The concept of unbalanced growth

According to this concept, investment should be made in selected sectors rather than simultaneously in all sectors of the economy. No UDC posses capital & other resources in such ~~qua~~ quantities as to invest simultaneously in all sectors. Therefore, investment should be made in a few sectors or industries for their rapid development & the economies ~~accrued~~ accruing from them can be utilized for the development of other sectors. Thus the economy gradually moves from the path of unbalanced growth to that of balanced growth. [Singer, Kindleberger, Streeten]
Hirschman propounded the doctrine of unbalanced growth in a systematic manner.

Hirschman Strategy →

According to Hirschman investment in strategically selected industries or sectors of the economy will lead to new investment opportunities & so pave the way to further economic development. He maintains "that development has of course proceeded in this way, with growth being communicated from the leading sectors of the economy to the followers, from one industry to another." He regards development as a "chain of disequilibria".

Hirschman - When new projects are started they appropriate external economies created by previous projects & create new external

Page No.
DATE: / /

economies that can be exploited by subsequent ones. There are some projects that appropriate more external economies than they create which he calls "convergent series" of investment.

There are other projects too that create more external economies than they appropriate which he characterized as divergent series of investments.

In practice development policy should aim at
(i) The prevention of convergent series of investment which appropriate more external economies than they create.
(ii) The promotion of divergent series in which more economies are created than are appropriated.

Development can only take place by unbalancing the economy. This is possible by investing either in social overhead capital (SOC) or in directly productive activities (DPA). The former create external economies while the latter appropriates external economies.

Unbalancing the economy with SOC →
SOC - comprises

those basic services without which primary, secondary & tertiary productive activities can not function." Investment on education, public health, communications, transportation & conventional public utilities like light, water, power, irrigation & drainage schemes etc

Page No.

DATE: / /

A large investment in Soc will encourage investment later in DPA. For example, supply of electricity power may encourage establishment of small industries.

Soc investment is required as a pre-requisite of D.P.A. investment.

Unbalancing the economy with DPA →

If DPA investment is undertaken first, the shortage of Soc facilities is likely to raise production costs substantially. In course of time, political pressure might stimulate investment in Soc also. Investment sequences are generated by profit expectations and political pressures. Profit expectations generate the sequence from Soc to DPA, and political pressures from DPA to Soc.

Linkages →

Last industry first →

Criticism →

① Neglects resistances
② Beyond the capabilities of UDCs
③ Lack of basic facilities
④ Lack of factor mobility
⑤ Emergence of inflationary pressure
⑥ Linkage effect not based on data
⑦ Too much emphasis on investment deci