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Problems of Accelerated Growth.

Edited by

Dr. A. Hosny

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ACCELERATED GROWTH.

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The Nature of Growth.

The concept of growth is commonly used in the technical sense to refer to the growth of the volume of production. The short-coming of this definition is that it restricts the concept to the technical aspect of the process of growth, and excludes the social and human aspects.

To take care of these aspects, some economists propose to define growth as the capacity of the society to grow. According to this definition, the rate of growth of national product is not a sufficient indicator of the fundamental changes that take place. It has to be supplemented by other indicators to follow up the development of the human and social aspects.

Other economists propose the distinction between two concepts: growth and development. The concept of growth should be defined in the technical sense to mean the expansion of the productive capacity, without reference to the social or the human aspects. The concept of development, on the other hand, is defined to mean the growth of national product to a level determined by both the physical and the social capacities. The implications of this definition are:

a) Growth should be sustained.

b) Growth should result mainly from the performance of the national economy.

c) Some social dimensions are added.

In this sense, development becomes social as well as economic. This qualification draws the attention to the social and human factor as a a prerequisite for growth. One should not overlook the fact that the objective of development is the promotion of the well-being of the society.

Unless people, as producers and consumers, have the determination and capacity to achieve objective, growth, in its technical sense, will be meaningless.

The Concept of Accelerated Growth.

Definition of Accelerated Growth:

Though the concept of accelerated growth is a familiar one in contemporary economic discussions, there is no agreement on the precise definition of the concept. Two interpretations can be distinguished:

The stage concept:

The first definition is Rostow's stage concept. According to this concept, the distinction is made between three stages through which a country may pass:

1. The "pre-development" stage, where per capita income is constant. The rate of growth of national income approximates the rate of growth of population, which is about 2% per annum.
2. The stage of "accelerated growth" where growth proceeds at an accelerated rate until the economy acquires the capacity to sustain its growth.
3. The stage of "self-propelling growth". This is the normal state of affairs in which the economy has the capacity for growth without any external driving force, and even without a conscious policy to induce growth by the government.

According to this stage classification, the concept of accelerated growth refers to the development of the economy in a particular stage. Two characteristic of this stage can be emphasized:

a) It is the intermediate stage through which the economy passes from-development to self-propelling growth.

b) The rate of growth is increasing over time until it reaches the limit where it can be self-sustained.

Hence, accelerated growth is defined as the acceleration of the rate of growth of the national economy in a particular stage of its development.

The historical concept:

The second concept is Kuznet's historical concept. Historical evidence suggests that world development has been achieved in successive generations. In each generation, the rate of growth has been higher than that in the preceding one.

The pioneer country was the United Kingdom. Next came France, Germany and the United States. In this second generation, the rate of growth was higher than the rate of growth of the United Kingdom. This generation was followed by U.S.S.R. and Japan, where the rate of growth was higher.

This evidence suggests that the rate of growth is an increasing function of time. Hence, accelerated growth is defined as the capacity of each generation to grow at a higher rate than its predecessor.

Exponents of the stage concept claim that this historical concept implies the stage concept. That is to say, the historical evidence suggests that each economy passes through a stage in which the rate of growth is increasing over time. But defenders of the historical concept claim that their definition implies something more than that. It implies that the upper limit of growth attained by each generation is higher than the upper limit attained by the preceding generation. According to their view, it is this particular evidence which is the essence of the concept of accelerated growth.

The Limits of Accelerated Growth:

By definition, the concept of acceleration, whether interpreted in the stage sense, or in the historical sense, implies that there is a lower limit for the rate of growth which is slightly higher than the rate of growth of population, allowing for a slight improvement in the standard of living.

But the concept raises the issue: Can acceleration be maintained indefinitely? Or is there an upper limit beyond which accelerated growth is impossible?

There is general agreement that acceleration cannot be maintained indefinitely. But there is disagreement about the precise height of the upper limit. The issue is directly linked with the definition of acceleration.

Interpreting acceleration in the stage sense, the upper limit is determined by the capacity of the economy to sustain its growth. Since different economies hence different capacities for growth, the height of the upper limit of acceleration cannot be quantitatively determined.

Interpreting acceleration in the historical sense, the upper limit is determined quantitatively by contemporary evidence.

Classifying the countries according to the level of per capita income, four classes can be distinguished:

1. The richest and oldest countries, like the United Kingdom, and the United States. This group is advancing at a comparatively slow rate.

2. The soviet Union, Germany and Japan. This group is advancing at a faster rate.

3. The new countries like Brazil and Mexico. This group is advancing at a faster rate than that achieved by the second group.

4. The under-developed countries in Asia and Africa. The development of these countries is remarkably slow.

Two propositions are derived from this classification:

The first is the tendency towards equalization between the first three classes, as a result of the acceleration of the rate of growth.

The second is that the principle of equalization does not apply to the fourth class. That is to say, there is no possibility that the countries which are now under-developed will be able to grow at a rate higher than that achieved by the third class.

This leads to the conclusion that the process of acceleration has already reached its summit, and the upper limit is determined by the rate of growth achieved by the last generation of developed countries.

The proposition that the summit of acceleration is quantitatively determined by historical and contemporary evidence is, however, questionable. The cases of Germany and Japan are examples where this proposition is not strictly true. In both cases, the rate of growth exceeded the level of 10%, and it is not possible to conculde from the historical evidence that accelerated growth has already reached its summit.

This does not imply, however, than accelerated growth will go on indefinitely, It is quite possible that the speed of acceleration will reduce its speed.

This possiblility is based on one of the following hypotheses.

1. The inability of certain factors which had contributed to accelerated growth in the past to operate now.

2. The emergence of new factors affecting adversely the rate of growth.

Several factors may be responsible for setting the upper limit of the process of acceleration.

1. Slackening of motivation for accelerated growth:

It is quite conceivable that after a certain level of wealth, the society may have a different motivation than progress. Factual evidence suggests that beyond a certain level of well-being, the economy may become disinterested in accumulating more capital, as they have enough savings, and rearrange their systems of wants accordingly to have more consumption.

2. The gap of technology:

The factor emphasized to explain the inapplicability of the equalization principle to the under-developed countries, is the gap of technology between the under-developed and the advanced countries. It is claimed that acceleration was possible in the past because technology could be transmitted from one generation to another in a cumulative manner. The pioneer countries like the United Kingdom, had to create their own technology. The next generation of countries were in a better position since they had unexpolited possiblilities to apply the technology transmitted from the preceding generation. Between 1870 and 1910, the progress of technology was appreciable, and was sufficiently fast to give great opportunities for exploiting the possiblilities of growth.

Since then, technology has advanced a very fast speed and has changed its nature. It has become so capital intensive that it is difficult to transmit the new innovations to the countries which are now under-developed. This unbridgeable gap of technology between the advanced and the under-developed countries is the factor responsible for setting up the upper limit of acceleration.

3. The exhaustion of the human and organizational capacity of the economy. In many countries, the capacity to grow humanly and organizationally is exhausted far before the capacity to accumulate physical capital.

4. The emergence of bottlenecks, specially in skilled manpower, may be one of the important factors setting a limit to acceleration.

5. The most important factor is the decline in investment opportunities. If the rate of saving far exceeds that of investment opportunities, it would be hardly possible that any growth can take place. The experience of the last decade indicates that ivestment opportunities in the highly developed countries are so minimized that the problem of saving has become a severe one.

6. The population pressure may be greatly reduced. This is a more theoretical possibility, but it is possible that population may become stagnant, and accelerated growth will be adversely affected.