STAGES OF ECONOMIC GROWTH- W.W. ROSTOW

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Overview of Theory

- Prof. W.W. Rostow, an eminent economic historian, has described the historical process of transition from underdevelopment to development in terms of a series of five stages of growth through which all countries must pass to reach the ultimate destination of a developed country'.

Five Stages of Growth

- The Traditional Society
- Preconditions for take-off
- The take-off period
- The drive to maturity
- Age of mass consumption

Traditional Society

- Primitive society having no access to modern science and technology
- Allocates a large proportion of its resources to agriculture
- This traditional society is not completely static
- Limit to attainable output per head due to absence of access to modern science and technology

Stage # 2
Preconditions or the Preparatory Stage

- Covers a long period of a century or more during which the preconditions for take-off are established
- People use modern science and technology for increasing productivity in both agriculture and industry
- A new class of entrepreneurs emerges who mobilise savings and undertake investment in new enterprises and bear risks and uncertainty

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- Agriculture produce sufficient food grains to meet demand of growing population and of workers who get employment in agriculture
- Increase in agricultural incomes would lead to the demand for industrial products and stimulate industrial investment
- Expanding agriculture provide savings needed for expansion of the industrial sector.

Stage # 3
The “Take-Off’ Stage

- Covers a brief period of two to three decades in which economic growth takes place more or less automatically
- Desire to achieve economic growth to raise the living standards dominates the society
- Revolutionary changes occur in both agriculture and industry
- Productivity level sharply increase

Cont’d

- Revolutionary changes occur in both agriculture and industry and productivity levels sharply increase
- Greater urbanisation and urban labour force increases
- Self-sustaining and self-generating economic growth

Stage # 4
Drive to Maturity

- Economy becomes mature and is capable of generating self-sustained growth
- Rates of saving and investment are of such a magnitude that economic development becomes automatic
- Overall capital per head increases
- Initial key industries which sparked the take-off decelerate as diminishing returns set in

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- Average rate of growth is maintained by a succession of new rapidly-growing sectors with a new set of leading sectors
- Proportion of population engaged in agriculture and other rural pursuits declines,
- Structure of country's foreign trade undergoes a radical change

Stage # 5
Mass Consumption

- Per capita income of a country rises to such a high level that consumption basket of the people increases beyond food, clothing and shelters to articles of comforts and luxuries on a mass scale
- New types of industries producing durable consumer goods come into existences which satisfy the wants for more consumption

Evaluation of Model

- Overlap with the Harrod-Domar model i.e. stages 2 and 3 require increased saving and investment
- Stage 4 requires improvements in technology, which reduces the capital-output ratio
- Stages 2 and 3 call for increased savings and investment
- Many households may not have the funds to save
- Banking channel between savers and firms may be inadequate
- Productivity of individual investment projects may depend upon complementary investment in infrastructure

Cont’d

- Some Sub Saharan African countries have received significant **external finance** but have been slow to generate growth - many have remained stuck in Stages 1 or 2
- When the external finance has come in the shape of loans from developed countries, interest charges have been incurred which have acted as a drag on economic growth

Cont’d

- **Simon Kuznets** argued that many countries which have now reached developed status did so without seeing a significant increase in their savings rate

- The theory does not account for exceptions,
  e.g. Falling output in the USSR under a communist regime;
  Corrupt and failing government in Zimbabwe has reversed development advances;
  Increased globalisation means that a country's growth rate does not lie solely in its own hands
  International competition and protectionism may prevent an economy from moving through the latter stages

Thank you