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Economic Growth: A Literature Review

La croissance économique : Une revue de la littérature

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Abstract

Economic growth is a fundamental concept in economics that describes the long-term expansion of a country's production of goods and services. Economic progress can be measured using other indicators such as per capita income, employment, or human development indicators. However, she is generally measured by the PIB increase. Consequently, for several centuries, researchers have placed a premium on economic growth. Several authors have developed theories of economic growth over time. Smith, Ricardo, Malthus, Marx, Schumpeter, Keynes, Harrod, Domar, Solow, Romer, Lucas, and Barro are examples. As a result, our post will address the following issue: **What are the various economic growth theories?**
The goal of this article is to provide a synopsis of the literature on economic growth theories in order to address this issue. Alternatively, through a synthesized literature review. These theories are classified into two types: traditional theories and growth endogenous theories. The first are as follows: classical theories, Schumpeter theories, Keynes theories, post-Keynesian theories, and neoclassical theories. As a result, these new growth theories feature a wide range of growth sources, including human capital and technological innovation, physical capital and public capital.

Key-words: Economic growth; Exogenous growth; Endogenous growth; Traditional growth theories; New growth theories.

Résumé

C’est un concept fondamental en économie est la croissance économique, qui décrit l'expansion à long terme de la production de biens et de services au sein d'une économie. Le progrès économique peut être évalué à l'aide d'autres indicateurs, tels que le revenu par habitant, l'emploi ou encore les indices de développement humain. Cependant, elle est généralement mesurée par l'augmentation du PIB. Alors, Depuis plusieurs siècles, les chercheurs ont toujours mis l'accent sur la croissance économique. Plusieurs auteurs ont écrit des théories de la croissance économique au fil du temps. On peut citer Smith, Ricardo, Malthus, Marx, Schumpeter, Keynes, Harrod, Domar, Solow, Romer, Lucas et Barro. Donc, notre article va aborder la problématique suivante : **Quelles sont les théories de la croissance économique ?**
Pour résoudre cette problématique, le but du présent article est de présenter une synthèse de la littérature qui aborde les théories de croissance économique. Autrement dit, à travers une revue de littérature synthétique. Lesdites théories se divisent en deux catégories : les théories traditionnelles et les théories endogène de la croissance. Les premières sont comme suit : Les théories classiques, la théorie de Schumpeter, la théorie de Keynes, les théories postkeynésiennes et les théories néoclassiques. Alors, Une grande variété de sources de croissance caractérise ces nouvelles théories de la croissance, notamment le capital humain et l'innovation technologique, le capital physique et le capital public.

Mots clés : Croissance économique ; Croissance exogène ; Croissance endogène ; Théories traditionnelles de la croissance ; Nouvelles théories de la croissance.

Introduction

Economic growth is a key concept in economics that represents a country's long-term increase of goods and services production. Other metrics, such as per capita income, employment, or human development, can be used to measure economic advancement. Economic growth theories have evolved significantly over time. These theories try to identify the broad drivers of growth and to define the necessary conditions that contribute to it. These theories were developed by groups of authors with diverse perspectives and beliefs. The factors that influence economic growth are numerous and complex. Among the most important factors are investment, productivity, innovation, education, monetary and fiscal policy, commercial policies, political and social stability, and global macroeconomic conditions.

The authors of the classical school, primarily Smith, Ricardo, Malthus, and Marx, contributed to the formulation of the earliest associated reflections of the theory of economic growth. They emphasize the division of labor, capital accumulation, and the law of diminishing returns. Other ideas, notably that given by Schumpeter in 1911, followed classical theory. the term's introduction is "innovation" into the economy and evaluated the role of the entrepreneur in terms of economic growth in a novel approach. Following the 1929 crisis, many economists, influenced by Keynes' work, questioned the feasibility of balanced growth. attempting Domar and Harrod in their models to account for the basic circumstances and characteristics of a rising capitalist economy's equilibrium. Solow developed the first neoclassical growth model in 1956, with a long-term outlook. Solow's approach emphasizes the significance of technological advancement in long-term growth. Technical advancement, on the other hand, was thought to be exogenous. To compensate for this shortcoming, new theories known as endogenous growth theories were created in the mid-1980s. These new theories will attempt to explain the endogenous nature of Solow's technological growth.

In this regard, the current article seeks to provide a basic overview of economic growth theories, based on a synthesis of the most influential growth theories in economic history, by attempting to answer the following central question:

What are the various economic growth theories?

This paper is broken into two parts to address this subject. In the first section, we shall discuss traditional economic growth ideas. The classical theory, Schumpeter's theory, Keynesian and post-Keynesian theories, and neoclassical ideas are the most well-known. In the second section,

we will discuss new growth theories that attempt to explain growth, primarily through physical capital, technological breakthroughs, public capital, and human capital.

1. Economic growth: Traditional theories

1.1 The classical theory

Several authors, the most well-known of whom are Smith, Ricardo, Malthus, and Marx, contributed to the classical theory of economic growth.

Adam Smith's seminal book "The Wealth of Nations" is often regarded as the origin of classical economics. He believed that the markets were rebuilding themselves once more, aided by an "invisible hand" that moved their wheels in order to find a natural balance for them, particularly when they were unconstrained. Buyers can pick between multiple suppliers when competition is ideal, causing non-competitive enterprises to collapse. As a result, Smith emphasized the significance of competition and warned of the hazards of monopoly (Smith, 2007). Many classical authors believe that economic expansion is the outcome of capital accumulation, or the quantity of labor-power available to workers. The growth in per capita wealth is due to an increase in capital per capita. Improvements in the production of the factors of production (land, labor, and capital) result in increased labor productivity and capital in operation. Classical scholars believed that population increase is endogenous and is determined by available subsistence resources. Investment was also regarded as endogenous, relying on capitalists' labor and savings. Profit is the driving force behind capital accumulation: it must exceed a specific threshold before capitalists will opt to invest. Profit is a source of investment as well. Savings, which finance investment, are primarily the domain of capitalists, whereas wage earners spend all of their earnings. The classics thus describe capital formation as the outcome of surplus investment, or the unconsumed fraction of product. Furthermore, the increase in land productivity was linked to geographical discoveries and technological advancements in the fertility of existing land (Lavrov & Kapoguzov, 2006). According to (Smith,2007), the key drivers of productivity development were the division of labor and technical advancements. According to (Smith,2007) considered competition as important to the national economy as a whole, and he felt that technological breakthroughs would spur rapid growth. This includes the division of work (Reid, 1989). Smith proposed that division of labor is a source of productivity gains: savings in the time it takes the same individual to change operations, and, most importantly, an increase in competence as a result of specialization. It is not just the capacity to perform a specific operation, but also the ability to develop more specialized and hence more

efficient processes and instruments. The division of labor within the enterprise is evoked, but so is the division of labor between firms tied by the market, which has similar repercussions. According to Ricardo's theory of comparative advantage, a country should focus its resources exclusively in areas where it is most internationally competitive and create trade links with other countries to obtain products that are no longer manufactured domestically. Ricardo's perspective on mechanization demonstrates that machinery is viewed as a destroyer of jobs, substituting capital for labor, rather than a source of productivity improvements. Based on specific types of technological innovation, the introduction of new technology leads to a decrease in labor demand (Ricardo, 1817). The classics, on the other hand, shared a very pessimistic view of long-termism, believing that growth is doomed to fade gradually, to cancel itself out in a "steady state." The explanation for this is the evolution of national income distribution caused by factor accumulation and the fall in agricultural marginal yields. Malthus, like Ricardo, believed that economic growth tends to cease and that the economy eventually settles into a stationary condition. He was pessimistic about growth's long-term viability. Malthus predicted that the world's population will expand at a rate far exceeding the world's ability to feed itself. In truth, Malthus was unable to recognize the ability of technological development to enhance crop yields and food production (Malthus, 1798).

conclusions of Marx are consistent with the classics. Economic growth is not a long-term trend. On the one hand, the inevitable fall in growth is caused by declining returns to scale in industry rather than agriculture. Marx, on the other hand, identifies and analyzes technical advancement as a productivity factor. However, this is insufficient to offset growth weariness. Finally, Marx focuses on the importance of political, social, and economic institutions. This is a theme that recent ideas have returned to, but from a different angle (Guellec & Ralle, 2003).

However, the classical school's theory has attracted a number of criticisms, primarily with the pessimism associated with falling capital returns and the stable state of long-term growth; the misunderstanding of wages and profits: Wages have not yet hit subsistence levels, and industrialized countries have not reached the threshold of permanent depression. This interpretation does not provide a satisfactory explanation of the current economic process.

1.2 Innovation: Schumpeter

Schumpeter made a major contribution to growth theory, primarily through his 1911 book “The Theory of Economic Development”. Schumpeter popularized the term "innovation" in the economy and explored the role of the entrepreneur in terms of economic growth in a novel

approach (Lavrov & Kapoguzov, 2006). Thus, innovation is vital to the growth process. Schumpeter classifies innovation into five categories: new goods, processes, markets (outlets), sources of new raw materials, and changes in business structure. A creative company will be able to stay ahead of the competition. The innovator has a monopoly in the market that he or she invented. Thus, he can establish a selling price that is greater than his marginal cost (the price in a perfectly competitive situation) and extract a rent from his clients. This rent is only temporary: the inventor will soon be copied. Competitors join his route, selling identical goods, causing him to lower his pricing or innovate anew in order to differentiate himself. Thus, the competition for revenue is the driving factor behind economic advancement and, in particular, technological progress (Guellec & Ralle, 2003).

2 Theories: Keynesian and post-Keynesian

2.1 Theory of growth: Keynesian

Because Keynesian theory considers effective demand as one of the main factors and believes that an increase in effective demand should stimulate economic growth, Keynesian theory focuses on the importance of employment and returns to capital (Keynes,1939), and Keynesian theory aims to explain the fluctuations that occur in economic activity. Keynes demonstrated that during recessions, consumption, savings, and investment fall due to high unemployment and low income. He contends that the best way to deal with the severe recession is to promote investment through monetary policy. Specifically, reduced interest rates. When the Central Bank reduces interest rates, private banks follow suit. Fiscal policy, on the other hand, will result in job creation, greater income and demand through measures such as tax cuts or increases in government expenditure and government investment in public infrastructure. Specifically, reduced interest rates. When the Central Bank reduces interest rates, private banks follow suit. Fiscal policy, on the other hand, will result in job creation, greater income and demand through measures such as tax cuts or increases in government expenditure and government investment in public infrastructure. The failure to consider other elements of production, such as greater employment, the degree of equipment use, and better production organization, is one of the Keynesian approach's weaknesses. As a result, this strategy solely considers short-term timeframes and the special situation of a depressed economy.

2.2 Harrod-Domar Model: Post-Keynesian theories

Several scholars, primarily Domar and Harrod, extended Keynes' analysis over the long term during the end of the 1930s and early 1940s, introducing the accumulation of capital and labor

elements (Harrod, 1939 & Domar, 1946). Keynes' mechanisms address short-termism, which is defined by the fact that production capacity is fixed. Harrod and Domar broaden the analysis, focusing on the stability of growth rather than its causes. Domar and Harrod are gloomy about the prospect of long-term growth with full employment. However, they relate this to problems of rigidity and coordination described by Keynes rather than technical factors (diminishing returns to scale). There is no area in particular where agents can communicate their investment proposals to one another and coordinate their demand expectations. As a result, they are far apart from the latest technological notions. Historical circumstances can explain the Harod-Domar theory's limitations. This theory could accurately reflect the real processes of economic growth in the 1930s and postwar period, when economic growth was primarily determined by increases in the use of production capacity. However, from the 1950s to the 1970s, the prospects for production development were primarily determined by qualitative and technological advances, as reflected in neoclassical economic growth theories.

2.3 Exogenous Technical Progress: Solow's Neoclassical Theory

Following the classics, Solow's representation of growth can be summed as follows: the return on investment, and consequently the rate of expansion of the capital stock per capita, decreases as the stock increases. Capital has decreasing returns, which limit the accumulation process and, as a result, cause expansion to spontaneously cancel itself out. Only technological advancement permits the rate of return on capital to be maintained, hence preventing stagnation. However, this technological growth is exogenous: It is supplied to agents in the sense that its level is fixed in the absence of their action. The equilibrium in such a model is a rate of economic growth (per capita) equal to the pace of technological advancement, which is fixed outside the model. As a result, this model does not explain growth. It takes into consideration the modifications of variables (capital, production, and savings) around a given growth path (Solow, 1956). As a result, the model's scope is extremely constrained. Long-term economic trends cannot be accounted for with such a technique.

3. Theories of Endogenous Growth

The inadequacies of the neoclassical theory of growth has given rise to so-called endogenous growth theories. However, the set of endogenous growth models is so diverse that a uniform theory cannot be proposed. All of the techniques attempt to explain growth without relying on exogenous variables. Endogenous growth theories are based on the neoclassical method, in which thinkers attempted to predict technological advancement endogenously rather than

exogenously. Individuals' tangible activities result in technical development, which is clearly recognized in these approaches. All approaches to endogenous growth share the rejection of the traditional assumption of long-term reduction in capital productivity. In contrast to neoclassical theory, which views physical capital accumulation as the sole source of growth, endogenous growth models are distinguished by a wide range of sources retained, including, in particular, physical capital and technological innovation, human capital, and public capital.

3.1 Technological innovations and physical capital

Private physical capital investment is a common source of both old and new theory, but the new theory addresses it differently. Because of the existence of technological externalities, Romer's founding model of endogenous growth is built on externalities between enterprises: each firm's investment not only enhances its production, but also increases the productivity of other firms. learning by doing is sort of Investment, and this information cannot be absorbed by the firm that produces it: it will surely spread to other firms. Investment promotes growth both directly and indirectly through its effects on technological progress (Romer,1986). Romer's method is based on the assessment of a specialized sector in knowledge production. This research and development activity generates new knowledge by combining human capital and existing knowledge. Romer regards knowledge as a production element distinguished by the non-rivalry of its use. Positive technology externalities imply that a research institution's information is generally made freely available to other researchers (Romer, 1990).

3.2 Human capital

Lucas stresses the significance of human capital in the growth process. Human capital is developed through both hands-on experience in the manufacturing process (learning by doing) and formal education (trainings, etc.). Lucas believes human capital accumulation to be a source of growth (Lucas, 1988). The pace of growth in human capital acquisition for an individual is proportional to the length of training and, in particular, to the individual's stock of human capital (the more one is trained, the easier it is to progress in one's training). The production of the firm is determined by the physical and human capital it employs, as well as the average level of human capital in the economy.

This final aspect, as explained by Lucas, is as follows: The efficiency of human capital is determined by its position in the economy. Individuals are more efficient when the amount of human capital in the economy is high, i.e. when they are surrounded by efficient people. This

theory highlights the positive effects that skilled individuals have on one another (D'Autume, 1994).

3.3 Public capital

In addition to the models of endogenous growth mentioned above, BARRO (1990) incorporates public capital as an endogenous growth mechanism. It is related to communication and transportation infrastructure. In theory, public capital is just another type of physical capital. It is the consequence of investments made by state and local governments. Investment in education and research is also included in public capital (Dejardin et al., 1998). Guellec emphasizes how the many sources of endogenous growth interact. According to him, increasing the productivity of production factors and the accompanying growth are heavily dependent on investment decisions in endogenous growth factors and the generation of positive externalities. The growth source is no longer exogenous. It is determined by the allocation of resources. Expenditure in fundamental studies, such as (public capital), cannot occur in isolation from investment in R&D, which is appropriated by outside parties (technical capital). The education initiatives generally funded by the government contribute to the improvement of human capital. We can anticipate the impacts of this enhancement on the inventive capability of the diverse agents. Physical capital is gradually integrating innovation. Investment in this capital leads to fresh learning and the emergence of new abilities that benefit the entire productive system (Guellec, 1995). We can conclude from these arguments that the rate of economic growth may differ from one economy to the next.

CONCLUSION

Following a survey of the major ideas created throughout history, we can conclude that the theoretical study of economic growth is mostly divided into the following theories: Classical, post-Keynesian, neoclassical, and endogenous models are all possible. Many classical authors believe that economic progress is the product of capital accumulation. Improvements in the production of the factors of production (land, labor, and capital) result in increased labor productivity and increased capital in operation. According to Smith, one of the primary drivers of productivity development has been the division of labor. Smith considered competition as essential to the overall health of the national economy. However, the classics shared a very pessimistic perspective of long-termism, believing that growth is doomed to fade away gradually, canceling itself out in a "stationary state." The post-Keynesian model of growth arose from the theoretical and methodological foundations of Keynes' macroeconomic equilibrium

ideas. It is distinguished by a growth-driven approach focused on the share of aggregate demand, the importance of investment in economic growth, and the active role of economic policy. Harrod-Domar's theory of growth stands out in the neo-Keynesian orientation. The neoclassical growth theories are founded on the premise of stable equilibrium without government intervention. According to Solow's exogenous theory, technical advancement is the only basis for long-term growth. In Solow's theory, however, technological advancement is regarded as an exogenous element. New growth theories began to emerge in the 80-90s. These are theories of endogenous growth. In these views, technical advancement was regarded as an endogenous factor of economic growth, originating from within the economy. For the first time, economists such as Romer, Lucas, and Barro proposed the endogenous character of technological advancement, which is reliant on investment in human and public physical capital. For the future, why not we will link the economic growth with sustainable development, last but not least the concept of sustainable development emerges as a critical pillar for guiding our collective trajectory toward an economically, socially, and environmentally sustainable future (Fikri, Rhalma 2023). And we will link sustainable development and economic growth with the knowledge economy has become a strategic consideration not just for developed countries, but also for emerging countries such as Morocco, which must base its economy on knowledge (Fikri, Rhalma 2023). We anticipate this study will provide a foundation for further investigation into the difficulties associated with fintech fundraising in Morocco. According to (Fikri, Mantouzi 2023) Millions of people have been able to create direct and indirect jobs thanks to auto assembly plants, which has helped to lower the nation's unemployment rate. On the one hand, it provides Moroccan startups with a positive outlook by assisting them in creating strategies for the future that will promote innovation and growth.

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