STRUCTURALISM

INTRODUCTION

- Structuralism is a development theory which focuses on structural aspects which impede the economic growth of developing countries. This theory studies the transformation of a country's *domestic economic structures from a heavy emphasis on traditional subsistence agriculture to a more modern, more urbanized and more industrially diverse manufacturing and service economy.* Policy prescriptions resulting from structuralist thinking include major government intervention in the economy to fuel the industrial sector, known as ***import substitution industrialization (ISI)***.

STRUCTURAL TRANSFORMATION

- This structural transformation of the developing country is pursued in order to create an economy which in the end enjoys self-sustaining growth. This can only be reached by ending the reliance of the underdeveloped country on exports of primary goods (agricultural and mining products), and pursuing inward-oriented development by shielding the domestic economy from that of the developed economies. Trade with advanced economies is minimized through the erection of all kinds of trade barriers and an overvaluation of the domestic exchange rate; in this way the production of domestic substitutes of formerly imported industrial products is encouraged. The logic of the strategy rests on the infant industry argument, which states that young industries initially do not have the economies of scale and experience to be able to compete with foreign competitors and thus need to be protected until they are able to compete in the free market.

MODELS

- Structuralists argue that the only way Third World countries can develop is through action by the state. Third world countries have to push industrialization and have to reduce their dependency on trade with the First World, and trade among themselves.
- Two important examples of such models are:
- 1. Lewis's Model
- 2. The pattern of development empirical analysis by Chenery

Lewis’s Structural Change Model

- Nobel laureate Lewis said that underdeveloped economy consists of two characteristics. Traditional over populated rural subsistence sector with surplus labour and a high productivity modern sector to which this surplus labour is transferred.
- The focus of the model is on the process of surplus labour transfer from the traditional sector which leads to the growth of output and employment in the modern sector. Lewis calculated that with an increase of 30% or more in the urban wages, workers will migrate from the rural areas to the urban areas- which would lead to growth in output and employment through the modern sector.

Criticisms

- It reflects the historical experience of economic growth in the West
- **1.** Assumes that the faster the rate of capital accumulation the higher is the growth rate of the modern sector and the faster is the rate of new job creation- but it is not necessary that the capitalist profits will be re-invested in more sophisticated labour-saving technologies or there will be no capital flight.
- **2.** Surplus labour exists in the rural areas while there is full employment in the urban areas- this unsupported by empirical literature and is generally not valid.

- Notion of competitive modern-sector labour market that guarantees the existence of constant real urban wages up to the point where the supply of rural surplus labour is exhausted – however, urban wages continue to rise even in the presence of rising levels of open modern sector unemployment and the existence of surplus labour in the rural sector due to the presence of unions, civil services wage scales and Multi National Corporations own hiring practices that tend to negate competitive forces in the LDC modern sector.
- **4.** Finally evidence suggests that increasing returns prevail in the modern sector instead of diminishing returns, which means that the modern sector might continue to use more and more of capital instead of labour.

Structural Change and Patterns of Development

- In Structural Change and Pattern of Development, in addition to the accumulation of capital, both physical and human, a set of interrelated changes in the economic structure of the country are required for the transition from a traditional economic system to a modern one.
- These structural changes involve all economic functions – including the transformation of production and changes in the composition of consumer demand, international trade and resource use as well as changes in socioeconomic factors such as urbanization and the growth and distribution of a country’s population.

CONTI….

- Development shows certain patterns – for instance, a shift away from agriculture to industrial production, the steady accumulation of physical and human capital, the change in consumer demands from emphasis on food and basic necessities to manufactured goods and services. This leads to the growth of cities and urban industries as people migrate from the rural to the urban regions with a decline in overall family size and rate of population growth.

Criticisms

Lack of a proper theory in explaining the pattern of development leads to the problem that we might not be sure about the causation and the effect.