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ECONOMIC DEVELOPMENT AND ECONOMIC GROWTH – THEORETICAL AND PRACTICAL ISSUES

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Economic growth of countries is influenced by many economic factors, as taken into account by mainstream economists in their models. However, economic growth (and economic development) is also influenced by various non-economic factors. Economist B.F. Hoselitz developed growth models for different types of societies and economies that differ in many ways from each other. According to him, it is necessary to learn from the historical experience of individual successful countries and to create a country-specific growth model. The world economy has gone through two phases of economic downturn and three phases of economic growth in the last 20 years.

The Slovak economy grew the most among countries surveyed especially until the recession caused by the global financial crisis in the world. In this way, Slovakia managed to catch up with the level of the EU-27 average. After this crisis, growth in Slovakia slowed down, although it was higher than in the EU.Of the countries surveyed (EU-27, Slovakia, USA, South Korea), developments were most stable in South Korea, where only in 2020, at the time of the global pandemic, there was a very mild recession. The unemployment rate has also been kept below 4% all the time. The EU economy (including Slovakia) and the US have gone through two recessions. Economic recovery was accompanied by a faster fall in unemployment in the US economy, while in the EU-27 this process was slower.

Keywords: economic development, economic growth, gross domestic product

Introduction

Economic development means a multifaceted and large-scale economic process that goes beyond only the growth of economic indicators (GDP, GNP, etc.), but also takes into account development of social indicators (health, nutrition), socio-political characteristics (freedom, security, democracy), and the educational and cultural characteristics of society (for example level of education).

Varadzin (2004) states that economic development can be characterized as a development of qualitative moments and concrete historical forms of the economic system.

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This is a broader category than economic growth, which deals with monitoring quantitative aspects. In standard theories of economic growth (mainstream economics or orthodoxy), economists take into account only economic factors in their models.Economic growth is an important but not sufficient condition for development. Even with rapid growth, economic development can be more moderate, and even modest output growth can induce greater improvements in quality of life (Kocziszky & Szendi, 2021).

In the middle of the 19th century, economic theory (neoclassical economics) arose, which has become widely accepted and which assumed that the social and cultural conditions of economic activity do not change. Based on this assumption, the theories of economic growth then also focused on purely economic factors, which did not take into account the political and social factors and changes that accompany economic growth.

Even today, attempts to change the basic starting points of economic growth theory usually do not take into account the cultural and political conditions within which today's rapid economic changes take place. However, in the opinion of many economists, a theory of economic growth is needed, created not only from a purely economic point of view, but a theory based on the knowledge that cultural and social changes affect economic development. One of the economists who developed such an alternative theory of economic growth was Bert F. Hoselitz (1959).

The aim of the article is to highlight the possibilities of alternative theories of economic growth and development, which is also the theory of B. F. Hoselitz, and to evaluate development of selected economies (Slovak Republic, European Union-27, USA, South Korea) based on the development of basic macroeconomic indicator, which is gross domestic product.For the period reviewed, we have set a period of 2003-2021.

Theoretical starting points of the issue

When economic development plan is drawn up for a country or region, that plan must provide economic measures as well as recommendations for cultural change. In addition to economists and engineers, UN missions in developing countries include experts in education, social care and culture. Their task is to assess how much maximum economic growth can get into conflict with existing cultural and social factors. There are profound differences in the cultures of various countries, and economic growth is influenced by these cultural and social factors.

Economists developed a number of theories in which GDP growth depends on such variables as investment, interest rate, propensity for consumption and savings, money supply, quantity and quality of production factors. The prevailing theories at universities and in practice are still neoclassical or neo-Keynesian theories of economic growth. Another view on this issue is taken, for example, by Maxton (2012), who argues that economic growth should be seen as a happy consequence of action, not as its intention. According to him, the concepts of progress need to be reconsidered. Western economies have become obsessed with growth for themselves. Progress in society is measured by how economies grow, i.e. in monetary value.

According to Hoselitz (1952) a key aspect of the economic development theory is the need to explain the transition from conditions of the underdeveloped society (economy) to the conditions of an advanced society (economy). He is interested in those aspects of social behavior which have a significant impact on economic activity, in particular the activity relating to changes in the production of goods and services. The main problem in trying to develop an economic growth theory taking into account the impact of social and cultural factors on economic growth is to determine how the social structure of an undeveloped country is transformed into social structure of an economically developed country. Economists ask themselves whether social changes in society will happen on their own.

Development of capitalist economies in Western Europe was an unplanned development. However, current efforts to ensure economic growth are conscious, deliberate, targeted. Hoselitz (1952) argues that it is right to consider factors such as capital accumulation, new skills and new working techniques as primary factors for development and changes in the social structure of society assess either as positive, negative or neutral responses to changes in these factors.

In his view, governments of the less developed countries are committed to planning economic development and delivering on these plans within their means. For unplanned independent economic growth, as has taken place in Western Europe in the past, cultural and socio-structural factors have created suitable conditions for economic transition. However, in those cases where economic changes are planned, the existing social structure and culture can limit and sometimes also make the process of economic change impossible.

Hoselitz takes the view that the current theories of economic growth have two shortcomings: either they are developed for the needs of officials who implement public policy, or they are formulated too broadly to be used in specific and real cases of specific economies. Policymakers (development agencies, governments, the UN) demand relatively simple formulations and formulas from economic theorists that can be used in different areas of the world. As a result, a large amount of knowledge is accumulated in many areas of social sciences, and this knowledge is not comprehensive and unified. Situation is slightly different in the case of growth theories, which are formulated too broadly.

In the case of an overly general theory of economic development, it is likely that there was a limited number of factors that economists took into account and which, in their opinion, affect economic growth. When working with such a simple theoretical model, then it is difficult to apply a wide range of historical experiences of countries that have undergone economic development. Can the same growth theory adequately explain the process of economic development that has taken place, for example, in Canada or Switzerland? And even if so, can such a theory then be used to predict development trends in Africa?

Countries also differ in the ratio between population size and natural resources available to this population in the first phase of the development process. In countries that have achieved high economic performance, e. g. Netherlands or Switzerland, we find that at the time of their initial growth, they had serious problems with the lack of natural resources.On the other hand, there were countries where the population had an almost unlimited amount of natural resources (e.g. the USA, Canada or Australia).

In the US and Canada, the task was to bring a huge amount of natural resources under the control of society. This meant expanding the population into new, previously unused areas of the country that were rich in natural resources. In Switzerland and Netherlands, on the other hand, a small amount of natural resources had to be used very effectively by involving additional capital and labor, which, in turn, were sufficient. Hoselitz refers to the first process of economic growth as passive expansionary growth and the second process defines as intensive internal growth. Later, in all developed countries of the world, the problem of economic growth was solved by the capital accumulation and human capabilities development, which resulted in higher productivity of labor and capital.

The difference between the expansionary and the intensive internal model of economic development is that in each of these cases, other combinations of production factors have been promoted. At the same time, every form of economic growth relates to factors and institutions which are not of an economic nature.

According to Hoselitz (1959), it is also necessary to distinguish between countries which can be called dominant and those which are satellites of their economic growth. Ideally, the dominant country has a fully independent economy and does not need to export or borrow funds from other countries for the accumulation of capital. Satellite country, on the other hand, raises capital for its development from other countries. Its production consists mostly of goods for export. Imports and exports take place mainly with one particular country or region of the world. Many countries begin their economic growth as satellites dependent on the foreign economy, but are gradually freeing themselves from this dependency and becoming dominant in terms of the form of their economic growth. In the past, the USA, Canada and Australia have also gradually undergone such a development. Larger resource-rich countries usually undergo this change during their economic growth.

However, some countries will remain permanently economic satellites. The difference between satellite and dominant models of economic growth is not necessarily linked to a low or high level of economic development.

There is also a difference between free, unplanned economic growth and government-supported development. In a fully liberal state, all decisions affecting economic growth are made by individuals, all economic activities being carried out on the basis of private interest. When each person pursues the principle of self-interest, the result should be an increase in the benefit to society as a whole. Economic growth in the 19th century was mostly achieved through free, unplanned development. On the contrary, in the 20th century there was a tendency in favor of planned development.

The form of economic growth that takes place in individual countries of the world may vary according to time, period and specific situation. And the government's actions may not always be in line with government statements. For example, while all important decisions may be left to private entities, however, the government may limit or define the scope of entrepreneurship, or it can provide cash to businesses, so that growth will in fact also depend on the actions of the government.

This conflict between theory and practice creates problems in determining the differences between a government-supported and an unplanned model of economic growth. If we define planned growth as a government guiding of production factors in a certain direction, to certain areas, then it can be concluded that almost all governments in the 19th century and until 1914 realized economic growth that was unplanned.

A theory that includes only a few very general variables, such as population change, capital accumulation and technological change, is not enough to predict changes in today's less developed countries. There is a need for a broader concept of economic growth theory, that also takes into account the role of government and social and cultural factors. It is also necessary to determine whether it is possible to obtain relevant knowledge by studying the historical experience of countries that have achieved high economic performance. There are many significant variables outside the area of the economy that could be included in the theory of economic growth. The result will then not be the only one unified theory of growth, but a description of several typical situations – contrasting, different, contradictory conditions – that promote economic growth.

Hoselitz (1952) defines eight basic, typical situations relating to economic growth. By combining three different circumstances, we get eight possible cases or ideal types of economic growth. Each of these types of growth can be used in the country whose options and conditions most correspond to a particular type. These are the following cases of economic growth:

1. Expansionist, dominant, unplanned: USA, from 1830 to 1890.
2. Expansionist, dominant, government-supported: Soviet Union, from 1928 until its demise.
3. Expansionist, satellite, unplanned: Australia, until 1914; Canada, until 1900.
4. Expansionist, satellite, government-supported: Mandzukia, under the government of Japan; some of Portugal's former colonies in Africa that have embarked on a path of economic growth.
5. Internal, dominant, unplanned: France or Germany, 19th century.
6. Internal, dominant, government-supported: Japan or Turkey, since 1922.
7. Internal, satellite, unplanned: Denmark or Switzerland, until 1914.
8. Internal, satellite, government-supported: eastern European countries, until 1990.

That classification system points to different development models that can be recommended to individual less developed countries according to their resources, the role of government and their relationship to the world economy.

This classification also makes it possible to observe more precisely the functional relationships between economic and non-economic variables influencing speed and direction of economic growth.

Economic growth in selected countries of the world

Between 2003 and 2007, the economies of all the countries surveyed grew. Average growth in the EU-27 was 2.5% per annum. Slovakia, as a small open economy and a member country of the European Union and the euro area, achieved annual growth of up to 7.3% on average. Thanks to high foreign demand, favorable development of the European and world economy and growth in labor productivity, Slovakia has managed to converge towards the average of the EU level.

The South Korea was also successful, achieving economic growth of an average of 4.7% per year during this period. The U.S. economy grew at a rate of 3% on average annually.

Overall, all the economies surveyed recorded economic growth during this period.

Table 1 – Real GDP growth rate; 2003-2011, percentage change on previous year
(Source: made by the author according http://ec.europa.eu/eurostat and https://stats.oecd.org/)

	2003	2004	2005	2006	2007	2008	2009	2010	2011
EU-27	1,5	2,5	2,0	3,4	3,1	0,5	-4,3	2,2	1,8
Slovakia	5,4	5,2	6,5	8,5	10,7	5,4	-5,5	5,9	2,8
USA	2,9	3,8	3,5	2,9	1,9	-0,1	-2,5	2,6	1,6
SouthKorea	3,1	5,2	4,3	5,3	5,8	3,0	0,8	6,8	3,7

Table 2 – Real GDP growth rate, 2012-2021, percentage change on previous year
(Source: made by the author according http://ec.europa.eu/eurostat and https://stats.oecd.org/)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
EU-27	-0,7	0,0	1,6	2,3	2,0	2,8	2,1	1,6	-5,9	5,4
Slovakia	1,9	0,7	2,6	4,8	2,1	3,0	3,7	2,5	-4,4	3,0
USA	2,2	1,8	2,5	3,1	1,7	2,3	3,0	2,2	-3,4	5,7
SouthKorea	2,4	3,2	3,2	2,8	2,9	3,2	2,9	2,0	-1,0	-

In 2007, a global financial crisis broke out in the USA. The economic recession was felt only in the USA the following year, in the form of GDP decline of -0.1%. In the EU, Slovakia and South Korea there was only a slowdown in growth (0.5% in the EU, 5.4% in Slovakia and 3% in South Korea). As a result of the spillover of the financial and economic crisis from the USA to Europe at the turn of 2008/2009, there was an economic downturn across the EU economy, namely by -4.3% in 2009.

Gross domestic product in Slovakia decreased by -5.5%. The US economy, where the global financial and economic crisis originated, contracted by only -2.5% in 2009.Among the countries surveyed, the recession avoided South Korea, where growth only slowed to 0.8%.

Thanks to the adoption of fiscal and monetary measures, the economic recovery has already taken place in the following year. The EU economy grew by 2.2%.The German economy recorded a favorable development and a relatively high growth rate (4.2 %).

It is always a positive signal also for the Slovak economy, which is export-dependent on the German economy. Slovak GDP grew by 5.9% in 2010. South Korea reported the highest growth rate among the countries surveyed, at 6.8%. The U.S. economy grew only a little more (2.6%) than the European economy.

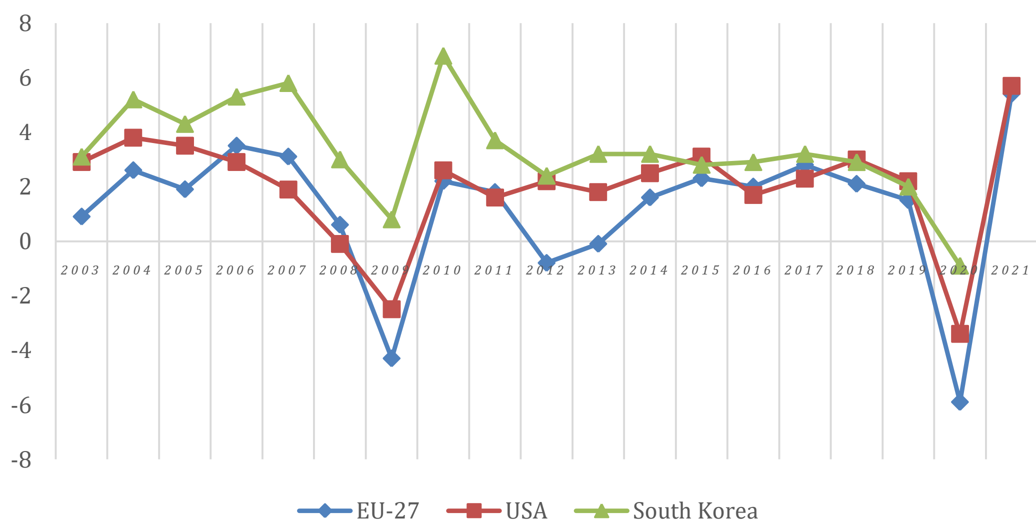

Figure 1 – Real GDP growth rate, European Union-27, USA, South Korea, percentage change on previous year
(Source: made by the author according http://ec.europa.eu/eurostat)

In 2012, the EU-27 economy went back into recession due to the debt crisis in the euro area, when GDP contracted by -0.7%. Fiscal imbalances have been negatively reflected in the stagnation of the economies of Italy and Spain. Most of the countries affected by the debt crisis and the need to consolidate public finances (excluding Ireland) have experienced an economic downturn. The Greek economy slumped by more than -7% in 2010 and 2011. Economic situation within the euro area was assessed as 'good' only in Germany and Estonia and as 'satisfactory' in Finland and Slovakia. Economic growth in the EU recovered in 2014 after the debt crisis. In the period 2014-2019, it averaged 2.1 % per year, which was the least among the countries surveyed. Economic growth in all countries surveyed during this period was in a range of approximately 2-3 % per year (Slovakia 3.2%).

South Korea, the country in this research representing Asia, did not fall into economic recession throughout the period 2003-2019. In 2009, when most countries in the world experienced the highest decline in GDP due to the global financial crisis, growth in South Korea only decreased (year-on-year GDP growth of 0.9 %).However, this was clearly the lowest value in the period considered. The average growth rate of the South Korean economy was then around 3.6% in 2003-2019.

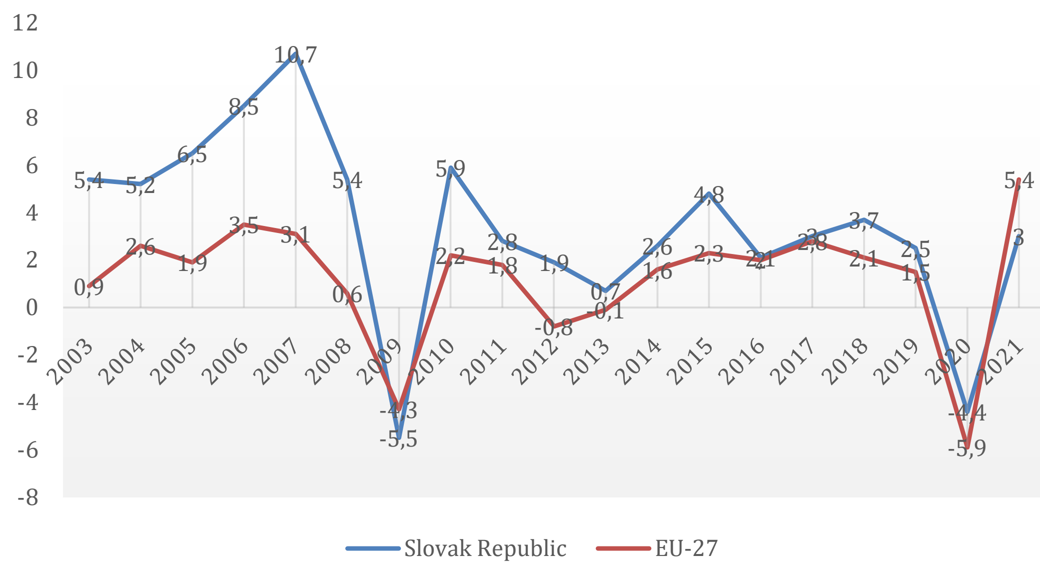

Figure 2 – Real GDP growth rate European Union-27, Slovak Republic; percentage change on previous year

(Source: made by the author according http://ec.europa.eu/eurostat)

In 2020, Slovakia, as well as all the countries of the European Union and the world, were hit by the coronavirus pandemic with serious consequences for their economy.As a result of protecting people's health from COVID-19 infection, many enterprises have been closed down. These measures have hit the catering, hotels, services and parts of trade sector hardest. This sudden supply shock negatively affected the performance of economies, both Slovakia and other countries surveyed.

As a result of the shortfall or decrease in incomes of persons affected by the limitation of work or business activity, demand was subsequently reduced, which further worsened the economic development to date. Economies have fallen into next recession. There has been another economic crisis. GDP declined in 2020 in all countries surveyed, most in the EU (-5.9%). This time, the recession has not been avoided even in South Korea, where GDP has also fallen, albeit of all the countries surveyed at least (-1%).

The economic measures taken and the improvement of the health situation have already led to the recovery of economies in 2021. GDP in the USA increased the most (5.7%) and only slightly less in the EU (5.4%). Despite initial expectations, the Slovak economy grew by only 3%.Data on South Korea for 2021 at the time of our research were not yet available. The pandemic has shown the degree of interdependence between economies. This has resulted in some countries looking to reassess their global supply chains and their foreign direct investments (Onyusheva et al., 2021).

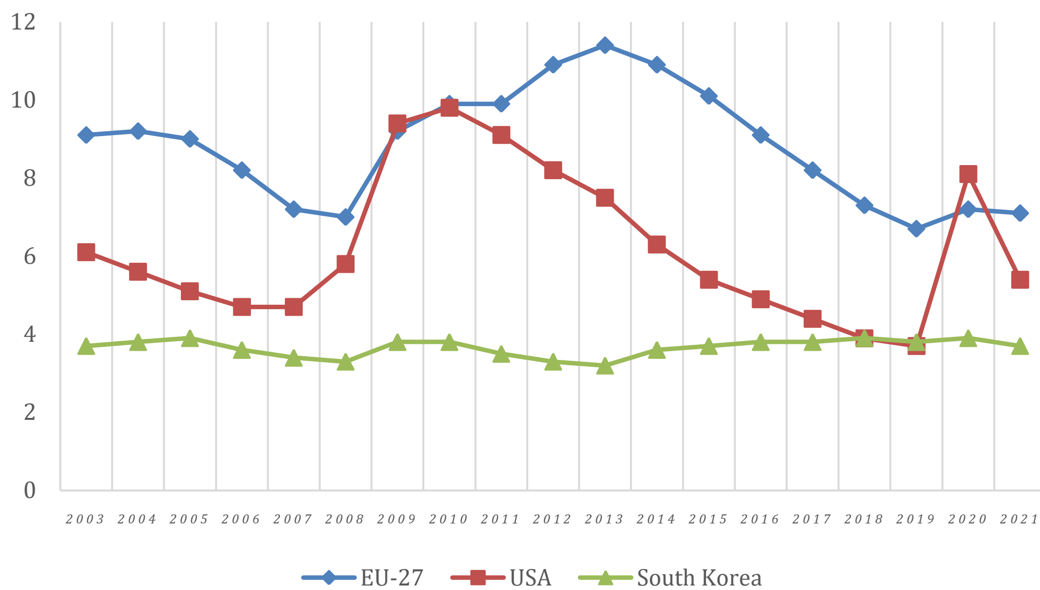

Figure 3 – Unemployment rate, European Union-27, USA, South Korea, percentage change on previous year

(Source: made by the author according http://ec.europa.eu/eurostat)

As shown from Fig. 3, unemployment in the EU and USA recorded cyclical fluctuations over the period reviewed. It increased significantly during both economic recessions and declined as economic growth recovered. The highest unemployment rate was 11.4% in the EU and 9.8% (2013) in the USA (2010).

The obvious difference is that while unemployment increased rapidly and sharply in USA and fell just as quickly, in the case of the EU, this decline was only gradual. It took around 10 years until unemployment in the EU fell to 2008 levels (7%).The situation was different in South Korea, which is characterized by low unemployment - on average 3.6% over the whole period reviewed. Even at a time of economic slowdown (2009) and mild recession (2020), it moved at the level of 3.9%.

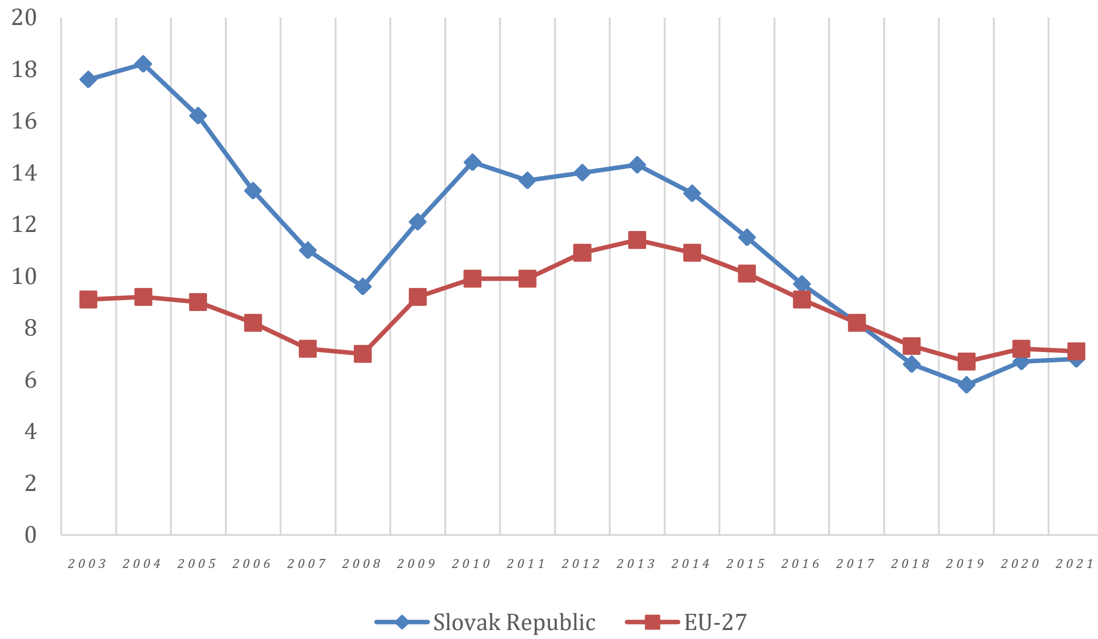

Figure 4 – Unemployment rate, European Union-27, Slovak Republic, percentage change on previous year

(Source: made by the author according http://ec.europa.eu/eurostat)

The unemployment rate decreased in the Slovak Republic in years of high economic growth from 18.2% in 2004 to around 9.6% in 2008. This positive trend was halted by the outbreak of the financial and economic crisis and its spillover into Europe. Unemployment started to rise again and later stagnated around 14%. This was not prevented by the re-growth of real GDP in Slovakia, which was, however; significantly lower than in the pre-crisis years. In the following years (2014-2019), unemployment in Slovakia gradually started to decrease and in 2019, before the outbreak of the corona crisis, it reached 5.8%. Consequences of the pandemic were felt in the Slovak Republic in 2020 in an unemployment increase to 6.8% and remained at this level in 2021.

Conclusion

Standard models of economic growth usually take into account only economic factors influencing the growth of the economy. Representatives of alternative (heterodox) schools of economic thought, i.e. schools outside the mainstream economics, point to the need to develop a growth theory that also takes into account non-economic – cultural, social, political – factors that can significantly influence the economic growth of the country.

One such economist was B. F. Hoselitz, who developed growth models for different types of societies and for different types of changes on the basis of which different economies can achieve economic growth and economic development.

According to Hoselitz, lessons must be learned from the historical experience of countries that have achieved economic development and growth.

This process varied in different countries, which have gone through a successful path of growth and development. Therefore, the recommendation for the governments of less developed countries should not be one single model of growth and development, but a model suitable for the conditions of a particular country.

In the second part of our research, we monitored and evaluated the growth of the economies of selected countries – the EU-27, USA, South Korea and Slovakia - during the years 2003-2021. In years of high economic growth, until the recession broke out in 2009, the Slovak economy grew at a high rate, on average 7.3% per year.

Slovakia, a country that has undergone a transformation into a market economy after 1989, has succeeded in catching up with the EU-27 average during this period. This process has stopped, or slowed down as a result of the emergence of both crises - in 2009 and 2020, but also as a result of the slowdown in labor productivity growth.

The European, Slovak and USA economies experienced two phases of recession and three phases of economic growth in the period reviewed. The EU, Slovak and US economies experienced two phases of recession and three phases of economic growth during this period. Economic downturn was accompanied by an increase in unemployment. While there was also a rapid decline in unemployment in the US as growth recovered, the increased unemployment rate persisted in the EU and Slovakia.

Development in South Korea, unlike the three other economies, was different. The Korean economy did not fall into recession even at a time of global financial and economic crisis, when there was only a slowdown in growth. The mild recession occurred only in the case of the second economic crisis in 2020 caused by the coronavirus pandemic. South Korea's economy has not seen major adverse fluctuations, either in GDP declines or unemployment growth.

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