

## ECONOMIC GROWTH AND DEVELOPMENT

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**Abstract:** Under Economic Growth mean constantly increasing volume of production in a country, or an increase in gross domestic product as the main quantitative indicators of production for a period of one year. Economic development is not only quantitative changes when it comes to the economic position of the country, but also qualitative changes (changing the economic structure, the emergence of new sectors and industries, new jobs, etc..). They lead to a better and more complete satisfaction of all human needs.

Production per capita is a measure of the ability of a society to achieve their goals of social and economic development, all in order to meet the constantly growing social needs. The increase in output per capita in economic theory is expressed as economic growth, without which no economic development, but does not have any economic growth to be a function of economic development.

**Keywords:** *Growth, Development, Investment, Economy, Equity, Changes.*

### Introduction

To meet the constantly growing needs of the population, human society is forced into a process of constant renewal of production of various material goods and services. This constant renewal of the production process, which is associated with distribution, exchange and consumption, that is, as we have defined these four stages - social reproduction, is a general legality and necessity in every mode of production. We note that there is a simple, scaled and expanded social reproduction, and that the volume of production may, from year to year, remain the same, decrease or increase. Bearing in mind that the scope of societal needs, continuously growing,

then as general legality imposes expanded social reproduction process. That is why we say that the extended theory of social reproduction represents both economic theory or economic development. Analysis of the economic conditions or economic development very early became the object of study of political economy. Even at the time of the physiocrats, their main representative Francois Kene, explored the laws of restoring production in the macro scale. However, the level of development of modern economic theory of political economy is not expected only to explain the process of social reproduction, but to perform an economic analysis and thus to point out the possible choice of means, ways and methods that can be used for the realization of the objectives of economic development. In this way, economic theory formed the basis on the basis of certain decisions are made that are used for regulating and directing the flow of the process of social reproduction.

### 1. The Concept of Economic Growth and Development

Economic growth include changes in material production and during a relative short period of time, usually one year. In economic theory, under the concept of economic growth implies an annual increase of material production expressed in value, the rate of growth of GDP or national income. Growth can be achieved, for it does not achieve the developmental course of the economy. So economic development amounts

involves not only an increase in material production, but also all the other socio-economic processes and changes caused by the influence of economic and beyond economic factors.

Economic development is therefore expressed in a longer period of time. Economic development of an economy consists of a series of structural changes. The economic development of the country will be achieved through greater participation of the processing capacity of industrial production (secondary sector), and at higher levels is increasingly dominated by service sector (tertiary sector).

For the economic development of any country is also of great importance and changes in production structure and introduction of new products, new products, new techniques and technologies, new processes of production, raw materials, new energy sources. Changes in the distribution of factors of production, ie in their new location, and not only labor, but of the entire technical potential. As for the operating assets, reallocation of technical potential is done through the engagement of cash accumulation, in order to build new generating capacity. Economic development means greater and more effective involvement of the economy of a country in the international economy. The development includes the ever-growing share of accumulation in the national income. Thus, economic development represents a very complex process and phenomenon. Economic growth, measured by the percentage increase in national income per capita, can not really be realistic indication of the achieved level of economic development (Peru, 1986). Economic development is not just an increase in GDP and national income, but all the long-term socio-economic changes in the economy of a country. It is very

important that, above all, political economy, deals with the problems of economic development. First of all, the purpose of creating and managing development and economic policy.

## **2. Economic Growth and Capital Accumulation**

To better understand capital accumulation and technological changes affecting the economy, it is necessary to elaborate neoclassical model of economic growth. This model was developed by Robert Solow, who in 1987 received the Nobel Prize for this model and other contributions to the theory of economic growth. The neoclassical model of economic growth describes an economy in which a single homogeneous output produced two inputs: capital and labor. Here is the growth of labor out of the reach of economics and is not affected by the economic determinants (Ristic et al. 2006). In addition, the assumption is that the economy is total competition and full employment, so that it can analyze the growth of potential output. In the analysis of economic growth, economists emphasize the need to increase capital equipment, which means that the amount of capital per worker is constantly increasing. Examples include the increase in capital equipment multiplication of agricultural machinery and irrigation systems in agricultural production, rapid railways, highways in transportation, computer and communication systems in banking, etc.

### **2.1. Technological Change and Economic Growth**

Based on the historical genesis of the development is easy to see that the technological changes caused economic improvement of manufacturing capabilities in Europe, North America and Japan.

Technological changes include changes in production processes or the introduction of new products in order to increase output or increasing output from the same amount of inputs. The most significant technological developments in the modern world took place in electronics, computers, telecommunications, aviation industry and so on. Technological change is a continuous process of small and large improvements as evidenced by the fact that most developed countries achieve millions of patents. Certainly the most significant changes made in the military-industrial complex, which was later applied in the civilian sector of production. Civil technological advances are less dramatic, but no less impressive increase its contribution to the living standards of market economies. From the standpoint of the neoclassical model of technological change means that more output can be produced with the same inputs of capital and labor, which will say that technological change is pushing the boundaries of arbitrary features. Inventions and achievements not only ensure stable development, but with a constant ratio of inputs, wages and interest rates increase the amount of output that each unit of output may (Dimitrijevic / Fabris, 2007). Thus continuous growth: capital per worker and output per worker wages (wages) per worker, while it does not cause a decline in real interest rates. So real investment increases the productivity of capital and neutralize the law of falling profit rates. It should be noted that some favorable investment income, and other work. Agricultural machinery reduce the need for labor and increase capital requirements, and therefore, called "investment-saving work", and they increase profits relative to wages (wages). New inventions that reduce capital needs over the needs of the work (for example, the introduction of multi-shift operation) are "saving investment

capital," and they increase wages (wages) compared to a profit.

### **3. Sources of Economic Growth**

Economists are not satisfied with just trends and theories, but portray the sources of economic growth. They attach special importance to the calculation of growth, so that the ingredients are thoroughly calculated that caused growth trends. Japan and previously the Soviet Union in the period 1930-1960. Years have had enormous economic growth. With the help of calculating economic growth economics experts have discovered that the GDP of Japan grew at a rate of 10% per year (astonishing but true) due to the growth of inputs with rapid technological change (much faster than in other countries). When analyzing the growth of the Soviet Union in the mentioned period resulted primarily from an increase in forced inputs of capital and labor.

Labour productivity is the most important factor of economic growth. It represents the ratio of total output divided by the number of worker-hours in a particular sector, or at the level of the economy. If it slowed down the search are the reasons, and as a justification cited the following reasons: (Ilić, 2005)

1. Investment Enterprises in nature conservation, improving health and safety in the workplace. This was particularly true of mining, construction and services.

2. Increases in energy prices, especially after 1970 and 1990, when the company began replacing other energy inputs, capital and labor. The result is a reduction in the productivity of labor and capital in relation to previous growth rates.

3. After the 70s, there was a change of generations of workers who are inexperienced and inadequately trained to work with low wages, which is particularly applicable to the non industrial sectors, such as areas in the preparation of fast food and the like. In addition to these basic factors that caused lower productivity, it should be noted smaller size allocations for civilian research and development, to reduce investment in plant and equipment, increased the rate of inflation and the like. These are just some of the factors that have slowed productivity. In that sense, there is a need to explore the possibility of increasing labor productivity. In order to achieve this it is necessary to increase national savings and investment, which is the most difficult to achieve.

#### **4. Investments and Economic Development**

Economic investment categories can be defined in various ways. Yet it is the most domesticated definition of the term in which the investment in the broadest sense of the word mean investment in fixed and revolving funds. Therefore we can say that the investments represent that part of the social product (in the expression of the social product or national income) that are in the process of its final allocation and use has not spent (in terms of individual, general and collective consumption), but it is used for replacement of worn and shabby and to build new capacity (Equal, 2005). If the term investments understands not only the investment for replacement of worn and disposed and to build new capacity but also an investment for the maintenance of the existing potential, this means that the concept of investment involved and the activity of the so-called. Investment maintenance. In this case, the concept of depreciation must

adjust this setting, which means that the total depreciation fund parts of the part that goes to capital maintenance and part of that is spent for the replacement of worn-out and disposed of fixed assets.

Such a definition of the term investments was accepted and implemented in practice our applied economic analysis and planning until 1957. In the middle of this year, our official statistics abandoned that concept on investments and accepted the concept that they recommend economists methodologists from the United Nations and accepted by most of the member countries.

#### **4.1. Division of Investment**

In terms of the division of investment at their destination, in the economic literature is usually faced with two basic groups of investments. These are fixed investments (basic funds) and investment in working capital fund. Under the investment in fixed capital investment in facilities mean a permanent nature such as buildings, equipment, long-term plantations, roads, ports etc. Under the investment in revolving funds mean investment in raw materials, semi-finished, unfinished products and finished products. In other words, under investment in revolving funds mean a corresponding increase in investment in the stock of the economy (Devetaković et al. 2011). To understand the essential difference between these two categories of investments, it is necessary to point out the essential difference between fixed and revolving funds. Basic economic characteristics of fixed assets is reflected in the fact that their spending takes place over long periods of time in the course of large scale production cycle that is constantly and continuously. Thus, the basic characteristics of fixed assets that they give adequate (productive or non-productive) services over a number of

years and during that period within each of the many production cycles successively transferred part of its value to the produced goods and services. This, in other words, means that the basic economic characteristics of fixed assets in the fact that they are amortized. Therefore, the concept of depreciation solely related to the category of fixed assets. Basic economic characteristics of revolving funds is reflected in the fact that they, unlike the fixed assets that are successively consume a large number of production cycles consumed during a single production cycle. Thus, rotary funds are not subject to depreciation. Obviously, one could say that each investment grip on the line to increase fixed assets should regularly monitored and appropriate investment grip on the line to increase working capital funds. It is not necessary to emphasize that most of the investments of each national economy refers to fixed investments, while investments in current funds represent only a small part of the total investment. Except for the purpose of production and non-production, investment and can be divided according to their technical structure. Under the technical structure of investments we understand the relationship between the size of investments that are invested in certain categories of investment goods. According to the nomenclature which is accepted by us and settled as well as according to our statistical-planning practices, investments by technical structure divided into three basic categories. These are: civil works, equipment (import and domestic) and other (purchase various licenses, investments in studies and research, an increase of livestock purchase of livestock, etc.). In addition to investments by purpose can share and investment in new facilities and investments that are invested in reconstruction, modernization, upgrading and expansion of existing facilities.

Except for the purposes of investment criteria can share and according to the criteria of funding sources. As with many other economic sectors can be observed, so the economic categories of investments at certain difference occurs when the category is treated from the standpoint of the economy as a whole (ie, from a macroeconomic point of view) from the standpoint of individual organizations of associated labor (ie. The microeconomic aspect). In addressing the economic category of investments from the standpoint of the economy as a whole, ie. from a macroeconomic point of view, one can speak of three categories of investments, and getting it as a criterion for categorizing these sources of funding.

Therefore, when dealing with problems of analysis of investments and fixed assets from a macroeconomic point of view, then we are interested not only the size of the funds spent in the capital and durable goods in general, but also the structure of the sources of these funds. When we say that we are in macroeconomic analysis of investments interested in the structure of sources for financing investment, then we mean in the macroeconomic structure of their sources of funding. This, in other words, means that we are in macroeconomic analysis of investment interest than just their size, and information about how the funds were spent for investments in the current distribution of national income, and how much from the corresponding buffer funds. According to the criterion of sources of financing those investments that are financed from the current distribution of national income categorize as net investments, and those investments that are financed from the current distribution of national income and the corresponding buffer funds called gross investment. The third macro-economic categories of investment are new investments, which

are largest between gross investment and net investment.

However, when the economic category of investment is treated with a microeconomic point of view, the situation is somewhat different. This difference in treatment of the concept of investment with macroeconomic and microeconomic standpoint stems mainly from the fact the microeconomic aspects of the criterion of funding sources to finance investments mostly irrelevant, and if for some aspects was also relevant, such a criterion is in practice hardly be applied.

Therefore, the microeconomic aspect of the concept of investment meets mostly formulation that under investment involves expenditure of funds for the replacement of existing (worn-out and written) and the construction of new fixed assets, regardless of the structure of the sources of their funding.

From everything is resolved to conclude that the macroeconomic aspects of investment analysis is very relevant information about the structure of their economy, while the microeconomic aspects of the analysis of investments mainly irrelevant. This, in other words, means that the issue of these differences is basically boils down to whether the criterion of their economic structure (in terms of funding sources) is relevant or not (Ilić, 2005).

Although there is no optimum ratio that would be (in general) could be applied to all economies and in various stages of development, it can generally be said that in normal conditions fixed investments should make up the largest part of the total investment. In most developed economies and well-organized investment in revolving funds usually range between 10 and 20% of total gross investment. A smaller part of the

investment in working capital in total investment is usually a reflection of better social organization of work, greater efficiency of the system, the faster and more efficient circulation of revolving funds, and therefore greater economic efficiency and social profitability of investments. When you mentioned the relationship between investment in fixed capital and investment in revolving funds worsens, or when the investment in revolving funds begin to grow significantly, it is usually a sign that they are in the process of social reproduction and economic growth emerged some disorders. These symptoms are usually accompanied by a slowdown in economic growth and reducing the economic efficiency of the social profitability of investments, and social accumulation. This phenomenon can be explained by the fixed investments have resulted in an increase in production capacity, while investment in revolving funds have resulted in an increase in inventories of raw materials, semi-finished and finished products (Devetaković et al. 2011). It is understood that excessive increase in stocks, ie. such an increase is not a prerequisite for the normal process of social reproduction, comes as a result of disturbances in the functioning of the appropriate mechanism of the economic system.

## **4.2. New Investments**

New investments can be defined as that part of the new product (or a new social product), which is in the process of its final allocation used for the construction of new fixed assets. Economic category of the new product can be defined as a social product that is not reduced by the full amount of depreciation, but only for the size of the replacement. In other words, the new product could be defined as the portion of gross domestic product or the social

product which is in the process of its final allocation as a whole can be used for consumption, and that while fully preserving the value of existing fixed assets. Sources of financing new investments are liquid distribution of national income (the amount of net investment) and accumulative part of depreciation or amortization of the excess replacement. This means that the new investment (the same as net investment) homogeneous category, and that in general a factor accumulation and expanded reproduction. Cumulative new investment gives the gross value of fixed assets. In that values the principle expressed in the physical volume of production capacity contained in a certain group of fixed assets. Activated new investments, therefore, are the best indicator of growth or decline of production capacity contained in the fixed fund. The relationship between new investment and new product called the rate of new investment.

Since we are in the economic analysis and development planning are most interested in those investments that are in the functional interdependence with the increase in production capacity and production, new investments, as suitable measures of growth, are unusually important instrument of economic analysis and planning. Due to the fact that in its economic-analytical character a homogenous macroeconomic category (in terms of economic growth and expanded social reproduction), new investment can be positive, negative or zero. When the gross investment increased by substitution, then the new investment is positive.

When the gross investment of equal replacement, then the new investments are equal to zero. When the gross investment less than replacement, then the new investment negative.

## **Conclusion**

Economic growth is the continuing increase in the volume of production in one country, ie. GDP growth, while economic development is not only quantitative but also qualitative changes that lead to better meet their needs. Economic development is associated with the accumulation of capital, ie. with investments. Under the capital we mean permanent production goods that serve as a work tool in the production of other goods. Under the concept of investment we mean investing in fixed and revolving funds, that is. the part of the social product that is not spent, but it is used for replacement and construction of new capacity.

Investments are divided in different ways according to purpose, according to their technical structure and according to the criteria of funding sources. According to the purpose, the most important is the division into fixed investments and investments in revolving funds. According to the criterion of sources of financing those investments that are financed from the current distribution of national income categorize as net investments, and those investments that are financed from the current distribution of national income and the corresponding depreciation from gross investment funds call. The third macro-economic categories of investment are new investments, which are located between the size of gross and net investment. When the accumulation of greater investment over saving than investing, and when the accumulation less than an investment, the more it consumes, which initiates an increase in production, employment and capacity.

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