ROSTOW MODEL OF DEVELOPMENT

Compiled by

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Introduction

W.W. Rostow was an American economist who proposed five stages of economic growth. One of the first models to account for economic growth and probably still the simplest was put forward by W.W. Rostow in 1960. He suggested that all the countries in his study had the potential to break the cycle of poverty and develop through five linear stages.

The Stages of Economic Development

This is a linear theory of development. Economies can be divided into primary, secondary and tertiary sectors. The history of developed countries suggests a common pattern of structural change.

Changes in employment structure based on the Rostow Model

Stage	Primary	Secondary	Tertiary
1	Vast majority	Very few	Very few
2	Vast majority	few	Very few
3	declining	Rapid growth	few
4	few	stable	Growing rapidly
5	Very few	declining	Vast majority

Five Stages:-

Stage 1- The Traditional Society

• The economy is dominated by subsistence activity

• Output is consumed by producers rather than traded

• Any kind of trading is done by bartering

• Agriculture is the most important industry thus making production labour intensive, using only limited quantities of capital

Stage 2- Pre-conditions for Take-off

• Industrialization would have just begun

• An emergence of transport and infrastructure to support trade

• Savings and investment grew

Stage 3- Take-off Stage

• Industrialization increased

• Workers switched from the agricultural sector to the manufacturing sector

• Economic transitions- evolution of new political and social institutions to support industrialization which generates increasing incomes and therefore able to sustain more investment

Stage 4-Drive to Maturity

• The economy begins to diversify into new areas

• Technological innovation- a diverse range of investment opportunities

• The economy begins to produce a wide range of goods and services, there is less reliance on imports. The diversity leads to greatly reduced rates of poverty and rising standards of living.

Stage 5- High Mass Consumption

• Economy is geared towards mass consumption

• The service sector becomes increasingly dominant

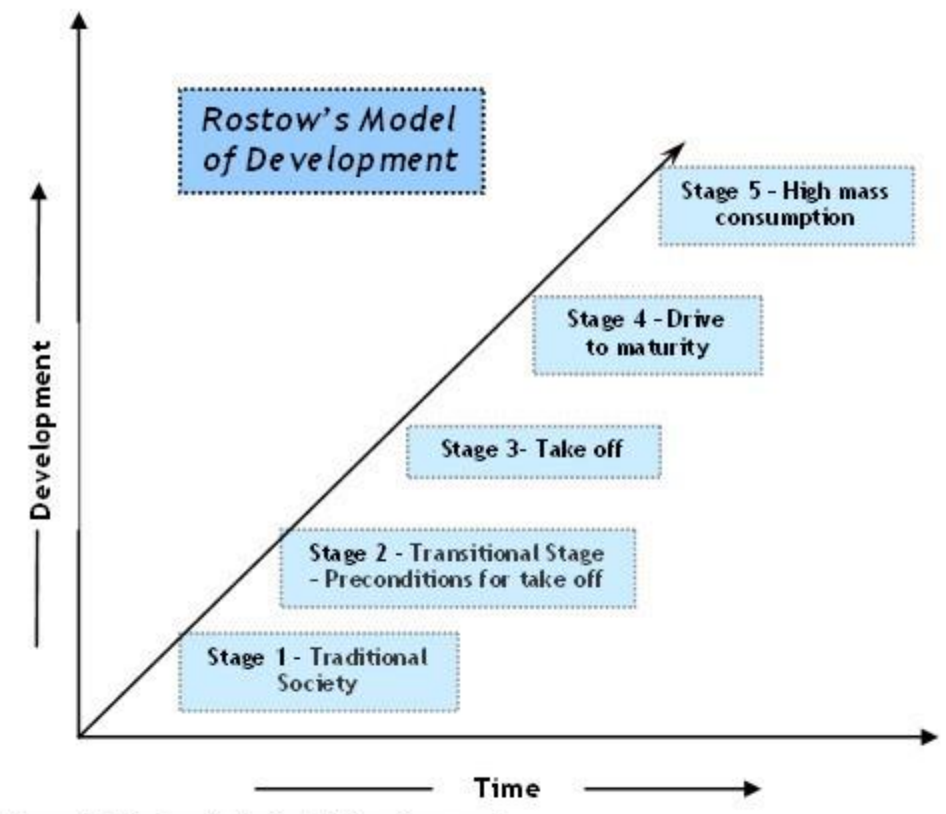

Figure 1: Rostow's Model of Development.

Failure

• This model is limited as it is generalized in nature

• The determinants of a country's stage of economic development are usually seen in broader terms i.e. dependent on the quality and quantity of resources, a country's technologies, a countries institutional structures e.g, law of contract etc

• The model explains the development experience of Western countries. It does not explain the experience of countries with different cultures and traditions which have experience little economic development

• The model assumes incorrectly that all countries start off at the same level

• It predicts a short timescale between the beginning of growth and the time when a country becomes self-sustaining

• In reality policy makers are unable to clearly identify stages as they merge together

Strengths

• A richer world is likely to be a more peaceful world

• Savings and capital formation are central to the process of growth hence development

Thus the key to development is to mobilize savings to generate the investment to set in motion self- generating economic growth