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Topic - Rostow's stages of Economic Growth

Economic Development is a multidimensional phenomenon and is influenced by both economic & non-economic forces.
Many economists are of the opinion that during the course of its development a country passes through different stages and hence it is possible to split the process of development into specific stages of economic growth.

Karl Marx believed that a society has to pass through feudalism, bourgeoisie capitalism, socialism & communism during the process of its development.

In the view of Friedrich List & Hildebrand the three stages of economic development are Primary, secondary and Tertiary.

W. W Rostow, however propounded an alternative theory of the stages of growth. He said much emphasis on social & institutional factors as vital agents of economic development.

Rostow in his 'The stages of Economic Growth' (1960) discussed the historical perspective of economic development & rightly stated that it is useful to split the history of development of nations in different stages.

According to Prof W. W Rostow, the process of

economic development can be divided into the following five stages;

1. The Traditional Society
2. The Pre-conditions for Take-off
3. The Take-off
4. The Drive to Maturity
5. Age of High Mass Consumption

I. The Traditional Society

According to prof. C.P. Kindleberger, "The traditional society rests in static equilibrium until it is disturbed by some such mechanism as that is postulated by Hugen."

W.W. Rostow, described traditional society "a one whose structure is developed within limited production functions, base on Pre-Newtonian science & technology & Pre-Newtonian attitudes towards physical world".

The structure of traditional society was based on primitive technology & orthodox ideas of people. The modern facilities of science & technology were absent.

In the traditional society, the social structure was such where family played dominant role. Political Power was centred in the hands of landlords. Bulk of population were engaged in agriculture which was a major source of income of the state.

There is no special change in the traditional society and even if some changes are found then it is not

significant for economic development.
The Pre-Newtonian era is called traditional society. The dynasties of China, the civilisation of the Middle East & the Mediterranean etc possessed the characteristics of traditional society.

Features of Traditional Society —

The traditional society has the following main features -

1. Dominance of Agriculture - In this stage bulk of people were engaged in agriculture. But the progress of agriculture was backward as primitive methods of production were used.
2. Dominance of Family & caste system - In the traditional society there was hierarchial system in which family & class system played a dominant role. Individual virtues were ignored & fatalism obstructed the process of economic development.
3. Techniques - In this society, old traditional techniques were employed which were based on Pre-Newtonian science & technology.
4. Law of Diminishing Returns - In this society the diminishing returns prevailed in agriculture. It is basically due to the use of old methods of production.
5. Ignorance about Development Avenues - In traditional society people remain ignorant about development avenues.
6. Unproductive expenditure - The expenditure incurred

in this stage by the state was unproductive like building up of memorials, expensive funerals, expenditure on luxuries by rulers.

7. Economic Activities

8. Political Power.

II. The Pre-Conditions for Take-off

The second stage of economic growth is the preconditions for take-off. In this stage all those changes which transform the traditional society into preconditions for take off are being studied. In this stage besides economic factors, non-economic factors like political, social, cultural are also studied.

This stage has duration of around 100 years which shapes the economy for the stage of take-off.

In the words of W.W Rostow,

"The second stage of growth embraces societies in the process of transition that is the period when the pre-conditions for take off are developed."

In the view of Kindleberger, "The Pre conditions stage brings slow changes particularly in attitudes and organization. In this stage occupational, geographical & social mobility are found."

Transport becomes cheaper whereas commerce spreads. Also there is adoption of new production functions in agriculture & industry.

education also spreads & also there is emergence of new investors & entrepreneurs & financial institution. Thus Pre-conditions for take-off is an era when society prepares itself for sustained growth.

Features of the Pre-Conditions for Take-off —

1. Importance to non-agricultural sector - There is less dependance on agriculture as compared to traditional society. It is because other sectors like industry, trade, transport etc are in the process of development.
2. Technological Development - Technological development can be seen in this stage due to which there is increased capital formation. As a result investment level also shows upward trends.
3. Exports & Imports - In this stage finished goods, capital goods & machinery are imported but raw materials, minerals & semifinished goods are exported.
4. Stress on Development of Transport - The greater stress is laid on the development. As a result expansion of transport & ~~commerce~~ communication takes place.
5. Economic & social Costs - A part of the government revenue is devoted to the construction of roads, dams, bridges, besides schools, hospitals and so there is development of infrastructure
6. End of Conservatism - ~~under~~ unnecessary conservatism

comes to an end and the economy drives on the path of modernization.

7. Decline in Birth Rate

8. New Ideology - Dogmatic views are replaced by new ideas

III. The Take-off

The third significant stage of growth is the stage of take-off.

The period of this stage is 20 to 30 years during which the economic development process is automatic and the economy becomes self-reliant, which means than an economy can develop without external assistance. New industries are setup which generates saving due to which investment level goes up, which in turn helps in raising N.I.

Once the economy enters into self generating growth then economic forces accelerate the process of economic development.

The self-reliant growth is known as take-off, an initial push, a big push, a critical minimum effort, a great leap forward.

According to W.W. Roston, "Take-off is an industrial revolution tied directly to radical changes in methods of production having their decisive consequences over a relatively short period of time".

It is also called "a great watershed in the life of modern socities."

The table below shows tentative take-off years of different countries.

Country	Year for Take-off
UK	1783-1802
~~Gr~~ France	1830-1860
U.S.A	1843-1860
Germany	1850-1873
India	1952
China	1952

Conditions for Take-off :

Prof. Rostow suggested following three conditions for making the growth process self sustained.

1. A rise in the rate of productive investment from about 5% or less to over 10% of N.I or net national pro
2. The development of one or more substantial manufacturing sections, with a high rate of growth.
3. The existence or quick emergence of a political, social & institutional framework which exploits the impulses of expansion in modern sector & gives growth & outgoing character

They can be more briefly explained as –

(I.) **Rate of Investment :** The self sustained growth requires a high level of investment in an economy. Rostow suggested that the rate of net investment should be over 10% of national income if an economy is to enter the stage of self propelling growth.

If the capital rate is assumed to be 3.5 : 1 & if

population growth rate is 1 to 1.5% per annum then atleast 10.5 to 10.5% of the net national product must be invested regularly in order to achieve 2% growth of ~~percent in~~ capita income. On the basis of these assumptions, prof Rostow concluded that for take off it is necessary that the rate of investment in the economy must rise from 5% of N.I to 10% or more.

Thus the perpetuation of growth required a high proportion of the investment to real income during the take off period.

An adequate supply of loanable funds is essential for raising the rate of investment in the economy. Thus for maintaining adequate finance for take off it is necessary that;

(1) the community's surplus over consumption does not flow into the hands of those who would utilise it by hoarding, luxury consumption or low productivity investment outlays.

(2) one or more sectors of the economy must grow rapidly and entrepreneurs in these ~~sect~~ sectors must plough back a substantial part of their profits to productive investment.

(3) foreign capital can be profitably utilized for building up social & economic overheads.

II. Development of Leading Sectors : Another condition for take-off is the development of one or more leading sectors in the economy.

Rostow regarded the development of leading sector as an 'analytical bone structure' of the stages of economic growth.

There are generally three sectors of the economy -

1. Primary growth sector

In the words of Rostow, "Primary growth sectors are those whose possibilities for innovation or the exploration of newly profitable avenues or hitherto unexplored resources yield a high growth rate & set in motion expansionary forces elsewhere in the economy."

Such sectors initiate & stimulate growth in other sectors till the growth process becomes self sustained.

2. Supplementary Growth Sector - According to Rostow supplementary growth sector are those "where rapid advance occurs in direct response to or as a consequence of advance in the primary growth sector". These sectors develop as a consequence of development of primary sector.

3. Derived Growth sector - In words of Prof. Rostow, "Derived growth sectors are those where advancement occurs in some fairly steady relation to the growth of total real income, population, industrial production or some other overall modestly increasing variable"

Agriculture, industrial, housing & Transport are included in derived growth sector.

Rapid growth in one or more manufacturing

sector is powerful engine of economic growth. Growth in sectors having new production functions of high productivity leads to increased output, increased income, increased savings & investments which leads to development & expansion of other sectors

III. Cultural Framework that exploits expansion –

The last requirement for take-off is the existence or emergence of cultural framework that exploits the impulses to expansion in the modern sector.

A necessary condition for this is the ability of the economy to mobilise larger savings out of an expanding income to raise effective demand for the manufactured products & create external economies through expansion of leading sectors

IV. The Drive to Maturity

It is a period of long sustained growth extending over four decades. New production techniques takes place of the old ones. During this period the rates of saving & investment reach at such a magnitude that economic development becomes automatic.

Roston describes The Drive to Maturity, "as the period when a society has effectively applied the range of modern technology to the bulk of its resources."

As the economy drives to maturity, the overall

capital per head increases, also new leading sectors are created. Working force becomes technically skilled and the country's foreign trade undergoes a radical change.

Great Britain attained the drive-to maturity stage in 1850 while United states attained it in 1900.

Significant Changes under Drive to Maturity Stage

The significant changes which take place within a society in drive-to maturity stages are:

1. The process of maturity lays basis for economic & social reforms. The composition of workforce changes. This class becomes more skilled and they develops the tendency for urbanisation & prefers to enjoy modern amenities

Rostow estimated that the percentage of working force depending upon agriculture declines from 75% to 20%. when economy reaches its maturity stage.

2. The character of leadership changes. The control of industries passes into hands of efficient & polished managers. Drive to Maturity witness dynamic leadership, which foster human relations between employers & employees. The industrial peace & social security becomes the hallmark of the maturity phase

3. As the maturity phase of the economy comes to close, the society prepares itself to embrace the change & to liquidate the freedom

V. The Age of High Mass Consumption

After the stage of drive to maturity, the age of high mass consumption dawns. In this stage ~~section of the society leading~~ the leading sectors of the economy produce durable consumer goods & services like automobiles, refrigerators, televisions, VCRs, ACs etc.

Prof. W.W. Rostow favoured the view that economic welfare can be raised by following three method

(1) The aim of the government is to raise power & influence beyond the country.

(2) There should be more equitable distribution of income & it can be done through progressive taxation, increased social security & leisure to working force

(3) To create new commercial centres & leading sectors.

Features of High Mass Consumption

(1) There is enormous increase in national & per capita income

(2) The rate of investment of this stage goes upto the rate of 20% or more.

(3) There is substantial improvement in the employment opportunities

(4) Aggregate & per capita income become quite high

(5) Consumer sovereignity increases

(6) Society assumes the role of welfare states

(7) More financial security prevails

(8) Consumption of comfort & luxuries rises

Criticisms:

Rostow's analysis of economic growth has aroused a mixed reaction. On one hand, his treatment of growth is highly commended while on the other the same piece of economic literature is severely criticised.

1. Traditional Society not essential for development - A number of nations such as the United states, Canada & Australia were born free of traditional societies & derived the preconditions from Britain, a country already advanced. so it is not essential for growth that a country must pass through 1st stage.
2. Overlapping of different stages - The stages of economic growth mentioned by Rostow are not mutually exclusive & they may overlap each other
3. Criticism of the Take-off - The most widely discussed, severely criticized & controversial stage is the take-off.
4. Lack of Basis - Rostow failed to provide any basis of distinctly separating one stage from the other. It is difficult to ascertain when a particular stage begins & the other ends.
5. Not Applicable to all countries
6. The stage of drive to maturity puzzling
7. Stage of High Mass consumption not chronological
8. concept of self sustained growth misleading