

Big Push Theory

The theory of 'big push' first put forward by P.N. Rosenstein-Rodan is actually a stringent variant of the theory of 'balanced growth'. The crux of this theory is that the obstacles of development are formidable and pervasive. The development process by its very nature is not a smooth and uninterrupted process. It involves a series of discontinuous 'jumps'. The factors affecting economic growth, though functionally related with each other, are marked by a number of "discontinuities" and "hump."

Therefore, any strategy of economic development that relies basically upon the philosophy of economic "gradualism" is bound to be frustrated. What is needed is a "big push" to undo the initial inertia of the stagnant economy. It is only then that a smooth journey of the economy towards higher levels of productivity and income can be ensured.

Unless big initial momentum is imparted to the economy, it would fail to achieve a self-generating and cumulative growth. A certain minimum of initial speed is essential if at all the race is to be run. A big thrust of a certain minimum size is needed in order to overcome the various discontinuities and indivisibilities in the economy and offset the diseconomies of scale that may arise once development begins.

According to Rosenstein-Rodan, marginal increments in investment in unrelated individual spots of the economy would be like sprinkling here and there a few drops of water in a desert. Sizable lump of investment injected all at once can alone make a difference.

Rationale for the Big Push:

The basic rationale of the 'Big Push' like the 'Balanced Growth' theory is based upon the idea of 'external economies'. In the theory of welfare economics, external economies are defined as those unpaid benefits which go to third parties. The private costs and prices of products fail to reflect these. And the market prices have to be corrected if an account of these external economies is to be taken. However, the concept of external economies has a different connotation in growth theory. Here, they are pecuniary in nature and get transmitted through the price system.

To explain the emergence of such external economies and their transmission, let us consider two industries A and B. If the industry A expands in order to overcome the technical indivisibilities, it shall derive certain internal economies. This may result in the lowering of the price for the product of the industry A. Now if the industry B uses A's output as an input, the benefits of A's internal economies shall then be passed on to the industry B in the form of pecuniary external economies. Thus, "the profits of industry B created by the lower prices of product. A call for investment and expansion in industry B, one result of which will be an increase in industry B's demand for industry A's product. This in turn will give rise to profits and call for further investment and expansion of industry A."

Following such a line of argument, Prof. Rosenstein-Rodan contends that the importance of external economies is one of the chief points of difference between the static theory and a theory of growth. "In the static allocative theory there is no such importance of the external economies. In the theory of growth however," remarks Prof. Rodan, "external economies abound because given the inherent imperfection of the investment market, imperfect knowledge and risks, pecuniary and technological external economies have a similarly disturbing effect on the path towards equilibrium."

Now, the basic contention of the "big push" theory is that such a mutually beneficial way of output expansions is not likely to occur unless the initial obstacles are overcome. There are "non-appropriabilities" or "indivisibilities" of different kinds which if not removed through a "big push" will not permit the emergence and transmission of 'external economies' – which lie at the back of a self-generating development process.

Associated with the removal of each set of indivisibilities is a stream of external economies. A 'bit by bit' approach to development would not enable the economy to cross over certain indivisible economic obstacles to development. What is required is a vigorous effort to jump over these obstacles. As such, for the economy to be successfully launched on the path of self-generating growth a "big push" in the form of a minimum size of investment programme is necessary. In essence, therefore, an all-or-nothing approach to development is stressed in big-push approach to development.

Requirements for Big Push:

The hallmark of the ‘big-push’ approach lies in the reaping of external economies through the simultaneous installation of a host of technically interdependent industries. But before that could become possible, we have to overcome the economic indivisibilities by moving forward by a certain “minimum indivisible step”. This can be realised through the injection of an initial big dose of a certain size of investment.

Prof. Rodan distinguishes three kinds of indivisibilities and externalities with a view to specify the areas where big push needs to be applied.

They are:

- (i) Indivisibilities in the production function, i.e., lumpiness of capital, especially in the creation of social overhead capital.
 - (ii) Indivisibility of demand, i.e., complementarity of demand.
 - (iii) Indivisibility of savings, i.e., kink in the supply of savings.
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Professor Ragnar Nurkse has given the concept of the vicious cycle of poverty. The vicious cycle of poverty states that low-income levels lead to low-income investment and savings. Therefore, there will be a low rate of investment, leading to a decrease in the productivity rate that will again lead to low income. Prof. Nurkse believes it indicates a cyclical constellation of factors that have the propensity to interact with one another in ways that maintain poverty in a nation.

Concept of the Vicious Circle of Poverty

The phrase “vicious circle of poverty” alludes to the idea that poverty causes poverty. Impoverished people often stay poor and pass on their circumstances to subsequent generations. There are two levels in the vicious circle of poverty theory: supply level and demand level. Following a vicious cycle of low income, low savings, poor capital creation, low productivity, low output, and low income, the supply level declines.

Demand increases in the vicious cycle of “**poor income, low purchasing power, low investment attractiveness, low production, and low income.**” As reduced income will result in fewer savings and investments. Poor productivity will consequently result from low investment, which will again result in low revenue.

It suggests a circular constellation of factors that tend to operate and react with one another in a way that keeps a poor country in a condition of poverty, says Prof. Nurkse. To rectify this Vicious Circle of poverty given by Professor Ragnar Nurkse, there are two main solutions:

- **The solution to the supply side of the vicious circle:** An increase in savings and investments should be done.
- **A solution to the demand-side vicious circle:** The extent of the market should be widened so that people invest more.

According to **Hirschman**, “Development is a chain of disequilibria that must be kept alive rather than eliminate the disequilibrium of which profits and losses are symptoms in a competitive economy.

Albert O. Hirschman in his strategy of economic development goes a step further from Singer (another advocate of unbalanced growth theory) when he says that for accelerating the pace of economic development in the underdeveloped countries, it is advisable to create imbalances deliberately. He also recognized the inter-relatedness of different economic activities as done by Ragnar Nurkse. But he asserts that investment in selected industries or sectors would accelerate the pace of economic development.

He regarded, “Development is a chain disequilibria that must keep alive rather than eliminate the disequilibria, of which profits and losses are symptoms in a competitive economy”. There would be ‘seasaw advancement’ as we move from one disequilibrium to another new disequilibrium situation.

Thus Hirschman argued that, “To create deliberate imbalances in the economy, according to a pre-designed strategy, is the best way to accelerate economic development.” Hirschman is of the confirmed view that underdeveloped countries should not develop all the sectors simultaneously rather one or two strategic sectors or industries should be developed by making huge investment. In other words, capital goods industries should be preferred over consumer goods industries.

It is because capital goods industries accelerate the development of the economy, where development of consumer goods industries is the natural outcome. Hirschman has stated that, “If the economy is to be kept moving ahead, the task of development policy is to maintain tensions, disproportions and disequilibria.”

Process of Unbalanced Growth:

The strategy of unbalanced growth is most suitable in breaking the vicious circle of poverty in underdeveloped countries. The poor countries are in a state of equilibrium at a low level of income. Production, consumption, saving and investment are so adjusted to each other at an extremely low level that the state of equilibrium itself becomes an obstacle to growth. The only strategy of economic development in such a country is to break this low level equilibrium by deliberately planned unbalanced growth.

Prof. Hirschman is of the opinion that shortages created by unbalanced growth offer considerable incentives for inventions and innovations. Imbalances give incentive for intense economic activity and push economic progress.

Development policy, therefore, should be so designed that may enhance the investment in social overhead capital (SOC) is created external economies and discourage investment in directly productive activities (DPA).

Unbalancing the Economy:

Development, according to Hirschman, can take place only by unbalancing the economy. This is possible by investing either in social overhead capital (SOC) or indirectly productive activities (DPA). Social overhead capital creates external economies whereas directly productive activities appropriate them.

(i) Excess of investment in Social Overhead Capital:

Social over-head capital are concerned with those series without which primary, secondary and tertiary services cannot function. In SOC we include investment on education, public health, irrigation, water drainage, electricity etc. Investment in SOC favorably affect private investment in directly productive activities (DPA).

Investment in SOC is called autonomous investment which is made with the motive of private profit. Investment in SOC provide, for instance, cheap electricity, which would develop cottage and small scale industries. Similarly irrigation facilities lead to development of agriculture. As imbalance is created in SOC, it will lead to investment in DPA.

(ii) Excess of Investment in Directly Productive Activities:

Directly productive activities include those investments which lead to direct increase in the supply of goods and services. Investment in DPA means investment in private sector which is done with a view to maximize profit. In those projects, investment is made first where high profits are expected. In this way, DPA are always induced by profits.

Priorities: Excess SOC or Excess DPA:

(a) Unbalancing the economy with SOC:

Imbalance can be created both by SOC and DPA. But the question before us is that in which direction the investment should be made first so as to achieve continuous and sustained economic growth. The answer is quite simple. The government should invest more in order to reap these economies, the private investors would make investment in order to enjoy

profits. This would raise the production of goods and services. Thus investment in SOC would bring automatically investment in DPA.

(b) Unbalancing the economy with DPA:

In case investment is made first in DPA, the private investors would be facing a lot of problems in the absence of SOC. If a particular industry is setup in a particular region, that industry will not expand if SOC facilities are not available. In order to have SOC facilities, the industry has to put political pressure. That is really a tough job. Thus, excess DPA path is full of strains or pressure- creating whereas excess SOC path is very smooth or pressure relieving.