Economic Chapter 6: Economic growth, development and underdevelopment

Economic growth

Economic growth is the sustained persistent **quantitative** increase in the country's volume of goods and services as measured by an increase in Gross National Product (GNP) in a given period of time usually a year compared with the previous period.

Determinants of (factors affecting) economic growth

1. **Availability of natural resources** in term of quantity and quality e.g. land water, natural forest, national parks, etc. produce goods and services.
2. **Capital accumulation** through savings and channeling these savings into investment in agriculture, industry and infrastructure.
3. **Improvement in quality and quantity of labour** through formal and informal education. If the country has a big and skilled labour force, production increases hence economic growth. On the other hand, a small-unskilled labour force discourages production hence low levels of economic growth.
4. **Technological advancement** to produce volume and quality of goods and service. Use of modem technology increases production at reduced average costs hence economic growth. On the other hand, use of poor production techniques reduces output hence low level of economic growth.
5. **Increase in the number and quality of entrepreneurs.** Presence of individuals who have the ability to organize and mobilize other factors of production leads to an increase in production hence economic growth and absence of such individuals discourages production hence low levels of economic growth.
6. **Availability of market** including local and foreign market. The large market encourages investments which lead to the production of more goods and services hence economic growth. But a narrow market discourages investment and production hence low levels of economic growth.
7. **Ideal population growth** to provide labour and market
8. **Political stability.** Political stability encourages investment and lead to economic growth
9. **Socio-cultu**ral attitude should be changed so as to stimulate economic growth
10. **Appropriate planning and effective implementation** of economic programs.
11. **Level of investment.** High level of investment in an economy increases the production of goods and services.
12. **The level of monetization of the economy.** The higher the level of monetization of the economy, the higher the level of economic growth, But a large subsistence sector discourages production and exchange hence low levels of economic growth.
13. **The degree of specialization and division of labour in production**. The high degree of specialization in the economy leads to economies of large scale production hence economic growth and the low degree of specialization discourages large scale production hence low level of economic growth.
14. **The level of social and economic infrastructure.** Presence of adequate social and economic infrastructure in form of roads, power generation plants, banks etc. stimulates production activities hence raising the rate of economic growth. On the other hand, low levels of infrastructural development hinder the mobilization of factors of production hence retarding economic growth.

15. **Degree of economic stability**. If the country is economically stable in form of stable prices of goods and services, stable exchange rates etc. investments are encouraged hence increase in the level of economic growth. But if there is high levels of inflation, investments are discouraged hence low levels of national income.
16. **Nature of government policy**. Favourable government policies in form of providing subsidies to the producers , giving tax holidays to the investors etc. promote investments hence economic growth while poor government policies like high tax rates discourage investors hence limiting the rate of economic growth.

Benefits (advantages) of economic growth

1. It facilitates the exploitation and utilization of the idle local resources. This increases the level of national income in the economy.
2. It increases government revenue through taxation. Economic growth widens the tax base inform of numerous production activities set up hence generating more tax revenue to the government, The revenue realized is used to construct social and economic infrastructure like hospitals, roads, schools etc.
3. It leads to a fall in the general price level of goods and services hence improving the standards of living of the people. As the economy grows, a variety of goods and services are produced and this results into a fall in the general price levels hence an increase in the volume of commodities consumed.
4. It facilitates technological development in the country. Economic growth encourages the use of modem production techniques through inventions and innovations hence increasing efficiency in production.
5. It improves the balance of payment position of the country. As the economy grows the production of goods and services for both the domestic market and for exports increases. This helps the country to save and earn foreign exchange hence better balance of payment position.
6. It leads to an increase in employment opportunities. This is in form of increased resource utilization and other economic activities set up. This increases the income of the people.
7. It leads to the development of social and economic infrastructure. As the economy grows, there is development of social and economic infrastructures in form of roads, schools, hospitals, financial institutions etc. so as to facilitate trade in the economy.
8. It promotes urbanization and industrialization of the economy. This is as a result of increased number of production and economic activities.
9. It reduces the dependence of the economy on other economies. As the economy grows, per capita income raises and this leads to an increase in self-reliance and sustenance of the economy.
10. It improves the standards of living of the people. This is due to increased production of a variety of goods and services at reduced prices in the economy. This increases consumption and utility maximization by the people. .
11. It reduces income inequalities in the economy. As the economy grows, it is possible for the government to redistribute part of the increased employment opportunities and income through the use of appropriate government policies like progressive taxation.
12. It increases the monetization of the economy. This is because economic growth promotes trade and commerce in the economy.
13. It breaks the vicious circle of poverty .As output expands, savings and incomes increase there by breaking the vicious circle of poverty . .
14. It promotes social cultural transformation. As the economy grows there is a change of life style of people as a result of increased incomes. This helps to break the remove the high levels of conservatism and backward cultures which are obstacles to development.

Costs (demerits) of economic growth

1. It leads to rural-urban migration. As the economy grows, people tend to shift from rural areas to urban centers where there are better opportunities as a result of urbanization .This leads to development of slums, open urban unemployment, increased crime rate and poor living conditions in general.
2. It leads to technological unemployment. As the economy grows, there is increased use of capital intensive techniques of production which in the long run replaces labour hence technological unemployment.
3. Overexploitation of natural resources. Increased production of goods and services leads to over exploitation of natural resources like forests and minerals. This leads to exhaustion of nonrenewable resources hence lack of self-sustainability in the long run.
4. Environmental degradation. In a bid to increase the volume of goods and services in the country, there is development of more industries which leads to environmental degradation in form of noise, air and water pollution.
5. It promotes regional income inequalities in economy. If economic growth is emphasized without equity, business owners realize high incomes as compared to the employees and the rural peasants. This widens the income gap between the rich and the poor.
6. Economic growth involves foregoing current consumption and investing most of the incomes in order to increase output in future. Resources are allocated for the production of capital goods, provision of education, health etc. which increases the productive capacity of a country in future. This leads to a decrease in current consumption of goods and services.
7. Occupational hazards. Economic growth leads to increase in level of occupational hazards in form of increased in workloads, high level of accidents at work, occupational diseases etc.
8. It increases economic dependence of the economy. This is due to increased borrowing as a way of rising capital for investment external economic dependence. .
9. Leisure is foregone. Individuals forego leisure due to hard work required to achieve economic growth yet leisure is vital in improving the welfare of people.
10. It accelerates profit repatriation. This is true if production is dominated by Foreign Direct Investments.
11. It leads to the loss of craftsmanship. The increased dependence on the use of machines like computers and other capital equipments leads to loss of natural creativity in the long run.
12. Breakdown of cultural norms or values. With modernization people tend to adopt western cultures and neglect the good cultural and social values which can bring people together. This undermines nationalism in the economy.

Economic development

- **Economic development** refers to persistent (sustained) quantitative and qualitative increase in the country's output of goods and services over time accompanied by positive political, economic, social, technological and cultural transformation.
- **Economic development** is a multi-dimensional process by which real GNP per capita increases quantitatively and qualitatively over a long period of time. It is measured by the increase in the real per capita income and items which improve the quality of life like better education, health, employment opportunities; freedom as well as environmental protection.
- **Economic development and economic growth** are related in that as more quality goods and services are continuously produced and easily accessed by the masses, economic development takes place in an economy. Economic development therefore refers to economic growth plus positive changes in the quality of human life.

Economic Development includes the following;

1. An increase in them volume of goods and services but of better quality.
2. Increase in the volume of savings hence increased levels of capital accumulation and
3. Technological development or progress.
4. Structural changes which are usually tor the better within the entire economy.
5. A change or transformation of the economy from one that is subsistence and dominated by one or few sectors to one that is economically modernized, commercialized (market oriented production) and diversified.
6. Social transformations that shift society from back ward conditions to modernity.
7. Persistent institutional change (environmental, educational, health care, gender aspects, legal, political and other issues) to enhance improvement in human welfare or for meeting the current society requirements.

Circumstances leading to economic growth without economic development

Economic growth is a necessary but not sufficient condition for development. It is therefore possible to have economic growth with no or little development. Circumstances under which economic growth may occur without necessarily leading to economic development in a country include:

1. When goods and services produced are of poor quality and do not match with the needs, tastes and preferences of the population.
2. When there is an increase in GDP followed by wide spread income inequalities in the economy such that national wealth is concentrated in the hands of a few rich while the majority remain poor.
3. When there is high unemployment level despite of increased GDP. This could be due to increased use of labour saving technology among other causes of unemployment.
4. When there is increased output yet there are high rates of illiteracy and ignorance among the population.
5. When there are high levels of traditionalism and conservatism which negatively affect peoples' attitude towards development.
6. When there are large marginalized or vulnerable groups like the orphans, old aged, hand capped etc. in the population who are severely deprived of basic needs of life.
7. When the fundamental human rights like freedom of worship, expression, speech are abused by the government authorities.
8. When people are over working at the expense of leisure in order to produce more goods and services.
9. When there is increased production of capital goods at the expense of consumer goods yet they do not directly contribute to human welfare through consumption.
10. When there is high degree of political instabilities in the country such that the increased GDP and per capita income realized in an economy are due to increased military expenditure rather than expenditure on social services.
11. When there is poor leadership, management as well as governance of the economy. Development process is only possible with good leaders who can administer and transform institutions in the country.
12. When there is a narrow range of goods and services produced in the economy whose accessibility by the citizens is severely limited. For instance when more goods that are available are neither diversified nor widely distributed in an economy.
13. When there is rapid population growth that exceeds the growth rate of the national income such that any increase ill output is consumed rather than being used to create wealth due to high dependence burdens.

14. When there is high level of environmental degradation as a result of increased industrial activity which causes pollution hence putting lives at risk.
15. When there is increased external economic dependence of the country due to increased borrowing as a way of rising capital for investment. This increases the debt burden on the current and future

generation hence increased resource outflow in form of debt servicing.

16. When there is increase in GNP coupled by under developed infrastructure in an economy such that people cannot effectively transport and market their produce.
17. When there is high levels of corruption and embezzlement of public funds in the economy meant to provide social services to the people like education, health etc.
18. When there is increased rural -urban migration which leads to development of slums, open urban unemployment, increased crime rate and poor living conditions in general.
19. When there is economic growth followed by /zig" levels of economic instabilities like high rates of inflation which increase the cost of living in the economy.

Under development

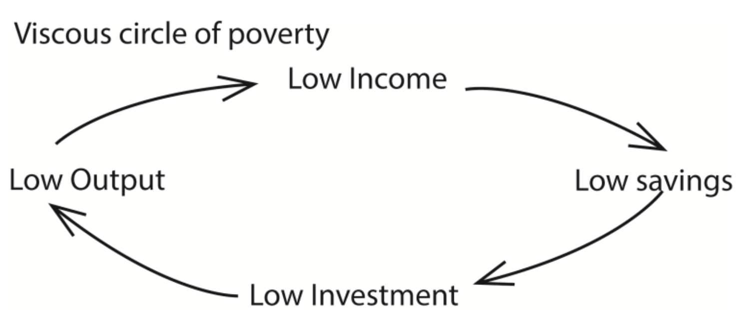
- **Under development** is an economic situation where there is underutilization of the available resources in the economy leading to the low per capita income ,low economic growth; poor health services, high death and birth rates, poor technology, unemployment, high income inequalities ,low levels of industrial development and generally low standards of living.
- An under developed country is one which is characterized by underutilization of resources, low incomes, poor technology, slow growth of GDP, low living conditions of people with high degree of international dependence.
- Under developed countries are sometimes referred to as developing, backward or poor countries but they are collectively referred to as third world countries.
- A least developed country is one which is stagnant characterized by very low levels of income, persistent unemployment and massive poverty with low living conditions which are far below the international poverty line.
- Most developing countries are in Africa, Asia and Latin America

Characteristics of underdeveloped Countries

1. **Low standards of living for the majority of the people.** The low levels of living are manifested, in form of low incomes, inadequate housing facilities, poor health conditions, high illiteracy rates, high infant mortality rates, low life expectance and general sense of hopelessness.
2. **Low levels of labour productivity.** Under developed countries are characterized by low levels of labour productivity due to absence or inadequate co-operant factor inputs such as capital, better technology and low levels of education and skills.
3. **High population growth rate and dependence burden.** The high population growth rate is due to high birth rates with high fertility levels of women. The major implication of this is demographic information is that a large proportion of the population is in the younger age group and this results into a high dependence burden which limits both savings and investments
4. **High and increasing levels of unemployment and under employment.** In developing countries there are many people of the working age who are able and willing to work but cannot find the jobs at the prevailing wage rates hence involuntary unemployment. This is mainly due to the limited employment creating ventures, abundant supply of unskilled labour, limited skills and experience needed at work and low rates of entrepreneurship.
5. **High degree of dependence on agricultural production and primary exports**. The majority of the people in developing countries depend on agricultural activities for food and source of economic activity for livelihood. The majority of the people live and work in rural areas where agriculture is the major economic activity characterized by low returns and highly subjected to natural hazards.
6. **Technology backwardness**. This is due to limited capital for research; innovations and inventions necessary for technological progress. Technology backwardness is reflected in low labour productivity and production of poor quality goods and services.
7. **High levels of economic dependence.** Developing countries highly depend on developed

countries for consumer and capital goods, technical, financial resources and manpower as well as decision making. This leads to foreign dominance and influence by the rich nations.

8. **Existence of dualism.** Most developing countries have dualistic economies in which there is co-existence of two different sectors with contrasting characteristics. For example co-existence of large traditional subsistence sector with a commercialized market economy, technological dualism with backward technology coexisting with modem technology etc.
9. **Poor and unreliable social and economic infrastructure.** Developing countries have inadequate and poor quality transport systems, banking facilities, communication networks, and water and power supply facilities. People do not have access to such facilities in order to improve on their livelihoods.
10. **High levels of conservatism and traditionalism.** Most people in developing countries believe in cultural norms and they are deeply rooted in cultural beliefs to the extent that they cannot allow positive reforms necessary for development to take place.
11 **Existence of excess capacity.** There is underutilization of natural resources in most sectors of developing economies due to inadequate capital, use of poor technology, limited markets and poor management and entrepreneurial skills. This leads to low economic growth rate.
12. **High levels of political instability.** This is due to greed for power and bad leadership by leaders of developing countries.
13. **High level of incomes inequalities**. The income gap between the rich and poor keeps on widening in developing countries. There are many extremely poor people while a few remain extremely rich.
14. **Existence of poor terms of trade and balance of payment problems.** This is reflected in the exportation of mainly cheap primary products and importation of expensive consumer capital goods.
15. **High levels of economic instabilities.** This is in form of high inflation rates and fluctuations in the foreign exchange rates due to scarcity of goods and services and importation of highly priced manufactured and petroleum products.
16. **Existence of Limited domestic and foreign markets.** This is due to limited commercialization of economic activities, low incomes and poor quality of goods and services produced. This leads to low aggregate demand in the economy.
17. **There is existence of limited entrepreneurial skills.** This is due to poor education system which trains job seekers rather than job creators.
18. **Existence of high levels of poverty.** This is reflected in low per capita income and low standards of living. The persistent poverty is due to the vicious circle of poverty, an economic phenomenon characterized by low incomes, low savings, low investments, low output or low capital accumulation and then back to low incomes.



Causes of underdevelopment in developing countries

Internal factors

1. High population growth rates. This discourages savings and investment due to high dependence burden which leads to a reduction in the per capita income hence low standards of living.
2. Vicious circle of poverty. Developing countries are imprisoned by short comings arising from low incomes, low savings that lead to low investments and consequently low productivity and then back to low incomes.
3. Limited skilled manpower. This is reflected in the limited number of people with critical entrepreneurial skills and knowledge. This is due to the poor colonial education system which aims at white color jobs making development of technical skills difficult yet they are required in the exploitation of natural resources that can assist in enhancing economic growth and development
4. Poor and inadequate social and economic infrastructure. This is reflected in form of poor transport network, few power generation plants and limited financial institutions. This makes it difficult to produce and market the produced goods and services.
5. Low levels of technology. Most developing countries use traditional, out dated and inefficient technology. This leads to resource underutilization and production of low output and ·of poor quality hence under development.
6. Economic instabilities. These are in form of inflationary tendencies and exchange rate fluctuations and agricultural price fluctuations. Inflation increases the cost of production hence underdevelopment.
7. Limited number of entrepreneurs. This is due to limited skilled manpower required for business management and expansion which leads to low profit margins and capital accumulation in developing countries.
8. Limited capital. This is due to low levels of incomes and limited access to credit facilities from financial institutions due to lack of collateral securities. This limits the expansion of business opportunities in developing countries.
9. Limited markets for the products. This is due to low aggregate demand resulting from high levels of poverty in developing countries.
10. Bad social cultural practices. These are manifested in form of negative traditional attitudes and conservative cultural beliefs and values that characterize ways of lives of people. Such practices limit positive social cultural transformation hence under development in developing countries.
11. Rampant political instabilities in developing countries. These are manifested in form of wars and political sabotage which discourage investments and other income generating activities hence under development.
12. Poor planning and resource misallocation in developing countries. Developing countries allocate resources to unproductive ventures like frequent foreign presidential trips, a large number of well facilitated political leaders at various levels and importation of military hardware at the expense of investments in education, health, agriculture and industry hence underdevelopment.
13. High levels of corruption and embezzlement of the public resources. Such resources meant for productive investment are diverted for personal interests hence under development.
14. Lack of strategic basic raw materials like iron, coal, oil etc. Most developing countries lack such resources which are a key to development.
15. Poor land tenure systems in developing countries. In developing countries, the system of land ownership and use is poor. Many people do not own land and therefore, they cannot use it to effectively use it to carry out large scale production hence underdevelopment
16. Occurrence of unfavorable natural factors like draught, heavy destructive rains, pests and diseases all of which limit investments in the agricultural sector hence under development.

External factors

17. Unfavorable trade positions of developing countries. They experience poor terms of trade due to the exportation of cheap primary products and determination of prices of exports by developed countries hence low gains from international trade.

18. Persistent huge external public debts. This leads to capital outflow in form of debt servicing through the repayment of the interest and principle on the external public debts.
19. High levels of brain drain. Developing countries persistently lose highly skilled man power to developed countries in search for 'greener pastures' in form of good working conditions and high pay. This leads to depletion of skilled human resource in developing countries hence under development.
20. High levels of profit repatriation in developing countries. This is due to the presence of multinational co operations in developing countries. This limits capital accumulation in developing countries hence underdevelopment.
21. Colonial factors. Despite of achieving political independence developing countries continue to be subjected to political manipulation and economic exploitation by developed countries. They have been forced to adopt unfavorable policies which are not in their line of development hence perpetuating underdevelopment. .

Policy Measures to reduce under development in developing countries

1. Providing affordable credit facilities by the government. Microfinance institutions as well as credit and savings societies should be encouraged throughout the country to ensure easy access to cheap credit especially to small scale business operators and farmers in rural areas.
2. Construction and rehabilitation of basic social and economic infrastructure. There is need to undertake the construction and rehabilitation of roads, power generation plants, water sources and other infrastructural facilities to facilitate the production, distribution and marketing of goods and services iii developing countries.
3. Providing appropriate education. There is need to restructure the education system to promote practical science and vocational subjects so as to equip the local man power with the required entrepreneurial skills necessary for creating income generating activities instead of being job seekers.
4. Economic liberalization and diversification. There is need for developing countries to remove unnecessary restrictions from economic activities to allow people to carry out business freely with limited interference. In addition, economic diversification should be under taken to reduce the over reliance on a few economic activities so as to widen the economic base of developing countries.

5. Improvement in the level of technology. There is need for developing countries to encourage and promote the use of better techniques of production which are cost effective and are in line with the social and economic requirements of their societies. This helps to increase on the quantity and quality of the products hence economic growth and development.
6. Market expansion. There is need for governments of developing countries to expand markets through market research, economic integration and improving en the quality of their products so as to encourage production and exchange of goods and services hence development.
7. Adopting favourable government policies. Such policies include providing economic incentives like subsidization of factor inputs and tax holidays to investors. This is aimed at reducing the production costs hence promoting economic growth and development in developing countries.
8. Privatization of inefficient parastatals. There is need for governments in developing countries to encourage and promote the private sector to allow the private individuals get involved in economic activities. This not only reduces government expenditure but also promotes efficient utilization and allocation of resources in the economy.
9. Fighting corruption and embezzlement of public resources. There is need for governments in developing countries to ensure proper accountability and transparency by government officials in allocating public funds. This should be done by setting up anti-corruption institutions like Inspector General of Government (lGG) and strengthening anti-corruption laws.
10. Controlling population growth rates. This should be done by encouraging family planning and promoting girl child education as a way of reducing high fertility rates. People should be educated about the importance of having small families as a way of encouraging savings and investments:

11. Ensuring political stability. This should be done by ensuring good leadership and governance based on democratic principles. This helps to promote a favorable atmosphere for investments.
12. Maintaining macroeconomic stability. This should be done by controlling inflation and stabilizing exchange rates to the desired levels as a way of creating the good working environment for potential investors and other entrepreneurs in developing countries.
13. Setting up import substituting industries. There is need for governments in developing countries to establish and promote industries to produce goods and services formally imported. This helps to save the scarce foreign exchange in form of reduced import expenditure.
14. Ensuring equitable, distribution of resources. This should be done by decentralizing service delivery and use of progressive taxation to ensure equity and fair distribution of public resources in developing countries.
15. Land reform policies. These should be aimed at improving the existing land tenure system through and redistribution, leasing, consolidation and resettlement. All this is aimed at improving the productivity and use of land. "
16. Agricultural modernization. This should be done by giving agricultural extension education and supplying farm inputs like equipments and planting materials to farmers at subsidized prices, In addition research in new technologies and varieties should be done to improve on productivity in the agricultural sector.

Note: Trickle-down effect is the process in which economic gains from economic growth are transmitted throughout the entire society eventually giving rise to development.

Rostov's theory of economic growth

Rostov's theory of economic growth describes the stages of economic growth in a historical perspective. According to W.W. Rostov, economies inevitably pass through a series of distinct stages of economic growth through which they are transformed from subsistence traditional and stagnant low per capita income state to the advanced modern and industrialized state. Rostov distinguishes five successive stages of economic growth through which an economy passes to achieve economic development, with accumulated savings and capital as the driving force. These stages include;

1. The traditional stage (Subsistence stage)
2. The Pre-condition for take-off (Transition) stage
3. The take-off stage
4. The drive to maturity stage
5. The maturity stage (Age of high mass consumption)

The traditional (subsistence) stage

This is the first stage of economic growth according to Rostov. It is characterized by the following;

1. There is great use of primitive tools of production (traditional backward technology). Traditional methods of production are dominant. For example use of rudimentary tools like hoes, pangas, slashes etc.
2. The society is communal. Wealth is collectively owned. Family and clan connections play a dominant role in the social structure of societies.
3. There is no savings hence unnoticeable capital accumulation due to subsistence production.
4. Existence of high levels of conservatism and traditionalism. Traditional beliefs and values dominate societies and these hinder socio-economic transformation.
S. It is dominated by the traditional subsistence sector. People mainly produce for their own consumption rather than for the market.
6. The economy is a closed. There is no international trade to influence economic activities in the economy.
7. There are high levels of illiteracy and ignorance among the population due to low levels of education
8. Barter trade is the main system of exchange with hardly any monetary exchange-taking place.
9. The economy is generally static with high levels of poverty and virtually no growth.

10. People are not profit motivated and there is minimal competition between in the production process.

The Pre-condition for Take-off (Transition) stage

This is Rostov's second stage of economic growth in which the initial transformation of society takes place. It is a stage in which the pre-conditions for self-sustained growth are laid down. It is associated with radical change and dualism. It is characterized by the following;

1. There is appearance of entrepreneurs in society who begin to establish some investments, trade and commerce.
2. Savings increase up to 5 % of GDP
3. Financial institutions that mobilize savings such as banks and micro finance institutions begin to appear.
4. There is an increase in the level of investment to about 5% of the GDP.
5. Investment is mainly directed towards social overhead. For example construction of roads, power plants, railway lines, hospitals and other communication facilities in order to enlarge the market and exploit natural resources.
6. Use of modern scientific technology begins in the agricultural sector and this reduces subsistence output while increasing commercial production.
7. Modern manufacturing enterprises begin to appear using the new production methods.
8. Reduction in illiteracy and ignorance due to the spread of modem education.
9. The society breaks the ties of traditionalism and there is a change in attitude and beliefs from traditional to modem ways.
10. Emergency of international trade, with agriculture as the leading export sector.
11. Emergency of economic transformation from the traditional society. People begin to demand products of modem industry and technology due to the influence of powerful international demonstration effect.
12. Increase in the rate of economic growth due to increased production and emergence and the monetary sector.
13. Emergence of dualistic characteristics in the economy.

Note. Many developing countries including Uganda are still at this stage of economic growth and development

The Take- off Stage

According to Rostov, this is the most important but very short stage in which the economy begins to take off into a self-sustaining stage hence reducing foreign dependence. Rostov defines this stage as an industrial revolution, tied to radical social, economic and political transformation in the whole economy. It is characterized by the following;

1. The economy moves into self-sustaining economic growth. The obstacles to steady growth are removed leading to a reduction in foreign dependence.
2. Savings increase up to about 5 -1 0 % of national income.
3. Investments increase up to about 5 -1 0 % of GDP.
4. Development of one or more leading manufacturing sectors with a high rate of growth and possibilities of increasing resource exploitation, innovations and technological transformation.
5. Great changes in the social and political (institutional) framework with a high degree of economic stability.
6. High level of employment created due to high levels of investments.
7. Increased commercial and economic activities as a result of the expanded market and increased urbanization.

8. The economy ceases to be dualistic. That is, it is fully transformed into a modem economy.
9. There are high rates of literacy and educational levels in the economy.
10. There is a high level of industrialization with forward and backward linkages.
11. There is continued expansion and improvement in the social overhead capital in form of roads, power plants, communication facilities etc.

The drive to maturity stage

This is a stage of a long period of sustained economic growth. Society progressively grows and effectively applies the range of modem technology in all sectors and economic, activities of the economy. The economy finds its position in the international economy. The stage is characterized by;

1. Long sustainable economic growth. Most constraints: to economic growth are removed leading to self-sustaining economy in the long run.
2. Use of advanced technology in all sectors of the economy due to high levels of research and innovation (New production techniques substitute old ones).
3. Investments are high to about 10-20 % of GDP.
4. The level of savings are high up to about 10- 20% of the GDP.
5. The economy is able to withstand unexpected external and internal economic shocks.
6. Development of heavy industries like' iron and steel industries which increase the productive capacity of the economy.
7. High levels of monetization of the economy, and real wages start rising as workers unionize to have greater economic and social security.
8. High level of skill development and employment with an increasing role of professionals in the production process.
9. High level of urbanization as many skilled and high income-people prefer to live in urban areas than in rural.
10. Balance of payment surplus is experienced because goods formerly imported are now domestically produced and new export commodities are supplied
11. High levels of infrastructural development in the economy, hence equitable distribution of certain goods and services.
12. There are high levels of research and discoveries and the available resources are fully utilized.

The Age of High Mass Consumption (Maturity stage)

According to Rostov, this is the last and longest stage of economic growth according. It is also referred to as the welfare or high standards of living stage. This stage is characterized by;

1. High standards of living since all the basic needs are available in the society.
2. Extensive use of automobiles.
3. High consumption of durable consumer goods and the use of modern household gadgets.
4. High levels of investments in all sectors of the economy and foreign economies. That is, under taking investments and business in other countries via Multi-national corporations.
5. There is use of highly sophiscated technology in all the activities and sectors of the economy.
6. High degree of infrastructure development.
7. High preference for leisure and holiday travels by the society.
8. There is high proportion of labor force engaged in tertiary production (service provision).
9. More equitable distribution of incomes and increased social security and political stability.
10. Increased influence of the global economy due to high level of involvement and intervention in international social, economic and political issues.
11. The savings rate exceeds 20% of total national income.
12. Most of the macroeconomic problems like inflation, unemployment and balance of payment deficits

are completely removed.

13. The structure of the population changes to predominantly urban
14. Resources are fully utilized and the economy is fully developed.
15. The proportion of the people employed in offices and skilled industrial jobs dominate the working class

Note. Historically, the first countries to reach this stage were USA in the 1920s and Britain in the 1930s, followed by Japan and Western Europe in the 1950s. These countries have the characteristics of the Age of high mass consumption.

Criticisms (Limitations) of Rostov's theory of Economic Growth

1. The assumption that all countries must pass through the five stages as suggested by Rostov is unrealistic. This because some developed have already reached the last stage but did not go through the fourth stage for example countries like Canada and Malaysia.
2. He assumed that capital accumulation through savings is the major driving force and a major determinant of economic growth but he did not consider the other economic and non-economic factors without which capital accumulation alone cannot lead to economic growth, For example education, human rights, political stability etc.
3. He did not consider the market limitation in his theory yet the market size greatly determines economic growth.
4. According to this model, it is not easy to distinguish some stages from one another due to the presence of similar characteristics among some stages. For instance agriculture is dominant in traditional and pre-condition for takeoff stages. In addition to this, stages four and five have similar characteristics hence making it very difficult to associate the economy with a particular stage.
5. It is possible for the country to attain a certain stage without passing through the others. The conditions for takeoff may not necessarily come before the take off stage because there is no reason to believe that an agricultural revolution and accumulated social overheads like infrastructure must take place before the takeoff can occur. In addition, the Age of high mass consumption may not necessarily occur after a country has passed through the drive to maturity stage for example Canada achieved this stage without passing through the drive to maturity stage.
6. Rostov assumed that there is nothing like discontinuity in growth because all countries must pass from one stage to another, which is unrealistic in development process. Disruptions in growth are common in developing countries mainly due to political instabilities.
7. The model suggests that for an economy to grow there should be increased savings. However the theory does not suggest how to increase savings or accumulate capital through borrowing externally from other countries.
8. The theory is not a development strategy but simply describes economies at different stages of economic growth. For example it does not suggest what developing countries can do to accelerate growth so as to achieve high levels of production.
9. The traditional stage is not an essential stage for economic growth. This is because some countries like USA were born free of the traditional stage as people migrated to USA. from already advanced societies like Britain. .
10. Possibilities of failure at some stages like take-off stage were not considered. Some countries have achieved high savings of about (10-15) % of GDP but have never taken off due to lack of adequate co-operant factors.
11. He assumed that a country cannot take off with agriculture as the major sector yet there are small countries like Denmark, Netherlands etc. have taken off with agriculture as the leading sector.

Relevance of Rostov's theory of economic growth

To some extent, Rostov's theory has some relevancy in the following ways;

1. Savings emphasized in this theory are vital for investment as well as for industrialization in developing countries. Capital accumulation through savings is therefore necessary for economic growth as cited in the theory
2. The concept of take-off is suitable for the industrialization of under developed countries.
3. It stresses unbalanced growth, which is relevant to capital deficient developing countries.
4. It emphasizes institutional reforms, which are vital for economic growth in developing countries.
5. It emphasizes technological and infrastructure development which are essential for growth and development to occur. This is reflected in most stages of growth according to Rostov.
6. Development of leading sectors like agriculture in the first and second stages is relevant and vital for development of developing countries.

Revision questions

Section A questions

1 (a) What is meant by economic growth.
(b) Mention any three costs of economic growth.

2 State any four social indicators of economic under development in your country.

3 (a) State the big push theory of development
(b) Give three conditions necessary tor the economy to take off.

4 Mention four features of "take- off stage" of economic growth

5 Mention four features of Rostov's drive to maturity stage of economic development

6 Mention four ways in which economic growth and economic development may occur at the same time.

Section B questions

1 (a) Explain the circumstances under which economic growth may lead to economic development
(b) Explain the factors necessary for economic growth of your country.

2 a) Discuss Rostov's stages of economic growth
b) With reasons, suggest the Rostovian stage at which Uganda's current level of development is.

3 a) What is meant by "under development"
b) Explain the features of under development in developing countries

4. (a) Distinguish between a developing country and a least developed country.
(b) Why is your country still considered as an underdeveloped economy?

5. (a) Discuss the factors that influence the level of economic growth in an economy,
(b) Examine the consequences of economic growth of your country.

6 (a) Explain the circumstances under which economic growth may not lead to economic development
(b) Explain the factors that determine the rate of economic growth in your country

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