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LONG TERM ECONOMIC GROWTH

B*y,* CBSI Media

Last weekend we look at the topic Government Budget. This weekend we will focus on the topic Long-Term Economic Growth.

In this topic we consider the sources of long-term economic growth and discuss some of the ways in which we might boost economic growth. We focus on long-term growth as this is growth which leads to improved living standards in general over various generations. Economic Growth can be a short-term phenomenon too and we can boost economic growth in the short-term by working over-time every day for the next few months but we cannot carry this on into the future; eventually we will get tired and need to rest so here we focus on how we can create growth that can be sustained in the long-run.

Sources of Economic Growth

Long-run economic growth rarely happens by accident. For an economy to grow in the long-run it has to create the right conditions for growth. Economic growth depends to a significant extent on the resources a country has. The better the quantity and the quality of the resources, the greater the potential to grow.

So what resources are we talking about?

Natural Resources – if a country has a plentiful supply of natural resources and the ability to exploit or make use of them then the economy will be able to expand. Having plentiful natural resources does not guarantee economic growth however, the means to exploit them must also exist. Also, in some instances the existence of natural resources and who exploits them has caused conflict and led to reduced economic growth for some countries around the world.

Capital – When we talk about capital we are usually referring to machinery and equipment which helps us produce goods. By increasing the stock of machinery in the country we are increasing our ability to produce goods and hence we are expanding our economy. To get machinery and equipment, a country must invest and so the level of investment in an economy will impact future economic growth. As we said before, we can work overtime for a while to produce more and we can use machines every day, all day but eventually the machine will break so we must continually invest in machinery and equipment. When demand in an economy is high so that we are using our machines and equipment every day, all day (we are working at maximum capacity) it signals to the boss that it may be time to invest in more capital.

Human Capital – We refer to a country's workforce as human capital. Although we cannot determine the *quantity* of workers we have in an economy we can influence the *quality* of the workforce. By improving education standards, we can improve the quality of the workforce, this again requires investment.

Technological Progress – The existence of machinery and capital which help us produce goods more efficiently is thanks to technological progress. To improve our ability to produce goods in the future we need technological progress to be on going. Investment again is needed, in education and research.

Boosting Economic Growth

Because increasing economic growth improves the lives of everyone in a country, economic growth is almost always an objective for the government.

To boost long-term economic growth, the government must focus on policies which impact the quantity, quality or ability to exploit the areas identified above so that the economy is able to produce more. We call these ''supply-side'' policies since they improve the productive capacity of the economy. Some examples of ''supply-side'' policies include:

1. Promoting education and training – *to improve the quality of the workforce*
2. Promoting research and development – *to ensure on-going technological progress*
3. Investing in infrastructure (roads, wharfs) – *to improve the ability to exploit resources*
4. Promoting sustainable exploitation of natural resources - *to ensure the sustainability of economic growth*

We hope this informative article will help you to fully understand more what economic growth is.

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