

Balanced and unbalanced growth

In developing economies there is low investment due to the low domestic savings. This combined with under developed financial markets generates uncertainty and leads to low private investment.

Balanced and unbalanced growth are intended as methods of achieving development.

Balanced growth is investment...

- Simultaneously across many industries
- Co-ordinated and planned by state as free markets fail
- Consistency and the power of over-view aims to remove uncertainty and encourage private investment also
- Therefore consistent with concepts from centralised planning:
 - State owned industries
 - State controlled investment
 - State expenditure on infrastructure

Unbalanced growth is investment...

- Suggests balanced growth is unrealistically hopeful due to the low, misallocated savings available to achieve the goal.
- Instead concentrates on more limited focused investment in a key industry with forward and backward linkages.
- Develop potential links between industries and stimulate market forces to work. Unbalanced growth aims to exploit the nature of complementary investment and dependencies between markets. Good investments have large positive externalities and effect more than the firm in which the initial development was made.
- Chosen industries must have strong links with other firms *within* the economy to stimulate growth.
- Therefore consistent with concepts from market friendly:
 - Wait for market forces to cause the linked markets to develop.
 - Allow market forces to work instead of intervening.

Homework

Complete data response question 2 for 22/11/2004.

These notes are from a lesson on 15/11/2004.