

TYPES AND FACTORS OF ECONOMIC GROWTH

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Abstract

The article examines in detail the types of economic growth - extensive and intensive, highlighting two groups of factors corresponding to them. It is proved that the most important role among intensive growth factors is played by scientific and technological progress, which is based on the accumulation and expansion of knowledge available to society; on scientific discoveries and inventions that provide new knowledge; on innovations that serve as a form of implementation of scientific discoveries and inventions.

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In economic theory, there are two types of economic growth: extensive and intensive. Economic growth caused by an increase in the amount of resources, a simple addition of factors, is an extensive type of economic growth. Economic growth associated with improving the quality of resources, using the achievements of scientific and technological progress is an intensive type of growth.

According to the two types of economic growth, two groups of factors are distinguished:

- factors that affect the amount of resources: labor, land, capital, entrepreneurial ability. The factors of the extensive type of economic growth include: the use of a larger number of labor; construction of new enterprises; use of more equipment; involvement of additional lands in economic circulation; discovery of new deposits and increase in extraction of minerals; foreign trade, which allows to increase the amount of resources, etc. However, the qualifications of workers and their productivity, the quality of equipment and technology do not change. Therefore, the return on production and income per unit of labor and capital remains the same.
- factors that affect the quality of resources. Factors of the intensive type of economic growth are: growth in the level of qualifications and professional training of the workforce; use of more sophisticated equipment; the most advanced technologies (primarily resource-saving); scientific organization of labor; the most effective methods of state regulation of the economy.

The most important role among the intensive factors of growth is played by scientific and technical progress (STP), which is based on the accumulation and expansion of knowledge available to society; on scientific discoveries and inventions that provide new knowledge; on innovations that serve as a form of implementation of scientific discoveries and inventions. It is scientific and technological progress that ensures the improvement of the quality of resources. The main economic characteristic of the quality of resources is their productivity. The most important factor determining the standard of living in the country is labor productivity. Labor productivity is the amount of goods and services created by an employee in one hour of work. The more goods and services each worker produces per

hour, the higher the labor productivity and the greater the real GDP. Since the standard of living is determined by the amount of goods and services produced in the country, since the total income is equal to the total output (volume of production), then the higher the real GDP, the higher the standard of living, the level of well-being. The following factors influence labor productivity, and, consequently, economic growth and its rate:

- physical capital (or simply capital) is the stock of equipment, buildings and structures that are used to produce goods and services. Note that physical capital itself is the result of the production process. The more perfect and modern it is, the more goods (including investment, that is, new equipment) and services can be produced with its help.
- human capital is the knowledge and work skills that workers acquire during their education (at school, college, university, vocational training and advanced training courses) and during their work (the so-called "learning by doing"). Note that human capital, like physical capital, is also the result of production processes and also increases society's ability to produce new goods and services.
- natural resources are factors provided by nature, such as land, rivers and minerals. Natural resources are divided into renewable and non-renewable. An example of the former is forest resources (new trees can be planted to replace cut ones). Examples of non-renewable resources are oil, coal, iron ore, etc., the formation of which in natural conditions takes thousands and even millions of years. Although natural resource reserves are a very important factor in economic prosperity, their presence is by no means the main condition for high growth rates and high economic efficiency. Indeed, the rapid growth of the US economy was initially associated with an abundance of free land suitable for agricultural use, and Kuwait and Saudi Arabia became the richest countries and the world thanks to huge proven oil reserves.
- technological knowledge is an understanding of the best ways (methods) of producing goods and services). The difference between technological knowledge and human capital is that technological knowledge is the development and understanding of these best methods (answers the question of how to produce), and human capital is understood as the degree to which people (labor force) master these methods, transforming knowledge into work skills. New technologies make work more efficient and allow for an increase in the production of goods and services. Technological knowledge is extremely important because it:
 - ✓ allows for solving the problem of limited resources;
 - ✓ is the main factor in accelerating the rate of economic growth.

The main reason that today's standard of living is higher than it was 100 years ago is new technological knowledge. The telephone, computer, internal combustion engine, conveyor, are among the thousands of technical innovations that have increased the possibilities of producing goods and services.

The importance of economic growth is that it expands the possibilities of increasing the level of well-being. On its basis, conditions are created for the implementation of social programs, the elimination of poverty, the development of science and education, and the solution of environmental problems. Economic growth increases the production capabilities of the economy, and allows solving the problem of limited resources. Thanks to it, new types of resources are created, new effective technologies of production processes that allow increasing and diversifying the production of goods and services, and improving the quality of life. However, by itself, it is not able to solve many economic, social, environmental and other problems. Moreover, economic growth has significant costs:

- Alternative costs, i.e. the need to sacrifice current consumption (consumption in the present) in order to ensure economic growth and have the opportunity to increase consumption (well-being) in the future. The basis of economic growth is investment, which ensures an increase in the stock of capital. The problem of investment is a problem of intertemporal choice (between the present and

the future). Increased investment in the production of capital goods (equipment, buildings, structures) that cause economic growth and prosperity leads to a reduction in resources directed to the production of goods and services used for current consumption. On the other hand, the basis of investment is savings, which is part of disposable income ($DI = C$ (consumption) + B (savings)). With a given amount of disposable income, an increase in savings to ensure an increase in investment and, consequently, an increase in consumption in the future, requires a reduction in consumption in the present.

- Costs associated with diminishing returns on investment (capital). As the capital stock grows, the additional output produced with the help of an additional unit of capital, i.e. additional investment, decreases. Due to the diminishing returns on capital, higher savings and investment will lead to higher growth only for some initial period of time, but growth will slow down as the economy accumulates a higher level of the capital stock. Thus, an increase in the savings rate gives only a temporary effect of accelerating economic growth. Thus, in the long run, a higher saving rate leads to higher levels of labor productivity and higher income, but not to faster growth of these indicators. This can only be ensured by technological progress. In addition, taking into account the phenomenon of diminishing returns on capital, one more important conclusion can be made: an additional increase in capital in a poor country increases growth to a greater extent than the same increase in capital in a rich country, i.e. countries with a low level of development have the prerequisites for faster economic growth. This phenomenon, as already noted, is called the catch-up effect. In developed countries, the technical equipment of production is very high. As a result, even a significant increase in capital per worker leads to a very small increase in labor productivity. Therefore, with an equal share of GDP directed to investment, poor countries achieve higher rates of development than rich countries. For example, over the past 30 years, the United States and South Korea have invested approximately the same share of GDP. However, the US GDP growth averaged 2%, while South Korea's figure reached 6%.
- Costs associated with environmental pollution. Only technological progress based on the use of inventions and scientific discoveries. However, the use of many of the inventions and innovations (internal combustion engine, jet engine, production of plastics, synthetic fibers, chemical fertilizers, obtaining atomic energy), on the one hand, accelerated economic growth, provided a higher level of prosperity and comfort, but, on the other hand, led to environmental pollution and even the threat of an ecological catastrophe.

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