Is economic growth always desireable

Economics

When using the Keynesianism theory of aggregate supply and aggregate demand, economic can be both desirable and undesirable. Firstly, economic growth at its most basic level increases GDP and employment. If consumers are spending moremoney, whether it is by increased consumer confidence, lower interest rates or rise in house prices, companies usually see increased profits. As a result, they are more likely to invest in their business and expand its capacities. This, not only adds to economic growth, but also creates employment and further adds to GDP.

This shifts the aggregate demand curve (AD) from AD1 to AD2 as per the diagram. This doesn't affect inflation as prices stay the same, yet GDP and employment increase. For example, in the early 90s in the UK, employment was at 25 million, whereas 13 years later it was at 29 million, with low unemployment figures. Quality of life also increases with economic growth. When the employed are earning more money and see their wages rise, they have more expendable income. These people no longer are spending to live, but are living to spend. Luxury goods and services are consumed, house prices rise, and government services also improve.

These all improve the quality of life for consumers and the employed alike. It also increases the number of people who are living inpoverty. For example in 1990 34% of people were living on under $1 a day, whereas in 2002 it was 22%. This was largely due to the 8% economic growth figures that many Asian countries felt in the latter half of the 20th century. Increased economic growth also can help to improve theenvironment. As governments find themselves with more tax revenue, they can spend it on green energy and encourage businesses to invest in environmentally friendly ventures. Read what to do when inflation is skyrocketing, and prices are out of control. What are banks most likely to ask the federal reserve to do with regards to government bonds and reserve requirements

This can be seen in the fact that ratio of energy consumption to GDP has decreased over the past 30 years, and as a country becomes a high end economy, it consumes more green goods and services. However, economic growth can cause various problems, one of them being inflation. According the Keynesian model, once the nation gets close to full employment, aggregate supply becomes more and more inelastic. This creates inflationary pressure as prices rise, in comparison to a very small increase in employment. i. e. when AD2 is shifted to the right, to AD3, more employment is created, and GDP increase, but inflation also increases.

This reduces the stability of an economy, as people see there money being worth less than before. It can also create problems for businesses, as interest rates usually rise following an increase in inflation to curb aggregate demand. This increase in interest rates makes businesses which owe money less competitive as they have increased costs. Rapid economic growth can also cause a strain on the environment, especially in developing and newly developed countries such as China and india. The increase in economic growth is usually due to industrialisation which can create noise andair pollutionproblems.

This creates negative externalities and also decreases living standards for the country as whole. Economic growth can also not benefit the nation as a whole. For example, in oil rich countries such as Dubai, economic growth has been skyrocketing due to oil companies and entrepenuers moving in to take advantage. However, the ordinary people do not benefit from this, as the oil industry isn’t very labour intensive, and Dubai relies on foreign workers for much of its construction industry. This means that although the countries GDP may be rising, the incomes of the majority of the population may stay the same, or even decrease.

However, many of these points depend on differing circumstances. For example, economic growth will only cause inflation to rise if the country is close to full employment. This can of course be negated by shifting the aggregate supply curve to the right. Living standards and GDP are also subjective to other factors. For example, if the economic growth rate is below the inflation rate, then the economy will not grow in real terms. As a result, GDP per capita will stay the same or decrease in real terms, as would living standards.