Essay on failure of the development theory during the 1970s

Technology, Development

Development of a nation is a multi-dimensional process that involves the reorganization and reorientation of economic and social systems. It must encompass more than the financial or material aspect of people's lives and one of its essential components is economic progress. Aside from improvements in both income and economic output, development must also involve radical changes in various structures (e. g. institutional, social or administrative) and in popular attitudes. In multiple instances, change might also reach native customs and beliefs (Todaro and Smith 110).

During the 1950s and early 1960s theorists viewed the process of development as a " series of successive stages of economic growth through which all countries must pass" (Todaro and Smith 111). They postulated that the right amount and combination of savings, investments, and foreign aid were all that was necessary to allow developing nations to move along an economic growth path that had been followed by developed countries throughout the course of history. In this sense, development became synonymous with rapid economic growth.

Following World War II, interest in poor nations worldwide had begun to materialize. Economists in the more industrialized and developed nations had no experience in handling the process of economic growth in the undeveloped nations, which were largely agrarian societies and had virtually no modern economic structures. So economists decided to follow the success of the Marshall plan, which enabled the war-torn countries of Europe to rebuild and modernize their economies in a short span of time (few years' time) through massive amounts of financial aid and technical assistance from the United States. They further established this decision by rationalizing

that all modern developed nations had begun as undeveloped agrarian societies. This approach is often called " capital fundamentalism," and derives its name from its emphasis on the central role of accelerated capital accumulation (Todaro and Smith 112).

The stages-of-growth model of development was advocated by American economic historian Walt Rostow. It employed the strategy of domestic and foreign saving so that sufficient investment to accelerate economic growth would be generated, and followed the Harrod-Domar growth model (often referred to as the AK model). The main obstacle of following this development plan for undeveloped countries is the relatively low level of new capital formation. This " capital constraint" would then become an opportunistic tool for the developed countries to justify massive transfers of capital and technical assistance to the developing nations (Todaro and Smith 113).

Ultimately, this model of development failed during the 1970s because more saving and investment isn’t quite a necessary condition for accelerated rates of economic growth. Furthermore, people of developing nations did not earn enough to be able to save and, therefore, invest (Easterly 92). The reason the Marshall Plan worked for Europe is because the countries receiving foreign aid had the necessary conditions (structural, attitudinal, and institutional) in order to convert the new capital into higher levels of output in an effective and efficient manner (Todaro and Smith 116). Great fault lies on the fact that the Rostow and Harrod-Domar models assumed the existence of the same attitudes and conditions in the developing nations (Wade 1158-1159).

William Easterly, a world-renowned economist, succinctly elaborates on the events that led to the failure of economic development in undeveloped countries during the 1970s:

In the second half of the 1970s, the developing countries started to lose economic control. Many of them began to run large government budget deficits. They were able to keep the growth going for a while in the first half of the 1970s by heavy borrowing. But when commercial banks suddenly realized, after the Mexican financial crisis in 1982, that many countries were not creditworthy, they also stopped lending. The lending boom that had helped to keep growth going came to a halt, and then growth really declined. (92)

Thus the failure of the development theory in the 1970s was primarily due to lack of established structures to facilitate the efficient conversion of capital investment into higher levels of output.

Works Cited

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