

APPENDIX I

DEVELOPMENT THEORIES AND MODELS

The development thinkers have propounded many theories and models which view development from different approaches and recommended different measures to achieve development of desired level in desired direction. For an instance, in past the stress was laid on having high economic growth and increasing savings to achieve development, while in present times development is seen in terms of human development. Most of the theories and models of the development originated in the West and were meant for Western societies and they were peculiar to those cultures and conditions. These development models, though western-oriented, were recommended for the countries of the Third World. Following is a brief account of main theories and models of development that have dominated the development literature:

The Classical Model

This school of thought argued that small population produces more returns from land which increase over the time, however, with the growth in population the returns start decreasing. Constant and adequate capital ensures technological progress but hike in labour costs and declining returns may retard technological advance. Over the longer period of time economy may become stagnant.¹ “The classics assumed that savings were automatically invested and they made no distinction between accumulation, investment and savings. These were all identical expressions for them.”²

Linear Stages Growth Theory

It is believed by development thinkers generally that all the rich, developed and industrialized countries that exist today were once poor and undeveloped agrarian societies. They have transformed themselves into developed countries passing through development stages. And the capitalism has played very important role in their transformation. Rostow’s model and

¹ Benjamin Higgins, *Economic Development- Problems, Principles and Policies*, New Delhi: Universal Book Stall, 2003, p. 64.

² Sukhamay Chakravarty, *Development Planning: The Indian Experience*, Oxford University Press, New Delhi, 1987, p. 2.

Harrod-Domar's model are mainly included under the linear stages theories.³ The Solow model is also included among linear stages theories.

Rostow's Stages of Growth-The stages of growth model of development was propounded by the American economic historian Walt W. Rostow. He explained that all countries have to pass through various stages of growth before achieving development and hence becoming developed. The journey starts from underdevelopment which is considered first stage. He suggested that higher growth of the economy can be achieved by producing adequate investment with the help of both domestic as well as foreign savings.

Harrod-Domar Growth Model-Any country which wishes to grow economically to higher level will have to save part of its national income, which can be used to bear the cost of wear and tear or replacement of capital. The growth, according to this model, is directly proportional to amount of investment and savings generated in the economy. However, the real growth rate that a country can achieve depends on additional output that an additional unit of investment can generate. This model, according to Ray, has "both descriptive and prescriptive value. The growth rate depends on certain parameters and, in a free market economy; these parameters are determined by people's tastes and technology."⁴

The Solow Model

The principle of diminishing returns forms the basis of this model. However, Solow considers diminishing returns on individual factors of production. Here the relationship between labour and capital is inverse type which means small volume of capital will be enough in case of abundance of labour. On the contrary, large amount of capital will be needed when there is shortage of labour. "The rate of Solow model does not affect the long-run growth rate of per capita income, but it certainly affects the long-run level of income."⁵

Both Rostow, Harrod-Domar and Solow models are criticised that they had not achieved expected success because both could not take into account the distinctive settings and conditions of developing countries which were in quite contrast to European countries where Marshall Plan

³ Michael P. Todaro, and Stephen C. Smith, *Economic Development*, Pearson Education, New Delhi, 2003, p. 112.

⁴ (Ray, 2011: 64-68).

⁵ (Ray, 2011: 64-68).

witnessed significant success. Secondly, it was believed that growth is neither necessary nor sufficient condition for development.⁶

Structural-Change Models

Structural-change theory lays emphasis on change in structures from obsolete to modern in the economy to grow from underdevelopment to development. It gives priority to industry and service sectors over agriculture sector to move on the path of development. The ‘two-sector surplus labour’ and the ‘patterns of development’ as empirical analysis are two examples of this theory.

Two-sector surplus labour Model of Lewis-it is considered One of the most famous models during 1950s through 1970s of development for subsistence economies of the Third World, which had surplus labour in traditional rural sector. It was named after its formulator W. Arthur Lewis who was awarded Nobel Prize in 1979. Being focused on both rural and urban sector it was named “two-sector model”. Lewis recommended (assuming that wages in urban sector are at least one third more than rural sector) moving surplus labour from a traditional, overpopulated rural subsistence sector to a high-productivity modern urban industrial sector, thus employment growth is also achieved along with output expansion. The rate of industrial investment and capital accumulation determines output expansion. Its criticism is rooted in its assumptions that does not suit ‘institutional and economic realities of most contemporary developing countries’. Todaro says when judged against “the labour saving bias of most modern technological transfer, the existence of substantial capital flight, the widespread non-existence of rural surplus labour, the growing prevalence of urban surplus labour, and the tendency for modern-sector wages to rise rapidly even where substantial open unemployment exists”, then it becomes necessary to make new assumptions and analysis in Lewis two-sector model to make it applicable to developing countries.⁷

Structural Change and Patterns of Development- Hollis B. Chenery was main advocate of this model of development. Its emphasis is also on the series of steps that an underdeveloped economy goes through effecting changes in its structures so that new industries instead of agriculture sector accelerate economic growth. In this model “increased savings and investment are perceived by patterns-of-development analysts as necessary but not sufficient conditions for

⁶ Michael P. Todaro, and Stephen C. Smith, *Economic Development*, Pearson Education, New Delhi, 2003, pp. 112-118.

⁷ Ibid, pp. 119-121.

economic growth.” The physical and human capitals along with economic structure play an important role in the transformation ‘from a traditional economic system to a modern one’. The model mentions domestic as well as international constraints on development and these are the latter constraints that cause variance in transition of currently developing countries from that of now industrialized countries that were once developing. The model proposes that developing countries (‘being a part of a highly integrated international system’) can ensure their faster transition as compared to industrial countries’ transition in their own times.⁸

The International Dependence Revolution

This model became very famous in 1970s particularly among scholars from developing countries. International dependence models perceive that developing countries are in trap of dependence and dominance relationship with developed countries. It argues that developing countries have to negotiate with rigidities-institutional, political, and economic, of both domestic and international level. Three major streams of thought: the neo-colonial dependence model, the false-paradigm model, and the dualistic-development thesis form part of this approach of International Dependence are discussed below.

The Neo-colonial Dependence Model-This model is seen as an extension of Marxist thinking because it considers historical growth of capitalism to be the main reason of underdevelopment in an international system where unequal power relationships between rich and poor countries dominate. These unequal power relationships perpetuated by the rich countries (the Centre) thwart any attempt of poor countries (the periphery) to become self-dependent and self-reliant. Another reason of continued underdevelopment of developing nations is dominant prevalence of elite groups (the Comprador groups) whose basic objective is to let this system continue as it churns out unprecedented benefits, power and influence to them. Therefore, this international dependence approach sees underdevelopment as the externally induced phenomenon which can be tackled in two ways- first, by revolutionary struggles and second, by radically amending world capitalist system. Kuhnien views development of rich countries and underdevelopment of poor countries from the point of view of historical development and consider it deliberate ‘downward development’ rather than as ‘backwardness’.⁹

⁸ Ibid, pp. 121-122.

⁹ F. Kuhnien, “Causes of Underdevelopment and Concepts for Development: An Introduction to Development Theories”, *The Journal of Institute of Development Studies*, Vol. VIII, 1986,1987, p. 8, Peshawar, retrieved from <http://www2.fiu.edu/~ereserve/010029280-1.pdf>

The False-Paradigm Mode-It is second model as a part of international-dependence approach to development and it is considered less sweeping than the neo-colonial model. It traces cause of underdevelopment of developing countries in wrong and manipulated assistance and guidance provided by international funding and aid agencies which are just puppets in the hands of developed countries. The recommendations suggested to developing countries by these international agencies is biased and unsuitable and often do not fit into the social, economic, cultural, institutional, administrative, and political structures of developing countries. Besides it, training, academia and intelligentsia for being largely west-oriented is another culprit which keep real actors away from real developmental problems. This situation thwarts attempts aimed at introducing reforms in institutions and structures and it perpetuates underdevelopment of poor countries.

The Dualistic-Development Thesis-The dualism refers to simultaneous existence of super rich people and areas; and of extremely poor vast masses within broad areas of poverty. It points out gap and differences that exist at various levels between rich and poor countries; and rich and poor peoples. A set of four arguments are forwarded by this approach-*first*, simultaneous existence of superior and inferior conditions at some specified area; *second*, this coexistence of different conditions is not new or transitional rather they are in existence for quite a long time; *third*, the levels of difference does not seem to dissipate or decline rather they tend to rise; and *fourth*, there is no effect of superior factors on inferior factors in terms of betterment of inferior conditions, on the contrary, they further get denigrated.

Among the major demerits of international dependency models, there are two demerits that seem quite revealing-firstly, “they offer little formal or informal explanation of how countries initiate and sustain development” and secondly, “the actual economic experience of LDCs that have pursued revolutionary campaigns of industrial nationalization and state-run production has been mostly negative.”¹⁰

The Neoclassical Counterrevolution: Market Fundamentalism

In the 1980s, a neoclassical counterrevolution emerged in economic theory and policy in the United States, Canada, Britain, and West Germany, where it favoured supply-side macroeconomic policies, rational expectations theories, and the privatization of public corporations. While for developing countries it suggested free markets and doing away with

¹⁰ Michael P. Todaro, and Stephen C. Smith, *Economic Development*, Pearson Education, New Delhi, 2003, pp. 124-126.

government ownership and regulation along with statist planning. The hold of Neo-classicists in the World Bank and International Monetary Fund undermined influence of other UN bodies. This theory argues that excessive public control and wrong pricing policies coupled with inadequate resource allocation are the reasons of underdevelopment. Main proponents led by Lord Peter Bauer, Ian Little, Jagdish Bhagwati, and Anne Krueger believe that reason of slower economic growth in developing countries as compared to developed countries is intensive governmental intervention.

They further argue that higher economic growth can be achieved by removing unnecessary governmental controls and encouraging private industries along competitive market mechanism. Simulated and too much state control which breeds the corruption, inefficiency, and lack of economic incentives spoil chances of high growth in the developing nations. Therefore developing countries should, they recommend, encourage free markets and giving freedom in economic activities on lines of Asian Tigers. Among the three component approaches of neoclassical counterrevolution are the free-market approach, the public-choice approach, and lastly the ‘market-friendly’ approach.

Free-market analysis-argues that markets alone are efficient- producers know best what to produce and how to produce it efficiently. Under these circumstances, any intervention in the economy by government will distort the market mechanism and will not serve any good.

Public-choice theory-also known as the new political economy approach, argues that governments can do nothing right because of prevalence of a self-interested perspective which lead to using of power and the authority of government for selfish ends in the process of rent-seeking which results in wrong allocation of resources and a general reduction in individual freedoms. Therefore government which governs least is the best government.

The market-friendly approach-This approach recognizes the imperfections in markets of developing countries where governments can play important role in facilitating the operation of markets through market-friendly interventions in the form of creation of infrastructure-physical and social, medical facilities, and educational services by providing cordial environment for private industry.¹¹

According to Sukhamoy Chakravarty, inefficiency involved in allocation of resources, that can be invested, constitutes a major problem of developing countries is behind neoclassical

¹¹ Ibid, pp. 128-129.

approach. The government *per se* is the reason of this efficiency as heavy spending by it leads to inflation which forces government to shift expenditure in low priority areas. He says, “For the neo-classicists, investment and saving decisions are brought into equality via changes in the rate of interest and the rate of interest reflects the basic choice-theoretic fact that there is a cost of waiting to society as a whole.”¹²

Alternative Development Approach

This approach was given by E. F. Schumacher in his work *Small is Beautiful*. It is considered different approach than others because it talks about setting up small technology intensive production units instead of encouraging or building heavy industrial units in the poor developing countries. These small units will be self-reliant. While visiting India in early 1960s, to tackle rural unemployment, he suggested the government of India to set up such small scale industrial units in rural areas. He named his technology as ‘intermediate technology’ which he argued was better than technology of old ages and also better than technology of Western countries. However, for success of such a model of development people’s participation at local level is quintessential which can hardly be ensured.¹³

Gandhian Approach of Development

In a strict sense of theorising M.K. Gandhi had not proposed any particular theory of development as other development thinkers had. Therefore development approach of Gandhi comes from his ideas on development expressed him in his various writings. He characterised the political structure of that time as having centralising tendencies and he believed that sense of service was missing in contemporary politics. He, in his schemes of things, considered village as basic unit of development and economy which is self-sufficient and trusteeship one. Like Schumacher, he too was not in favour of large industrial units rather he believed that industry should be based on controlled wants. He viewed education as important tool in development which can play imperative role.¹⁴

¹² Sukhamay Chakravarty, *Development Planning: The Indian Experience*, Oxford University Press, New Delhi, 1987, pp. 2-5.

¹³ R.K. Saprú, *Development Administration*, New Delhi: Sterling, 2010, pp. 22-22

¹⁴ R.K. Saprú, *Development Administration*, New Delhi: Sterling, 2010, pp. 22-23.