Rostow's Stages of Development

Walt Whitman Rostow (1916-2003)

Rostow's model is descendent from the liberal school of economics, emphasizing the efficacy of modern concepts of free trade and the ideas of Adam Smith. It also denies Friedrich List's argument that countries reliant on exporting raw materials may get "locked in", and be unable to diversify, in that Rostow's model states that countries may need to depend on a few raw material exports to finance the development of manufacturing sectors which are not yet of superior competitiveness in the early stages of take-off. In that way, Rostow's model does not deny John Maynard Keynes in that it allows for a degree of government control over domestic development not generally accepted by some ardent free trade advocates. Although empirical at times, Rostow is hardly free of normative discourse. As a basic assumption, Rostow believes that countries want to modernize as he describes modernization, and that society will assent to the materialistic norms of economic growth.

Rostow's Model - the Stages of Economic Development

Stage 5 High Mass Consumption
consumer oriented, durable goods flourish, service sector becomes dominant

Stage 4 Drive to Maturity
diversification, innovation, less reliance on imports, investment

Stage 3 Take Off
Industrialisation, growing investment, regional growth, political change

Stage 2 Transitional Stage
specialization, surpluses, infrastructure

Stage 1 Traditional Society
subsistence, barter, agriculture

In 1960, the American Economic Historian, WW Rostow suggested that countries passed through five stages of economic development.

According to Rostow development requires substantial investment in capital. For the economies of LDCs to grow the right conditions for such investment would have to be created. If aid is given or foreign direct investment occurs stage 3 the economy needs to have reached stage 2. If the stage 2 has been reached then injection of investment may lead to rapid growth.

Stages

Traditional Societies

Traditional societies are marked by their pre-Newtonian understanding and use of technology. These are societies which have pre-scientific understandings of gadgets, and believe that gods or spirits facilitate the procurement of goods, rather than man and his own ingenuity. The norms of economic growth are completely absent from these societies. The economy is dominated by subsistence activity where output is consumed by producers rather than traded. Any trade is carried out by barter where goods are exchanged directly for other goods. Agriculture is the most important industry and production is labor intensive using only limited quantities of capital. Resource allocation is determined very much by traditional methods of production.

Preconditions to Take-off
The preconditions to take-off are, to Rostow, that the society begins committing itself to secular education, that it enables a degree of capital mobilization, especially through the establishment of banks and currency, that an entrepreneurial class forms, and that the secular concept of manufacturing develops, with only a few sectors developing at this point. This leads to a take-off in ten to fifty years. At this stage, there is a limited production function, and therefore a limited output. There are limited economic techniques available and these restrictions create a limit to what can be produced.

Increased specialization generates surpluses for trading. There is an emergence of a transport infrastructure to support trade. As incomes, savings and investment grow entrepreneurs emerge. External trade also occurs concentrating on primary products.

**Take-off**

Take-off then occurs when sector led growth becomes common and society is driven more by economic processes than traditions. At this point, the norms of economic growth are well established. In discussing the take-off, Rostow is a noted early adopter of the term "transition", which is to describe the passage of a traditional to a modern economy. After take-off, a country will take as long as fifty to one hundred years to reach maturity. Globally, this stage occurred during the Industrial Revolution.

Industrialization increases, with workers switching from the agricultural sector to the manufacturing sector. Growth is concentrated in a few regions of the country and in one or two manufacturing industries. The level of investment reaches over 10% of GNP.

The economic transitions are accompanied by the evolution of new political and social institutions that support the industrialization. The growth is self-sustaining as investment leads to increasing incomes in turn generating more savings to finance further investment.

**Drive to Maturity**

The drive to maturity refers to the need for the economy itself to diversify. The sectors of the economy which lead initially begin to level off, while other sectors begin to take off. This diversity leads to greatly reduced rates of poverty and rising standards of living, as the society no longer needs to sacrifice its comfort in order to strengthen certain sectors.

The economy is diversifying into new areas. Technological innovation is providing a diverse range of investment opportunities. The economy is producing a wide range of goods and services and there is less reliance on imports.

**Age of High Mass Consumption**

The age of high mass consumption refers to the period of contemporary comfort afforded many western nations, wherein consumers concentrate on durable goods, and hardly remember the subsistence concerns of previous stages. In the age of high mass consumption, a society is able to choose between concentrating on military and security issues, on equality and welfare issues, or on developing great luxuries for its upper class. Each country in this position chooses its own balance between these three goals.

Of particular note is the fact that Rostow's "Age of High Mass Consumption" dovetails with (occurring before) Daniel Bell's hypothesized "Post-Industrial Society." The Bell and Rostovian models collectively suggest that economic maturation inevitably brings on job-growth which can be followed by wage escalation in the secondary economic sector (manufacturing), which is then followed by dramatic growth in the tertiary economic sector (commerce and services). In the Bell model, the tertiary economic sector rises to predominance, encompassing perhaps 65 to 75 percent of the employment in a given economy. Maturation can then bring-on deindustrialization as manufacturers reorient to cheaper labor markets, and deindustrialization can, in turn, destabilize the tertiary sector.

According to Rostow, development requires substantial investment in capital. For the economies of LDCs to grow, the right conditions for such investment would have to be created. If aid is given or foreign direct investment occurs at stage 3 the economy needs to have reached stage 2. If the stage 2 has been reached then injections of investment may lead to rapid growth.
Limitations
Many development economists argue that Rostow's model was developed with Western cultures in mind and not applicable to LDCs. It addition its generalized nature makes it somewhat limited. It does not set down the detailed nature of the pre-conditions for growth. In reality, policy makers are unable to clearly identify stages as they merge together. Thus as a predictive model it is not very helpful. Perhaps its main use is to highlight the need for investment. Like many of the other models of economic developments it is essentially a growth model and does not address the issue of development in the wider context.

Criticism of the Model
1: Rostow is 'historical in the sense that the end result is known in the outset and is derived from the historical geography of developed society.
2: Rostow is mechanical in the sense the underlying motor of change is not disclosed and therefore the stages become little more than a classificatory system based on data from developed country.
3: His model is based on American and European history and aspiring to American norm of high mass consumption.
4: His model represents a “non-communist manifesto” or we can say a “capitalist manifesto”.

Rostow's thesis is biased towards a western model of modernization, but at the time of Rostow the world's only mature economies were in the west, and no controlled economies were in the "era of high mass consumption." The model de-emphasizes differences between sectors in capitalistic vs. communistic societies, but seems to innately recognize that modernization can be achieved in different ways in different types of economies.
The most disabling assumption that Rostow is accused of is trying to fit economic progress into a linear system. This charge is correct in that many countries make false starts, reach a degree of transition and then slip back, or as is the case in contemporary Russia, slip back from high mass consumption (or almost) to a country in transition. On the other hand, Rostow's analysis seems to emphasize success because it is trying to explain success. To Rostow, if a country can be a disciplined, uncorrupt investor in itself, can establish certain norms into its society and polity, and can identify sectors where it has some sort of advantage, it can enter into transition and eventually reach modernity. Rostow would point to a failure in one of these conditions as a cause for non-linearity.
Another problem that Rostow's work has is that it considers mostly large countries: countries with a large population (Japan), with natural resources available at just the right time in its history (Coal in Northern European countries), or with a large land mass (Argentina). He has little to say and indeed offers little hope for small countries, such as Rwanda, which do not have such advantages. Neo-liberal economic theory to Rostow, and many others, does offer hope to much of the world that economic maturity is coming and the age of high mass consumption is nigh. But that does leave a sort of 'grim meathook future' for the outliers, which do not have the resources, political will, or external backing to become competitive.

Self-sufficiency
China, India and most African and Eastern European countries adopted this strategy at one time. The idea is to protect local, fledgling businesses from large, international competition. This also helps to make your country independent of the MDCs and not at the whim of TNCs.

Elements of self-sufficiency approach - Import limitation
- Higher taxes on imported goods (tariffs)
- Set quotas on imports
- Import-license requirements
India once did all of these and even made it illegal to exchange their money on currency exchanges.

The government wanted businesses to produce for India only (local businesses that is). If private companies could not make a profit, the government subsidized them.

Problems with Self-sufficiency Approach:
Inefficiency- without competition, companies lagged behind the rest of the world and counted on the government to make a profit. Meanwhile the government share of the costs kept going up.

Large bureaucracy – complex admin systems that were corrupt, easily bribed. Creation of a black market to get around all of the government issues.