POLITICKÉ VEDY / POLITICAL SCIENCES

Časopis pre politológiu, najnovšie dejiny, medzinárodné vzťahy, bezpečnostné štúdiá / Journal for Political Sciences, Modern History, International Relations, security studies

URL časopisu / URL of the journal: http://www.politickevedy.fpvmv.umb.sk

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Článok / Article: **Management of the Economic Development**
Vydavateľ / Publisher: **Fakulta politických vied a medzinárodných vzťahov – UMB Banská Bystrica / Faculty of Political Sciences and International Relations – UMB Banská Bystrica**

Odporúčaná forma citácie článku / Recommended form for quotation of the article:

KOZERA, A. 2013. Management of the Economic Development. In *Politické vedy*. [online]. Roč. 16, č. 2, 2013. ISSN 1335 – 2741, s. 89 - 97. Dostupné na internete: <http://www.politickevedy.fpvmv.umb.sk/userfiles/file/2_2013/KOZERA.pdf>.

MANAGEMENT OF THE ECONOMIC DEVELOPMENT

Andrzej Kozera*

ABSTRACT
The economic growth means a situation in which the production of goods and services as measured by increase in GDP (Gross Domestic Product) grows from period to period. The main factors of economic growth are the labour force, capital and technology. Thus, the economic growth consists in broadening and improvement of the material and personal factors of production.

Key words: management, economy, unemployment, production

Only a part of the population creates the workforce. The employment of children is prohibited by law, and many adults continue their education, work at home or are retired. Some work full-time, regardless of the motivation, others condition their amount of labour from incentives offered by the labour market. In 1996, the labour force accounted for about 70% of people of working age. This occupational activity rate constantly increased within the last 20 years, mainly thanks to the increase in the activity of women. Here, it is worth looking at Japan and the professional career of women in this country based on a stereotype. According to it, the Japanese woman is a quiet, obedient housewife absorbed entirely with family matters who does not work professionally. However, against the popular view, the professional career of women in Japan has traditions and until 1975 the share of women on the labour market (over 50% in 1970) was higher than in the USA, Great Britain and Germany, mainly because of a lot of women in Japan working (especially before the war) in the farming, on family farms, and in other family business. However, while in other countries over the past twenty years there has been a dramatic increase in the participation of women in the labour market, in Japan this level is maintained at a height of less than 50%. Currently, the majority of employed women

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(approximately 80%) work in private (non-family) or state companies. This is comparable with 84% of men employed in these sectors.

A tendency still prevails that women stop working at the time of getting married and raising children. However, the number of employed women and the number of those that do not stop their work is steadily increasing. Most women in Japan work part-time, i.e. 35 hours a week. A similar trend is also noticeable in the European countries, but the majority of women in the United States work full-time. The government sources motivate this trend in Japan, among others, with tax allowances, which are not entitled to if the wife earns a little more than one million yen per year. Currently the number of married working women increases, above all due to the economic crisis, which means that men tend to be dismissed or their earnings are reduced. Also, the number of women with higher education increases. However, in spite of changes proving growing ambitions of women and an interest in the professional career, women face different obstacles and not always are treated equally with men. There are differences in earnings. This differences results from the still prevailing pay system based on the seniority of employees. Although the situation of women is improving, there are still obstacles they face in their professional career. Japan's economic situation and low birth rate, however, force the changes.

An important feature of the labour force is that not every person ready to work is actually employed at a given time. This is a situation when the unemployment aspect occurs, which is the characteristic of the economy, even when there is a balance between supply and demand. Unemployment is a very important variable in the macroeconomics. The fact that people are being dismissed and become unemployed is the most characteristic feature of the recession. It is also worth remembering that a certain level of unemployment is constant and is called the natural rate of unemployment. The unemployed are the people who are looking for work, willing to take up the work, but they cannot find an employment. The labour force is defined as the number of employed people aged 16 and those unemployed. The unemployment rate is the part of the labour force that is unemployed expressed in a percentage. The professional activity rate, however, is the percentage of the working age population which belongs to the labour force. One of the main reasons that people become unemployed is of course the loss of job. Yet, what is also important is the flow on the labour market of the labour force, job seekers who have finished schools. The sources of new unemployment can be divided into

three categories. First of the is the liquidation of workplaces, which is the decision of employer about the liquidation of a given workstation, and consequently a dismissal of an employee. Liquidation of a workplace often takes place in the form of plant closure or liquidation of the second shift. The second category is the loss of a workplace without its liquidation, which occurs when an employee loses his job without liquidation of the position occupied by him. The primary source of inflow of the unemployed is searching for job after graduation, after experienced illness or due to cessation of work in the own household. In case of economies or markets, where people often change their roles in the economic life, the inflow of the unemployed will be greater. As for the outflow of unemployed, it is related to finding a job, otherwise known as a job finding rate. The number of vacancies increases due to normal decrease in number of employees. In normal economic conditions the unemployment does not account for zero. When workers become unemployed for the first time, or find themselves in this group again, it takes time for them to find a job. The same happens when the workers abandon their current work, then it often takes time before they find a new one.

We can distinguish five types of unemployment. Frictional unemployment - is the result of movement of the workers in the labour market. People change their profession, work, move to another city and stay briefly on the labour market. This type of unemployment occurs in every economy, even in the conditions of full employment. It is beneficial for the economy, because it enables finding workers in a short time. The juncture or recession unemployment - appears when there is a decline in demand, production and economic activity. Structural unemployment - due to inactivity of the labour force supply structure and the demand for it in the labour market. It may be due to rapid structural changes in the economy, with which vocational and general education cannot keep up. The structural unemployment occurs even when the capital resources are insufficient for employment. Technological unemployment - results from the technological progress of the automation and mechanisations of manufacturing processes which are labour-saving in character. It occurs when pace of the economic growth is low, and the investments and modernisation in character lead in turn to the growth and modernisation of the production and the decrease in employment. And the last one, seasonal unemployment - is the result of fluctuations in the economic activity at different times of the year, due to changes in the climate conditions.

The production also depends on the number of the hours worked each year, thus in examining the impact of the employment on the production and growth we take into account only the hours actually worked. The real capital which includes, among others, aircraft factories, computers, lorries, tractors, barns and the like, is determined in a given year by the investments in the previous year. The capital growth in the economy allows for production of more output. The third factor, i.e. technology, tells us how much we can produce using a given amount and capital. Technology includes everything that affects the efficiency and productivity of the capital. Through technology we can also understand the manner of effective organisation and management of the company. The efficiently functioning transport system stimulates the national economy. Some serious negligence in this field, however, is indeed reducing the possibility of its further development. The specific role of transport in economic development process justifies the usefulness of setting the directions of transport policy, tools and methods of its implementation in relation to the general concept of state policy. The infrastructure feature and its role in economic development cause that for a rational investment decision-making a central planning is necessary. The extent of the infrastructure impact, increasing along with economic development, creates a need for international coordination in the number of investments. The external benefits of many projects arise not only in the country in which the investments are being realised. The definition of infrastructure determines its essential role in economic development. The servicing nature of transport means that its development is driven by needs, or rather by the planned needs of economy. What results from it is that between economic development and transport development there are close connections. They are different in nature, scope and impact on particular areas and create all kinds of direct and indirect effects of transport growth.

In my view, when discussing the management of economic development it should also be noted that the economic development of the state and its financial resources depend on the affluence in mineral resources. However, it is not a basic indicator deciding about the development of the economy. Many countries, though, are financially dependent on their own raw materials, which are their key drivers of development. A lot depends on the fact to what extent the state can use these materials for its own development and enrichment. The non-renewable resources should be used so as to not decrease the natural capital. The resource consumption should be compensated with the provision

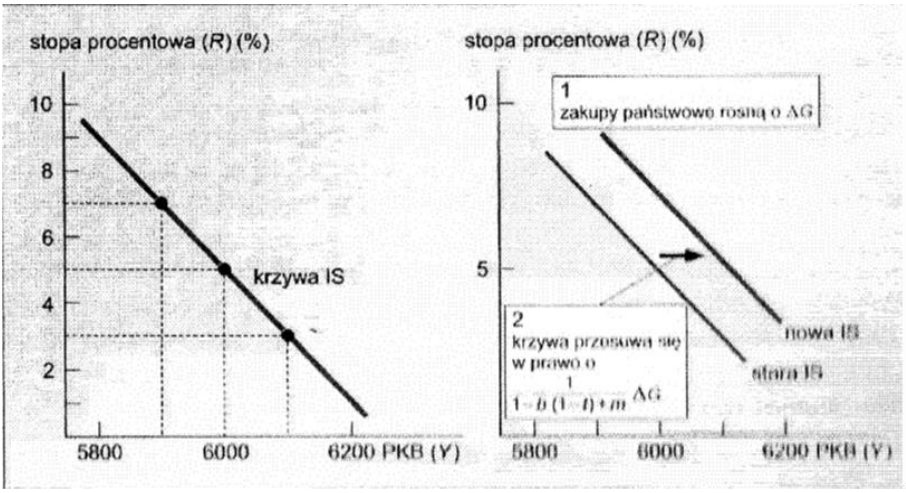
of renewable substitutes. Only in case of the rational use of land resources can the state achieve the benefit and at the same time not threaten its own ecological security. Mineral resources can be divided into energetic, metallic and non-metallic. The basis for the industry development is an energy industry that produces, collects and uses the energy required to start and run the work of devices, machines, automatic machines in the production process and in the households. We can distinguish renewable and non-renewable sources of energy.

Let us now turn to taxes. Taxes are above all a tool that is used to raise money to support the state budget revenue, yet today they are used for tasks of economic, social and political character.

The tax system is an essential part of the state's financial system. The development of family businesses and large amount of foreign investments is very important for our country. This may result in the introduction of new technologies, new techniques of financial management. The decision about where the new investments will develop depends, inter alia, on where the biggest profits will be achieved. Thus, we will notice the economic growth through the production growth in the existing companies, as well as through occurrence of new places of employment which will be the result of the development of new households and enterprises. Here the question arises whether the amount of taxation influences the development of investment. As for this, the economists have divided into two groups. The first group is of the opinion that low taxes encourage economic growth. Reduced government revenues are eventually compensated by an increase in production, employment and sales. The second group, however, believes that the lack of financing of many areas from the state budget will worsen conditions of functioning of enterprises, what will restrain further development of the economy. The effects of tax reduction may be visible only after some time, yet the lack of financing will be visible immediately. Taxes and the entire tax system can have a positive impact on the development of scientifically-economic works, stimulation of the investment activity, the increase in the flexibility of labour and employment markets, or on a raise of the employees' qualifications. "The tax system is to carry out certain functions from which the fiscal, economic and social functions are most frequently mentioned. Some, instead of economic and social functions distinguish allocative, stabilisation, redistribution, stimulating and information functions." (Głuchowski, 1996) The regulatory and fiscal effects of taxes can be assessed from the point of view of

economic function, based on the tax impact on the decisions of taxpayers and economic processes. This influence depends on the structure of the tax. It is important that the tax structure does not discourage taxpayers by maximising the tax base for the introduction of new technologies and investments, or expansion of activity. Taxes which are used to achieve specific social or economic goals through low rates weaken fiscal and regulatory functions, and increase the importance of stimulating function. In this way the stimuli is created to increase efficiency, investment, export, to increase employment, or structural changes in production. The stimulating function of taxes manifests itself for example in shaping specific tax rates. With taxes we can stimulate economic sphere influencing the direction and location of business ventures, and increase economic efficiency. In the non-economic zone stimulation is effective in certain social stratums. A good solution to increase economic development is tax credits – among others tax investment credit. A minimally burdened profit allows saving additional financial means, the consequence of which is development of businesses, or undertaking new investments. The more opportunities there are to take advantage of the tax credits, the greater the difference between the minimum and the effective interest rate. The state can stimulate the attitude of different business entities through appropriate tax constructions. High tax rates are the factors that restrain the labour force mobility. Tax reduction encourages to search for a new, better job because higher salary will not be subject to high taxes. "It should be emphasized that the condition for the proper functioning of taxation in the economy is their compliance with the rules of the market functioning. Taxes should be one of the instruments of influence on the economy, of which effectiveness is dependent on the compliance with other instruments used by the state." (Mastalski, 2006) Being in the subject of taxes, one should mention the IS- PI Model. Its story began in 1937, when J.R. Hicks, British economist, the 1972 Nobel Prize laureate proposed the introduction of the IS-LM curve. Hicks' graphical method, called the IS-LM approach is still widely used because of its simplicity and intuitive clarity. The IS curve takes its name from the fact that if all equations are accomplished, then the investment demand must be equal to income minus the consumption demand and *S* savings. *M* within the LM curve means money supply, and *L* is the liquidity preference, which is synonymous with the demand for money. (Money is more fluid - easier to exchange for goods or other things - than bonds or equities). The IS-LM model allows seeing how the balance is fixed simultaneously for the income of the interest rate. The essence of the

method consists in considering such combinations of income and interest rates which would lead to the establishment of a balance in each of the two markets – i.e. goods and money – individually, and as a result to determination of the only combination of income and interest rate, which leads to equilibrium in both markets simultaneously. The IS curve is a set of various combinations of income and interest rate at which the goods market is in equilibrium



The IS curve shows all combinations of interest rate R and income Y, which fulfil the functions of consumption, investment, net exports and income. On the left side of the figure it is falling: a raise of the interest rate reduces investment sand net exports. Through the multiplier effect the GDP decreases. The right part shows how the IS curve shifts to the right when the government expenses increase.

Sloping IS curve (inclination) is the first issue that needs to be remembered. The IS curve goes downward because higher interest rate reduces investments and net exports, and hence a reduction of GDP as a result of the multiplier process. In order to find a specific point on the IS curve it is necessary to select an interest rate and calculate, using the function of investment and net exports provided the investment and net exports change. The higher is the interest rate the lower is the level of investment and net exports. Taking into account the multiplier effect, we can find out how this level of expenses affects GDP: the smaller quantity of both, the lower is GDP. The interest rate and this GD level designate a point on the IS curve. Another issue related to IS curve (inclination)

consists in the fact that state's expenditure growth causes its shift to the right. The increase in government expenses increases the GDP through the multiplier effect; since GDP increases, the IS curve shifts to the right, and vice versa, due to a decrease in government spending the IS curve shifts to the left. In order to determine how much the IS curve moves it is necessary to select the interest rate *R* and calculate the appropriate level of investment and net exports. By increasing government expenses through the multiplier effect the result will increase by the multiplier product and by an increase of state's expenses. With a fixed interest rate the IS curve moves to the right along the horizontal axis of the GDP by an amount equal to the product of the multiplier and increase of state's expenses.

"In the literature there are many expressions of modelling the growth of economy. The most well-known in the macro-economic approach the RM Solow's model is based on the finding that in any point in time the economy having a certain resource of capital, labour force and knowledge combines these elements together to produce the product. "This is expressed by the general equation in the form of:

$$Y(t)=F[K(t), A(t), L(T)],$$

where Y means product, K- capital, A- knowledge, or work efficiency, L- labour force, t- time. Through a general function, the Solow model at the same time does not exclude, but also does not directly mention the loss of assets. There is certain regularity in this model, namely during the economic growth the revenues decrease at some point. It is connected with an increase in capital pro a single employee who is the cause of the decrease in the growth of production pro a given employee.

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