

Chapter 8



Economic Growth and Rising Living Standards

Table 1: Some Indicators of Economic Well-Being in Rich and Poor Countries, 2003

Country	Real GDP per Capita	Infant Mortality Rate (per 1,000 Live Births)	Life Expectancy at Birth	Adult Literacy Rate
Rich Countries				
United States	\$37,562	7	77.4	Greater than 99%
Japan	\$27,967	3	82.0	Greater than 99%
Germany	\$27,756	4	78.7	Greater than 99%
France	\$27,677	4	79.5	Greater than 99%
United Kingdom	\$27,147	5	78.4	Greater than 99%
Italy	\$27,119	4	80.1	98.5%
Poor Countries				
Azerbaijan	\$3,617	75	66.9	98.8%
Ghana	\$2,238	59	56.8	54.1%
Pakistan	\$2,097	81	63.0	48.7%
Cambodia	\$2,078	97	56.2	73.6%
Zambia	\$ 877	102	37.5	67.9%
Sierra Leone	\$ 548	166	40.8	29.6%

Table 2: Average Annual Growth Rate of Real GDP per Capita

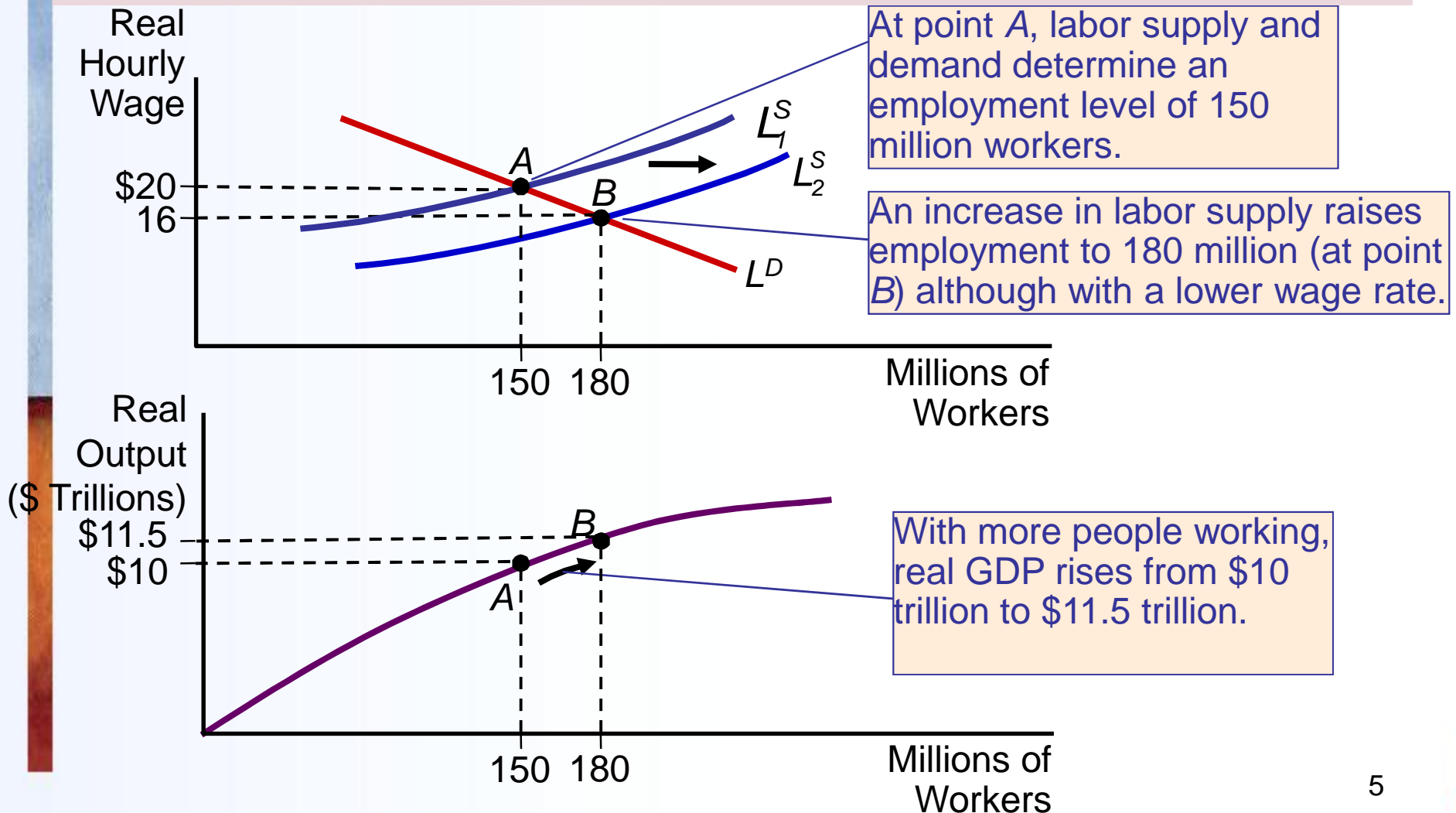
Country	1948–1972	1972–1988	1988–1995	1995–2004
United States	2.2%	1.7%	1.0%	2.3%
United Kingdom	2.4	2.1	0.9	2.5
Canada	2.9	2.6	0.6	2.4
France	4.3	2.1	1.2	1.8
Italy	4.9	2.8	1.6	1.3
West Germany	5.7	2.2	1.3	1.2
Japan	8.2	3.3	2.1	1.3

Table 3: Factors Contributing to Growth in U.S. Real GDP

Annual Percentage Growth in Real GDP Due to:	1953 to 1973	1973 to 1995	1995 to 2005	2005 to 2010 (projected)
Population	1.6	1.4	1.2	1.1
EPR	0.1	0.4	0.0	-0.1
Average Hours	-0.3	-0.3	-0.2	-0.1
Productivity	2.2	1.3	2.3	2.3
Total	3.6	2.8	3.3	3.2

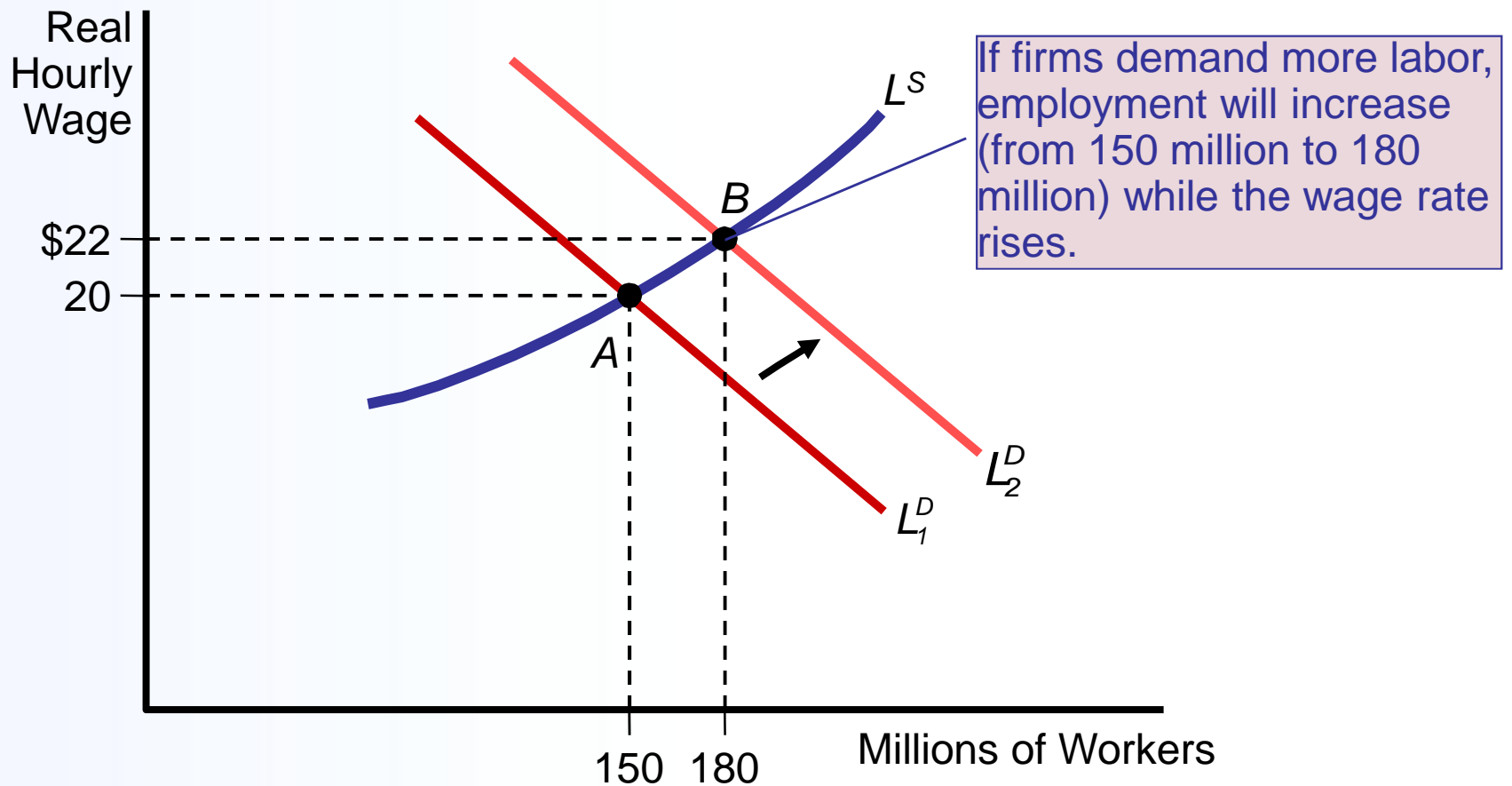
An Increase in Labor Supply

• **Figure 1** An Increase in Labor Supply



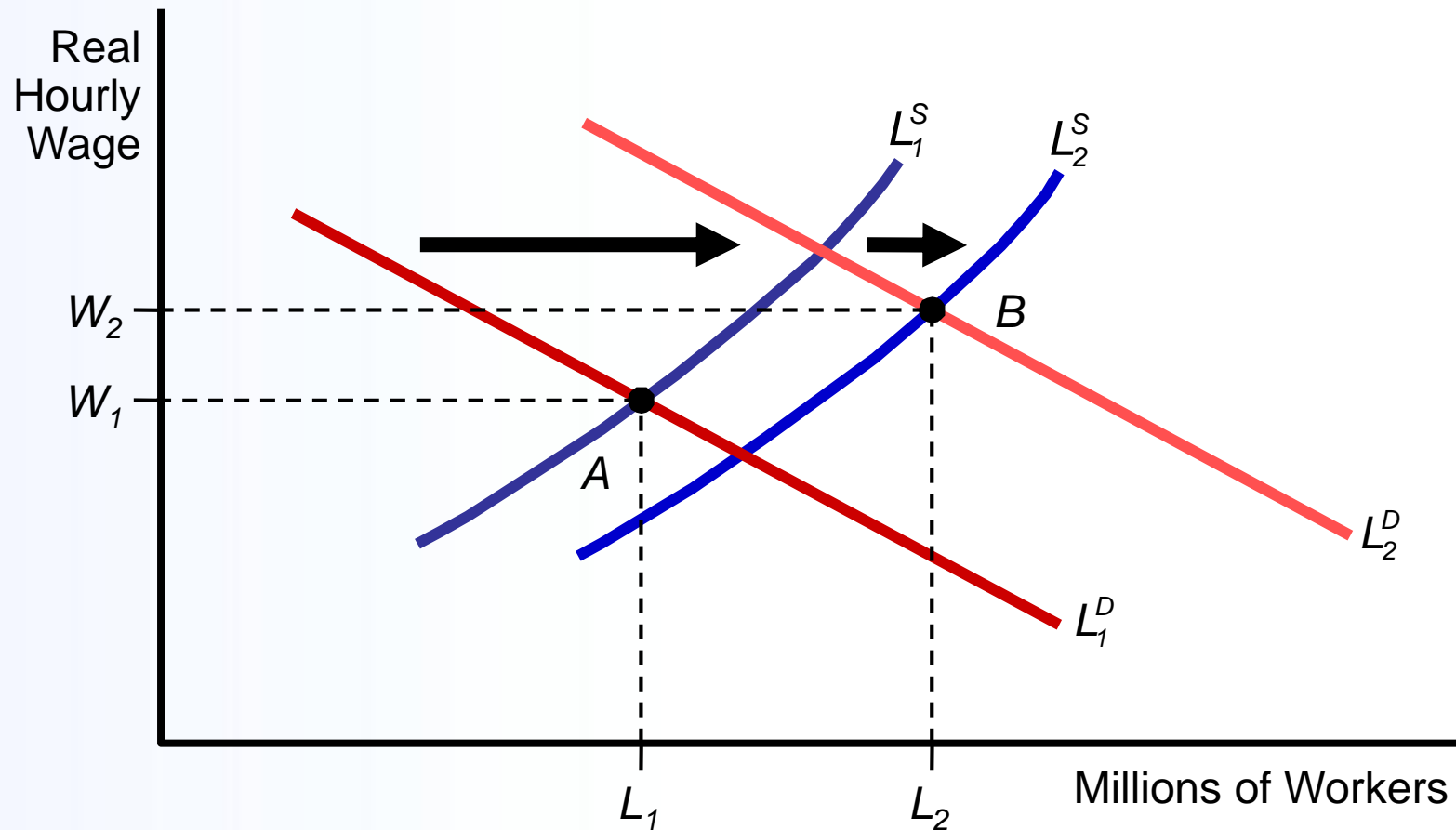
An Increase in Labor Demand

- **Figure 2** An Increase in Labor Demand



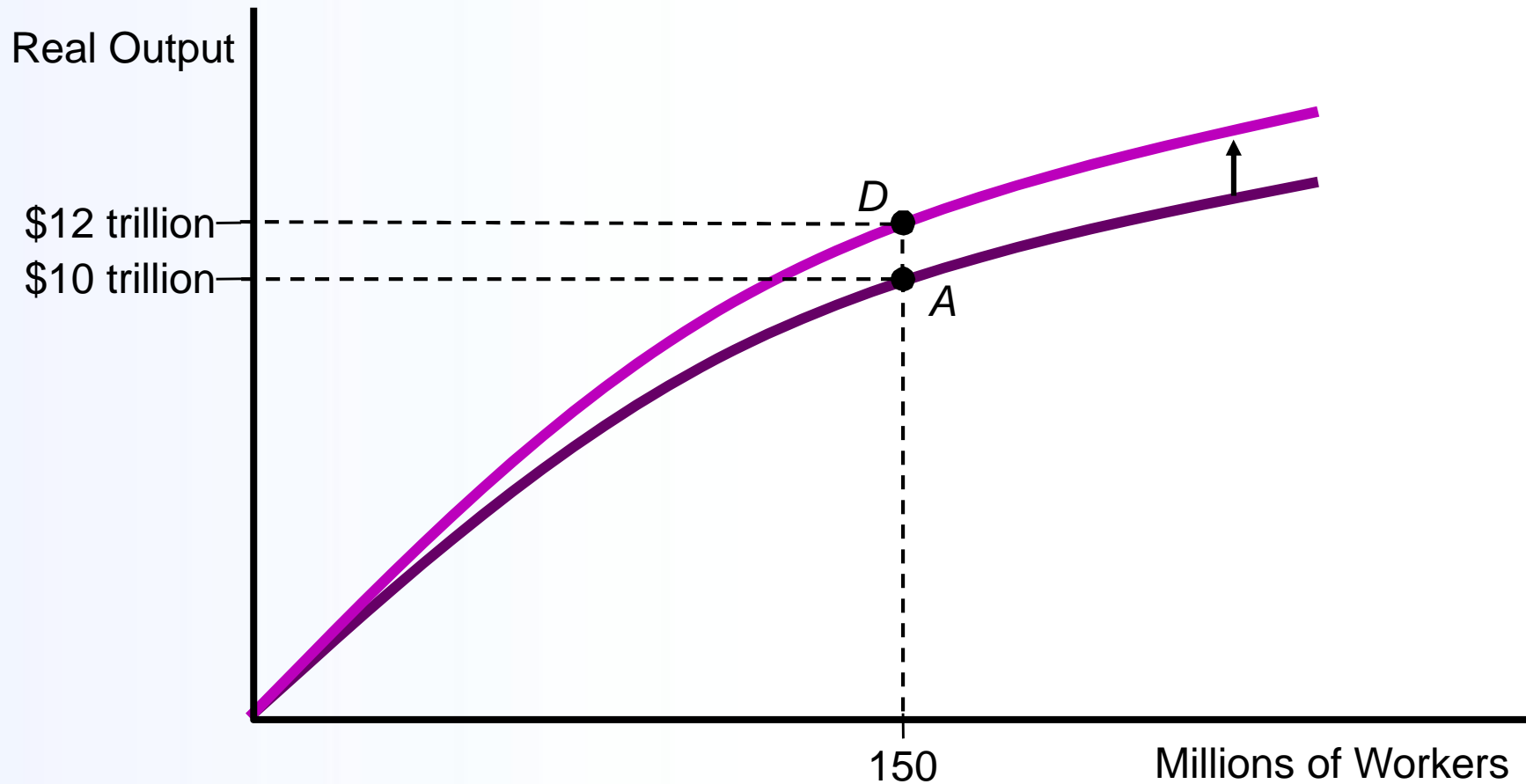
The U.S. Labor Market Over A Century

- **Figure 3** The U.S. Labor Market Over A Century



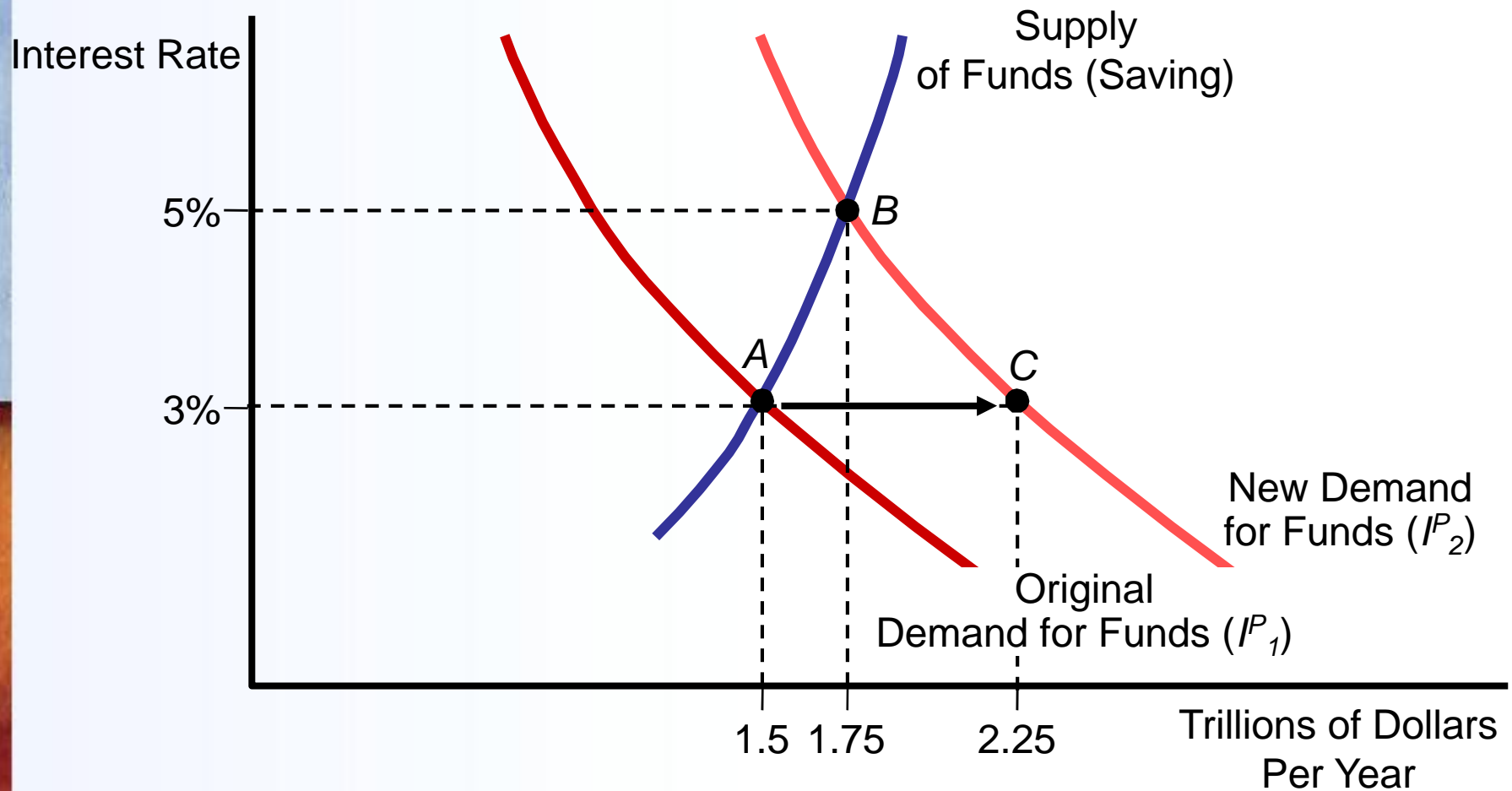
Growth in the Capital Stock

- **Figure 4** Capital Accumulation and the Production Function



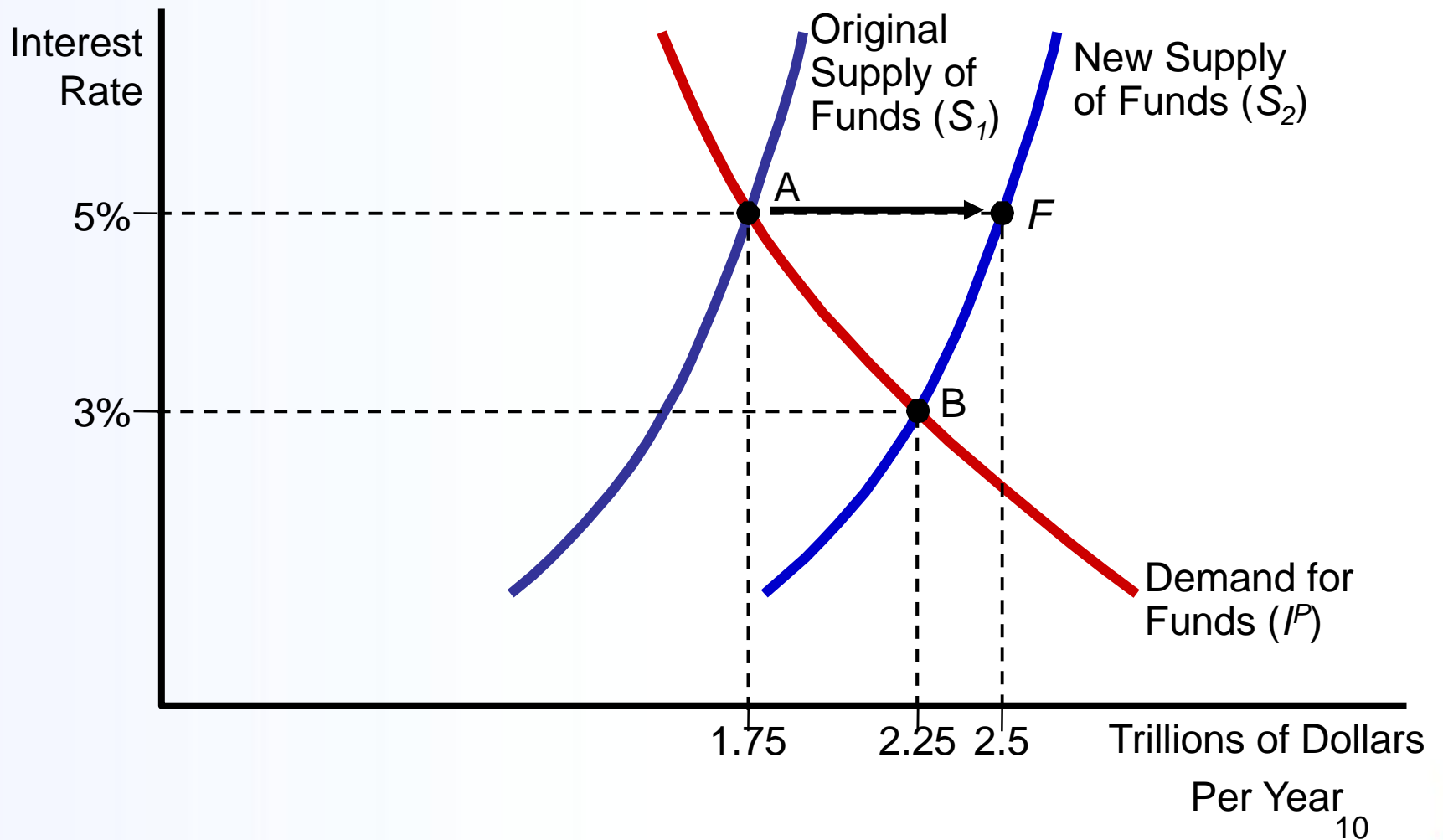
Targeting Businesses

- **Figure 5** An Increase In Investment Spending



Targeting Households

- **Figure 6** An Increase In Saving



Deficit Reduction and Investment Spending

- **Figure 7** Deficit Reduction and Investment Spending

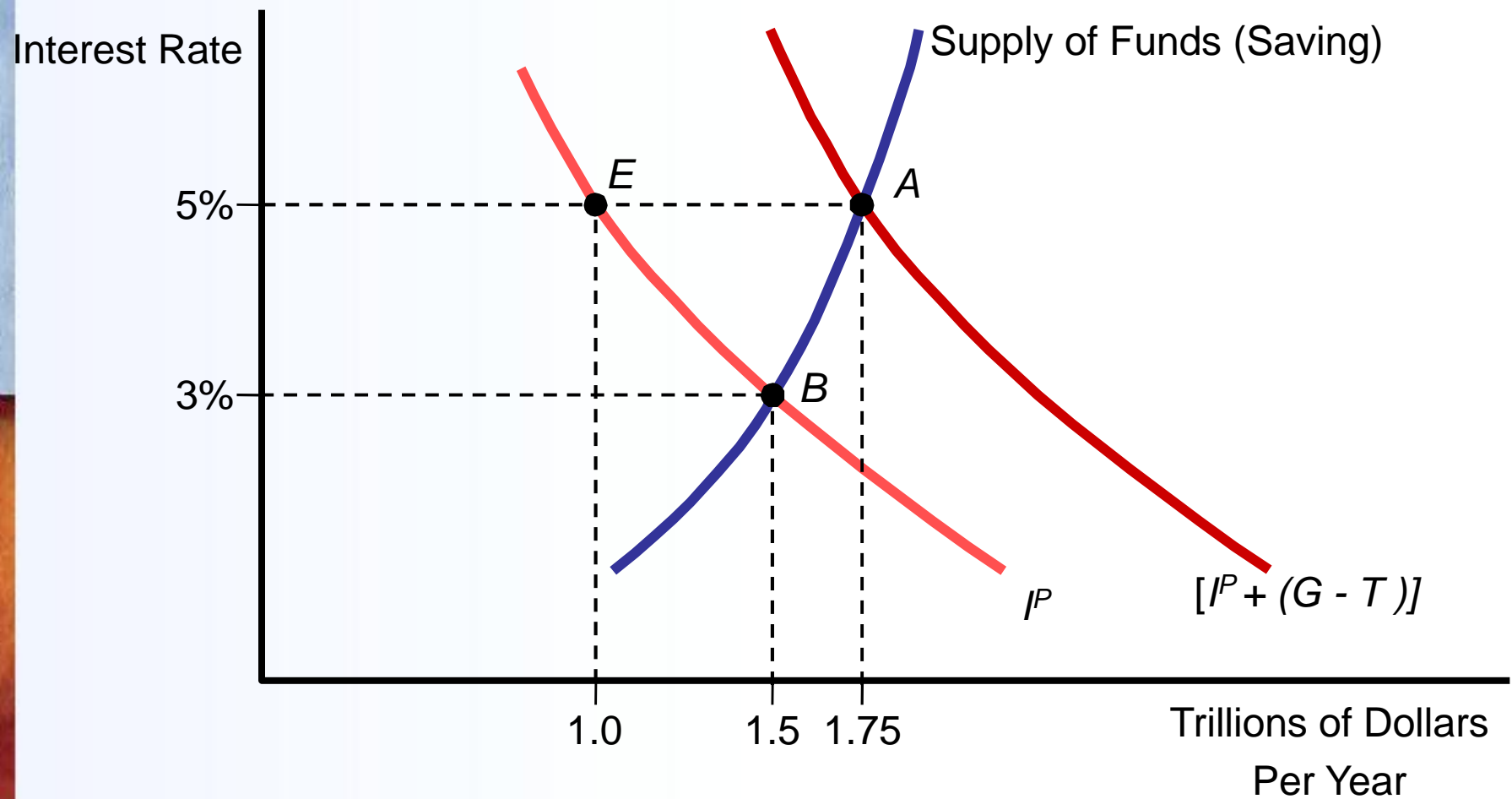


Table 4: Factors That Influence Growth in Output per Capita

Examples of Pro-Growth Policies	Method of Impact	Immediate Goal	Effect on Growth Equation
<ul style="list-style-type: none"> Decrease income or payroll tax rates Less-generous social safety net 	Increase in labor supply	Employment ↑	EPR growth rate ↑
<ul style="list-style-type: none"> Specific employment subsidies Any policy that raises labor productivity (e.g., all policies below) 	Increase in labor demand		
<ul style="list-style-type: none"> Investment tax credit Decrease corporate profits tax rate Greater subsidies for student loans 	Direct impact on investment	Greater investment in: <ul style="list-style-type: none"> Human capital Physical capital R&D 	Productivity growth rate ↑
<ul style="list-style-type: none"> Tax incentives for saving [IRAs, 401(k)s] Decrease capital gains tax rate Less-generous social safety net 	Increase in saving ⇒ $r \downarrow \Rightarrow P \uparrow$		
<ul style="list-style-type: none"> Decrease in government purchases Increase in taxes Decrease in transfer payments 	Decrease in budget deficit ⇒ $r \downarrow \Rightarrow P \uparrow$		

Consumption Costs

- **Figure 8** Consumption, Investment, and Economic Growth

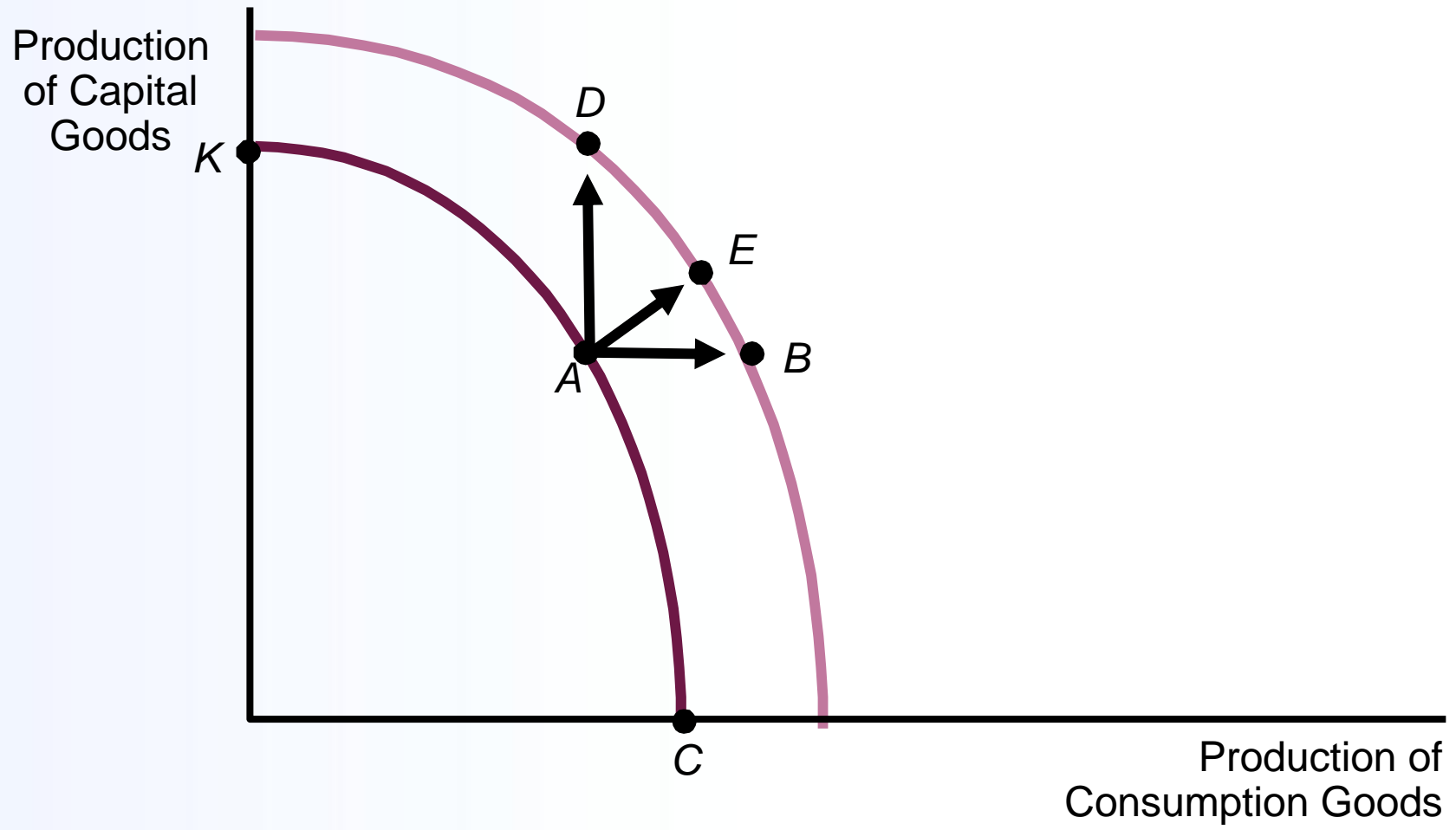
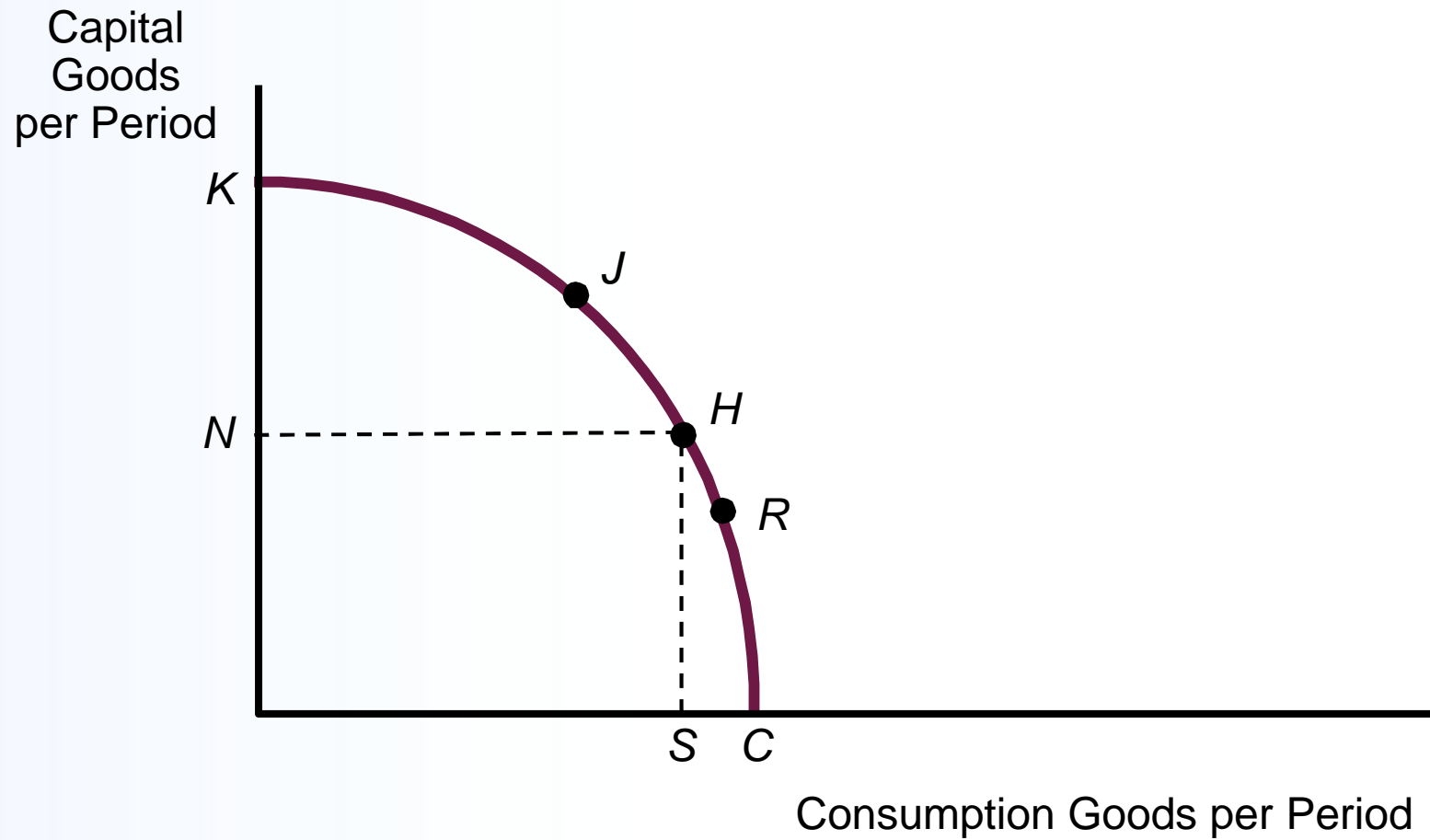


Table 5: Economic Growth in Selected Poor Countries

Country	Average Annual Growth Rate of Output per Capita	
	1975–1990	1990–2003
Bangladesh	0.9	3.1
Ghana	−0.8	1.8
Benin	−0.6	2.2
Kenya	0.9	−0.6
Haiti	−1.9	−2.8
Sierra Leone	−1.5	−5.3

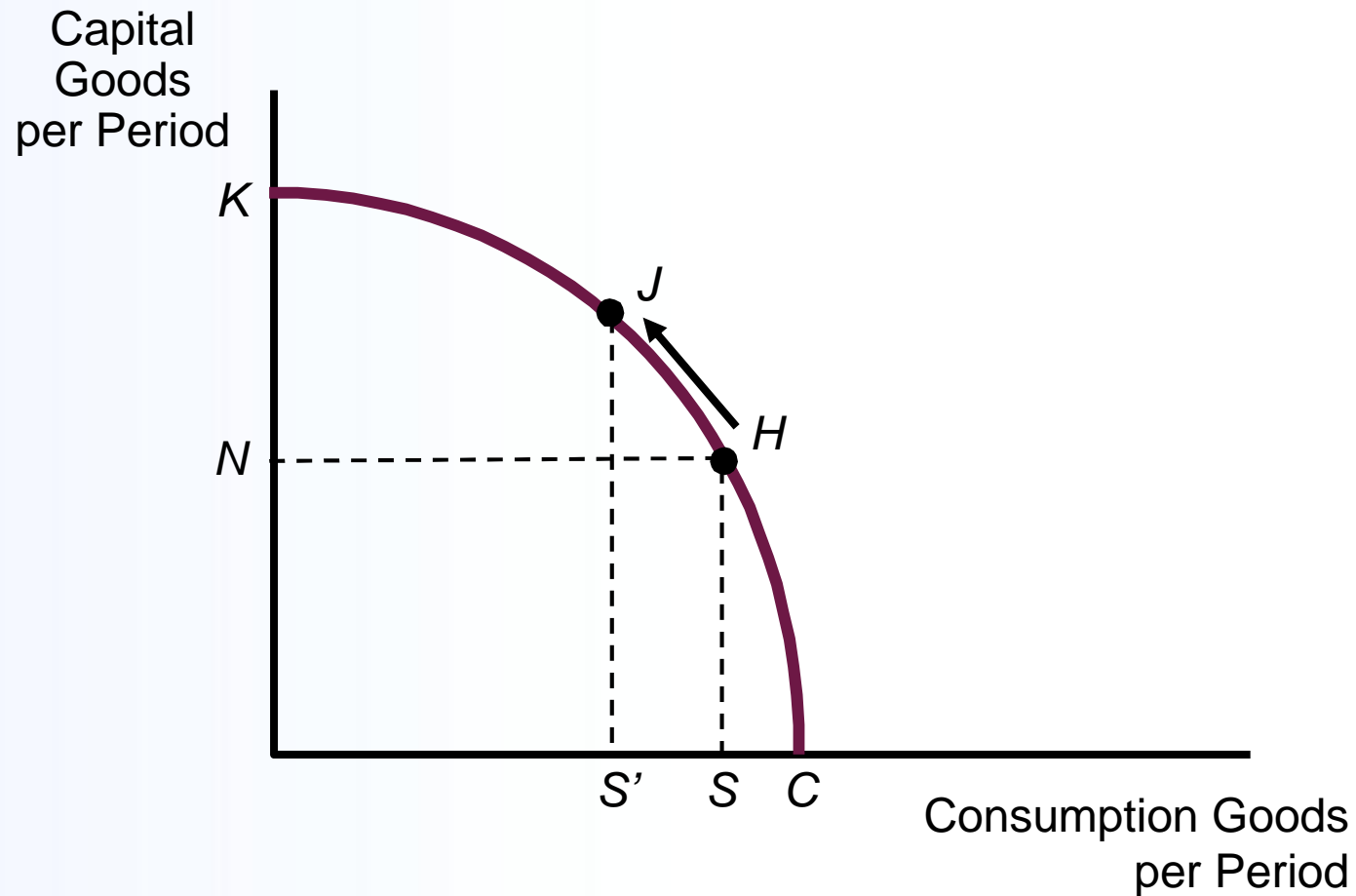
Economic Growth in the LDCs

- **Figure 9** LDC Growth and Living Standards



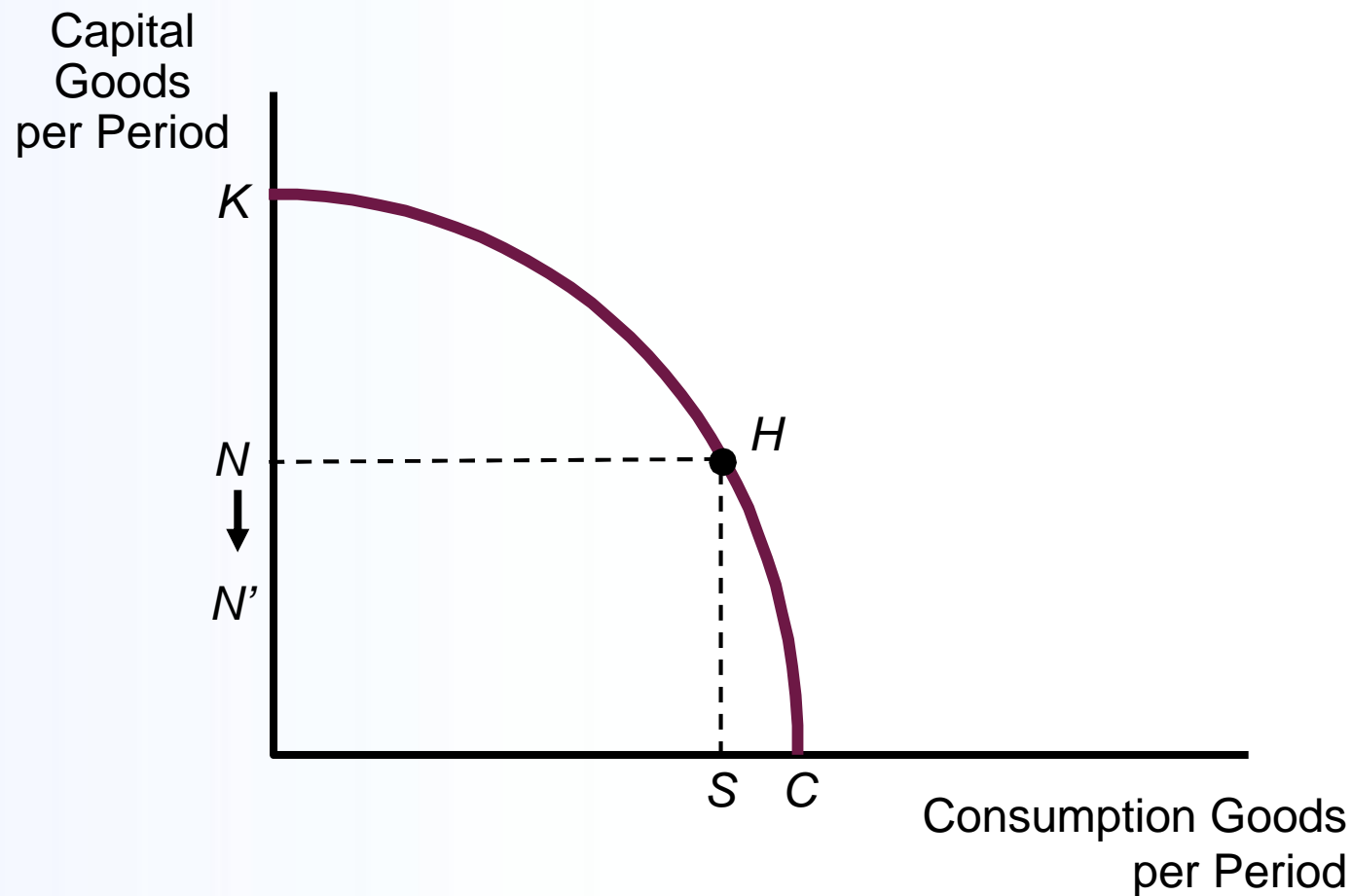
Economic Growth in the LDCs

- **Figure 10** Some Growth Options for LDCs: a) Target the Wealthy



Economic Growth in the LDCs

Figure 10 Some Growth Options for LDCs: b) Reduce Population Growth



Economic Growth in the LDCs

- **Figure 10** Some Growth Options for LDCs: c) **Foreign Assistance**

