

Economic growth essay



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1. Executive Summary

Economic growth is what every economy tries to achieve for the good of everyone as a whole. Developing, producing more, increased wages, higher levels of education, better and better technologies is what we strive for. But doing all that, does that mean that we are living a better life? Or is it just the ideal of doing better, not really the result that keeps us following the dream of a perfect world. The effects of economic growth are full of positives points such as boost in infrastructures, urban development, higher education, globalisation, creates employment, higher wages for workers, better living standards for the population, and the list can go on and on. But aren't there any externalities to all of this? There are some of the negative externalities of growing above what the economy can take, reaching the limits where growing is counter-productive. Some of those disadvantages of growth are outlined in this report, such as health problems arising, environmental issues, education issues as well, and how standard of living doesn't always mean better is getting more.

2. Introduction

“ A useful metaphor for production in an economy comes from the kitchen. To create valuable final products, we mix inexpensive ingredients together according to a recipe. The cooking one can do is limited by the supply of ingredients, and most cooking in the economy produces undesirable side effects. If economic growth could be achieved only by doing more and more of the same kind of cooking, we could eventually run out of raw materials and suffer from unacceptable levels of pollution and nuisance. Human history teaches us, however, that economic growth springs from better

recipes, not just from more cooking. New recipes generally produce fewer unpleasant effects and generate more economic value per unit of raw material." (Henderson, D. 2007) This little introduction is a way to say that the more diversified an economy is the fewer side effects it will have to bare. A more sustainable and spread out use of the resources available in the economy.

Back in the days countries tend to produce only the essentials for ' survival', most part of the economies were set to produce things like food, clothing, and houses. But nowadays, only small parts of economies are used to produce the so called essentials. The reason behind this change is the industrial revolution in the *" late 18th and early 19th centuries when major changes in agriculture, manufacturing and transportation had a profound effect on the socio-economic and cultural conditions in Britain. The changes subsequently spread throughout Europe and North America and eventually the World, a process that continues as industrialisation. The onset of the Industrial Revolution marked a major turning point in human social history, comparable to the invention of farming or the rise of the first city states; almost every aspect of daily life and human society was eventually influenced in some way."* (Wikipedia. com, 22 April 2008)

The growth has been so fast that some economies are almost reaching a stall, reaching the maximum. *" On the one hand if we look at specific examples of natural resources (fresh water, ocean fisheries, atmosphere, ecosystem), there is strong evidence that the rates at which we are currently utilizing them are unsustainable."* (Dasgupta, P. 2008) But a major factor can prevent this to happen but it doesn't mean it's a good thing; this factor is <https://assignbuster.com/economic-growth-essay/>

ecological damages caused by growth. Global warming is one of those constraints that in sooner rather than later will effect on our everyday life and on how we should be monitoring growth.

Damages to our environment is not the only problem caused by economic growth, one of the other concerns of every society is whether or not we have reached the limits of human needs as well. What more could we possibly need? Do we have to keep improving on technology; is it for our basic needs or just for pure luxury? People earn more today but doesn't that mean that we should be better off than 40-50 years ago? Spending on education has become insanely high but are our children learning more today? Husbands and wives both are working full time jobs now to run their families, but 40-50 years ago when usually only the husband was working, weren't families having a good life? Is growth helping or hurting society as a whole, and thus answering the question is economic growth becoming counter-productive?

3. Economic Growth and Unemployment

Economic growth is believed by people to be a good thing because of the jobs it creates and how it helps increase per capita Gross Domestic Product and consumption of society as a whole. But studies in the United States showed, by using the “ *Daly-Cobb Index of Sustainable Economic Welfare (taking Gross National Product – environmental costs- extra spending on healthcare, education, commuting and urbanization needed to support growth) concluded that economic wellbeing in the US increased substantially during the 50's and 60's, but levelled off at the end of the 70's and has been in decline since the 80's.*” (Siegel, C. 2006) And also according to ‘ Okun's Law’, for every one percent by which the actual unemployment rate exceeds

the normal unemployment rate, real Gross Domestic Product is reduced by 2-3%. The Law outlines the negative relationship between the GDP growth and unemployment. Growth doesn't always bring along what people usually expect: more work. The ideal growth in order to stop unemployment from rising is a 3% annual growth. (Siegel, C. 2006)

So growth as well can be considered counter-productive, in terms of employment for an economy, if it is not properly managed. Unemployment rate won't just stop because the economy created more jobs and making more money, as outlined by 'Okun's Law'. And the economy should have an ideal annual growth of 3% to maintain efficiency.

4. Economic Growth and Standard of Living

“Economic development is sustainable if, relative to its population, a society's productive base does not shrink.” (Dasgupta, P. 2008) The more you earn in terms of wages, the more you tend to buy. Wages are higher, so consumption tends to be higher as well. Going from bare essentials population tend to buy luxuries than they think they deserve for all the effort they put in at work. This is when the economy becomes more productive, when they are enjoying prosperity. However, *‘prosperity in an economy is not static, over time countries tend to become more or less prosperous. An economic boom may bring a temporary prosperous environment to a country and much greater wealth (in terms of higher wages, products quality, quantity, etc...) to its population. Same if there is a depression, the hard work done to improve standard of living may be brushed away’.* (Sparknotes. com).

A major enhancement of living standards is technology, the better the technology the more growth a country can experience. Technology is directly related to economic growth. To produce more we need more equipment, better quality, which can produce more at lower costs and in smaller time span. Also when a country is growing it tends to use more and more advanced material than it previously used to because of the greater productivity they will help them achieve in order to maintain the growth. Technology hence improves labour production. (That is how the inverse relationship between growth and unemployment rate is created; when economy is growing, unemployment tends to rise as well because now the economy needs fewer workers to perform same job)

As far as health is concerned fast-foods and restaurants have become a common everyday routine for people. Cooking at home could be cheaper but why going cheaper when you can afford quicker and simpler, and when you can't find the time to cook. Thus, to the 'rescue' are the restaurants and fast-foods, quicker and sometimes offer more variety as well. But the growth of fast foods and restaurants (but mainly fast-foods) consumption have somewhat caused a fall in health level of society as a whole. Not only food patterns caused this change in health condition but when we add to that the high consumption of cigarettes and the fact that besides work, eat, sleep people don't have much time of their own, or just don't want to find time (laziness) to do exercise, societies became less active physically and more obese. For that matter people seemed to think that spending more on health care would help them live longer and better. But now more and more people are realising that exercises and a healthy diet are the keys to a better life.

The more spending we make on health care will somehow result in finding cures (hopefully sometimes sooner rather than later) for diseases such as cancer, diabetes, heart problems, aids, etc... but the concern about this is that they are maybe the reverse effect of economic growth. If we think about it (as mentioned above) people are less concerned about their health, what they could prevent now at the beginning is instead 'postponed' to later when the need to try and find a solution to fight a health problem is here. Example of that would be obesity- our children are eating more fast foods than it was a case decades ago, they also are doing less exercises. Education of 'our future' is important to counter the negative effects of economic growth. *'A point has been reached where the amount spent on health care is much less important than exercise, diet and other individual actions to improve health'* (Siegel, C. 2006).

5. Economic Growth and Education

Education plays an important role on the road to economic growth of an economy. It could vary from education of employees to new technologies to education of the children, the future generation. Literacy is important nowadays anywhere, because it helps communicate easily and if needs be in different languages. And also the sooner the children learn the easier it makes it for them to undertake subsequent learning " *results, obtained after examining information on Dutch school children (in the Netherlands, parents can enroll their children in school from age four), find that increasing enrolment by one month increases the math and language test scores of children from a low socio-economic background or ethnic minorities by .06*

standard deviation, while those non-disadvantaged student's scores remained the same" (Bredt, J., Cycz, C. 2007)

The education of the population as a whole is vital for an economy to be prosperous, so providing children with the 'tools' to build a better tomorrow is the key for further successes. But that's the good part of growth, it helps us educate our population but economic growth can also be viewed as detrimental to education, when it comes to children.

Growth has created more work for a larger pool of labour, including women and men, mothers and fathers, thus reducing the quality of a traditional family life by much. Parents nowadays have each a job (mainly full-time) resulting in less time devoted to growing children, who most of the times find themselves in day-cares. This lack of family presence affect the children "*emotionally, some of them end up using drugs, become delinquent, suffer from anxiety, depression, and some end up being unsuccessful in school.*" (Siegel, C. 2006).

Another side effect of growth on education is that now children at school want more than just learning, they want to be entertained to learn. They want teachers to get them hooked on the subject, not just teach them, they don't want to make that extra effort to learn how to solve a difficulty on their own. They think it is like television or internet, everything is laid in from of them and they just have to sit back and watch. This phenomenon is outlined in a research paper 'The End of Economic Growth' by Charles Siegel in 2006.

6. Economic Growth and the Environment

For the relationship between growth and environment I am using the example of newly industrialized Eastern-Asian countries. Countries such as Thailand, Hong Kong, Malaysia, Indonesia, and Singapore, for example, have been experiencing enormous growth over the past 20-30 years, lowering the population living under their poverty line by more than 50% and making good economic progresses. But the reverse of the medal is that this region is also among the most highly polluted part of the world with 9 cities in the world's 15 most polluted cities. Other problems faced by those countries are soil degradation, erosion, coastlines and marine degradation, one of the highest deforestation rates in the world. In this region we can witness the damaging effects of rapid on the local environment. Environment was neglected because growth was viewed as the next essential step to evolution for the region, and now they are trying to “ *control pollution rates, make proper use of their forests, take proper actions, such as tax and standards on further development, improving their methods and recycling.*” (Thomas, V., Belt, T. 1997). The developed countries have the same problems and we would tend to think that the developing countries would be more careful when growing, but the ‘temptation’ of getting big and quick just overrides the fulfilment of a healthy environment. The questions here that appeal to us would be; do the other developing nations care enough about the environment, and will they instead of growing big at a faster rate, just slowly (taking into considerations the environment) grow their economies, or will they make the same mistakes? And also there was another point brought forward by Bjorn Lomborg, a Danish statistician, in 2003 which defies economic growth and its effects on the environment. He argues that instead

of “ restricting growth, environment decline is best cured by accelerating it”. He pointed out that pollution in industrialised countries have been cleaned up and air pollution in big cities are better than it was 30 years ago. In a way he is saying that reducing environmental damages is going against economic growth, and that countries will get used to it, and that it is greater at the early stages of industrialisation. Those arguments made by Lomborg in his book, *The Skeptical Environmentalist*, brought a lot of controversies from world’s leading environmental scientists. So, we can see that ideologies differ from people, and it can also be the case for countries seeking growth. They can accept that environmental damages are the price to pay for a better growth. (Hamilton, C. 2003)

7. Recommendations

Economic growth is more enjoyable when it comes with fewer negatives sides as possible, and there are ways to fully benefit from a growth without really impacting on other parts of the country, or even on the population.

Some examples would be:

- Spending less on health services but instead focuses on a healthier way of living, with exercises, healthy diets, proper management of time.
- People could choose to work fewer hours, giving the chance to raise employment in the economy. Resulting in unemployed population getting a part time job. The whole economy will be able to work more as well, more people to work. Because “ *the economy can only grow if people work more or better.*” (Mitchell, D. 1996) More people working at fewer hours.

- By choosing to work less, families also allow themselves more time to spend with their children and giving them a better family life resulting in better educated future.
- Imposing tax on development, putting severe penalties on pollution that may arise can be another way to put a ‘brake’ to harmful development and a way to promote sustainable development of the economy

8. Conclusion

Counter-productivity is the problem that will sooner or later hit every economy, to reduce the impacts it can have some measures need to be taken. Sustainability of the development, which is always bearing in mind that every action can cause a reaction, and efficient use of resources would be a beneficial for future generations. We don't have the right to be individualistic. Before people didn't really realize that they could run out of resources at some point, they thought it would be here indefinitely, and we have reached a point now where everything is becoming scarce. Now, we know that our actions will have some effects on future generation; we have this knowledge and need to make the most of it. Protection of the environment we live in, protection of our people, and sustainability of our development.