Balance versus Priority Controversy in Economic Development: A Re-examination[1]

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Recent literature on the economic development of underdeveloped countries contains numerous discussions of investment criteria. Whether investment policy for economic development should follow the path of balanced growth or that of the priority approach has been one of the major disputes among students of investment criteria. Much of the controversy over balance versus priority stems from the nebulous and inadequate ways in which the two terms—particularly that of balance—have been employed. It therefore seems worthwhile to clarify the meaning of balanced growth and to re-examine the controversy in the light of more clearly defined concepts. This paper attempts to show that once the nebulousness and inadequacy surrounding the notions of balance and priority are removed the controversy over the two supposedly different approaches turns out to be quite empty.

I. Various Concepts of Balance and the Nurksian Thesis

The term **balanced growth,** or **balanced development,** despite frequent references to it both by theorists of economic development and practical policy makers is a very ambiguous one. At one extreme, it represents a mathematical expansion path in which the economy changes in scale but not in composition.[2] At another extreme, the term has purely **rhetorical** meaning such as successful, agreeable, and well-conceived.[3] Between these extremes are a number of other

1) The writer is indebted to professors *Edgar O. Edwards* and *Allen M. Sievers* for their helpful criticisms. The author also wishes to express his gratitude to the Ford Foundation whose Regional Faculty Research Seminar in Economics held at Rice University in the summer of 1962 helped the completion of this paper.
2) *Robert M. Solow* and *Paul A. Samuelson,* "Balanced Growth under Constant Returns to Scale," **Econometrica** (July 1953), p. 412.
3) *Charles P. Kindleberger* **Economic Development** (New York: The McGraw-Hil Book Company, Inc., 1958), p. 149.
4) *C.P. Kindleberger* has a conscise summary of diverse meanings attached to the term balanced growth. See his **Economic Development, op. cit.,** pp. 149-50.
For some examples of arbitrary classifications, see *Hans W. Singer,* "The Concept of Balanced Growth in Economic Development: Theory and Practice," in **Economic Growth: Rationale, Problems, Cases,** edited by *Eastin Nelson* (Austin, Tex.· University of Texas Press, 1960) and *Michael Lipton,* "Balanced and Unbalanced Growth in Underdeveloped Countries," **Economic Journal** (September 1962).

meanings too diverse to be neatly classified.[4] Among the multitude of meanings attached to the concept of balanced growth, however, one stands out singularly, namely that formulated by *Nurkse*.[1] His treatment of the concept is both extensive and sophisticated and is widely known among the students of economic development.

According to *Nurkse*, there is in underdeveloped countries little incentive to invest capital in the introduction of modern large-scale production techniques in any single industry producing goods or services for domestic consumption. Reflecting the low level of production and income, the domestic market for any particular manufactured consumer-goods is likely to be inadequate to absorb the normal output of an efficient modern plant. Expansion of any one industry, however, would—via its effect on income—in crease the demand for the products of other industries. The incentive to invest, thus, would be much greater if investment in a wide range of consumer-goods industries were undertaken simultaneously. While isolated investment in any particular industry taken by itself is unprofitable, **a more or less synchronized application of capital to a wide range of different industries**[2] according to the income elasticities of demand[3] would become profitable.

Nurkse's balanced growth thesis has been subjected to a number of severe criticisms by those who have advocated an opposing concept, the priority or unbalanced growth approach.[4] The effect of these criticisms was to threaten the very idea of balanced growth. Certainly, the Nurksian concept of balanced growth is defined in such a way as to merit criticisms, but criticisms directed against the Nurksian thesis should not be misconstrued as criticisms of the more general concept of balanced growth. The immediately following pages will show what elaboration is necessary to remove some imperfections apparent in the Nurksian concept and to obtain a new concept of balanced growth which will be more meaningful and relevant to underdeveloped economies.

II. Some Logical Extension of the Nurksian Concept of Balanced Growth

Need of Horizontal Balance that Exceeds the Nurksian Scope

The destinctive features of the Nurksian doctrine are (1) its emphasis on market deficiency as a factor deterring capital formation, (2) its explicit recognition of the interrelationship between productivity and the size of the market and (3) its proposal of more or less simultaneous development of consumer-goods

1) The main source of *Ragnar Nurkse*'s argument is his **Problems of Capital Formation in Underdeveloped Countries** (New York: Oxford University Press, 1953). He, however, repeated and clarified his thesis in numerous other articles, discussions and lectures.

2) *Nurkse*, **Problems of Capital Formation,** p. 11.

3) *Ibid.*, pp. 12-13, and 14.

4) For examples, see *Marcus Fleming*, "External Economies and the Doctrine of Balanced Growth," **Economic Journal** (June 1955), pp. 252-54; *John Sheahan*, "International Specialization and the Concept of Balanced Growth," **Quarterly Journal of Economics** (May 1958), pp. 183-97; *Albert O. Hirschman*, **The Strategy of Economic Development** (New Haven: Yale University Press, 1958); and *Paul Streeten*, "Unbalanced Growth," **Oxford Economic Papers** (June 1959), pp. 167-90.

The terms priority and unbalanced growth will be used synonimously in the following pages.

industries according to income elasticities of demand. The proposal of developing a series of consumer-goods industries which will create their own demand offers an ingenious approach to the problem of market deficiency that deters capital formation in underdeveloped countries.[1] This Nurksian concept of balance, however, cannot be confined to consumer-goods industries alone. The workers in newly created consumer-goods industries do not live by manufactured goods alone, and inevitably will spend a very important part of their income for the purchase of such primary products as foods and fuels. This leakage of the increased income resulting from capital investment in consumer-goods industries into the none-industrial sectors means that a synchronized development of consumer-goods industries alone will not be sufficient to assure an adquate market for their products. Thus, to provide the newly developing consumer-goods industries with a sufficient market to justify the investment, the leakage of increased income to other sectors must be offset by inflows of income from other sectors. The foreign trade multiplier analysis suggests that the induced inflow from other sectors will not be sufficient to offset the outflow. If the outflow is to be completly compensated, there must be some autonomous inflow which is created by autonomous developments in other sectors. Additional income created by investment in agriculture, forestry, fishery, etc.—by increasing productivity and income—not only will increase the demand for the products of those sectors but also will increase the demand for industrial consumer-goods, too.

Not only the consideration of the demand situation but also that of supply problems requires the extension of the Nurksian balance criterion beyond the consumer-goods sector. To meet the increasing demand for foods and other primary products which is likely to accompany the development of various consumer-goods industries, the primary sector must be developed. To pay for the increasing import of consumer-goods and capital equipment, the export sector must also be developed. The creation of a series of self-contained consumer-goods industries alone proves futile.

Vertical Balance as a Part of Balanced Growth

To emphasize the importance of demand in economic development was *Nurkse's* important contribution. Yet, one of the very serious shortcoming of the Nurksian analysis lies in this very emphasis on demand, because it meant a failure to integrate the supply problems of capital formation into his concept of balanced growth.[2] This is clearly an important weakness. The demand and supply sides of

1) For the difficulties involved in using the income elasticities of demand as the measure of balance, see footnote 26.

2) In his reply to *Marcus Fleming* who criticized *Qurkse's* doctrine with respect to limited factor supply, *Nurkse* says that he intentionally dealt with "investment incentives alone" for the sake of orderly discussion. ("Balanced Growth on Static Assumptions," **Economic Journal,** June 1956, p. 367.) He goes on to say "later chapters deal with the supply side not only in terms of elasticities and propensities, but especially with reference to—national and international—policy measures relating to the supply of capital." (**Ibid.**) In his

the problems of capital formation are so closely interrelated that policies devised to remedy a difficulty on one side are bound to affect the other. It is thus evident that a satisfactory theory of balanced growth cannot be attained without incorporating the analysis of supply as an integral part of the theory.

Two central supply problems which require close examination in connection with an effort to expand the Nurksian thesis are (1) the lack or shortage of social overhead capital and other related industries, and (2) the availability of capital and resources in underdeveloped countries. The two problems on the supply side are similar in that the lack of either of them means production is technically impossible. The implications of the two problems for a balanced growth thesis are, however, very different.

Many students of economic development have recognized the importance in economic development of external economies,1) a concept which was made familiar to us by *Marshall*. In economically advanced countries, a new firm or industry will benefit from those cost-reducing services which an established economic society can supply in the form of communication and transportation facilities, housing, power and water supplies, a literate population susceptible to economic inducements, skilled workers, managers and engineers, highly organized capital markets and so forth. But underdeveloped countries are conspicuous by the very absence of those essential preconditions of economic growth. An entrepreneur who is starting a new line of production in underdeveloped countries must incur additional cost and risk to overcome the lack of those external economies essential to the successful completion of the project. Thus, inducement to invest in underdeveloped countries may be insufficient due to the lack of social overhead facilities and related industries which supply or absorb various stages of intermediate products.

This proposition is a counterpart on the supply side of *Nurkse's* these that inducement to invest is insufficient due to the lack of market demand. *Nurkse's*

Problems of Capital Formation he also makes several remarks to the effect that though the supply side is intentionally abstracted in the first chapter, it is dealt with in later chapters. (**Op. cit.**, pp. 11, 13, and 30-31.)

There is no dispute about the fact that *Nurkse* discusses the problems of saving, availabili ty of capital and the importance of social overhead capital in other contexts. What is at dispute is whether his discussion of the supply side in other contexts can form an integral part of his doctrine of balanced growth. What *Nurkse*'s study of supply factors revealed was not the abundance but the scarcity of savings and capital and the need increase them domestically and internationally. Thus, *Nurkse*'s supply analysis does not form an integral part of the *Nurksian* doctrine which assumes away any inelasticity in the supply of capital. *Nurkse* himself admits this: "my framework undoubtedly has its shortcomings. Thus balanced growth enters only on one side of the picture and takes an increased capital supply for granted." ("Balanced Growth on Static Assumptions," **op. cit.**, p. 367.)

1) For particular examples, see *C. P. Kindleberger*, **Economic Development,** p. 93 ff. *Tibor Scitovsky*, "Two Concepts of External Economies," **Journal of Political Economy,** (April 1954), pp. 143-51. *John H. Adler*, "The Fiscal and Monetary Implementation of Development Programs," **American Economic Review, Papers and Proceedings** (May 1952), pp. 586-92. *J. R. T. Hughs*, "Foreign Trade and Balanced Growth—The Historical Framework, "**American Economic Review, Papers and Proceedings,** (May 1959), pp. 330-37.

prescription to overcome the market difficulty is horizontal balance. An extension of the Nurksian logic to the supply side suggests an analogous prescription of vertical balance, i.e., more or less simultaneous development of various complementary stages of industries and social overhead facilities.[1] A project which, taken by itself, looks dubious and uneconomical due to the lack of complementary industries in the vertical sense would become an economical undertaking when it is accompanied by a more or less simultaneous[2] growth of complementary industries.

In summary, external economies resulting from complementary interactions of different industries are not confined to consumer-goods sectors; they are as important, if not more so, in the case of vertical interrelationships among the various stages of production. Furthermore, the horizontal and vertical external economies interact between themselves. Thus, if we pursue—extending the logic of the Nurksian thesis—a solution to overcome the difficulties both of the narrow market and of the lack of external economies, the answer seems to lie in a horizontally and vertically balanced development, i.e., a more or less simultaneous development of various branches of an economy at various stages of production.[3]

Factor Ceilings and Balanced Growth

An examination of the other major problem on the supply side, the availability of capital and resources and its implications for balanced growth, is now in order. Most underdevelopment countries are confronted with some definite, and often rather low, ceilings on the amount of capital and of human and natural resources usable for economic development. Would not this limitation in the supply of factors render the ambitious program of horizontal and vertical balanced growth an unattainable dream? The strong criticisms directed against the Nurksian concept due to *Nurkse's* assumption of elastic supply of capital and other resour-

1) *Nurkse* himself is opposed to such extension of his notion of balanced growth: "the notion is sometimes used in a far wider connotation, embracing capital goods industries and public overheads as well as final consumer goods. I confess that I am not able to make sense of it except in terms of income elasticities and comlementaries of consumer demands." ("International Trade Theory and Development Policy," in **Economic Development for Latin Amarica**; New York, st. Martin's Press, 1961, p. 250.) However, if the Nurksian thesis of balanced growth is to have any relevance to development problems of underdeveloped countries which are burdened by various difficulties on the supply side his thesis cannot be built on the one-sided consideration of demand alone. As soon as the notion of balance is expanded to include supply considerations, it becomes necessary to do something about the lack of social overhead facilities furnishing external economies.

2) The term, "more or less simultaneously" carries far less weight in the case of vertical development. *Nurkse* in reference to the social overhead facilities writes: "Moreover, technical indivisibilities combined possibly with considerations of deliberate development policy may lead to the building of overhead facilities well in advance of the demand for them. In the process of capital expansion a lack of balance in the vertical structure of production may be unavoidable or even desirable." See his "International Trade Theory and Development Policy," **op. cit.**, p. 20.

3) The requirement of vertical development will be considerably reduced once we relax the assumption of a closed economy which was tacit in our preceding analysis. Steel, machinery, transport equipment, tools, etc. can be imported and need not be produced at home unless conditions for their domestic production are favorable. The same reasoning, however, applies to horizontal balance: the narrowness of domestic markets will not deter the production of consumer-goods which can enjoy a favorable international demand,

ces[4] apply even more forcefully to the broader concept of horizontal and vertical balance.

If the domestic supply of capital is rather inelastic and capital supply from abroad is rather unreliable, the shortage of capital will almost prohibit a program of balanced growth. Not only is the absolute amount of capital available much smaller than the capital required horizontal and vertical development, but the rise in the cost of capital induced by the attempted expansion will discourage the synchronized development of various branches of the economy.

The important elements of human resources such as entrepreneurs, engineers, and technicians are rather scarce in underdeveloped countries.[1] The extension of general and technical education and the creation of more favorable attitudes towards material gains and manual labor which may accompany socio-economic development will in the long-run ease the shortage of those human resources. Development of an industry, for example, will contribute to the increase of skills in the long-run. But here, also, in the time period of our immediate consideration, balanced growth of an economy is likely to be hindered by the shortage of essential human resources.

The type, quility, and quantity of resources at the disposal of a nation not only put a ceiling on the absolute level of development of an economy but also dictate the direction of a nation's economic development. Here again the implication seems to be a pattern of development which is far removed from a more or less simultaneous development of various industries.

What is the implication of the existence of these factor ceilings on balanced growth? Does it mean that the concept of balanced growth is useless? Does it imply that underdeveloped countries have no escape from the so-called **under-development equilibrium Rap?**

III. Towards a General Concept of Balanced Growth

Balance as a Relative Concept

What the limited supply of factors suggests is not the complete abandonment of the notion of balanced growth but rather the need for each underdeveloped country to consider its own capital supply and resource endowment in formulating the scale and contents of its balanced growth program. The concept of balance is not an absolute, but a relative one. A thing can be either balanced or unbalanced depending on the term of reference. A balanced diet for a growing child is not the same as a balanced diet for an old man. Nor does a balanced training for an economist need be equal to a balanced training for a mathematician.

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4) *Marcus Fleming*, **op. cit.**,pp. 252-54; *C. P. Kindleberger*, **Economic Development**, p. 154; *John Sheahan*, **op. cit.**, pp. 191 and 196; *H. W. Singer*, "Economic Progress in Underdeveloped countries," **Social Research** (March 1949), pp. 7-8; M. Lipton, **op. cit.**, pp. 649-51.

1) *Henry G. Aubrey*, "Investment Decisions in Underdeveloped Countries," in **Capital Formation and Economic Growth: A Conference of the Universities—National Bureau Committee for Economic Research**, edited by *Moses Abramovitz* (Princeton: Princeton University Press, 1955), pp. 434-35.

It follows that balanced growth of a nation must be defined with specific reference to (1) its demand conditions — domestic as well as international — and (2) its supply situations — including supply of capital, external economies, and resource endowment. As soon as the concept of balance is explicitly defined in this relative sense, it becomes clear that the patterns of balanced growth in various countries— which differ in their capital supplies and resource endowments as well as their domestic and international market conditions — need not and ordinarily should not be the same. An economist who is concerned with balanced growth does not disregard the special advantages given by resource endowment and market conditions. Rather, he urges utilizing all the special advantages possessed by a country. Questions such as the types of investment projects to be undertaken and the extent to which each of the investment projects are to be developed should be answered in each case with specific reference to the demand and supply conditions of the particular country.

Balance as a Dynamic Concept

The need for defining balanced growth with explicit reference to demand and supply conditions was emphasized in the preceding pages. But this emphasis on the market and cost conditions must not be taken to mean that the developmental investment criterion could be formulated on the assumption of given market conditions and resource endowment.

The very process of economic development is a dynamic process characterized by all kinds of changes over time. On the demand side, the process of balanced growth will be accompanied by changes in the size and quilities of population, level and distribution of income, tastes, and relative prices. Demand from foreign countries over a period of years is also likely to change considerably. The domestic and international markets are constantly changing during the process of economic development.

On the supply side, the supply of capital, external economies, and resource endowment will almost continuously change during the process of development. Changes in these factors are indeed the *sine qua non* of economic development. Changes in the levels of income and saving, the channelling of saving into capital formation, the availability of foreign capital, and the supply of skills and talents are part and parcel of the process of transformation.

If the process of balanced economic growth is characterized by all kinds of dynamic changes, it is clear that the investment criterion which is to guide an economy during the period of rapid change must also be dynamic. Thus the allocation of resources for balanced growth must be based not only on current but also on prospective demand and supply conditions which encompass such changes as can be expected to occur in the course of the development both at home and abroad.[1] That concept of balanced growth which places exclusive emphasis on

1) *K. Mandelbaum*, **The Industrialization of Backward Areas**, Institute of Statistics, Monograph No. 2 (New York: Kelley ε Millman, Inc., 1955), p. 13; *P. A. Baran*, **The Political Economy of Growth** (New York: Monthly Review Press, 1957), p. 293.

current demand and supply conditions and ignores the changes expected over time precludes an analysis of the long-term dynamic transformation of an economy and misses the essence of development, **which is not so much that of achieving an optimum allocation of resources through the fulfillment of marginal conditions under static conditions as it is that of increasing the supply of resources through big structural changes and allocating resources under dynamic conditions.**[1)]

Balanced Growth Redefined

From the preceding discussion it is clear that balanced growth means development of a nation's economy in balance with its demand and supply conditions. More specifically, **balanced growth is a horizontal and vertical development of various branches of an economy in accordance with its current and prospective demand and supply conditions with the aim of, say, maximizing social output over a period of time.**

Horizontal and vertical development means the development of various social overhead facilities and appropriate earlier stages of production as well as the consumer-goods industries (to which *Nurkse* confined his doctrine).

Development in accordance with demand implies the need to consider income elasticities, price elasticities, taste, and the influence of public policies on these variables. Demand by the public and foreign trade sectors also must be considered.

Development according to supply conditions suggests the importance of weighing the availability of capital, human and natural resources, social overhead facilities, and related industries. Needless to say the supply analysis inlcudes the consideration of foreign supply sources.

The reference to **prospective** demand and supply stresses the dynamic nature of balance while the term **social** output recognizes the divergence between private and social productivities of a project and suggests the need to modify private profit calculations.

IV. Balance versus Priority

Those who have advocated the priority approach have emphasized the existence of crucial bottlenecks in production as well as of rather low factor ceilings. They have argued that the only feasible approach to development in underdeveloped countries is to concentrate investment in selected areas whose development will unleash momentum for rapid economic growth.[2)]

Some of the criticisms directed against the balanced growth thesis in the Nurksian sense reveal that the proponents of the priority approach seem to interpret the concept of balance as an indiscriminate simultaneous development on many fronts, and to associate such sensible acts as paying due attention to the demand and supply conditions of an economy with the concept of priority only. *Marcus Fleming*, for instance, stresses the limitation of domestic and foreign

1) *G. M. Meier* and *R. E. Baldwin*, **Economic Development:** Theory, History, Policy (New York: John Wiley & Sons, Inc., 1957), p. 325

supply of capital and concludes that the inelasticity in the supply of capital tends to render **the doctrine of balanced growth not so much invalid as inapplicable.**[3] *John Sheahan* assails *Nurkse* saying the general objective of any coordinated investment program in underdeveloped economies must be the traditional one of economizing in the use of resources by **unbalancing** production in the direction of goods produced with relatively greatest efficiency.[1] These are effctive arguments against balanced growth when the concept is interpreted literally as the indiscriminate simultaneous development on every front.

However, if the term balanced growth is properly understood as a relative concept which allows for the demand and supply conditions, the previous arguments lose their potencies. In fact, their propositions are quite consistent with balanced growth. If industry A has a market and/or supply advantage over the other alternative investment projects, to emphasize industry A is perfectly compatible with a program of balanced growth. Such emphasis is in balance with the demand and supply conditions of the economy. We are now led to ask an interesting question. Are the concepts of balance and priority as different as suggested by the controversy between the proponents of the two concepts? The main theme of this paper is to offer a clear negative answer to the above question.

Two preliminary steps are needed to demonstrate the similarity of the two concepts. First, the relativity and dynamism emphasized in connection with the concept of balance must also be made explicit for the concept of priority. Secondly, the two concepts must be placed on the same footing so that they can be compared meaningfully, i.e., assumptions as to the goal(s), time-perspective, and objective economic conditions must be made equal.

Though priority means assigning preference according to the relative need, importance, merit etc., the team is not entirely free from the danger of being somewhat too literally interpreted as the concentration on one (or a few) arbitrarily selected points of the economy only. To avoid such misinterpretation, the concept of priority should explicitly be defined as a relative and dynamic one. Thus priority should be interpreted as the assignment of the order of preferences to each project in accordance with, for example, their contribution to social output over a period of time. Such preferences cannot be assigned in any meaningful way unless specific references are made to the demand and supply conditions particular to an economy. Needless to say the prospective as well as current conditions are relevant.

Balance and priority are relative concepts which cannot be defined unless the goal(s) of the economy is specified. The contents of balance or priority designed to attain maximum current output will be quite different from those aimed at the maximum rate of growth. Any constraints attached to the goal(s), such as economizing foreign exchange, must also be made clear. The difference in time perspectives involved has to be eliminated in order to make the goal readily comparable. Policies designed to maximize output over a different periods of time are likely to contain different prescriptions. If, for example, balanced growth is

2) See the references cited in footnote 8.
3) **Op. cit.**, p. 254.
1) **Op. cit.**, p. 197.

concerned with immediate output and priority with future streams of output, they will not be directly comparable.

Proponents of balance and priority often make different assumptions as to the nature of economic conditions prevailing in underdeveloped countries. The balanced growth thesis may assume widespread barriers to economic development which seem to require simultaneous attacks on many fronts. On the other hand, the priority approach may assume that the difficulties are few and deep requiring consolidated attacks at a few points only. Differences in the assumptions, however, should not be confused with the differences for a given objective condition.

Once we eliminate the comflicts that may exist between the concepts of balance and priority as to their goals and constraints, time-perspectives, and objective data of an economy, the difference between the two concepts fades away. In fact, the two concepts—interpreted as relative and dynamic concepts as they should be—must offer about the same investment criterion under the assumption of perfect knowledge. For instance, if the lack of external econmy in transportation is hindering a developmental effort, an investment to provide better transportation facilities is called for. This investment in transportation might be considered either as an investment according to the **balance** rule, or as an investment according to the **priority** rule. The lack of transportation hinders the horizontal and vertical development of the economy. Therefore, to invest in transportation facilities is to bring the lagging transportation sector in balance with the demand and supply conditions of the economy. Looking from the other angle, however, the lack of transportation is the bottleneck whose removal is essential for the development of the economy, and priority must be given to transportation. The literature on economic development gives examples that hint at almost synonymous use of the terms balance and priority.

> **Balanced** economic development depends on assigning **priorities** to projects according to their contribution to the productivity of the economy.[1]
>
> The road to **balance** is through **priorities** for investments which change people. Balance, in this view, can be more surely achieved by concentrating on those places which will let the energy of the society achieve it for itself.[2]
>
> It is the experience of **unbalanced** growth in the past that produces at an advanced stage of economic development, the possibility of **balanced** growth.[3]

Thus the concepts of balance and priority become one and the same under perfect knowledge. They represent but two approaches which should produce the same end result.[4]

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1) United Nations, **Taxes and Fiscal Policy in Underdeveloped Countries** (New York: Columbia University Press, 1954), p. 5, (Italics mine).

2) *Kindleberger*, **Economic Development**, p. 166, (Italics mine).

3) *Hirschman*, **The Strategy of Economic Development**, p. 93, (Italics mine).

4) One may ask: If a planner is faced with two projects of equal desirability and if the available funds are limited will he not be forced to make a priority decision? But here the planner has no rational basis to prefer one project to another. Whatever choice he makes is not a priority but an arbitrary decision since he is by assumption indifferent as to which project he undertakes. The balanced growth criterion will, of course, he faced with the same arbitrary decision.

No country, however, has a complete knowledge of relevant economic variables, and most underdeveloped countries are conspicuous by the very lack of many basic statistical data. In the absence of reliable knowledge of the various relevant data, investment decisions in underdeveloped countries are often likely to be made on the basis of **informed guesses** and not on the basis of an exact investment criterion. Thus the difference in the broad, though vague, connotations of the two concepts, balance and priority still retains some significance. Balanced development stresses the huge task involved in the economic development of underdeveloped countries and suggests more or less simultaneous attacks on many fronts. The significance of such emphasis on the need for large scale effort becomes clear when one recalls the very low standards of living prevalent in underdeveloped countries, the existence of many socio-politico-economic barriers to economic development, and the urgent need of economic betterment in the face of rapidly increasing population. The concept of priority, on the other hand, emphasizes the scarcity of capital and resources, and the need to allocate efficiently these scarce inputs in order to attain the desired goal of economic development. It is interesting to note that these two concepts need not be diameterically opposed to each other. In the writer's mind they are complementary rather than competitive. The side by side presence of both concepts will probably help prevent the misleading interpretation of the concepts of balance and priority. For example, the common-sense connotation of the concept of priority should reveal the absurdity of interpreting balance as an indiscriminate development at all fronts, while the connotation of the concept of balance should preclude the inadvertent interpretation of priority as concentration on primary production alone. Having seen the complementarity of the two concepts, the reader may probably wish to change the phrase **balance versus priority** to read **balance and priority**.

V. Nonoperational Character of Balance and Priority Criterion

The extremely general ways in which the concepts of balance and priority were defined should be noted. The very nature of meanings commonly attached to the terms balance and priority necessitated rather general definitions of the two concepts. The concept of priority or balance is a broad theoretical concept which indicates the general nature of a sound developmental approach; it is not an operational investment criterion which can offer specific instructions. According to the balanced growth approach both current and prospective demand and supply conditions are important and horizontal and vertical development so as to maximize social output over a period of time is necessary. But one cannot learn from the concept of balanced growth anything concrete regarding the number of industries to be included in the horizontal development or the exact nature of the vertical relationship.[1] In the priority stress is laid on the need to economize

1) *Nurkse* suggested the use of income elasticity of demand as the investment criterion for his horizontal balance. The use of income elasticity as an investment criterion, however, contains serious difficulty in view of the well-known market imperfections, income inequality, difficulty in measuring income elasticities in an economy undergoing large scale transformation, and the divergence between private and social gains due to external economies involved.

scarce capital and the selection of a few strategic points at which to attack the problem of underdevelopment.[1] But here again a planner is given, no specific instruction as to the number of projects to be chosen or how to chose them.

The terms balance and priority are thus **too insufficiently clinical**[2] to offer any detailed guidance to a policy maker. However, such general and value-loaded terms as balance and priority, despite their nonoperational nature, are not likely to disappear from the vocabulary of those concerned with economic development. Operational investment criteria that can serve clinical purposes can be devised within the frameworks suggested by balance and priority criteria. Such specific investment criteria, however, will be better described by some specific technical terms and not by such general terms as balance and priority.

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1) Many proponents of priority approach suggest areas to be devloped only in very broad terms such as "directly productive activities," transportation, education, electricity, etc.

2) *M. Lipton,* op. cit., p. 643.