Chapter Three: A Review of Economic Development Theories.

Balanced Growth Theory :

It is an idea proposed by Rosenschtein and Rodan and presented in an integrated form by Professor Nirkse, known as the Balanced Growth Strategy. Nirkse's strategy is based on the empty loop created by the limited market size in the face of industrial investment, emphasizing that the expansion of this loop can only be achieved by expanding the market size, which can only be achieved by creating a broad front of industries that meet the needs of final consumer demand.

For the success of this strategy, the synchronization of all industries and projects is required because investing in a specific industry or project creates a market for other industries or projects through the distribution of income, which leads to expanding the market size and, consequently, creating incentives for investment.

To provide the financial resources for the massive investment program in this strategy, Nirkse calls for reliance primarily on local resources, due to his lack of trust in foreign investments and foreign trade, as the terms of exchange are not favorable to developing countries that export raw materials.

Nirkse believes that local resources come from the agricultural sector by mobilizing the savings generated in this sector and directing the surplus labor force towards building social investment facilities.

Balanced growth does not mean that sectors grow at equal rates, and the criterion for balance is not that each sector and industry grows at a growth rate that aligns with the flexibility of income demand.

It is not necessary to achieve a balance between agriculture and industry, but what is important is to achieve balance in the process of economic growth.

Theory Critique: The critique of this theory can be summarized as follows:

- The implementation of the balanced growth strategy leads to the imposition of a modern integrated industrial economy on top of a mature traditional economy, with no connection between them, thus deepening the dualism problem in the economies of developing countries.

- Its lack of realism due to the unavailability of massive resources to implement its programs.
- The isolation of developing countries from the global economy by focusing on growth for the domestic market.
- The balanced growth strategy assumes that a country starts from scratch, which negates the investments and decisions that have been made in the past. Investment in a wide range of consumer industries, which require small-scale inputs, leads to the creation of projects that are below the optimal size in terms of efficiency and productivity. This strategy assumed flexibility in the supply of production factors, but this assumption is not valid in developing countries.

Unbalanced Growth Theory:

This strategy is associated with the economist Hirschman, although Perroux had previously presented the concept of unbalanced growth under the name of growth poles or growth centers. This strategy involves concentrating development efforts on a limited number of sectors or industries that excel over others in the ability to attract investment compared to other sectors of the national economy.

Hirschman argues that economic history does not provide examples of balanced growth. Instead, economic growth takes the form of progress and advancement in certain sectors of the national economy, which lead the growth process. The development and prosperity of these leading sectors fortify other sectors against development. Hence, the concept of a leader in the process of economic development emerges.

According to Hirschman, unbalanced growth has a major advantage in that the constraint on the growth process is the ability to make investment decisions. Unbalanced growth in the economy creates the conditions that enable making these decisions with the highest possible efficiency.

The imbalance arises due to pressures and bottlenecks that generate corrective forces. Accordingly, the development process consists of a continuous series of imbalances that constantly deviate us from the equilibrium point. Each imbalance generates corrective forces.

Hirschman explains the occurrence of this continuous series of imbalances through the concept of mutual linkage between different projects and industries, and the external economies resulting from this linkage, which create conditions for new investment projects to benefit from these economies. These second projects, which benefit from the external economies created by the previous projects, in turn create new external economies that can be utilized by other projects.

This means that investing in industry "A" leads to the creation of external economies that are considered external to it, but it pays for investing in industry "B". Meanwhile, the growth of industry "B" leads to the creation of external economies that are external to it, but internal to industry "A" or "C," and so on.

The problem associated with adopting this strategy is how to identify investments that outperform other industries or sectors. The importance of this issue becomes apparent when considering the limited resources available for investment in developing countries. Hirshman addresses this problem from two perspectives:

Firstly, the imbalance in the relationship between social capital and directly productive activities:

From this perspective, a distinction is made between development through creating a surplus in the productive capacity of social capital facilities, such as roads, dams, power stations, railways, etc., due to the demand from directly productive activities. Development is achieved by creating a deficit in social capital services and exerting pressure on authorities to increase their production capacity because continuing this deficit hampers directly productive activities.

Secondly, the imbalance in the scope of directly productive activities:

From this perspective, a distinction is made between activities that are directly productive, and Hirshman relies on differentiating between forward and backward linkages.

Forward linkages refer to the consequences of investing in later stages of production, i.e., the effects of the industry's inducement to invest in industries that supply it with production inputs. These effects are measured using input-output tables, which show that industries in intermediate stages of production have higher overall forward and backward linkages.

This theory assumes that the process of economic development primarily occurs through individual initiative. Consequently, this strategy loses its significance in light of adopting comprehensive planning as a method for economic development. This method is essentially based on allocating the available resources for investment according to the established priorities in the plan. Therefore, there is no room for making investment decisions before investing in other areas under the planning process.