

WHY ECONOMIC GROWTH MATTERS AND HOW TO ACHIEVE IT

I. The Importance of Economic Growth

Good monetary policy is necessary but not sufficient for economic growth. A country can have economic stability yet lack dynamism because excessive taxes and regulation hinder growth. Economic growth is the key to higher living standards.

Over long periods, seemingly small differences in growth rates have big effects on income. The «rule of 70» helps to illustrate this point.

Sustained reductions in annual rates of growth can cause major problems, while sustained increases can help resolve them. The budget deficits of the U.S. during the last ten years illustrate this point.

The most important problem currently confronting the U.S. economy is planning for the increased burden of retirement and health care benefits as the «baby boom» generation starts to retire beginning around 2010.

II. Determinants of Economic Growth

Economic growth is complex. Several factors play important roles, and they are often related. Weakness in one or two key areas can undermine growth. Although economics does not provide a precise recipe for economic growth, it does highlight several ingredients that are important,

- 1. Investment in physical and human capital.**
- 2. Technological advancements.**
- 3. Economic environment.**

III. Institutions and Policies for Economic Growth

Economic theory suggests several key institutions and policy factors that are important for the achievement of maximum economic growth.

- 1. Secure property rights and political stability.**
- 2. Competitive markets.**
- 3. Stable money and prices.**
- 4. Freedom to trade with foreigners.**
- 5. Appropriate size of government.**