CRITICAL MINIMUM EFFORT THESIS

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- According to Prof. Harvey Leibenstein the overpopulated and underdeveloped countries are characterized by the vicious circle of poverty.
- They have low per capita income. His ‘theory of critical minimum effort’ is an attempt to provide a solution to this economic problem.
- According to him, critical minimum effort is necessary to achieve a steady economic growth raising per capita income.

- “In order to achieve the transition from the state of backwardness to the more developed state, expect steady secular growth, it is necessary, though not always sufficient condition, the economy should receive a stimulus to growth that is necessary than a certain critical minimum size”-Leibenstein.
- Economic growth in the underdeveloped and overpopulated countries in not possible unless a certain minimum level of investment is injected into the system .- **This minimum level of investment is called ‘critical minimum effort’.**

SHOCKS & STIMULANTS

- According to Leibenstein, every economy is under the influence of two forces—'shocks' and 'stimulants'.

- **Shocks** refer to those forces which reduce the level of output, income, employment and investment etc.
- shocks dampen and depress the development forces. Stocks depress development forces which reverse the wheel of development.

STIMULANTS

- Stimulants
- refer to those forces which raise the level of income, output, employment and investment etc. In other words, Stimulants impress and encourage development forces. They are called ‘Income Generating forces’ which lubricate the wheel of development. Stimulants have the capacity to raise per capita income above equilibrium level.

Attitudes, Motivation and Incentives

Attitudes, Motivation and Incentives:

- According to Leibenstein, the generation of stimulants depends on attitudes and motivation of the people and the incentives given to them

- The main factors of economic development are the entrepreneurs, the inventors, the discoverers, the innovators, and those who can accumulate and utilize wealth, and those who can accumulate skills and spread knowledge.

Incentives

- It requires special type of human response to attitudes, motivations and incentives which are created by economic and social environment.

  Incentives:

- According to Leibenstein, there are two types of incentives that are found in the underdeveloped countries:
- (i) Zero-sum Incentives.
- (ii) Positive sum Incentives.

Zero-sum Incentives:

Zero-sum incentives are those which exercise zero effect on economic growth.

- It includes trading risk, non-trading or speculative activities and transference of income and profit from one section of people to another. The zero-sum incentives have distributive effect only.
- They are carried on in order to secure greater monopolistic position, it is a wastage of scarce resources. In short, we may say that zero-sum incentives are not conducive for economic growth.

Positive-sum Incentives:

The positive-sum incentives lead to economic growth and enhance the national income.

- The positive- sum activities are essential for economic development.
- It includes - productive investment, use of technical know-how, exploration and exploitation of the new markets and the use of scientific discoveries and innovations etc.
- These are conducive for economic growth as they change the attitudes, motivations and aspirations of the people.