

Paper –Principles and Practice of Management

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Topic- Major Limitations of Neo-Classical Model of Growth

The following points highlight the five major limitations of the Neo-Classical model of growth.

1. Narrow in Scope:

The neo-classical approach of the theory of economic development is narrow and inadequate.

They assume the existence of such factors as political stability, the “will to develop”, strong habits of thrift, given tastes, adequate supply of trained labour and managerial skill, a high degree of factor mobility and free flow of knowledge between different countries.

Such assumptions have narrowed down the scope of their analysis. According to them, the main determinants of economic development are changes in the size of population, capital stock, natural resources and technology.

They have minimised the significance of non-economic factors as the degree of political stability, the attitude of population, legal and social institutions etc. Marshall himself recognises the limited nature of his theoretical analysis.

2. Economic Development is not Continuous Process:

The neo-classicists believe that economic development is a gradual, continuous and harmonious process and hence they could not correctly analyse the possibilities of cyclical fluctuations in the process of development. Historically, economic development has been a discontinuous process.

This fact should have been recognised by them. They also could not visualise the possibility of disharmony of interest at least in the initial stages of development.

3. Unrealistic Assumptions:

Another drawback of the neo-classical analysis is its assumption of full employment which is very unrealistic. Because of this assumption they could not analyse how an economy can be maintained at the full employment level. In the field of capital formation, they tend to over-emphasise the importance of interest rate and minimise that of institutional factors.

4. No Importance to the Role of Govt.:

The neo-classical could not recognise the important role which government can play in creating conditions for economic development. In the present era intervention of Govt., is must to solve various problems of the UDC's.

5. Study of Developed Countries Only:

Their analysis also suffers from the drawback that they were mainly concerned with their own developed economies and hence their ideas and policies have little relevance for under-developed countries. For instance, their policy of free trade and international specialisation can hardly solve the problems of under-developed countries.