

Analysis of rostows stages of growth economics essay



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Introduction

“ If we could first know where we are, and whether we are tending, we could better judge what to do and how to do it.”

Abraham Lincoln

Rostow's stages of growth theory saw development as a linear process under which national economies would develop under a set of universal premises common to every country. Far from such abstract reality were not only the international setting (external actors, foreign investment, terms of trade) but also the conditions that determine and constrain the path to development of different countries.

Among those are the historic conditions which, according to a fields of economic thought (neo-marxist and structuralist), set the constraints that many countries face in the process of development. Indeed, the gap between the developed and developing countries may be explained having into account historic determinations (including the Colonial Empires, Industrial Revolution, and underneath it all, the process of accumulation of capital and power by the industrialized countries) that led to such disparities. In this sense, the “ backward” countries don't have the same conditions for development that industrial countries had, and thus the linear stages of growth that Rostow designed do not seem plausible. How can different countries with a different set of historic conditions follow the same path to growth?

Yet, even today, economic aid policies are centered on the universality of goals and its means in detriment of the diversity and historical background

of countries. Policy packages containing general strategies and tools are often suggested (or imposed) to different developing nations - the implementation of the structural adjustment policies and its consequences are proof of such.

In light of that, I argue that development policies in general have been following Rostow's focus on linearity, universality and objectivity, neglecting the different particularities and constraints of countries. In my view, the reflection on historic conditions of development is determinant as it brings back a particular and contextualizing approach to development.

The linearity of Rostow's Stages of Growth and the conditions of development

The theory

In the year of 1960 Walt Whitman Rostow published a book that would not only become influential in the studies of development, but also quite controversial, stirring debate on the conditions of growth.

In this book, Rostow developed a linear model, according to which every country would pass through the same stages over time and eventually reach a level of sufficient and sustainable growth. There are five stages of growth, according to Rostow: the traditional society stage; the transitional stage; the drive to maturity stage; and the high mass consumption stage.

Under the traditional society, economic activity is limited to subsistence with the output (cattle, fish, lumber, etc.) being directly consumed by those who produce it. The economy is thus, centered on immediate needs and not on

trade, being formed by labour intensive activities such as agriculture, fishing, hunting and logging. When the society gains the pre-conditions 1 for take off but has not yet entered a phase of high growth, it reaches the transitional stage. Under this phase, trading becomes a central economic activity, with the entrepreneurs becoming an emergent class. Investments and savings accompany the increases in income and a transport infrastructure develops, maximizing the outcomes of trade and facilitating its internationalization.

Eventually, the conditions for fast growth take place and the society enters the take off stage, starting to industrialize, with the labour progressively being transferred from artisan and agricultural activities to manufacturing. Supporting this process of industrialization are the new established political and social institutions.

¹ The author does not elaborate on these pre-conditions, referring to them simply as the pre-requisites for fast growth. There are a lot of articles criticizing the vagueness of Rostow's theory, like Baran, Hobsbawm (1961)

Growth is self-sustaining and concentrated in certain regions and few industries. When the economy starts to diversify, the society reaches the drive to maturity stage. Under this phase, technological innovation provides multiple investment opportunities, leading to a diversified production of goods and services, decreasing the reliance on imports. Such eventually will lead to a consumer society, what Rostow designates by High Mass Consumption Stage.

Shaping development after the western experience

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Rostow's theory was criticized for being too vague and abstract. It positioned countries as isolated entities, whose development was not influenced by external actors nor by the terms of trade. Thus, the theory proved to be quite unpractical and unrealistic in a world shaped by international forces (let it be the financial markets, trade dynamics or migration flows).

But perhaps the point that led to more controversy was the conditions of growth. As previously stated, Rostow does not elaborate on what are the pre-conditions stated in the transitional stage and the conditions for take off. Yet, he does state that the main engines for economic growth are savings and investment. If a country was suffering a financial gap (lack of savings and thus, low investments), it could turn into a receiver of external aid which would help balance such gap. This assumption was based mainly on the Marshall Plan which, according to Todaro (2002), succeeded only because the beneficiaries gathered a number of conditions (developed transport facilities; skilled workforce; integrated market; etc) which allowed the conversion of new capital into higher levels of output in an efficient way.

Indeed, development policies in many cases have pursued a model that is founded in the direct observation of the most developed economies, accepting that the poorest countries today should follow the same path to development as did the now richest nations. 2

2 It is interesting to note that even Marx believed societies had to pass through capitalism in order to achieve economic development. In his own

words "The country that is more developed industrially only shows to the less developed the image of its own future". See Hunt (1989)

Yet, development practitioners seem to forget that the conditions for development are not equal- for instance, at the time of their industrialization, the western countries were able to utilize the abundant natural resources available in the poorest countries (Furtado, 1974).

Linearity

Here lies the main problem of Rostow's linear framework- it assumes the existence of the same conditions of growth in different countries, overlooking the heterogeneity and diversity that shape every nation and are intrinsically attached to the phenomenon of development.

In fact, there is no linear sequence that can adapt itself to the history of every country. When one defends that every economy must follow the same line of development, one is oversimplifying the complexity of the forces of development (Meier, 1976).

In truth, Rostow's theory does not help us to understand the economic and social conditions of a country, or to find out more about its possibilities and perspectives of development. In order to deeply understand the complexities of development one needs to study the different conditions (arising from history, culture, geography, etc) that the countries are endowed with.

The conditions of development

Todaro (2002) enumerates the following structural differences between countries: historical background ; size; endowments of resources ; ethic and religious composition; importance of public and private sectors; nature of industrial sector; degree of dependence on external factors; distribution of power; institutional and political structure.

All of these contribute to shaping nations in a unique way, giving them strengths and weaknesses that can only be understood having into account the different characteristics and conditions of different countries. But let us focus on the “ historical background”.

If we look back to the Industrial Revolution and the process of economic development of the western countries and compare it to the setting developing countries face today, we see that there is quite a different scenario.

For instance, industrializing countries of the XIX Century were economically in advance of the rest of the world and thus could take advantage of their strong financial position to widen the income gaps between them and the poorest countries. Conversely, today’s developing countries start the process of economic growth in an adverse situation, lagging behind the most developed countries (Todaro, 2002). In the same sense, western countries during the Industrial Revolution were far ahead in terms technological innovation which boosted and diversified their economies. In today’s world, the poorest countries face a great disadvantage in terms of technology, being dependent on imports from the richest countries (Todaro, 2002).

The question about the historic conditions of development has been the focus of attention by many authors, belonging from economic schools such as structuralism and neo-marxism.

The historic conditions of development 3

Structuralists such as Furtado and Sunkel conclude that the central features of underdevelopment are interlinked with the historic process of development of the now richest nations. In that sense, underdevelopment can be seen as a specific historical condition. (Hunt, 1989)

According to Furtado (1974), tackling the essence of underdevelopment is not an easy task: there are many dimensions and those that are visible are not always the most significant. Above all, what lies underneath the process of economic development is the level of accumulation of capital applied to the productive processes and the level of access to the final goods that characterize modernization.

3 It is important to stress that here, historic conditions are to be interpreted as historical events (e. g: Industrial Revolution, Colonialism, Slave Trade, etc) that have shaped societies in terms of diversity and uniqueness and are intrinsically related to the ability a country has to achieve development. It should not be confused with Marx's historic materialism which in terms of form can be compared to Rostow's stages of growth, in the way it proposes a linear process in which societies evolve. See Hunt (1989) and Moreira (1978)

The great transformations of the XIX Century occurred along two processes: the acceleration of the accumulation of capital and the intensification of international trade. Both these processes generated increases in labor productivity, leading to growing surplus which were utilized to further intensify the process of accumulation and to finance the diversification of private and public consumption. It was by appropriating that surplus, that England consolidated the implementation of a system of international division of labor, which would shape the evolution of industrial capitalism. Such would eventually determine the fate of the poorest countries in terms of prospects for development, with the process of accumulation of capital by the industrialized nations widening the gap between poorest and richest.

In a similar frame of thought, neo-marxists like Baran conclude that along the process of industrialization of the western economies, the poorest countries were drawn into a system of unequal exchange, making them dependent on more powerful nations, and in a weaker position to start their own process of development. These constraints are still visible today. In his own words: "... the forces that have moulded the fate of the backward world still exercise a powerful impact on the conditions prevailing at the present time. Their forms have changed, their intensities are different today; [yet] their origin and direction have remained unaltered. They control now as they have controlled in the past the destinies of the underdeveloped..." (Baran, 1957)

All in all, despite attempts at approaching development in a universal and linear way, it is neither possible nor tangible to tackle the specificities of a country taking into account general ideas, applicable to any reality. Such <https://assignbuster.com/analysis-of-rostows-stages-of-growth-economics-essay/>

approaches do not have into account the conditions that determine and constraint the path to development of different countries. Yet, to this day, they are still being applied, and their efficiency remains questionable.

Economic aid policies: universality of goals, homogeneity of means

Perhaps influenced by the linearity and lack of focus of theories such as the stages of growth, today's economic aid policies are centered on universality goals, while the means are quite homogenous, with little attention being given to the different particularities of societies.

Indeed, despite the diversity and historical background of different nations, aid packages containing the same general strategies and tools are implemented in various countries. Furthermore, these packages are often accompanied with conditionalities- a country is only eligible for financial aid if it follows a set of conditions (usually a number of policies)- which very often do not have into account the specificities of the economies in which they are going to be implemented. One clear example of that are the structural adjustment policies.

Structural Adjustment Policies: the inefficiency of big scale reforms

Structural adjustment loans were born under the command of World Bank president Robert McNamara in 1979. The idea was to give loans to developing countries on the condition that they adopted free markets by implementing a set number of policies, such as privatizations, establishment of flexible exchange rates, opening up the markets to international capital flows, decentralizing the central bank, decreasing public and social

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expenditure... Little or none attention was given to the particularities of the developing economies (importance of private and public sector, capacity of the market to endure external shocks, level of entrepreneurship etc), let alone historic and other conditions that shape and constraint their path to development.

It was decided that their economies needed big reforms in order for private projects to be productive. By that time, large scale reforms were thought to be more efficient than small and partial reforms. Yet, reformers overlooked the fact that it is impossible to do everything at once, due to lack of information. And besides, the reforms that come from the top are out of touch with the complexities at the bottom level. (Easterly, 2007)

These shock therapy reforms led to much inefficiency and in many cases, failed to boost the growth of the developing economies, making them more vulnerable on external pressures and dependent on further aid. Such was the case of the Côte d'Ivoire which received 26 structural adjustment loans in the course of 10 years (from 1980s to 1990s). During that period, the GDP per capita in the country contracted and the economy entered a period of depression.

In effect, Easterly (2007) studied a number of African countries who received many structural adjustment loans in a certain period and concluded that they had negative or zero growth⁴. Why did that happened? For once, certain African nations were not prepared to open up their markets to external investment, nor did they have a good position to trade with other countries. Furthermore, opening up capital markets did not bring an inrush of

capital as investors were more interesting in exploring African's natural resources (Stiglitz, 2007)

It is relevant to note that as a response to the failures and controversy generated by the reforms, the donors (IMF and World Bank) started to clean the image of structural adjustment and re-named it to poverty reduction loans. Yet, the focus behind it (big-scale reforms, imposition of policies despite the heterogeneity and diversity of the economies) remained unaltered. 5

The failure of such reforms shows that a country is not an abstract entity, and thus cannot be subject to homogeneous policies that don't have into account the specificities of the economy and the society as a whole. In the words of Easterly (2007): "[Aid bureaucracies] opt for universality rather than specificity, for worldwide « best practices» rather than what works in each locale".

4 Latin American countries seemed to suffer the same fate, with the best period of growth (1950-1980) being characterized with state intervention and taking place before they started to receive the loans. See Easterly (2007) and Stiglitz (2007)

5 One example of such was Tanzania which received a poverty reduction and growth facility loan from the IMF in 2000. In the press release it was stated that the structural reforms (which were conditioned to the loan) aimed at deepening the financial and capital markets, strengthening expenditure control and imposing monetary policies to reduce inflation. See IMF Approves <https://assignbuster.com/analysis-of-rostows-stages-of-growth-economics-essay/>

Poverty Reduction and Growth Facility Loan for Tanzania, April 5, 2000, in <http://www.imf.org/external/np/sec/pr/2000/pr0025.htm>

Contextualization as the new panacea for development?

Today's relevance of historic conditions of development

The structural adjustment reforms show us that the lack of scope and little information on the country where policies are implemented lead to bad results, proving that historic conditions of development remain relevant for the study of development. Effectively, they trace the constraints and challenges that a country has to face in pursue of development, and they also bring back a particular and contextualizing approach, overcoming the inefficiencies of linear methodologies which assume every country has the same conditions of growth.

How to put that into practice? Should development practitioners simply study country's particularities and historic conditions and plan accordingly? For instance, before implementing measures such as decreasing public expenditure they should be informed whether the population is much or little dependent on the state for public goods and services provision, and if there is room and capacity for private investment to take the role of the state in the provision of such. Adding to that, learning about the historical background of a country could help practitioners understand why some countries are unable to develop in a certain way, usually modeled after successful cases, let it be China's experience or European growth under Industrial Revolution.

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But besides getting more information about the specificities of countries, practitioners should also give way to those who know more about the realities and problems societies face- the people of those countries.

Overcoming democratic deficit: allowing countries to define own priorities and needs

In truth, top-down approaches to development, not only suffer from information deficits and generalizations, but they also leave little room for the population of the countries voice their opinions and demands, both having direct effects on the outcomes of implemented policies. These issues are interlinked with the composition and structure of the organizations that manage development policies, including the UN, World Bank and IMF.

Such institutions suffer from a democratic deficit in terms of decision making, with the richest nations having more influence and bargaining power, with some of them also possessing power of veto, having the supremacy of decisions (in the IMF, for instance, the United States are the only country with an effective veto).

In this scenario, poorest countries can't voice their opinions, let alone protect their interests. In many occasions, decisions regarding reforms in certain developing countries are taken without little feedback from the leaders of those countries, whose vulnerable economies make them accept any conditions in return of a loan.

It is thus necessary to engage developing countries in the decision making process, in order not only for the sake of the effectiveness of the projects,

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but also to improve the democratic principles of the institutions that govern development policies. As Stiglitz (2007) defends, it is critical to “[enhance] the ability of developing countries to participate meaningfully in decision making, by providing them with assistance in assessing the impact on them of proposed changes”.

Concluding Remarks

It is time for development practitioners to realize that generalizations and universal principles cannot be applied in a homogenous way, that countries are a construct of different social, economic and historic conditions, and thus cannot be subject to linear methodologies. Each country is the result of different dynamics, and contrary to what Rostow suggested, they can't follow the exactly same path to growth and development as other nations. Such assumptions have been a common practice, with development institutions neglecting the diversity of the countries they work with.

In the concluding chapter of his famous book *The Wealth and Poverty of Nations*, David S. Landes (p 592, 1999) declares that history taught us the most successful treatments of poverty come from the inside. Instead of imposing external models of development to countries, one should finally realize that what countries need are a precise strategy appropriate to their societies, and who in better position than the people who live there to formulate such strategies?