Economy: Growth and its Sources

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Research and Discuss the Sources of Economic Growth

Economic growth refers to the regulation of money and how well that process is proceeding with in a country. The indicators are many, ranging from Gross Domestic Product to the rate of inflation to the rate of unemployment, which show in terms of statistics as to how effective certain measures are in bumping the economic functioning of a country.

A growth in economy on the whole can be represented by four major elements the increase or decrease of which can be the basis of economic growth or decline. For instance, any increase in the aggregate demand of a country in the short run indicates economic growth as that increase is directly connected with an increase in the rate of GDP. Aggregate demand consists of four individual elements, namely consumption, investment, government spending and exports. Consumption refers to public expenditures on goods while investment, as the word itself literally represents, refers to an inflow of cash in a country to invent new projects or sources of income. Government spending on the other hand refers to the amount of state capital the government uses to invest in certain public-focused projects or in special grants that can also come under human capital development. Lastly, a larger amount of exports represents a growth in economy if, however, the trade balance is maintained.

These elements fall under an equation of AD=C+I+G+X to represent the footing of an economy, an increase in any of the elements can be, therefore, a source of economic growth. However these elements do not function in a vacuum, certain measures and policy of the government directly or indirectly exert their influence perhaps.

It is important to establish that tightly controlled or perfectly regulated market economy has historically been proven to be a failure. In several cases a tightly controlled economy has been the reason behind stunted economic growth often facing a deep depression for a long period of time. It can be established that either a complete freedom or a relief on market control can be the first step of a policy leading to economic growth. Chile, for instance can be our focus of study in this case as it set a huge example of economic failure in 1970 with a GDP growth rate of 2.1% falling to a -4.7% (world bank statistics, 1975) due to the economic restrictions imposed by Nixon and the abolishment of public property. The surge of growth that we witness today in Chile bore its roots back in the exact same era however with a slight change; Pinochet's economic policies. The policies introduced in president Pinochet's government set the basis of sustainable growth of Chile's economy today. Perhaps the biggest policy change that can lead to economic growth is market freedom, too much of which has its own demerits, however too little of it is never preferred.

Pinochet started with privatizing almost all previously government held properties, from businesses to education systems. He also introduced suppression in tariffs that consequently acted as a motivator for increased trade. This period of economic cycle was an expansionary one for businesses for Chile. Almost on cue, multi-national companies, formerly expropriated such as International Telephone and Telegraph and firestone returned to Chile, while Foreign Banks like the World Bank reinstated the credit cycle of the country. This period was also characterized of foreign reserve growth by 300% that was quite in sync with the growth of GDP. All these activities opened Chile's economy for national and international investment; it also restored the trust in economic regulators which again was another motivator for increased investment. The claims on growth of the economy are well supported by the constant growth of GDP, for instance from -4.7 percent in 1975 the GDP rose up to 8.5 in 1980 and although characterized of a few slumps in the middle, it went up to 10.1 in 1989.

The introduction of free market economy although is completely different when contrasted with china's policies. However China has been introducing free market policies since 1976 before which it was a highly command economy. Not surprisingly it sort of falls in line with Chile's condition as in 1970 China suffered from a negative GDP growth being -4.7 while it rose to a 7 percent by 1976 and has been on the rise ever since.

What is rather surprising, Chile has emerged as the most rapidly growing economies among its fellow OECD (Organization for Economic Cooperation and Development) member states. The regulation of its policies set an example for other economies to follow, as is evident in the data provided by World Bank Data which show the economy's progress with a moderate growth rate of 4.1 percent. This smooth regulation of the economy, especially one that has had a very dependent past (on mining exports) is perhaps ensured by the fiscal discipline that president Pinera's government maintains. A moderate amount of public spending has been the aim of this regime to ensure the availability of loans in times of crisis both the private and public sector. This is evident in the fact that the structural deficit from 3.1 percent in 2009 has been reduced to 0.6 percent as reported by Christian Larroulet (2013)

At the same time, other policies have constantly borne fruit. For instance, increasing the number of jobs and creations of freedom of businesses has raised the availability of jobs. The Competitive Impulse Agenda as mentioned in Agenda de Impulso Competitivo, a set of 60 microeconomic reforms that seek to remove bureaucratic and regulatory obstacles in order to incentivize entrepreneurship, innovation, free economic competition, and the rise of productivity in the economy. Currently, 51 initiatives are already implemented. Along with this change reforms to reduce red-tape and increase economic freedom has led to rise in new business ventures. For instance foreign investment has increased from 5 to 11.3 percent in 2012 while the establishment of new ventures has risen by 76.3 percent from 2009 to 2012. Simultaneously the unemployment rate has fallen from 9 to 6 percent from 2010 to 2012 as is quoted in Cristián Larroulet's (2013) article. These positive changes in the economy can be attributed to other factors, however with all other policies constant, the one's changed in the case of incentivizing businesses and restricted budget have been the only source of impact on the factors aforementioned. Also these policies were introduced in the beginning of 2010, following their implementation from then on and it is noteworthy that from 2005 to 2009 the economy was declining, having gone down to -1 percent while by 2010 it was a 5.8 and has maintained a slight fluctuation ever since. Evidently these policies seem to be the only influencing factor and can be a way to ensure economic growth in other countries too.

As mentioned above, an increase in government spending is also a source of economic growth. Perhaps that can be looked at more elaborately studying the profiles of countries who have either been active in Human Capital development or have regulated Technology and infrastructure related policies. Technology and infrastructure policies have especially helped Qatar grow and become a stable economy, especially with its focus on a post-carbon approach that helps the economy to impinge on diverse exports. One can say changes in the policy regarding this can help foster economic growth. Qatar Science and Technology Park (QSTP) for instance, is a home for technology-based companies from around the world, and an incubator of start-up enterprises. It provides premises, services and support programs that help organizations to develop and commercialize their technology. It was founded in 2004 which marked the turning point for Qatar in terms of technological advancements that it openly welcomed. This is supported by the data presented by World Bank Statistics which show a stark increase in GDP growth from 2005 to 2009 rising from 7.5 to 26.2 and going to a more moderate and stable rate of 12.

Human Capital development has also been kept in consideration by countries like Chile which have a strong footing on the ladder to increasing economies. For instance since 2011, Chile has offered absolutely free higher education combined with offers of scholarships and student loans or grants. Along with these changes Chile has also provided schools with more funds to make education a more exciting and inviting experience. This type of government spending indicates the vision of a long term and sustainable economic growth as it fosters the effective management of population which can in future contribute to the same economic system.

Increasing exports and consumption have also been a source of economic growth for countries. In case of Qatar for instance, 50 percent of its economy is contributed to by oil exports while in times of recession like with United States of America, the policy to decrease taxes and interests in response to the great depression did foster an increase in consumption, influencing the GDP of the country positively. However these policy changes usually work in short term economies.

For many successfully growing economies, carefully regulated government spending and investment encouraged by long term benefits in focus (of course with in a free or slightly free economy) has been the leading source of economic growth.

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