

2.5.4 The impact of economic growth

a) *The benefits and costs of economic growth and the impact on:*

- *Consumers*
 - *Firms*
 - *The government*
 - *Current and future living standards*
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- Benefits of economic growth:
 - **Consumers: Increased incomes and standards of living:** total income is increasing, and as long as inflation is not increasing at the same rate at least some people will be better off. However, the distribution of income is likely to change, and while some people might not be any better off, the gap between them and others might increase
 - **Firms are likely to experience increased profits:** this is likely to mean they can make more profits and shareholders can enjoy increased returns. However, firms making inferior goods are likely to suffer. As companies expand they are likely to export more
 - **Governments benefit in a boom:** More people are working a paying tax and fewer people need benefits such as JSA, so there is likely to be a fiscal improvement during a boom. However, many government see a period of economic growth as a time to reduce income inequalities which become apparent as top-end incomes rise, so rates of benefits and pensions increase
 - **Current and future living standards:** growth lifts people out of poverty, and can provide many opportunities for an economy. Developing countries can gain foreign investment, foreign currencies can flow into an economy, and there is likely to be improvements in infrastructure of all types
 - Costs of economic growth:
 - **Damage to the environment:** damage can occur through increased carbon emissions. The by-product of most industrial production is CO₂ which has an impact on the ozone level, acid rain and causes health problems such as asthma. Growth cause a rise in fuel emissions. However, higher incomes can mean for money is used to clear up environmental damage. Finite resources can also be used up.
 - **Balance of payment problems:** higher incomes mean people can afford to import more and the need of firms to export is no longer pressing as higher profit margins can be made through selling at home rather than abroad. So X falls, M rises and the balance of payments worsens
 - **Widening income distribution of income:** a measure of the difference in incomes between different groups in an economy. These groups in an economy. These groups can be measured in a variety of ways, but one common way is to compare the highest decile or 10% of income earners with the lowest decile. When the economy grows, those who reap the benefits tend to be those who already have a good job. However, with continued growth, workers may lobby for higher incomes and the rewards may trickle down to those on lower rungs of the pay scale, especially if there is a shortage of labour and these

workers cannot be replaced by machinery. The higher the appropriate skill level of the workers, the more likely they are to benefit

- **The opportunity cost to growth:** An economy must give up some objectives to achieve economic growth for example foreign aid, welfare benefits. These transfers of payments are not recorded as growth but may have greater value in terms of improved standards of living. The opportunity cost of growth is hard to measure, as we cannot know what would have happened if another policy has been used.
- **Inflation:** it causes a demand-pull inflation because demand increases faster than supply. However, the costs of inflation decrease if supply also expands
- **Current and future living standards:** with increased growth comes increased air and noise pollution, overcrowding, social dislocation and stress. It is also arguable how much economic growth improves some people's lives