Solow Growth Model and Prosperity Without Growth, A Descriptive Study

Pravash Rai

BUS 505–Managerial Economics

Westcliff University

Mr. Prajol Joshi

December 3, 2019

**Abstract**

This paper is a descriptive study of the video; the Solow Growth Model and the paper: Prosperity Without Growth. The summary of both the topics are presented in this paper. The significance of growth on a continuous basis for developed countries is described in this paper. Further, the paper explains the situation for countries or economies to stop the growth considering the ecological capacity and degradations. The general meaning of prosperity without growth in any economy is also highlighted in this paper. Many articles are taken into consideration as a reference in this paper from different electronic sources including LIRN, Google Scholar etc. along with the directed video and article. The study concludes with a suggestion to countries to focus on prosperity through growth which is sustainable. This is possible only through proper utilization of resources keeping sustainable development goals into high consideration.

**Solow Growth Model and Prosperity Without Growth, A Descriptive Study**

All the countries of the world perform various economic activities to sustain their economy. The ultimate goals are economic growth, development, ample of employment opportunities, quality of life and greater GDP number. The economic activities are driven for generating national revenue. The increase in national revenue means increase in the GDP which has positive impact in the growth of the country’s economy. But this doesn’t indicate that the country is in a sound economic position with enough wealth, high quality of life and prosperous citizens. The point is a country can be poor even with increasing economic growth while a country can be rich with low economic growth. For example, the rate of growth for USA was just 2.9% in 2019 while Nepal’s growth was 6.3% for the same year. This certainly doesn’t mean the USA is less prosperous than Nepal.

**Video Summary; Solow Growth Model**

Every economic activity in any country are driven for economic growth of the nation. The different factors of production are the input for growth in an economy. Robert in his Solow Model states that the country’s growth is determined by labour, capital, technological innovation/advancement and ideas. In most of the developing countries, labour and capital, the two factors of production contribute largely in the economic growth and development. Labour force and the working hours determine the factor Labour. As indicated in the video clip, the growth rate of developing countries is faster in comparison to the rich and developed countries. The example of shift to manufacturing sectors from the agricultural labour in the video can be taken to understand this concept. People movement from rural areas to the cities for employment opportunities change the pattern of growth causing industrial and manufacturing reforms. For instance: China’s urbanization in a high level have helped them to supply cheap labour for manufacturing firms operating within the country. But, at one level or point, the capacity of these labour forces will be fully utilized from which the country will have problems of diminishing return in growing further. The point is called a steady point which is reached when the labour, output and capital grows in the same rate resulting output per labour and capital per labour constant. Robert Solow in his growth model theory offers the ways how country can achieve continuous growth after steady point through fair investment on the innovation, ideas and technological advancement (Riley, n.d.). He stresses that the country can grow further even after the full utilization of resources through technological innovation and advancement.

Another concept presented in the video is the concept of catch up growth which means the growth rate of developing countries is faster in comparison to the rich and developed countries. For instance: China’s and India’s growth rate for 2018 is much higher than the USA. This is because, the resources of India and China were underutilized, and this is the time when they have the opportunity to utilize their resources optimally. As such, their growth pace is higher than the USA which has already utilized almost all of its resources optimally from long time ago. This is exactly what the concept of catch up growth is all about. The example of Japan and German who have used catch up growth to catch the growth of the USA through higher gain on their investment and capital after world war is presented in this video. The key to this model is the marginal return. The video talks about the types of road i.e. the road built for connecting city and the other for connecting country side. The roads to connect the cities are built by developing countries and the developed countries would already have city roads so they would go for connecting country sides which will have lower return than roads connecting cities.

Finally, the video describes about the convergence link with the catch-up growth. The Soros model doesn’t describe the amount of convergence developing countries will require to catch up the developed countries. All developing countries cannot catch up developed countries. For instance: the growth rate of Nepal is very encouraging but it will not be able to catch up with the US economy. Another drawback of the theory is the middle-income trap where countries use their capital optimally, the nation generates growth but during the phase of innovation, counties will have difficulties in adopting it as the labour forces are already in full utilization. The countries institutional ability and weaknesses are ignored by this model where country like India goes through deep rooted problem of corruption becoming the biggest hurdle for government to implement its growth strategies.

**Paper Summary; Prosperity Without Growth**

Prosperity Without Growth generally means that the increase in the citizens wellbeing is not always the result of growth. This happens only to a specific point. Money does good socially and the fundamentals for prosperity in future is investment. The economy can be transformed through social investment promotion, employment protection, equality and ecological and financial support for stability (Bent, 2009). The economy’s stability is contributed by growth. The cycles of innovation acceleration with marketing is the condition for survival of growth. Continuous growth is the goal of every country irrespective to their status of developing, underdeveloped or developed nation category. All the economic activities in any country is driven for growth. The growth model of Robert Solow offers a theory that explains how continuous growth can be achieved. Per capita, GDP, living standard, nations productivity etc. has a direct relationship with the country’s growth. The increase in country’s growth will encourage people to make investment for good returns while the declination shall make people anticipate about economic recession in the country. So, people shall invest less or may not invest at all. Countries all around the world are in competition with each other in terms of manpower, resources, geo political power, employment etc. For instance: had China not grown the way it has in last 3 decades, it would have resulted the exit of capital, jobs etc from to other countries from China (Delastella, 2018).

**Ostensible Reason for Developed Economies to Grow**

The ostensible reason for the economies that are already developed for growth all the time is the new and modern lifestyles that are emerging constantly which is linked to the pattern of consuming goods. The change in the human nature indicates the causes and reasons for no limits in growth clearly. In addition to that, if the richer and developed nation stop growing, the developing countries or the poorer ones will exceed richer countries in short run through the trend of catch up growth. No matter how rich a country is there is always the space for growth and improvement for all countries. Developing countries can sustain their growth through investment in innovation and technology advancement. For instance: investment on alternative energy sources, green cities etc. Focus on health is also the concern. Growth of a country means productivity and ability to return the debt. For example; the US is a developed nation but it surely does have debt, if it shows zero growth the country cannot payback its debt.

**Time Limit to Growth**

Growth is prerequisite to all the countries in the world regardless of their development status. But the growth of every country stops at one point with constant rate of growth. For example; a balloon acts when we blow it. It gets bigger and bigger with a shape but at a certain point the balloon will burst if we continue to blow more. According to the Solow Model, there will be point when the country will use its labour and capital to the fullest and after that point the growth of the country shall decline. The growth will stop if technological intervention is not made (Zhao, 2019). Economic growth also means resources deterioration as the infrastructural development, production, industrial development, results degradation of resources like water, air, land etc. The use of resources also means declination in their amount or quantity. When situation as such occurs, the countries must realize that the resources are being over utilized and the development is not sustainable. As study conducted by Massachusetts Institute of Technology and published by the Club of Rome concluded that it is impossible for economies to grow continuous in finite planet like earth (Davey, 2017). Therefore, countries now should not only focus on growth but also towards sustainable future through proper utilization of resources.

**Prosperity Without Growth and How?**

Prosperity Without Growth generally means that the increase in the citizens wellbeing is not always the result of growth. Prosperity is not always the economic growth. The prerequisites for any country to have a competitive power globally and greater quality of life is economic prosperity for both individuals and countries (Wade, 2017). Economic growth helps developing countries to generate revenue and catch up with the developed countries. But higher growth rate doesn’t indicate a country is prosperous. Growth means full utilization of scarce resources. For example; China’s industrialization and urbanization has cost its resource utilization to the fullest. It has invited pollution and degradation of country resources increasing health and economic hazards. Hence thereby degrading the prosperity of the country. As such, countries have to focus on prosperity through growth which is sustainable. This is possible only through proper utilization of resources keeping sustainable development goals into high consideration.

**Conclusion**

Higher economic growth and global dominance is the goal of every country today. All the activities they perform are somehow drive to achieve this goal. Many theories have been propounded for the attainment of continuous growth as the fundamental fact of economics remain growth declines after the full utilization of labour and capital. The theory of Robert Solow Growth Model is one of them which describes how continuous growth can be achieved. However, growth always doesn’t mean good to the economies. Countries do get growth but this can cost them resources and environmental degradation. It results degradation in water, land, air, extinction of sources of fossil fuels. Therefore, countries are suggested to focus on prosperity through growth which is sustainable. This is possible only through proper utilization of resources keeping sustainable development goals into high consideration.

**References**

Bent, D. (2009, May 27). Retrieved from GreenBiz: https://www.greenbiz.com/blog/2009/05/27/understanding-prosperity-without-growth

Davey, B. (2017, December 7). Retrieved from Feasta: https://www.feasta.org/2017/12/07/limits-to-economic-growth-2/

Delastella, C. (2018, January 11). Retrieved from Quora: https://www.quora.com/Why-do-economies-have-to-continue-to-grow

Riley, G. (n.d.). Retrieved from Tutor 2u: https://www.tutor2u.net/economics/reference/economic-growth-neo-classical-growth-the

Wade, L. (2017, September 26). Retrieved from Bizfluent: https://bizfluent.com/info-8222209-economic-prosperity-factors.html

Zhao, R. (2019, February 4). Retrieved from Wiley Online Library: https://onlinelibrary.wiley.com/doi/full/10.1002/hbe2.116