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Topic- **Economic and Non-Economic Factors of Economic Growth**
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Economic and Non-Economic Factors of Economic Growth

1. Economic Factors

1. Natural Resource: The principal factor affecting the development of an economy is the availability of natural resources. The existence of natural resources in abundance is essential for development. A country deficient in natural resources may not be in a position to develop rapidly. But a country like Japan lacking natural resources imports them and achieve faster rate of economic development with the help of technology. India with larger resources is poor.

2. Capital Formation: Capital formation is the main key to economic growth. Capital formation refers to the net addition to the existing stock of capital goods which are either tangible like plants and machinery or intangible like health, education and research. Capital formation helps to increase productivity of labour and thereby production and income. It facilitates adoption of advanced techniques of production. It leads to better utilization of natural resources, industrialization and expansion of markets which are essential for economic progress.

3. Size of the Market: Large size of the market would stimulate production, increase employment and raise the National per capita income. That is why developed countries expand their market to other countries through WTO.

4. Structural Change: Structural change refers to change in the occupational structure of the economy. Any economy of the country is generally divided into three basic sectors: Primary sector such as agricultural, animal husbandry, forestry, etc; Secondary sector such as industrial production, constructions and Tertiary sector such as trade, banking and commerce. Any economy which is predominantly agricultural tends to remain backward.

5. Financial System: Financial system implies the existence of an efficient and organized banking system in the country. There should be an organized money market to facilitate easy availability of capital.

6. Marketable Surplus: Marketable surplus refers to the total amount of farm output cultivated by farmers over and above their family consumption needs. This is a surplus that can be sold in the market for earning income. It raises the purchasing power, employment and output in other sectors of the economy. The country as a result will develop because of increase in national income.

7. Foreign Trade: The country which enjoys favorable balance of trade and terms of trade is always developed. It has huge forex reserves and stable exchange rate.

8. Economic System: The countries which adopt free market mechanism (laissez faire) enjoy better growth rate compared to controlled economies. It may be true for some countries, but not for every country.

2. Non- Economic Factors

'Economic Development has much to do with human endowments, social attitudes, political conditions and historical accidents. Capital is a necessary but not a sufficient condition of progress. – **Ragnar Nurkse.**

1. Human Resources: Human resource is named as human capital because of its power to increase productivity and thereby national income. There is a circular relationship between human development and economic growth. A healthy, educated and skilled labour force is the most important productive asset. Human capital formation is the process of increasing knowledge, skills and the productive capacity of people. It includes expenditure on health, education and social services. If labour is efficient and skilled, its capacity to contribute to growth will be high. For example Japan and China.

2. Technical Know-how: As scientific and technological knowledge advances, more and more sophisticated techniques steadily raise productivity levels in all sectors. Schumpeter attributed the cause for economic development to innovation.

3. Political Freedom: The process of development is linked with political freedom. Dadabhai Naoroji explained in his classic work 'Poverty and Un-British Rule in India' that the drain of wealth from India under British rule was the major cause of the increase in poverty in India.

4. Social Organization: People show interest in the development activity only when they feel that the fruits of development will be fairly distributed. Mass participation in development programs is a precondition for accelerating the development process. Whenever the defective social organisation allows some groups to appropriate the benefits of growth. the majority of the poor people do not participate in the process of development. This is called crony capitalism.

5. Corruption free administration: Corruption is a negative factor in the growth process. Unless the countries root-out corruption in their administrative system, the crony capitalists and traders will continue to exploit national resources. The tax evasion tends to breed corruption and hamper economic progress.

6. Desire for development: The pace of economic growth in any country depends to a great extent on people’s desire for development. If in some country, the level of consciousness is low and the general mass of people has accepted poverty as its fate, then there will be little scope for development.

7. Moral, ethical and social values: These determine the efficiency of the market, according to Douglas C. North. If people are not honest, the market cannot function.

8. Casino Capitalism : If People spend a larger proportion of their income and time on entertainment liquor and other illegal activities, productive activities may suffer, according to Thomas Piketty.

9. Patrimonial Capitalism : If the assets are simply passed on to children from their parents, the children would not work hard, because the children do not know the value of the assets. Hence productivity will be low as per Thomas Piketty.