for Canadian policy. In particular, given the evidence, what kinds of policies should Canada consider pursuing in terms of its foreign aid programs and to which policies should it lend its voice in International Financial Institutions (IFIs) in order to better the prospects for economic growth in developing countries.

2. Traditional Growth Theory

2.1. The Theoretical Model

The traditional, or neoclassical, growth theory can be traced back to the mid 1950s and is normally attributed to its chief architect, Robert Solow.[3] The simple Solow model has the economy producing a single output which exhibits constant returns-to-scale in production and diminishing marginal productivity in the two factors of production, homogeneous labour and physical capital. Increasing the capital-labour ratio means increasing the amount of capital per worker, thus increasing productivity and per capita incomes. The rate of investment and the labour force growth rate, both exogenous to the model, are determined by the savings rate and the population growth rate respectively. By increasing the rate of investment beyond the rate of population (and hence labour force) growth, the capital-labour ratio would be increased (i.e., capital-deepening) and growth would occur.

If the neoclassical model is correct, the data should support a number of testable hypotheses. Firstly, the neoclassical growth model predicts that the growth rates of various countries will ultimately converge. In a free market environment, each country will have access to similar technologies and mobile factors of production will be drawn to the areas where they are able to earn the highest rate of return. Poorer countries (given their initial position) are in a better position to exploit the gains from more capital since they have a relatively low capital-labour ratio. In other words, given the usual neoclassical assumptions, countries with less capital will have higher returns to this capital and any

[3]Robert Solow, "A Contribution to the Theory of Economic Growth," *Quarterly Journal of Economics*, Vol. 70, No. 1 (1956), 65-94. Certainly the neoclassical growth theory is but one of many models of economic development which have been put forth throughout the years. Other major contributions include the outward-oriented growth model, import-substituting industrialization, the basic needs approach, the Stalinist heavy industrialization model, the neo-Marxist dependency model, etc. The neoclassical model is chosen because of its direct and continuing relevance in studying economic growth, especially since it has been the focus of new critiques under the auspices of the new growth theory (discussed below).