

# Alternative Patterns of Industrialization:

**Simon Kuznets:** Simon Kuznets, a Russian-American development economist and statistician, was awarded the 1971 Nobel Memorial Prize in Economics for his research on economic growth. He set the standard for national income accounting, enabling accurate estimates of gross national product to be calculated for the first time.

**BREAKING DOWN Simon Kuznets:**

Simon Kuznets set the standard for national income accounting — funded by the nonprofit National Bureau of Economic Research. His measures of savings, consumption and investment helped advance Keynesian economics and advanced the study of econometrics. He also helped lay the foundation for the study of trade cycles, known as "Kuznets cycles," and developed ideas about the relationship between economic growth and income inequality.

Kuznets was born in Ukraine in 1901, and moved to the U.S. in 1922. He earned his Ph.D. from Columbia University and was a professor of economics and statistics at the University of Pennsylvania (1930-54), a professor of political economy at Johns Hopkins (1954-60) and a professor of economics at Harvard (1960-71). He died in 1985 in Cambridge, Mass.

## The Kuznets Curve

Kuznets' work on economic growth and income distribution led him to hypothesize that industrializing nations experience a rise and subsequent decline in economic inequality, characterized as an inverted "U" – the "Kuznets curve". He thought economic inequality would increase as rural labor migrated to the cities, keeping wages down as workers competed for jobs. But according to Kuznets, social mobility increases again once a certain level of income was reached in "modern" industrialized economies, as the welfare state takes hold. However, since Kuznets postulated this theory in the 1970s, income inequality has increased in advanced developed countries – although inequality has declined in fast-growing East Asian countries.

## Theories and pattern of structural change:

Structural-change theory focuses on the mechanism by which underdeveloped economies transform their domestic economic structures from traditional to an industrial economy. Representative examples of this strand of thought are

- A) The Lewis theory of development
- B) Cheney's patterns of development

# The Lewis theory of development:

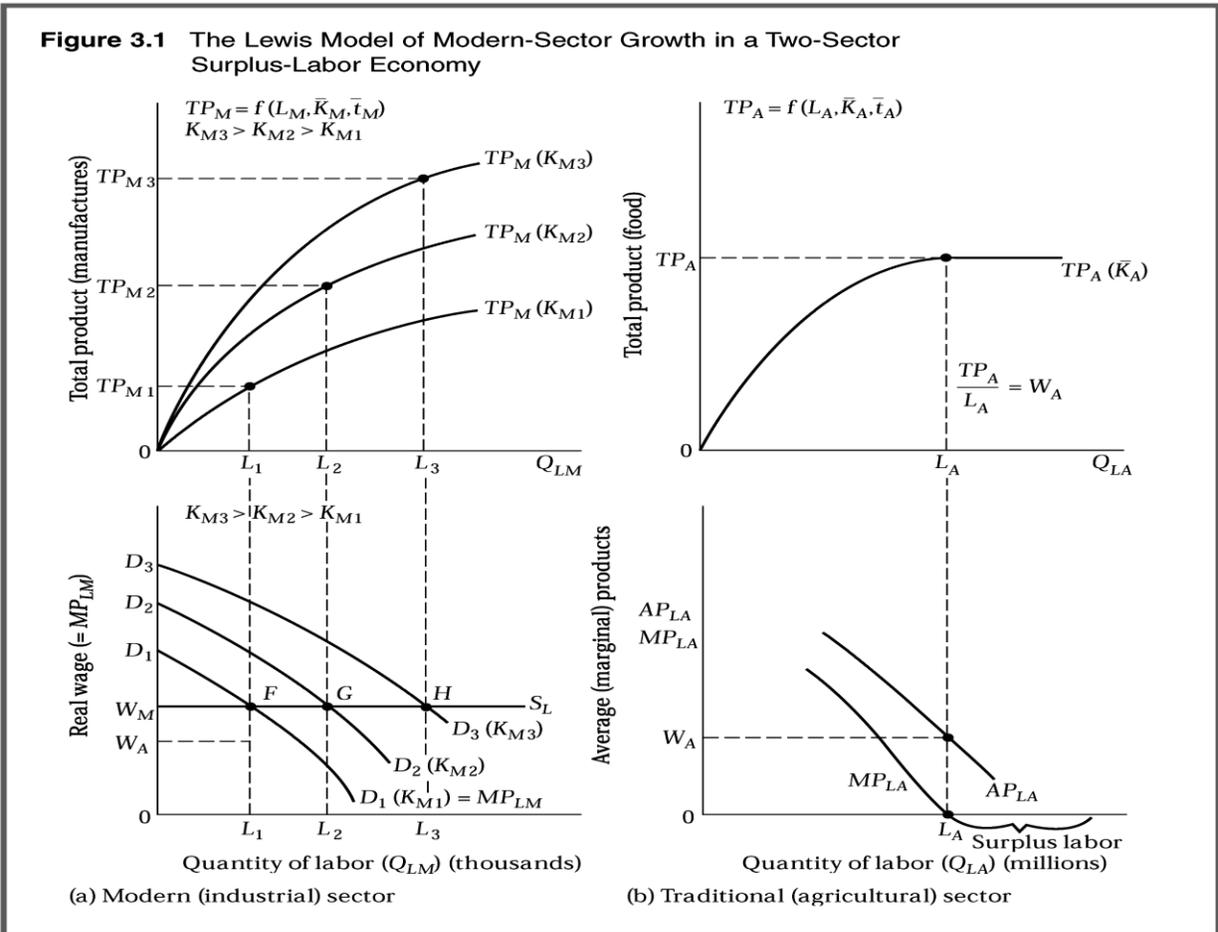
Also known as the two-sector surplus labor model has the following features

- 1) Economy consists of two sectors- traditional and modern
- 2) Traditional sector has surplus of labor ( $MP_L=0$ )

Model focuses on the process of transfer of surplus labor and the growth of output in the modern sector

The process of self-sustaining growth and employment expansion continues in the modern sector until all of the surplus labor is absorbed.

Structural transformation of the economy has taken place with the growth of the modern industry.



## Criticisms

Four of the key assumptions do not fit the realities of contemporary developing countries. Reality is that:

- Capitalist profits are invested in labor saving technology
- Existence of capital flight
- Little surplus labor in rural areas
- Growing prevalence of urban surplus labor
- Tendency for industrial sector wages to rise in the face of open unemployment .