BIG PUSH THEORY

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Big Push Theory of Economic Development

The ***Big Push Theory has been presented by***

P.N Rosenstein Rodan.

The idea behind this theory is that in underdeveloped countries to break VCP a big push or a big investment is required to bring economic development.

In other words, a certain minimum amount of resources must be devoted to developmental programs, if the success of programs is required.

This theory is of the view small investment is just a waste of resources through Bit By Bit allocation no economy can move on the path of economic development,

As some ground speed is required for the aircraft to take off.

It is based on the principle of big push or by the way of big investment for development in an UDC

Investment below a certain level will be a mere wastage and will not enable the economy to break the vicious circle of poverty

Prof. R. Rodan has mentioned three kinds of indivisibilities which are considered foremost in getting the path of economic development

they are:

- *Indivisibilities in the production function, i.e., lumpiness of capital, especially in the creation of social overhead capital.*
- *Indivisibility of demand, i.e., the complementarity of demand.*
- *Indivisibility of savings/supply,*

Social Overhead Capital(SOC): basic support system

- power
- transport
- banking
- water supply
- gas
- health care education
- communication

with a heavy amount of investment

Their installation requires a 'sizeable initial lump' of investment, require a large amount of investment

The SOC can not be imported. UDCs will have to spend 30% to 40% of investment on SOC. The SOC is attached with the following indivisibilities:

Indivisibilities in the Production Functionउत्पादन फलन मे अविभाज्यताएं

- Indivisibilities of inputs, processes and outputs.

These indivisibilities lead to increasing returns (i.e., increase in output income employment) and lower capital-output ratio

The most important case of indivisibilities and external economies on the supply side resides in the

social overhead capital (soc) is now called infrastructure.

Social overhead capital consists of all the basic industries such as transport, power, communications, banking, and such other public utilities.

The most important effect this indivisibility is the "investment opportunities created in other industries".

The construction of these infrastructures involves ‘lumpy’ capital investments. And the capital-output ratio in the social overheads is considerably higher than in other industries. these services are only indirectly productive and involve long gestation periods. Besides, their “minimum feasible size” is large enough

four types of indivisibilities of creating social overhead capital :

Indivisibility of Time:

The creation of social overhead capital must precede other directly productive industries so that it is irreversible or indivisible in time.

Indivisibilities of creating SOCs

- *Indivisibility of time: SOC is irreversible in time as it has to be provided before setting up directly productive industries.*

- *Indivisibility of durability: SOC lasts for long period, less capital is not beneficial.*
- *Indivisibility of long gestation period:*

- *Investment of an irreducible industry mix of public utilities: SOCs must be developed immediately. Isolated facilities will not be beneficial*

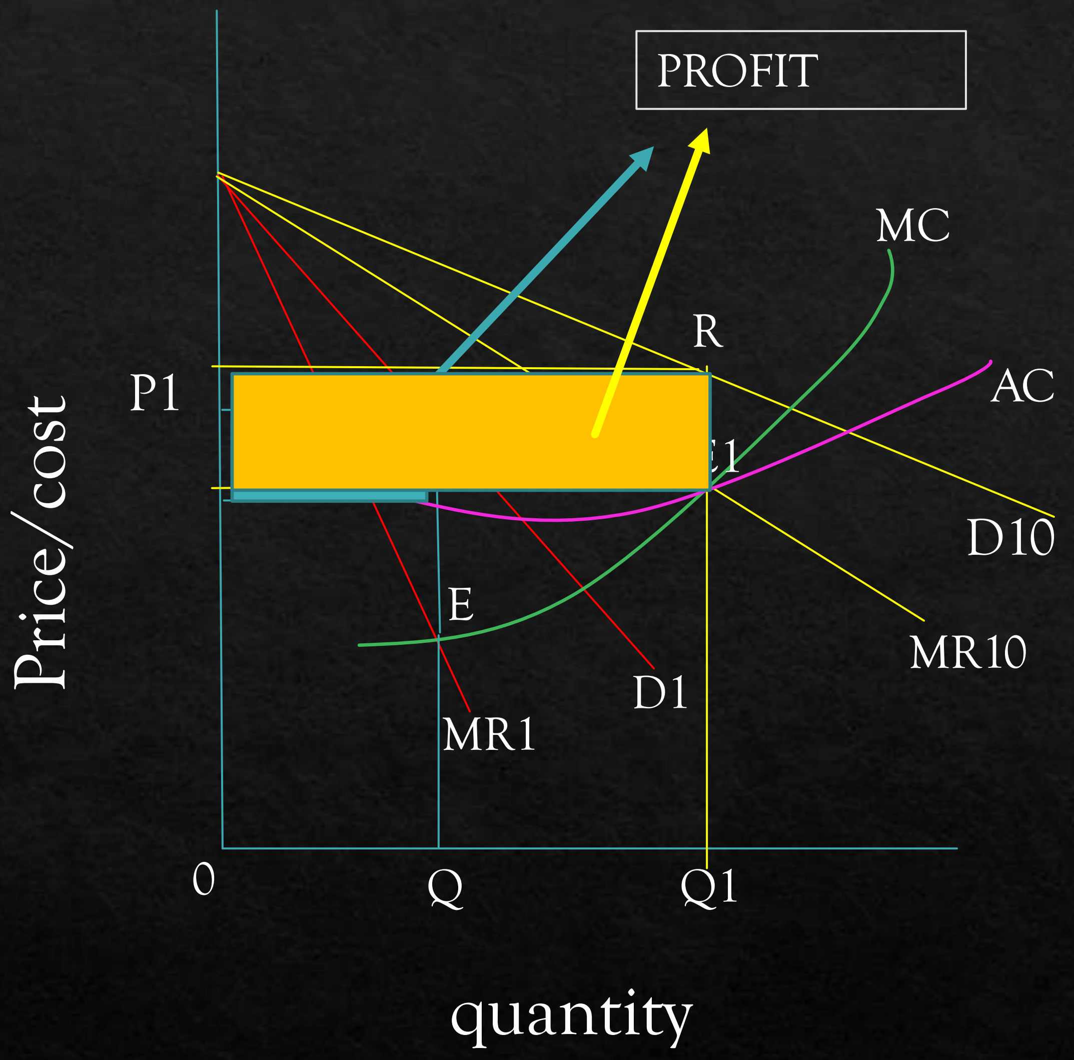
Indivisibility in Demand

The central idea of Rodan in this regard is that UDCs have small-sized markets due to low per capita income and low purchasing power of people.

It can be taken care of by expanding the size of the market and developing complementary industries together.

Example: of a Shoe factory.

When investment is made in one factory or firm shoe factory



When investment is done in so many industries simultaneously

Indivisibility in Supply of Savings:

A specific amount of investment can be made in the presence of specific savings.

But in the case of UDCs because of lower incomes, the savings remain low. Therefore, when incomes increase due to an increase in investment the MPS must be greater than APS.

A high minimum package of investment cannot be undertaken without an adequate supply of savings.

It means a specific amount of investment is necessary to remove the obstacles in the way of economic development