

Benefits and costs of economic growth

[Economics](#)



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Economic growth is defined as the sustained increase in real GDP or GNP per capita over time. Economic growth is desirable for an economy as it increases its real national income and standards of living for its people in general. Although it is desirable, economic growth does have its benefits and costs. One benefit would be increased levels of consumption. Provided economic growth outstrips population growth, it will lead to higher real income per head. This can lead to higher levels of consumption of goods and services.

With economic growth there will be improvement in business expectations, leading to increase in investment. Firms replace worn-out/ obsolete capital or invest in new capital. There will also be expansion of demand, leading to increased output. Existing idle capacity and unemployed labour are utilised. This result in more people being employed, thus increasing the level of consumption within the country. If human welfare is related to the level of consumption, then growth provides an obvious gain to society. Next, it can help to avoid other macroeconomic problems.

People aspire to higher living standards. Without a growth in productive potential, people's demands for rising incomes are likely to lead to higher inflation, balance of payments crises(as more imports are purchased), etc. Growth in productive potential helps to meet these aspirations and avoid macroeconomic crises. Moreover, economic growth makes it easier to redistribute incomes to the poor. If incomes rise, the government can redistribute incomes from the rich to the poor without the rich losing. For example, as people's incomes rise, they automatically pay more taxes.

These extra revenues for the government can be spent on programmes to alleviate poverty. Without a continuing rise in national income, the scope for helping the poor is much more limited. Society may also feel that it can afford to care more for the environment. As people grow richer, they may become less preoccupied with their own private consumption and more concerned to live in a clean environment. Economic growth, though resulting in many economic and social benefits to the people in the country, is not without its costs.

Firstly it could result in reduced current consumption. To achieve faster growth, firms will probably need to invest more. This will require financing. The finance can come from higher saving, higher retained profits or higher taxes. Either way, there must be a cut in consumption. In the short run, therefore, higher growth leads to less consumption, not more. Next, growth involves changes in production: both in terms of the goods produced and in terms of the techniques used and the skills required, the more rapid the rate of growth, the more rapid the rate of change.

People may find that their skills are no longer relevant. Their jobs may be replaced by machines. People may thus find themselves unemployed, or forced to take low-paid, unskilled work. A richer society may be more concerned for the environment, but it is also likely to do more damage to it. The higher the level of consumption, the higher is likely to be the level of pollution and waste. What is more, many of the environmental costs are likely to be underestimated due to lack of scientific knowledge. Acid rain and the depletion of the ozone layer have been 2 examples.

Lastly, it could deplete our non-renewable resources. If growth involves using a greater amount of resources, rather than using the same amount of resources more efficiently, certain non-renewable resources will run out more rapidly. Unless viable alternatives can be found for various minerals and fossil fuels, present growth may lead to shortages for future generations. In conclusion, economic growth can have both benefits and costs depending on certain factors. Moreover it is desirable as long as the benefits outweigh the costs.