Theory Of Balanced Growth

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Intorduction

- The basic tenet of the theory is same as the big push- need to make simultaneous investments in a no. of industries as this would enlarge the size of the market and provide the inducement to invest.

Definitions of balanced growth

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- By Lewis: It means that all the sectors of the economy should grow simultaneously so as to keep a proper balance between industry and agriculture and for production and exports.
- By Alok Ghosh: Planning with balanced growth indicates that all the sectors of the economy will expand in the same proportion so that consumption, investment and income will grow at the same rate. It emphasizes that the balanced growth can occur when the growth rates of consumption, investment and income are equal to each other. i.e.,

Delta C by C = Delta I by I = Delta Y by Y

Views of Ragnar

- A country is poor because its poor, that is why vicious circle of poverty exists.
- VICIOUS CIRCLE OF POVERTY: A circular constellation of forces tending to act and react upon one another, in such a way, so as to keep a country in a state of poverty.
- SOLUTION : to expand or enlarge the market.

Views of List

Balance can be made in three ways:

1. Balance between agriculture and Industry.

2. Balance between Human Capital and Physical Capital.

3. Balance between Domestic trade and Foreign trade.

Balance between Agriculture and Industry

- It implies that an increase in industrial production will also require an expansion in agricultural production.

- And that these two sectors are not competitive but complementary.

Balance between Investment in Human capital and Physical Capital

- Apart, from physical capital human capital also needs investment.
- Abundant People in UDCs are illiterate, ignorant and superstitious. Investment in human capital improves the quality of manpower.

Balance Between Domestic and Foreign trade

- The expansion of domestic trade is essential for raising the flow of goods and services in a country. Domestic trade creates marketable surplus that leads to the expansion of foreign trade.
- Measures :

a) UDCs should reshape tariff policy according to needs.

b) Impose restrictions on import of luxury goods.

c) UDCs should make efforts to earn more foreign exchange.

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Essentials for the success of Balanced Growth

- Proper allocation of resources.
- Close coordination among the different departments of the economy.
- Positive role of the Government (state intervention).
- Favorable or conducive environment (public cooperation).
- Formulation and Implementation of Plans.
- Institutional factors should be in place.
- Technical Know-how.

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Benefits of Balanced Growth

- Inclusive growth.
- Balanced regional development.
- Wide extent of market.
- Division of labor and Specialization.
- Creation of social and economic overheads.
- Optimum utilization of resources.
- Increased possibilities of innovations and researches as simultaneous development of different industries leads to competition.
- Self-reliance
- Economic Stability.

Criticisms

- The principle overlooks the inefficient administrative capacity of UDCs.
- Danger of Inflation.
- Inadequacy of resources prevails in UDCs.
- Lacks historical sense:

For example-

The process of economic growth in almost all the countries was initiated through development of a few sectors.

England : leading sector was Textiles

America : it was Railway Industry

Japan : it was Iron and Steel Industry