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Theoretical Foundations of Economic Growth: Determinants, Transformations, and Public Debt Dynamics

Wiame Elhajjami and Hafid Elhassani

Interdisciplinary Research Laboratory in Economics, Finance and Organisational Management (LIREFIMO),
Faculty of Law, Economics and Social Sciences, Sidi Mohamed Ben Abdellah University, Fez. Morocco.

Abstract

Economic growth remains one of the central concerns of economic analysis, public policy, and development strategies. It reflects the capacity of an economy to increase its production of goods and services over time, expand national income, improve productive capacity, and create the material conditions for social progress. However, contemporary debates show that growth cannot be understood only through the quantitative expansion of gross domestic product. Its quality, sustainability, distributional effects, institutional foundations, and relationship with public debt must also be considered. This article aims to analyze the theoretical foundations of economic growth by examining its main conceptual definitions, key determinants, structural transformations, limitations, and the role of public debt in growth dynamics. It argues that economic growth depends not only on capital accumulation and labor expansion, but also on productivity, innovation, human capital, institutional quality, governance, and fiscal sustainability. The article further emphasizes that public debt can support growth when it finances productive investment, but it can also weaken long-term performance when it becomes excessive or poorly managed. By adopting a theoretical and analytical approach, this article provides a comprehensive framework for understanding growth as a multidimensional process shaped by economic, institutional, social, and fiscal conditions.

Keywords: Economic growth; development; productivity; public debt; structural transformation; institutions; governance; human capital.

1. Introduction

Economic growth occupies a fundamental place in economic theory and public policy. It is generally understood as the sustained increase in the production of goods and services within an economy over a given period. Traditionally measured through gross domestic product or real GDP growth, economic growth reflects the capacity of a country to expand its productive activity, generate income, create employment, increase investment, and improve the living standards of its population.

For this reason, growth has long been considered a major indicator of economic performance and a central objective of national development strategies. Nevertheless, contemporary economic analysis no longer considers growth as a purely quantitative phenomenon. A country may record positive GDP growth without achieving inclusive development, poverty reduction, social justice, or institutional stability. Growth can also coexist with high inequality, environmental degradation, fiscal vulnerability, unemployment, or weak human development outcomes. Therefore, the study of economic growth requires a broader analytical perspective

that takes into account not only the rate of growth, but also its sources, quality, sustainability and social consequences.

Recent global economic conditions reinforce the importance of this debate. The World Bank's *Global Economic Prospects* report shows that global growth has been affected by uncertainty, weak productivity dynamics, geopolitical tensions and debt pressures (World Bank, 2026). Similarly, the International Monetary Fund emphasizes that public finances remain under pressure because of high debt, rising risks, increasing interest burdens and constrained fiscal space (International Monetary Fund, 2026). These developments show that economic growth cannot be separated from fiscal sustainability, institutional quality and the capacity of public authorities to transform economic resources into productive and social outcomes.

The link between growth, wealth creation and productive capacity is central to understanding development. Economic growth increases the volume of resources available to households, firms and governments. At the household level, it may improve income, consumption and access to essential services. At the firm level, it may stimulate investment, innovation, competitiveness and job creation. At the state level, it may increase public revenues and strengthen the ability of governments to finance infrastructure, education, health, social protection and technological development.

In this sense, economic growth provides the material foundation upon which broader development can be built. However, growth does not automatically lead to development. The Human Development Report emphasizes that development must be assessed through people's capabilities, opportunities and well-being, not only through income growth (UNDP, 2025). This means that the transformation of growth into development depends on several conditions.

First, growth must be supported by productivity gains rather than by the mere accumulation of inputs. Economies that rely only on natural resources, low-cost labor or debt-financed consumption may experience temporary expansion without building sustainable productive capacity. Second, growth must be inclusive. If the benefits of growth are concentrated among a limited group, social inequalities may persist or even deepen. Third, growth must be supported by effective institutions. Governance, rule of law, transparency, regulatory quality and policy effectiveness influence the way resources are allocated and redistributed.

Fourth, growth must be fiscally sustainable. Public debt can finance productive investment, infrastructure and human capital. However, excessive debt may weaken

macroeconomic stability, increase interest payments and reduce the ability of the state to support long-term development. The IMF underlines that credible fiscal frameworks and sustainable debt management are essential for preserving growth prospects and limiting fiscal vulnerabilities (International Monetary Fund, 2026).

The theoretical foundations of economic growth have been shaped by several schools of thought. Classical economists emphasized capital accumulation, labor, savings and productive expansion. Neoclassical models later highlighted the role of capital, labor and technological progress in determining long-term growth. Endogenous growth theories placed greater emphasis on innovation, knowledge, education and human capital. More recent institutional approaches argue that governance, institutions and policy quality are essential for explaining differences in growth performance between countries.

These perspectives show that economic growth is a multidimensional process and cannot be reduced to a single factor. It depends on the interaction between productive resources, technological progress, human capabilities, public policies, fiscal conditions and institutional quality. For this reason, the study of growth requires an integrated theoretical framework capable of linking economic performance with structural, social and institutional dimensions.

Structural transformation also represents a major dimension of growth. Economic development is often associated with the movement of resources from low-productivity sectors to higher-productivity activities. This transformation may involve industrialization, diversification, technological upgrading, urbanization, digitalization and the expansion of modern services. The World Bank argues that countries seeking sustained development must move beyond simple investment accumulation and strengthen capabilities related to innovation, knowledge diffusion and efficient allocation of capital (World Bank, 2024).

At the same time, the limits of growth must be recognized. Growth can be unstable when it depends heavily on external shocks, commodity prices, excessive borrowing or weak institutions. It can also be socially fragile when it fails to generate employment or reduce inequality. Moreover, public debt has become one of the most important constraints on growth strategies. Debt can be a development instrument when it finances productive infrastructure, education, health and innovation. However, when debt is excessive or used for unproductive expenditures, it may increase interest payments, reduce fiscal space and constrain public investment (International Monetary Fund, 2026).

The problem addressed in this article is therefore the following: how can economic growth be theoretically understood as a process shaped by productive capacity, structural transformation, institutions and public debt dynamics? This question is important because many economies pursue growth without sufficiently considering the conditions that make it sustainable, inclusive and development-oriented. A narrow focus on GDP expansion may hide deeper structural weaknesses, such as low productivity, weak governance, persistent inequalities or unsustainable debt.

The objective of this article is to analyze the theoretical foundations of economic growth by examining its definitions, determinants, structural transformations, limitations and relationship with public debt. More specifically, the article seeks to clarify the conceptual distinction between growth and development, identify the main drivers of growth, explain the role of productivity and structural transformation, and discuss the ambivalent effects of public debt on economic performance.

The article is structured as follows. The first section presents the conceptual framework of economic growth by defining the concept and distinguishing it from economic development. The second section reviews the main theories of growth, from classical and neoclassical approaches to endogenous and institutional perspectives. The third section examines the key determinants of growth, including capital, labor, human capital, innovation, infrastructure, governance and institutions. The fourth section analyzes structural transformation as a central condition of long-term growth. The fifth section discusses the relationship between public debt and growth dynamics, emphasizing both the productive role and the risks of excessive debt. Finally, the conclusion summarizes the main theoretical contributions and highlights the need to understand growth as a multidimensional process (Leghrari et al., 2025).

2. Main Theories of Economic Growth

Theories of economic growth provide the analytical foundations for understanding how economies expand their productive capacity over time. They explain why some countries grow faster than others, why growth may slow down, and how factors such as capital, labor, productivity, innovation, public policy and institutions influence long-term economic performance. Economic growth theory has evolved through several major approaches, from classical theories centered on capital accumulation and labor to contemporary institutional perspectives emphasizing governance, rules, incentives and policy quality.

Each theory highlights a specific dimension of growth. Classical theories focus on production, savings, capital accumulation and population dynamics. Keynesian approaches emphasize aggregate demand, investment and the role of the state in stabilizing economic activity. Neoclassical theory explains growth through capital accumulation, labor and technological progress. Endogenous growth theory places innovation, knowledge and human capital at the center of long-term growth. Institutional approaches finally argue that the quality of institutions and governance explains major differences in development trajectories between countries.

2.1. Classical Theories of Growth

Classical theories of economic growth constitute the first systematic attempts to explain the expansion of production and national wealth. Classical economists such as Adam Smith, David Ricardo and Thomas Malthus viewed growth as a process driven mainly by capital accumulation, labor, land, specialization and productivity. In this tradition, economic growth depends on the capacity of an economy to increase production through savings, investment and the efficient use of resources (Belcaid, 2022).

Adam Smith placed particular emphasis on the division of labor as a source of productivity improvement. According to this view, specialization allows workers to become more efficient, reduces production time and increases total output. Growth therefore results from the expansion of markets, the accumulation of capital and the improvement of productive efficiency. This idea remains important today because productivity is still considered a central condition of long-term growth.

David Ricardo introduced another important dimension by analyzing the role of land, rent and diminishing returns. In his view, growth could be limited by the scarcity of land and by the declining productivity of additional inputs. As population and production increase, less productive land may be used, reducing profits and slowing capital accumulation. This analysis shows that growth may face structural constraints when resources are limited or poorly allocated.

Thomas Malthus focused on the relationship between population and resources. He argued that population growth could put pressure on food supply and living standards if production did not increase sufficiently. Although this view has been criticized, it introduced an important question into growth theory: economic expansion must be analyzed in relation to demographic dynamics and resource constraints.

Classical theories are important because they show that growth depends on the interaction between production factors, savings, investment and productivity. However, they are limited because they give less attention to technological innovation, human capital, institutions and public policy. Contemporary growth theories have therefore expanded the classical framework by integrating these additional dimensions.

2.2. Keynesian Approaches to Growth

Keynesian approaches to growth emphasize the role of aggregate demand, investment and public policy in determining economic activity. Unlike classical theory, which focuses mainly on supply-side factors and long-term equilibrium, Keynesian analysis highlights the possibility of insufficient demand, unemployment and economic instability. From this perspective, growth does not depend only on productive capacity, but also on the effective demand needed to use that capacity.

Keynesian theory argues that investment plays a central role in growth. Investment increases productive capacity, creates employment and stimulates income. When firms invest, they generate demand for goods, services and labor. This demand then produces additional income, which supports consumption and further economic activity. The multiplier effect shows how an initial increase in investment or public spending can generate a larger increase in national income.

The state occupies an important place in Keynesian approaches. During periods of crisis or weak demand, public spending can support economic activity and prevent unemployment from rising. Fiscal policy can therefore stabilize the economy and protect productive capacity. This idea remains relevant in contemporary debates, especially during economic shocks, financial crises or periods of weak private investment.

However, Keynesian approaches also raise questions about public debt. Public borrowing can support growth when it finances productive investment or stabilizes demand during downturns. Nevertheless, if debt becomes excessive or is used mainly for current consumption without productive effects, it may create fiscal pressures and reduce future policy space. Recent IMF analyses emphasize that high debt levels and rising interest burdens have become important constraints on fiscal policy in many economies (International Monetary Fund, 2026).

Keynesian approaches are therefore useful for understanding short- and medium-term growth dynamics. They show that

demand, investment and state intervention can influence economic performance. However, they must be complemented by theories that explain long-term productivity, innovation and structural transformation.

2.3. Neoclassical Growth Theory

Neoclassical growth theory explains long-term growth through capital accumulation, labor growth and technological progress. The Solow model is one of the most influential frameworks in this tradition. It argues that output depends on the combination of capital and labor, while technological progress determines long-term increases in productivity (Zeroual & Aasri, 2025).

In the neoclassical model, capital accumulation can increase output, but only up to a certain point. Because of diminishing returns to capital, each additional unit of capital produces a smaller increase in output when other factors remain constant. This means that investment alone cannot sustain long-term growth indefinitely. Over time, economies need technological progress to continue growing.

Technological progress is therefore central in neoclassical theory. It allows economies to produce more with the same amount of capital and labor. However, in the basic Solow model, technological progress is treated as external to the model. It is considered an exogenous factor that improves productivity but is not fully explained by the theory itself.

Another important contribution of neoclassical theory is the concept of convergence. Poorer countries may grow faster than richer countries if they have lower capital per worker and can benefit from higher returns to investment. However, convergence is not automatic. It depends on savings, investment, population growth, technology, institutions and policy conditions.

Neoclassical theory also helps distinguish between short-term expansion and long-term growth. A country may increase output temporarily by accumulating more capital or labor, but sustainable growth requires productivity improvement. This idea remains relevant today. The World Bank stresses that countries seeking to move beyond middle-income status must shift from simple capital accumulation toward innovation, technology diffusion and more efficient resource allocation (World Bank, 2024).

Thus, neoclassical theory provides a rigorous framework for understanding the role of capital, labor and productivity. Its main limitation is that it does not fully explain the origins of technological progress, innovation and institutional

differences. These limits opened the way for endogenous growth theory and institutional approaches.

2.4. Endogenous Growth Theory

Endogenous growth theory emerged as a response to the limitations of neoclassical models. Its main contribution is to explain technological progress, innovation and knowledge as internal components of the growth process. Unlike neoclassical theory, which treats technological progress as external, endogenous growth theory argues that innovation, research, education and human capital are produced within the economy.

Human capital occupies a central place in this approach. Education, training, skills and health improve the productivity of workers and increase the capacity of firms and societies to innovate. When individuals become more educated and skilled, they can produce more efficiently, adopt new technologies and contribute to knowledge creation. This explains why investment in education is considered a major driver of long-term growth.

Innovation is another key element. Endogenous growth theory emphasizes research and development, technological progress and knowledge spillovers. Knowledge differs from many other economic goods because it can generate positive externalities. When one firm innovates, other firms and sectors may benefit from new ideas, techniques and practices. This process can support cumulative growth.

This theory also highlights the role of public policy. Governments can support long-term growth by investing in education, research, infrastructure, digital transformation and innovation systems. They can also create incentives for private investment in technology and knowledge. The UNDP emphasizes that new technologies, including artificial intelligence, can expand human capabilities if they are guided by inclusive choices and appropriate policies (UNDP, 2025).

Endogenous growth theory is particularly relevant for contemporary economies because long-term growth increasingly depends on knowledge, innovation and digital transformation. The World Bank also notes that countries facing middle-income constraints need to combine investment with technology infusion and innovation in order to sustain growth (World Bank, 2024).

However, endogenous growth does not occur automatically. Innovation requires institutions, financing, skills, infrastructure and stable policies. Without these conditions, investment in technology may remain limited or poorly

distributed. Therefore, endogenous growth theory must be linked to institutional analysis.

2.5. Institutional Approaches to Growth

Institutional approaches argue that economic growth depends strongly on the quality of institutions and governance. Institutions define the rules of economic and social life. They include laws, property rights, regulatory systems, public administration, political stability, accountability and the rule of law. These elements influence incentives, investment decisions, innovation, public spending and resource allocation.

Good institutions create an environment favorable to growth. They protect property rights, reduce uncertainty, limit corruption, enforce contracts and encourage investment. When economic actors trust institutions, they are more likely to invest, innovate and engage in long-term productive activities. By contrast, weak institutions can discourage investment, increase transaction costs and reduce the effectiveness of public policy.

Governance also affects the transformation of growth into development. Even when an economy generates wealth, poor governance can prevent resources from being used effectively. Public revenues may be wasted, investment may be poorly targeted, and social policies may fail to reach vulnerable populations. Therefore, institutional quality influences not only the level of growth, but also its social outcomes.

Institutional approaches are especially important for understanding differences between countries. Two economies may have similar levels of capital or labor but very different growth performances because of differences in governance, policy credibility, corruption control or regulatory quality. This perspective explains why growth cannot be understood only through production factors.

Recent development debates confirm the importance of institutions. The World Bank argues that sustained growth requires not only investment, but also technology diffusion, innovation and efficient allocation of capital, all of which depend on an effective institutional environment (World Bank, 2024). Similarly, the IMF emphasizes that credible fiscal frameworks are essential for managing public debt and preserving macroeconomic stability (International Monetary Fund, 2026).

Institutional approaches therefore complete earlier theories of growth. Classical, Keynesian, neoclassical and endogenous theories explain important mechanisms, but institutions determine whether these mechanisms operate effectively.

Growth is thus shaped by both economic factors and institutional conditions.

3. Determinants of Economic Growth

The determinants of economic growth refer to the main factors that explain the expansion of production and productive capacity over time. Economic growth does not result from a single cause. It depends on the interaction between capital accumulation, labor force dynamics, human capital, technological progress, natural resources, infrastructure, institutions and governance.

Understanding these determinants is essential because they influence not only the rate of growth, but also its quality and sustainability. Growth based only on temporary factors may be fragile, while growth supported by productivity, innovation, human capital and good institutions is more likely to be sustainable. Recent global reports emphasize that weak productivity, high debt and institutional constraints continue to limit growth prospects in many economies (World Bank, 2026; International Monetary Fund, 2026).

3.1. Capital Accumulation

Capital accumulation is one of the traditional determinants of economic growth. It refers to the increase in physical capital used in production, such as machinery, equipment, factories, roads, energy systems and infrastructure. When an economy invests in productive capital, it increases its capacity to produce goods and services.

In classical and neoclassical theories, capital accumulation plays a major role in expanding output. Investment allows firms to increase production, adopt better equipment and improve efficiency. Public investment in infrastructure also supports private activity by reducing transport costs, improving energy supply and facilitating market access.

However, capital accumulation alone is not sufficient for sustainable growth. Neoclassical theory shows that capital faces diminishing returns. If an economy increases capital without improving technology, skills or institutions, the additional contribution of capital to output may decline over time. This means that investment must be accompanied by productivity gains (Legharry et al., 2026).

The quality of investment is therefore as important as its quantity. Productive investment strengthens long-term growth, while poorly planned investment may generate debt without improving productive capacity. This is especially important for public investment financed by borrowing. Public debt can support growth when it finances infrastructure

and productive sectors, but it may become a burden when investment is inefficient or unproductive (International Monetary Fund, 2026).

Thus, capital accumulation remains a central determinant of growth, but its effectiveness depends on technology, human capital, governance and efficient allocation.

3.2. Labor Force and Demographic Dynamics

The labor force is another major determinant of economic growth. An economy's production capacity depends partly on the number of people available for work and their participation in economic activity. A growing labor force can increase output, especially when workers are productively employed.

Demographic dynamics influence growth in several ways. A young and growing population may represent an economic opportunity if it is educated, skilled and integrated into the labor market. This is often described as a demographic dividend. However, if job creation is insufficient, population growth can increase unemployment, poverty and social pressure.

Labor force participation is also important. Growth depends not only on population size, but also on the proportion of people who participate in economic activity. Higher participation of women and young people can increase productive capacity and household incomes. However, this requires access to education, training, employment opportunities and inclusive labor policies.

The quality of labor is as important as its quantity. A large labor force does not guarantee growth if workers lack skills or if employment is concentrated in low-productivity activities. For this reason, demographic dynamics must be linked to human capital and structural transformation.

Labor markets also influence the social effects of growth. Growth that creates productive and decent jobs is more likely to reduce poverty and inequality. By contrast, growth without employment may increase output without improving living conditions. This distinction is central to understanding the relationship between economic growth and development.

3.3. Human Capital and Education

Human capital refers to the knowledge, skills, health and capacities embodied in individuals. It is one of the most important determinants of long-term economic growth. Education improves workers' productivity, strengthens innovation capacity and facilitates the adoption of new technologies.

Education contributes to growth by increasing the efficiency of labor. Skilled workers can use complex technologies, solve problems, adapt to new production methods and support innovation. Higher levels of education also improve the capacity of firms to compete and move toward higher-value activities.

Human capital also supports structural transformation. Economies seeking to shift from low-productivity sectors to higher-productivity industries and services need skilled workers. Without education and training, technological upgrading becomes difficult. The World Bank stresses that human capital and knowledge diffusion are essential for countries trying to move beyond middle-income constraints (World Bank, 2024).

Health is also a key dimension of human capital. Healthy workers are more productive, more able to participate in the labor market and less likely to face interruptions in employment. Investment in health therefore contributes to both human development and economic growth.

Human capital has a dual role. It is both a determinant and an outcome of growth. Economic growth provides resources for education and health, while better education and health strengthen future growth. The UNDP emphasizes that development should expand people's capabilities and opportunities, showing that human capital is not only an economic input but also a central objective of development (UNDP, 2025).

Thus, education and human capital are fundamental to sustainable growth. They allow economies to improve productivity, innovate and transform growth into broader development.

3.4. Technological Progress and Innovation

Technological progress is one of the strongest drivers of long-term economic growth. It allows an economy to produce more output with the same number of inputs. Innovation improves production methods, creates new products, increases efficiency and opens new sectors of activity.

In neoclassical theory, technological progress explains long-term growth beyond capital and labor accumulation. In endogenous growth theory, innovation is produced within the economy through research, development, education and knowledge creation. This makes technology a central factor in explaining why some economies grow faster than others.

Innovation can take several forms. It may involve new products, improved production processes, digital

technologies, organizational changes or new business models. These innovations can increase productivity and competitiveness. Digital transformation and artificial intelligence may also create new opportunities for productivity and human development, provided that countries invest in skills, infrastructure and inclusive policies (UNDP, 2025).

Technological progress also supports structural transformation. It allows economies to move from low-productivity activities toward higher-value sectors. The World Bank's development framework emphasizes that countries need to progress from investment-based growth toward technology infusion and innovation-led growth in order to sustain long-term development (World Bank, 2024).

However, innovation requires enabling conditions. Firms need financing, skilled labor, research institutions, infrastructure and stable regulations. Without these conditions, technological progress may remain limited. Moreover, technological change may increase inequalities if only certain groups or firms benefit from it.

Therefore, technological progress is a powerful determinant of growth, but its impact depends on education, institutions, governance and the ability of society to distribute its benefits.

3.5. Natural Resources and Infrastructure

Natural resources can contribute to economic growth by providing raw materials, export revenues, energy and fiscal resources. Countries with abundant natural resources may use them to finance investment, infrastructure and public services. Resources such as minerals, oil, gas, agricultural land and water can therefore support growth when they are well managed.

However, natural resources do not automatically guarantee development. Resource-dependent economies may face volatility because commodity prices can fluctuate strongly. They may also suffer from weak diversification if growth depends mainly on exports of raw materials. In some cases, resource wealth can reduce incentives for innovation and industrial development (CHAABITA & BOUSSIF, 2025).

The quality of governance is essential in resource-based growth. Natural resource revenues must be managed transparently and invested in productive sectors. If resource revenues are poorly managed, they may increase corruption, inequality and fiscal instability. Therefore, natural resources can be a source of growth, but only when supported by effective institutions.

Infrastructure is also a key determinant of growth. Roads, ports, electricity, water systems, telecommunications and digital networks reduce production costs and improve economic connectivity. Infrastructure allows firms to access markets, workers to reach jobs and governments to deliver services more effectively.

Productive infrastructure also supports human development. Schools, hospitals, transport systems and digital access improve social inclusion and economic opportunities. Public investment in infrastructure can therefore strengthen both growth and development, especially when it is well planned and fiscally sustainable.

However, infrastructure investment often requires significant financing. If financed by debt, it must generate sufficient economic and social returns. Otherwise, it may increase fiscal pressure without supporting long-term growth. This confirms the importance of linking infrastructure, public debt and governance in growth analysis.

3.6. Institutions and Governance

Institutions and governance are among the most important determinants of economic growth. Institutions shape the rules, incentives and constraints that guide economic behavior. Governance determines how public authority is exercised, how policies are implemented and how resources are managed.

Strong institutions support growth by protecting property rights, enforcing contracts, reducing uncertainty and encouraging investment. They also improve the efficiency of markets and public policies. When institutions are credible, firms and households are more willing to invest in long-term activities.

Governance affects the quality of public spending and the effectiveness of development strategies. A government may have financial resources, but weak governance can lead to waste, corruption or poorly targeted policies. In contrast, good governance helps transform resources into infrastructure, education, health and productive investment.

Institutions also influence the relationship between growth and social outcomes. Growth can generate wealth, but institutions determine how this wealth is distributed and used. Effective institutions can strengthen social justice by supporting fair taxation, social protection and equal access to public services. They can also reinforce political stability by increasing trust in public authorities.

The IMF stresses that credible fiscal institutions and sustainable debt management are important for maintaining macroeconomic stability and supporting growth (International Monetary Fund, 2026). Similarly, the World Bank emphasizes that long-term development requires efficient allocation of capital, innovation and institutional capacity (World Bank, 2024).

Thus, institutions and governance are not secondary factors. They condition the effectiveness of all other determinants of growth. Capital, labor, technology, natural resources and public debt produce better outcomes when institutions are strong and governance is effective.

4. Structural Transformations and Economic Growth

Structural transformation is a central dimension of economic growth because it reflects the way an economy changes its productive structure over time. Economic growth is not only the result of producing more goods and services; it also depends on producing them in more efficient, diversified and technologically advanced ways. Structural transformation refers to the reallocation of resources from low-productivity activities toward higher-productivity sectors, such as manufacturing, modern services, advanced agriculture, digital industries and knowledge-based activities.

This process is essential for long-term growth. Economies that remain dependent on traditional sectors, low-productivity employment or raw material exports may experience growth, but this growth can remain fragile and limited. By contrast, economies that diversify their productive base, industrialize, modernize infrastructure and adopt new technologies are generally better able to sustain growth over time. The World Bank emphasizes that economies seeking to overcome middle-income constraints must move from simple investment accumulation toward technology infusion and innovation-driven growth (World Bank, 2024).

Structural transformation also affects the social and institutional dimensions of development. When resources move toward more productive sectors, employment opportunities may improve, wages may increase and public revenues may expand. However, structural change can also generate tensions if some workers, sectors or regions are excluded from the transformation process. For this reason, structural transformation must be analyzed not only as an economic process, but also as a social and institutional challenge (El Aynaoui & Dinh, 2026).

4.1. Sectoral Transformation of the Economy

Sectoral transformation refers to the shift of economic activity from one sector to another. Historically, many economies have moved from agriculture-based production toward industry and later toward services. This transformation is generally associated with productivity gains, diversification and higher income levels. The movement of labor and capital from low-productivity sectors to higher-productivity activities allows the economy to increase total output and improve living standards.

In the early stages of development, agriculture often represents a large share of employment and output. However, agricultural productivity may be low if production depends on traditional methods, limited technology and weak infrastructure. As economies grow, labor can gradually move toward industry and services, where productivity and wages may be higher. This transition contributes to growth by improving the allocation of resources.

Sectoral transformation also involves diversification. An economy that depends on a narrow range of products or sectors is more vulnerable to external shocks. For example, countries dependent on natural resources may be affected by commodity price fluctuations. Diversification reduces this vulnerability by expanding the productive base and creating new sources of income and employment.

Modern services have become increasingly important in contemporary structural transformation. Financial services, telecommunications, logistics, digital services, education, health and professional services can contribute strongly to growth. In many economies, services are no longer merely a residual sector; they are becoming sources of productivity, innovation and employment.

However, sectoral transformation is not automatic. It requires investment, infrastructure, skills, market access and institutional support. If workers move from agriculture to informal urban activities with low productivity, the transformation may not generate strong growth. Therefore, the quality of sectoral transformation matters as much as the movement between sectors.

4.2. Industrialization and Productivity Gains

Industrialization has historically been one of the main engines of economic growth. It allows economies to increase productivity, produce at scale, diversify exports and create new employment opportunities. Manufacturing activities often generate learning effects, technological upgrading and stronger linkages with other sectors. For this reason,

industrialization has played a major role in the development trajectories of many countries.

Industrialization contributes to productivity gains through several mechanisms. First, it allows firms to use machinery, technology and standardized production processes. Second, it encourages specialization and economies of scale. Third, it creates demand for skilled labor, logistics, energy, transport and business services. Fourth, it may support export competitiveness by producing goods with higher value added.

Productivity gains are essential because they allow an economy to produce more with the same amount of resources. Without productivity growth, economic expansion may rely mainly on the accumulation of labor and capital, which can face diminishing returns. The World Bank notes that long-term development increasingly requires economies to combine investment with technology infusion and innovation, rather than relying only on capital accumulation (World Bank, 2024).

Industrialization also strengthens structural linkages. A manufacturing sector can stimulate agriculture by increasing demand for raw materials and processed products. It can also support services by creating demand for transport, finance, communication and maintenance. These linkages generate multiplier effects throughout the economy.

Nevertheless, industrialization faces several challenges. It requires infrastructure, energy, skilled labor, financing, technological capacity and stable institutions. Without these conditions, industrial development may remain limited. Moreover, industrialization must now respond to environmental constraints and technological changes. Modern industrialization requires cleaner production, digital tools and stronger integration into global value chains.

Thus, industrialization remains a powerful driver of growth, but its success depends on productivity, innovation, governance and the capacity of public policy to support competitive and sustainable industrial activities.

4.3. Urbanization and Modernization

Urbanization is closely linked to structural transformation and economic growth. As economies develop, people and activities tend to concentrate in urban areas. Cities provide markets, infrastructure, services, labor pools and opportunities for innovation. They can therefore increase productivity and support modernization.

Urbanization contributes to growth through agglomeration effects. When firms and workers are located close to one

another, they can exchange information, reduce transaction costs and benefit from specialized services. Urban areas also facilitate access to education, health, transport, finance and digital infrastructure. These elements can improve productivity and support economic diversification.

Modernization refers to the transformation of production methods, infrastructure, institutions and social organization. It includes improvements in technology, public administration, education systems, transport networks and communication tools. A modernized economy is generally more capable of supporting innovation and long-term growth.

However, urbanization can also generate challenges. Rapid urban growth may produce congestion, informal settlements, unemployment, pollution and pressure on public services. If urbanization is not accompanied by planning, infrastructure and job creation, it may create social inequalities rather than productive transformation.

The link between urbanization and growth therefore depends on the quality of public policy. Urban infrastructure, housing, transport, sanitation, education and employment policies are essential for transforming urbanization into a source of productivity. Without these conditions, cities may become spaces of inequality and social pressure.

Urbanization and modernization must therefore be managed as part of a broader development strategy. Their contribution to growth depends on their capacity to support productivity, inclusion and institutional efficiency.

4.4. Digital Transformation and Economic Performance

Digital transformation has become an increasingly important factor in economic growth. It refers to the integration of digital technologies into production, services, public administration and social life. Digital tools can improve productivity, reduce transaction costs, increase access to information, support innovation and create new economic activities.

Digital transformation affects economic performance in several ways. First, it improves efficiency by automating tasks, facilitating coordination and reducing delays. Second, it supports innovation by enabling new products, services and business models. Third, it improves access to markets through e-commerce, digital platforms and online financial services. Fourth, it can strengthen public administration by improving data management, transparency and service delivery.

Artificial intelligence, digital platforms, cloud computing and data-based decision-making are increasingly shaping economic performance. The UNDP emphasizes that artificial

intelligence can expand human capabilities and create new development opportunities if societies make inclusive and responsible policy choices (UNDP, 2025). This means that digital transformation should not be seen only as a technological process, but also as a social and institutional process.

The World Bank also highlights that technology infusion and innovation are essential for economies seeking to sustain growth and escape middle-income constraints (World Bank, 2024). Digital transformation can therefore support structural transformation by helping firms adopt more productive methods and enter higher-value activities.

However, the effects of digital transformation are not automatic. They depend on digital infrastructure, education, skills, regulation, cybersecurity and access to technology. If digital tools are available only to large firms or privileged groups, they may increase inequality. Digital transformation can also displace some workers if labor markets and education systems do not adapt.

Thus, digital transformation can improve economic performance, but only when it is accompanied by investment in human capital, institutional capacity and inclusive policies. Its contribution to growth depends on the ability of economies to transform technology into productivity and shared opportunities (Tesse & Belmkaddem, 2026).

4.5. Limits of Structural Transformation

Although structural transformation is essential for long-term growth, it also has limits and risks. First, transformation can be uneven. Some sectors, regions or social groups may benefit more than others. This can increase inequalities if public policies do not support inclusion and redistribution.

Second, structural transformation may produce employment challenges. Workers leaving traditional sectors may not immediately find productive jobs in modern sectors. If the industrial or service sectors cannot absorb the labor force, structural change may lead to informality, unemployment or precarious employment.

Third, transformation requires financing. Infrastructure, education, technology and industrial development demand significant investment. When these investments are financed by public debt, they must generate long-term returns. Otherwise, structural transformation may create fiscal pressures without producing sustainable growth.

Fourth, institutional weaknesses can limit transformation. Poor governance, corruption, weak regulation and inefficient

public administration can reduce the effectiveness of investment and discourage private sector development. Structural transformation therefore depends strongly on institutional quality.

Fifth, environmental constraints must be considered. Traditional growth strategies based on intensive resource use, pollution and carbon emissions are increasingly unsustainable. Modern structural transformation must integrate environmental sustainability, energy transition and responsible resource management.

Finally, technological transformation can create new inequalities. Digitalization and automation may benefit skilled workers and advanced firms, while excluding those without access to skills or technology. For this reason, education, training and inclusive digital policies are essential.

Thus, structural transformation is necessary but not sufficient. It supports growth only when it is productive, inclusive, institutionally supported and fiscally sustainable.

5. Public Debt and Growth Dynamics

Public debt is one of the most important issues in contemporary growth analysis. It represents both an instrument of development financing and a potential source of macroeconomic vulnerability. Governments often borrow to finance infrastructure, social programs, crisis responses, public investment and economic reforms. When debt is used effectively, it can support growth by expanding productive capacity. However, when debt becomes excessive or poorly managed, it can reduce fiscal space, increase interest payments and weaken economic stability (Okoth & Sekmen, 2026).

The relationship between public debt and growth is therefore complex. Debt is not automatically harmful, but it is not automatically beneficial either. Its effect depends on several factors: the level of debt, the cost of borrowing, the maturity structure, the currency composition, the quality of public spending, the efficiency of institutions and the growth rate of the economy. The IMF reports that global public debt rose to just under 94 percent of GDP in 2025 and is projected to reach 100 percent of GDP by 2029, reflecting rising fiscal pressures and interest burdens (International Monetary Fund, 2026).

Public debt must therefore be analyzed in relation to productive capacity, fiscal sustainability and governance. A country can benefit from borrowing if debt-financed spending increases future growth. However, if debt finances unproductive expenditure or if repayment costs rise faster than

revenues, debt can become a constraint on growth and development.

5.1. Definition and Forms of Public Debt

Public debt refers to the total amount borrowed by the government to finance budget deficits and public expenditures. It represents the accumulation of past borrowing that the state must repay over time. Public debt can be held by domestic or external creditors and may be denominated in local or foreign currency.

Domestic public debt is borrowed from creditors within the country, such as banks, pension funds, financial institutions or citizens. It can be less exposed to exchange rate risk when it is denominated in local currency. However, excessive domestic borrowing may reduce credit available to the private sector and increase interest rates.

External public debt is borrowed from foreign creditors, international financial institutions, foreign governments or international capital markets. It can provide additional financing, especially when domestic savings are limited. However, external debt may create vulnerability to exchange rate fluctuations, global interest rates and external financing conditions.

Public debt can also be classified according to maturity. Short-term debt must be repaid quickly and can create refinancing risks. Long-term debt provides more time for repayment but may involve higher costs depending on market conditions. The structure of debt is therefore important for fiscal stability.

Another distinction concerns the use of debt. Productive debt finances investment that can generate future returns, such as infrastructure, education, health or technology. Non-productive debt finances current spending that does not significantly increase future growth. This distinction is essential for understanding the relationship between debt and economic performance.

5.2. Public Debt as a Financing Instrument

Public debt can be an important financing instrument for development. Many governments borrow because domestic revenues are insufficient to finance necessary investments. Public borrowing can allow the state to build infrastructure, expand education, improve health systems, support innovation and respond to economic crises.

Debt may be particularly useful when it finances projects that generate long-term economic and social benefits. For example, investment in roads, ports, energy, water systems

and digital infrastructure can reduce production costs and increase productivity. Investment in education and health can strengthen human capital and support future growth.

Public debt can also play a stabilization role. During recessions, crises or external shocks, governments may borrow to support demand, protect households, preserve firms and maintain public services. This Keynesian role of public debt can prevent deeper economic contraction and protect productive capacity.

However, borrowing must be managed carefully. Debt-financed spending should be aligned with development priorities and evaluated according to its expected returns. If borrowing is used inefficiently, it can increase debt without strengthening productive capacity. The IMF emphasizes that public finances are increasingly under pressure from high debt, spending needs and rising interest burdens, which makes fiscal discipline and credible frameworks essential (International Monetary Fund, 2026).

Thus, public debt can support growth when it is used as a strategic financing instrument. Its positive effect depends on the quality of spending, the capacity of institutions and the sustainability of fiscal policy.

5.3. Productive Debt and Economic Growth

Productive debt refers to borrowing that finances investments capable of increasing future output, productivity and public revenues. This type of debt can contribute positively to economic growth because it expands productive capacity and creates long-term benefits.

Infrastructure investment is one of the clearest examples of productive debt. Roads, ports, electricity networks, water systems and digital infrastructure can improve connectivity, reduce costs and support private investment. These investments may raise the productivity of firms and workers.

Debt can also be productive when it finances human capital. Education and health spending improve the capabilities of individuals and increase labor productivity. Over time, better human capital supports innovation, employment and income growth. The UNDP emphasizes that human development depends on expanding people's capabilities and opportunities, which makes education and health central to development-oriented growth (UNDP, 2025).

Borrowing may also support technological upgrading and innovation. Public investment in research, digital transformation and industrial modernization can help economies move toward higher-productivity sectors. The

World Bank's development framework stresses the importance of investment, technology infusion and innovation for countries seeking sustained growth (World Bank, 2024).

However, productive debt requires strong governance. Projects must be selected, implemented and evaluated carefully. If investment decisions are influenced by corruption, weak planning or political favoritism, debt may fail to generate growth. Therefore, the productivity of debt depends on the quality of public investment management.

In this sense, debt can be a lever of growth when it is linked to productive investment and institutional effectiveness. It becomes beneficial when the future economic returns exceed the costs of borrowing.

5.4. Excessive Debt and Macroeconomic Constraints

Excessive public debt can create major macroeconomic constraints. When debt becomes too high, governments must allocate a larger share of revenues to interest payments and debt service. This reduces fiscal space and limits the ability of the state to finance education, health, infrastructure and social protection.

High debt can also increase borrowing costs. When investors perceive a higher risk of repayment difficulties, they may demand higher interest rates. This increases the cost of public borrowing and can worsen the fiscal position. In some cases, high debt may create a cycle in which borrowing is needed mainly to repay previous debt.

Excessive debt can also reduce private investment. If the government borrows heavily from domestic financial markets, it may crowd out private borrowers. Firms may face higher interest rates or reduced access to credit. This can weaken investment, productivity and job creation.

External debt creates additional risks. If debt is denominated in foreign currency, exchange rate depreciation can increase the burden of repayment. External financing conditions may also change due to global interest rates or investor confidence. This can make debt management more difficult (Mohammed, 2026).

The IMF warns that rising public debt and interest burdens are placing public finances under pressure, while many governments also face growing spending demands related to social needs, defense and strategic priorities (International Monetary Fund, 2026). These constraints show that debt sustainability has become central to growth strategies.

Thus, excessive debt can weaken growth by reducing fiscal flexibility, increasing vulnerability and limiting productive investment. Its effects are especially negative when debt is not associated with higher productivity or stronger public revenues.

5.5. Public Debt Sustainability

Public debt sustainability refers to the capacity of a government to meet its current and future debt obligations without compromising macroeconomic stability or essential public spending. A debt level is sustainable when the state can service its debt without requiring unrealistic fiscal adjustments, excessive borrowing or harmful reductions in development spending.

Debt sustainability depends on several factors. The first is the relationship between the interest rate and the growth rate. If the economy grows faster than the interest rate on debt, debt may be easier to manage. If interest costs exceed growth, debt may become more difficult to sustain.

The second factor is the primary fiscal balance. A government that consistently spends more than it collects, excluding interest payments, may accumulate debt over time. Sustainable debt management therefore requires credible fiscal policies and efficient public spending.

The third factor is the structure of debt. Debt with longer maturity and local currency denomination may be less risky than short-term or foreign-currency debt. The composition of creditors also matters, because dependence on external markets can increase vulnerability.

The fourth factor is institutional credibility. Strong fiscal institutions, transparent budgeting and effective debt management can increase investor confidence and reduce borrowing costs. Weak institutions, by contrast, can increase risk and reduce sustainability (TAGHOUTI et al., 2024).

Debt sustainability does not mean avoiding debt entirely. It means ensuring that borrowing supports development without creating future instability. Productive debt can be sustainable if it strengthens growth and increases future revenues. Excessive or unproductive debt, however, can reduce growth and weaken development outcomes.

Therefore, public debt sustainability is a key condition for long-term growth. It allows governments to finance development while preserving macroeconomic stability and fiscal capacity.

Conclusion

This article has analyzed the theoretical foundations of economic growth by examining its conceptual framework, main theories, determinants, structural transformations and relationship with public debt. The analysis shows that economic growth is a central concern in economic theory and public policy, but it cannot be reduced to the simple increase of GDP. It must be understood as a multidimensional process shaped by productive capacity, productivity, human capital, innovation, institutions, structural change and fiscal sustainability.

The conceptual framework showed that economic growth refers to the sustained expansion of production, while economic development includes broader improvements in human well-being, social inclusion and institutional quality. This distinction is essential because growth does not automatically produce development. Its effects depend on how wealth is created, distributed and transformed into human and social progress.

The review of growth theories showed that each approach contributes to understanding a specific dimension of growth. Classical theories emphasized capital accumulation, labor and productivity. Keynesian approaches highlighted demand, investment and the role of public policy. Neoclassical theory explained growth through capital, labor and technological progress. Endogenous growth theory placed innovation, knowledge and human capital at the center of long-term expansion. Institutional approaches showed that governance, rules, credibility and policy effectiveness are fundamental to explaining differences in growth performance.

The analysis of growth determinants confirmed that economic growth depends on several interacting factors. Capital accumulation, labor force dynamics, human capital, technological progress, natural resources, infrastructure, institutions and governance all contribute to growth. However, their effectiveness depends on productivity and efficient allocation. Growth based only on temporary factors, resource dependence or excessive borrowing may remain fragile.

Structural transformation was also identified as a central condition of long-term growth. Sectoral transformation, industrialization, urbanization, modernization and digital transformation can improve productivity and diversify the economy. Nevertheless, structural transformation has limits. It can create inequalities, unemployment, regional disparities, fiscal pressures and environmental challenges if it is not supported by effective public policies and strong institutions.

The article also showed that public debt plays an ambivalent role in growth dynamics. Debt can support growth when it finances productive investment, infrastructure, human capital and innovation. However, excessive debt can reduce fiscal space, increase interest burdens, weaken macroeconomic stability and constrain development spending. Public debt sustainability is therefore essential for preserving long-term growth prospects.

Overall, the theoretical contribution of this article lies in presenting economic growth as a complex and multidimensional process. Growth depends not only on the accumulation of production factors, but also on structural transformation, institutional quality, governance and fiscal sustainability. This perspective is particularly relevant in a global context marked by slower growth, weak productivity, technological change and rising public debt pressures (World Bank, 2026; International Monetary Fund, 2026).

This analysis also prepares the transition toward the study of the social and political effects of growth. If growth is to contribute meaningfully to development, it must improve human capabilities, reduce inequalities, support social justice and strengthen political stability. Therefore, the next stage of analysis should examine how economic growth affects human development, social justice and political stability, and how institutions and public policies influence these outcomes.

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