

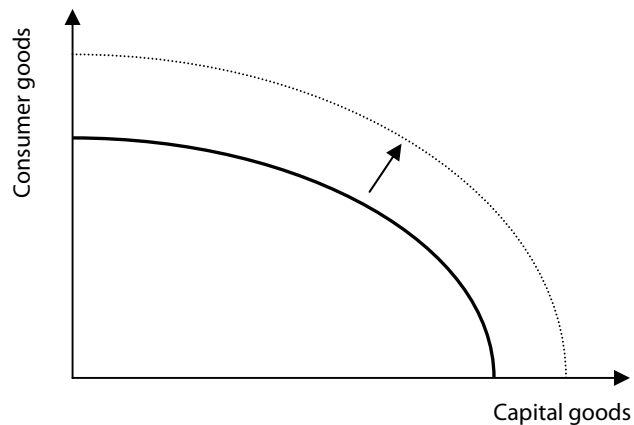
Macro-economic objectives: Economic growth

What is economic growth?

Short run economic growth is the rate of increase in national output per year. National output means the value of all goods and services produced by factors of production base in the UK, the gross domestic product or 'GDP.'

Real GDP is an altered value of GDP so that inflation does not mask changes in the real value of output.

Long run economic growth can be shown on as a PPC curve. In the long run the maximum capacity of the economy (where all factors of production are used efficiently) can be shown on a PPC diagram. At all points on the curve resources within an economy are being used efficiently. Long run growth is the potential increase in the economic capacity of the economy, which is shown on the PPC by a shift outwards of the curves (from the solid line to the dotted line).



Measuring GDP

National income, or GDP, can be measured in three ways:

Income

Sum of payments made to factors of production, excluding transfer payments. This includes income from employment, rent, gross trading profits of a company and income from self employment.

Output

Sum of the value of output from companies. Value added only (minus cost of raw materials). This includes manufacturing output, mining and quarrying and service output.

Expenditure

Total investment by businesses and spending by consumers. Excluding tax but including subsidies.

$$\text{GDP measured by the expenditure method} = \mathbf{C + I + G + (X - M)}$$

Where:

- C – Consumption by consumers.
- I – Investment by businesses.
- G – Spending by the government.
- $(X - M)$ – Net imports/exports in and out of the economy.

The causes of economic growth

Land

- Land, in economics means all the natural resources a country has and not just the physical land. This means, for example, that the resource of oil is encompassed under the heading 'land.'
- Most economists argue that these natural resources cannot promote great economic growth, but some countries like Saudi Arabia have made a success of oil.
- Natural resources are of particular importance to developing economies.

Labour

- Increasing the number of workers in a workforce will lead to economic growth. The increase can happen for the following reasons:
 - The number of people entering the work force in comparison to those who are leaving the work force. We will experience a decrease here in the UK soon as there are fewer entering the work force due to the lower birth rates in the '60's and '70's and the higher birth rates after WWII. Birth rates have a delayed affect on this. Demography is the term used to describe this area.
 - Increase in participation. In the UK nearly all of the men are working and so any increase in the work force due to increased participation will be caused by women returning to or entering work.
 - Influx of workers from abroad due to immigration.
- However, this will not always lead to economic growth as new workers are not always as efficient, immigrant workers may add to the working numbers but work in low paid work. To generate economic growth workers need to be educated, adaptable and have the ability to contribute to change.
- Many economies can grow by moving workers from a less productive industry to a more productive industry. This is not true of the UK, but can be seen in other countries such as China.
- Strikes due to conflicts in work waste resources and inhibit economic growth.
- Education is generally viewed as the most important factor in increasing economic growth through more efficient labour.
- A flexible market where individuals can move from one job to another utilises labour more efficiently and decreases unemployment.
- Low taxes encourage employment as less of the money earned is taken in tax.

Capital

- Sustained investment in the economy is necessary for economic growth.
- High investment will not necessarily bring about high growth as investment can be put into failing industries or into housing and hospitals.
- To bring about economic growth investment needs to be in 'growth industries.'
- Too much investment can cause problems, as the capacity would be too high compared to the level of production required.
- A short-term view of the economy can result in immediate gains but long term instability or problems. However this often results in short term losses, making some economists regard long termism as a mask for bad decisions.
- Higher savings mean higher investment, and so promote economic growth.
- Innovation, an area where the UK has a good record of coming up with ideas but not for marketing them effectively.

- Moving capital from a less productive application to a more productive use. This is only possible to a certain point though, and many economists argue that all countries will eventually reach the same levels.
- Releasing inefficiently used capital and moving resources between industries through privatisation and deregulation improves growth.
- Low custom duties encourage international trade. Whilst in the short term this could not have an advantageous affect in the long run international trade is important for businesses to keep up to date.

Technology

- Technology can help bring about economic growth by making production more efficient, using fewer resources.
- Brings about the creation of new products, which stimulates a continued interest by the consumer in purchasing goods

Factors that have slowed down UK growth

- Historically higher tax rates (during the 1960s and 1970s)
 - When tax revenue is used by the government to invest it is typically less efficient than if private firms invest.
 - When private firms invest they provide what consumers want, "allocative efficiency."
- "Catch up," the movement from primary production to second and tertiary sector production.
 - This happened in the UK in the late 19th century and we experienced a rapid growth in the output then.
 - Japan experienced this in the 1950s and 1960s so had high growth rates then.
- Short-termism
 - Profit → Inland Revenue.
→ Reinvest/retain.
→ Distribute to Share holders.
 - If share holders want all the profits distributed now as dividends the opportunity cost is the investment by firms into long run growth opportunities.

Factors that have increased UK growth

- Flexible labour markets.
 - Particular feature of the early to mid 1990s.
 - "Occupational mobility" increased as workers gain transferable skills.
 - Less labour market regulations than Europe until we joined the social chapter in 1997/1998.
 - Reduction in the power of unions.
 - Yet we still have a problem in the UK with geographical mobility.
 - This is worse than Germany or France due to high levels of home ownership.
- Increased Education and training.
 - People are staying in Higher Education longer.
 - The governments "New deal" allowing for retraining.
- Free trade compared to other countries such as Japan and the USA.
- Privatisation.
 - Lower costs of production and so lower the use of limited resources.

- This frees up resources for alternative uses.
- Private investment is theoretically more efficient than investment by the government so privatisation should bring about greater efficiency.
- Discovery of new resources such as oil in the 1970s.

Positive effects of economic growth since the 1970s:

- Length of time you need to work to pay for the same goods and services has decreased.
- Increase spending on benefits by government means better standard of living.
- Better medical care and standards of living leads to decrease in deaths from heart disease and cancer.
- Increase in standards of housing and expensive goods, for which we pay a lower percentage of our income for.
- Increase in rates of education and decrease in average class sizes.
- Decrease in number of patients per doctor and percentage of adults smoking.
- Number of people in higher education has tripled.
- Male death rate decrease for all ages, especially deaths before 1 year.
- GDP has increase 15 times (at current prices) indicates the total value of goods and services available has increased.
- Pollutant gas emissions has decreased:
 - More regulations.
 - One of the advantages of a post industrial society.
 - People care more.
- Working population has increased 20% to 44%.

Negative effects of economic growth since the 1970s:

- Better health care means people live longer and greater proportion of the work force not able to work (retirement) means wasted resources.
- Increased rates of suicide.
- More properties being repossessed.
- More owner occupation means less geographical mobility.
- Increase in notifiable offences. This has tripled.
- Abortion rates have increased (could be viewed as a positive change).
- Government spending on education as a percentage of GDP has decreased.
- Unemployment increase (although this is probably not stable).
- Increase in divorce rates (again, perhaps could be seen as a positive change).
- Percentage of lone parents with dependant children has increased.
- More vehicles on the road means more congestion.
- Fewer children per family (could be seen as a positive or negative change).