

Critical minimum effort thesis by Harvey Libenstein

Shazia Gulam

Masters in Sociology Kashmir University, India

Abstract

The present study is about the thesis of critical minimum effort developed by Havery Libenstein. Brief introduction about vicious circle of poverty, shocks and stimulants which every economy faces, growth agents which leads to the development followed by incentives, balanced growth as an overcome to come out from vicious circle of poverty in underdeveloped countries. Conclusion; It is only when income increasing factors are stimulated much beyond than the income depressing factors that the critical minimum is reached and economy would be on the path of development.

Introduction

Havery Libenstein is a very important name in the economics of development. His theory can be termed as the theory of all or nothing. He says that underdeveloped countries are characterized by vicious circle of poverty and to leave this it is difficult unless there is some huge change or welfare taken by Govt. The underdeveloped countries have low per capita income and this leads to low investment, then low quality of products, low saving which finally leads to low income (vicious circle of income). The way out of this impasses is a certain "critical minimum effort) which would raise the per capita income to a level at which sustained development could be maintained.

Libenstein says that every economy is subject to shocks and stimulants. A shock has the impact of reducing per capita income e.g. increase in population growth, more illiterate population etc. While stimulants tend to increase it e.g huge money spent by Govt. on welfare of people. He says certain countries are underdeveloped because the magnitude of the stimulant has been small and shocks large therein.

Growth agents

The growth agents are quantum of capacities residing in the members of the population to carry out growth contributing activities. The typical growth agents are;

I. The entrepreneur II. The investor III. The saver IV. The innovator.

The growth contributing activities results in the creation of entrepreneurship, the increase in the stock of knowledge, the expansion of the productive skills of the people and the increase in the rate of saving and investment.

Incentives

According to Libenstein "whether or not the growth agents expand will depend on the anticipated outcome of such activities, the actual results and on the incentives for further

expansion or contraction generated by the interaction of the anticipation, the activities and the results". The incentives are of two types.

(I). The zero sum incentives.

(II). The positive sum incentives.

The zero sum incentives do not raise national level but have only distributive effort. The positive sum incentives lead to expansion of national income. So only positive sum type of activities lead to economic development. But condition in underdeveloped countries are such that entrepreneurs are engaged in zero sum activities. They are doing non trading activities for securing a greater monopolistic position, political power and social prestige, the trading activities leading to a greater monopolistic position that do not add to aggregate resources, nor to national income. Therefore zero sum activities are not real income creating activities but simple transformers of liquidity from some holders to others. On the other side the positive sum activities are essential for economic development but have limited scope. Even if some entrepreneurs undertake real investment projects in anticipation of profits their positive sum activities will degenerate and be directed towards zero sum activities in absence of net growth in the economy. It is therefore necessary that the minimum efforts should be sufficiently large to create an environment congenial to the persistence of positive sum incentives.

Balanced growth theory

Libenstein says that there is closed economy in underdeveloped countries. There is balanced growth due to which investment in one country leaves also some profit to other so they are interdependent between them. But investment has not been such that zero sum incentives have counter positive sum incentives. So the need of hour is that there should be increase in per capita income which would lead to overcome from vicious circle of poverty.

Conclusion

TO conclude it is quite clear that the need of the hour is that countries which are in stagnant position in underdeveloped countries should be given "Critical minimum effort" so that per capita income will increase. His critical minimum effort thesis has caught. The imagination of economists and planners in underdeveloped countries and is regarded as a prescription to economic backwardness.

References

M.L. Ghinghan 'The economics of development and planning, vrinda publications P 169.

O.S. Shrivastava 'Demography and population studies' Vikas publications Pp 54-55

A.P. Thirwall 'Growth and development' published by Palgrave macmillan Newyork P 280.