward linkage rather then as an independent induce-ment mechanism.

Limitations

1) The success of unbalance growth lies in the availabity of basic facilities like raw materials, power supply, transportation,

communication etc. Lack of such facilities in UDCs are major constrain for the implementation of the ~~strategy~~ strategies.

2) The theory puts too much emphasis on the investment decisions & at the same time neglects administrative, management, policy decision for the promotion of economic development.

3) The study of linkage effect requires the mutual dependence of industries & such dependence lack the initial stages of economic development in UDCs.

Balance growth VS unbalance growth -

Similarities

1) Balanced as well as unbalanced growth both aim at rapid economic development of the economy.

2) Both theories ~~except~~ accept the basic requirement of adequate minimum scale of investment.

3) Both balanced & unbalanced growth give rise to external economies.

4) Both require state planning, direction & cordination.

5) Both theories believe in the existance of a private enterprise system based on market mechanism.

7) Both the theories ignore the role of supply limitations & supply ~~dissim~~ inelasticities

Dissimilarities

1) Balance growth stresses on the simultaneous development of all sectors while unbalance growth emphasises only on the leading sector of the economy.

2) Balance growth doesn't considers the prob of shortage of capital while unbalanced growth takes special consideration of shortages.

3) Unbalance growth believes that industries are competitative whereas balance growth accounts that they are complementary to each other.

4) Balance growth believes state planning is imp but unbalance growth consider it voluntary.

5) ~~Unbalance~~ Under balance growth, growth is gradual & harmonious while in ~~harm~~ unbalance growth, it is uneven & disorderly.

6) Under balance growth doctrine bottlenecks are spread in the whole economy while under unbalance growth they are consontrate only on certain regions of the economy.