Grade 12 Canada and World Issues - Unit 2

Modernization Theory
Rostow's Stages of Economic Growth

W.W. Rostow. 1960. *The Stages of Economic Growth: A Non-Communist Manifesto*. Cambridge.

Rostow identified five stages of economic growth.

Stage 1 Traditional Society - The economy is dominated by subsistence activity. Output is consumed by producers; it is not traded. Trade is barter where goods are exchanged directly for other goods. Agriculture is the most important industry. Production is labour intensive using only limited quantities of capital. Technology is limited, and resource allocation is determined very much by traditional methods of production.

Stage 2 Transitional Stage (Preconditions for Takeoff)

Increased specialization generates surpluses for trading. There is an emergence of a transport infrastructure to support trade. Entrepreneurs emerge as incomes, savings and investment grow. External trade also occurs concentrating on primary products. A strong central government encourages private enterprise.

Stage 3 Take Off

Industrialization increases with workers switching from the agricultural sector to the manufacturing sector. Growth is concentrated in a few regions of the country and within one or two manufacturing industries. The level of investment reaches over 10% of GNP. People save money.

The economic transitions are accompanied by the evolution of new political and social institutions that support industrialization. The growth is self-sustaining as investment leads to increasing incomes in turn generating more savings to finance further investment.

Stage 4 Drive to Maturity

The economy is diversifying into new areas. Technological innovation is providing a diverse range of investment opportunities. The economy is producing a wide range of goods and services and there is less reliance on imports. Urbanization increases. Technology is used more widely.

Stage 5 High Mass Consumption

The economy is geared towards mass consumption, and the level of economic activity is very high. Technology is extensively used but its expansion slows. The service sector becomes increasingly dominant. Urbanization is complete. Now, multinationals emerge. Income for large numbers of persons transcends basic food, shelter and clothing. Increased interest in social welfare.

Grade 12 Canada and World Issues
Unit 3 – Economy
The Causes of Economic Growth

Economic Growth is caused by improvements in the quantity and quality of the factors of production that a country has available i.e. land, labour, capital and enterprise. Conversely economic decline may occur if the quantity and quality of any of the factors of production falls.

Improving the Quantity and Quality of Land Resources

- Increases in the quantity of land available for agriculture will increase economic growth. However, the extent to which this happens is limited to the extent to which unused land can be converted to agricultural land. Land, as an economic resource, is scarce. Land has an opportunity cost. Land converted for agricultural purposes is no longer a habitat for wildlife.
- The scarcity of land in the face of a growing population means that the law of diminishing returns might become relevant. The law predicts that an increasing amount of labour applied to a fixed quantity of land will cause the productivity of the labour to fall. To prevent this loss in productivity the quality of the land must be improved (e.g., improved irrigation, fertilizers, pest control).

Improving the Quantity and Quality of Human Resources

- Increases in the supply of labour can increase economic growth. Increases in the population can increase the number of young people entering the labour force. Increases in the population can also lead to an increase in market demand and stimulate production. However, if the population grows at a faster rate than the level of GDP, the GDP per capita will fall.

  The quality of that labour also impacts economic growth. Improving the skills is seen important key. Many LDC work to provide universal primary education. As more and more capital is used, labour has to be better trained in the skills to use them, such as servicing tractors and water pumps, running hotels and installing electricity. Education spending is also an opportunity cost, and it is often referred to as investment spending on human capital.

Improving the Quantity and Quality of Capital Resources

It is important to distinguish between:

- Directly productive capital (e.g., plant and equipment, factories)
- Indirectly productive capital (e.g. infrastructure, roads and railways).

The process of acquiring capital is called investment. The opportunity cost of capital investment is the current consumption foregone. The level of investment and the quality of investment will directly affect the level of economic growth. The efficiency of the labour force and the other factors of production will depend upon the amount and quality of capital. In LDCs, some investment comes from abroad in the form of foreign direct investment. There has been criticism of some investment in LDCs as to whether it is appropriate. If production moves from being labour intensive to capital intensive, unemployment and poverty increases.

The Quantity and Quality of Enterprise Resources

The level of economic growth may be slowed down if there is a lack of entrepreneurial and risk taking managers. For growth to take place inventions and innovations must be encouraged. Again the role of education is seen as being essential here. Multinational enterprises also can provide training in management skills.

In countries where government has taken a considerable role in production, there might be a lack of enterprise culture. In addition, where traditional agriculture has been communally organized, the move towards a private sector profit-making culture is likely to be slow.