ECONOMY GROWTH

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Annotation: *Economic growth is an increase in the production of economic goods and services in one period of time compared with a previous period. It can be measured in nominal or real terms. Traditionally, aggregate economic growth is measured in terms of gross national product (GNP) or gross domestic product (GDP), although alternative metrics are sometimes used.*

Key words: *economy, growth, GDP, inflation, capitalization.*

In simplest terms, economic growth refers to an increase in aggregate production in an economy, which generally manifests as a rise in national income. Often, but not necessarily, aggregate gains in production correlate with increased average marginal productivity. That leads to an increase in incomes, inspiring consumers to open up their wallets and buy more and driving a higher material quality of life and standard of living. In economics, growth is commonly modeled as a function of physical capital, human capital, labor force, and technology. Increasing the quantity or quality of the working-age population, the tools that they have to work with, and the recipes that they have available to combine labor, capital, and raw materials will lead to increased economic output.

The economy moves through different periods of activity. This movement is called the business cycle. It consists of four phases:

- Expansion: During this phase, employment, income, industrial production, and sales all increase, and there is a rising real GDP.
- Peak: This is when an economic expansion hits its ceiling. It is, in effect, a turning point.
- Contraction: During this phase, the elements of an expansion all begin to decrease. It becomes a recession when a significant decline in economic activity spreads across the economy.
- Trough: This is when an economic contraction hits its nadir.

A single business cycle is dated from peak to peak or trough to trough. Such cycles generally are not regular in length, and there can be a period of contraction during an expansion and vice versa. Since World War II, the U.S. economy has experienced more expansions than contractions. From 1945 to 2019, the average expansion lasted about 65 months, while the average contraction was only 11 months. However, the Great Recession, from December 2007 to June 2009, lasted for 18 months. This was followed by the longest expansion on record, 128 months, lasting until 2020 with the advent of the COVID-19 pandemic.

The most common measure of economic growth is real GDP. This is the total value of all goods and services produced in an economy, with that value adjusted to remove the effects of inflation. There are three different methods for looking at real GDP.

Quarterly growth at an annual rate: This looks at the change in the GDP from quarter to quarter, which is then compounded into an annual rate. For example, if one quarter's change is 0.3%, then the annual rate would be extrapolated to be 1.2%.

Four-quarter or year-over-year growth rate: This compares a single quarter's GDP from two successive years as a percentage. It is often used by businesses to offset the effects of seasonal variations.

Annual average growth rate: This is the average of changes in each of the four quarters. For example, if in one year there were four-quarter rates of 2%, 3%, 1.5%, and 1%, the annual average growth rate for the year would be 7.5% ÷ 4 = 1.875%.

Another way to generate economic growth is to grow the labor force. All else being equal, more workers

generate more economic goods and services. During the 19th century, a portion of the robust U.S. economic growth was due to a high influx of cheap, productive immigrant labor. However, as with capital-driven growth, there are some key conditions to this process. Increasing the labor force necessarily increases the amount of output that must be consumed in order to provide for the basic subsistence of the new workers, so the new workers need to be at least productive enough to offset this and not be net consumers. Also, just like additions to capital, it is important for the right type of workers to flow to the right jobs in the right places, in combination with the right types of complementary capital goods, in order to realize their productive potential.

In the simplest terms, economic growth means that more will be available to more people, which is why governments try to generate it. However, it's not just about money, goods, and services. Politics also enter into the equation. How economic growth is used to fuel social progress matters.

According to research conducted by the United Nations University World Institute for Development Economics Research, "most countries that have shown success in reducing poverty and increasing access to public goods have based that progress on strong economic growth." However, the institute noted, if the benefits flow only to an elite group, the growth will not be sustained.

Economic growth occurs when there is a rise in the production of goods and services for a certain period as compared with a previous one. It is generally measured in terms of GDP and is an indicator of the economic health of a country. However, how widely the fruits of the growth are shared is an important factor in its sustenance, not to mention societal health and progress.

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