

SECTION 1. ECONOMIC THEORY AND HISTORY OF ECONOMIC THOUGHT

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INNOVATION AND PHYSICAL CAPITAL AS PRODUCTION GROWTH DETERMINANTS OF THE MODERN SERVICE SPHERE

In our opinion, among the main factors that have an influence on processes of growth of actual production volumes in the service sphere, the following determinants, which are determined as determinants of the offer of services, can be distinguished:

- 1) Increase in the volume of physical capital invested in the service sphere;
- 2) Innovative development of the service sphere.

Let us consider each of these factors more carefully.

Investments in physical capital contribute to the economic growth. Such investments are very that factor that due to a positive effect of growing capital volumes contributes to the increase in general labour productivity despite the fact that this effect can be neutralized by processes of reducing the level of marginal return, which is peculiar for investments in physical capital.

Moreover, investments are the very that important method of implementation of the modern technology in the capital asset of organization available for employees. They can indirectly influence the innovative activity and thus have a positive long-term effect on economic growth.

It should be noted that intensive use of IT and investments in these assets contributed to the growth of total labour productivity. This relation is especially clear for the branch of services of financial intermediation. Thus, in the USA in the period from 2000 to 2010 years, the growth of intensity of the use of IT in the field of financial intermediation by about 0.27% has led to almost the same level of growth of labour productivity. For a comparison, at the same period of time, in the field of industrial production, IT contribution to the total indicator of the labour productivity growth was only 0.03%. For four European countries,

analogous contributions to the total productivity from the side of IT technology were 0.1% for the service sphere and 0.03% for the industrial production.

Some branches of service sphere, especially those determined in our research as classical or traditional, are very often considered as a type of economic activity with a low intensity of knowledge use. Such an understanding is associated with the whole service sphere generally. And, we can consider this understanding as the main obstacle to the achievement of high indicators of productivity in the service sphere, especially today when the intensity of using human knowledge is a key determinant of long-term productivity and economic growth. Thus, intensive use of knowledge for the organization's innovative activities is a determinant and important factor of its productivity, process innovations can lead to reducing production expenses and costs, innovative product can allow increasing market share and occupying new market outlets. Moreover, intellectual capital that has a form of human knowledge, as distinct from physical one, is not reducing in the process of its use and, thus, can serve as the main impetus for long-term economic growth.

Empirical data used in our research indicate that some structural characteristics of service markets can become obstacles to the growth of level of labour productivity and employment level in the economy:

Many problems of innovative activity are related to a small size of organizations in the service sphere. Innovations and investments in new technologies, as a rule, have a significant risk index, high probability of loss of investment resources, high cost. Small-sized organizations very often feel a lack of necessary financial resources or a limited access to external financing.

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