

Causes of Economic Growth

Economic growth is a dynamic and multi-faceted occurrence that is highly dependent on a specific number of factors that include but are not limited to:

- National fiscal stability (debt vs surplus reserves)
- Savings within the public and private sector
- Consumer spending (caution if spending is generated by high consumer debt)
- Export of goods and national value added
- Import of goods (trade deficit or surplus)
- Productivity of the labour force (labour laws, cost, education and culture)
- Direct investment through foreign or local direct investment
- Tax rates or cost of doing business
- Interest rates
- Energy prices and dependence on imported energy
- Immigration
- Stable government & adherence to the rule of law (corruption)
- Ease of doing business
- Standard of living (safety, education, infrastructure, health, environment)
- Cost of living in order to maintain a good standard of living

Drivers of GDP Growth

- Economic growth means an increase in Real Gross Domestic Product. Economic growth means there is an increase in national output and national income.

Economic growth is caused by two main factors:

1. an increase in Aggregate Demand
2. an increase in Aggregate Supply (productive capacity)

Aggregate Demand

In the short term, economic growth is caused by an increase in Aggregate Demand (AD). If there is spare capacity in the economy then an increase in AD will cause a higher level of real GDP.

$$AD = C + I + G + X - M$$

- C = Consumer spending
- I = Investment
- G = Government spending
- X = Exports
- M = Imports

AD increase for the following reasons:

- Lower interest rates – Lower interest rates reduce the cost of borrowing and so encourages spending and investment.
In 2008, U.S. base rates were cut to 0.5% to try and stimulate economic growth.
- Increased wages. Higher real wages increase disposable income and encourages consumer spending.
- Increased government spending (G).
- Fall in dollar value which makes exports cheaper and increases quantity of exports(X). Assuming trade deficits are not high.
- **Increased consumer confidence**, which encourages spending (C).
- Lower taxes which increases disposable income of consumers and increases consumer spending (C).
- Rising house prices, which create a positive wealth effect and encourages homeowners to spend more.

Aggregate Supply (Long Term Economic Growth)

Long term economic growth requires an increase in the long-run aggregate supply (productive capacity) as well as AD.

Long-Run Aggregate Supply (LRAS) or potential growth increases for the following reasons:

- **Increased capital. e.g. investment in new factories or investment in infrastructure, such as roads and telephones.**
- **Increase in working population, e.g. through immigration, higher birth rate.**
- **Increase in Labour productivity, through better education and training or improved technology.**

Discovering new raw materials:

Technological improvements to improve the productivity of capital and labour e.g. Microcomputers and the internet have both contributed to increased economic growth.

Factors affecting labour productivity:

- **Skills and qualifications of workers. If workers become more skilled with relevant training, then this can increase labour productivity.**
- **Morale of workers. In a period of industrial unrest and low worker morale, productivity is likely to fall. If workers are motivated and happy, productivity is likely to be higher.** Morale of workers could be affected by wages, industrial relations, whether they feel they have a stake in the company, non-monetary benefits, e.g. do they enjoy the job?
- **Technological progress. The implementation of new technology is one of biggest factors in improving productivity.** For example, the assembly line introduced from the 1920s made huge strides in productivity. In recent years, the development of

micro computers and the internet have also enabled improvements in productivity.

- Substitution of capital to labour. If labour becomes cheap and freely available, firms may have less incentive to spend money on capital and use labour intensive methods rather than capital intensive methods. Labour intensive processes are likely to have lower levels of productivity.
- Rules and regulations. If it is very hard to fire non-performing workers, then productivity growth may be constrained. Though the absence of any labour market regulations could lead to high turnover and poor worker morale, which could also diminish labour productivity.
- Capacity utilization. In a boom, firms may squeeze more output out of existing capacity through encouraging people to work overtime – this increases labour productivity. In a recession, firms may hold onto workers, rather than let them go – even if they are just working at 80% capacity – therefore labour productivity falls.

Parts of the above article are taken from:

<http://www.economicshelp.org/macroeconomics/economic-growth/causes-economic-growth/>

Gross Domestic Product growth is the measure of a nation's economic growth or contraction, much the same way as a car's speedometer is the measure of the vehicle's speed. The multitude of factors and principles noted above are used by good and responsible governments to adjust (speed up or slow down) their economies in order to maintain sustainable socioeconomic stability.

Good governance requires dynamic planning that constantly considers all of these economic factors and a good working knowledge of their application. As economies are ever changing due to local, regional and global conditions, good fiscal and economic governance requires reaction and adaptation to maintain economic control.

Without good fiscal and economic knowledge, policy and practices as well as the ability to monitor and react and or adapt quickly, a nation's economy will suffer, as will the opportunity available to its people. If left unchecked or uncorrected the likely symptoms are increased crime, higher unemployment, lower wage growth, lower consumer confidence, poor business confidence, less foreign direct investment, lower productivity and poor morale to name but a few.

The status quo in Bahamian governance, over the last forty years, has not yielded long term positive results and opportunity for all citizens of the Bahamas. While the country has remained relatively stable over this period, that too has now changed and the effects of long term socioeconomic neglect have now become abundantly evident.

The Path to Success

The Bahamas needs a new culture of governance with leadership that is committed to a collaborative and inclusive system of leadership. In addition to the government being more inclusive and open, it is imperative that the government act immediately on the following core socioeconomic drivers it has control over:

Education: Higher grade point averages lead to a smarter and more knowledgeable populous that will be availed to far more opportunity and personal growth and development. Increased opportunity means more jobs are created and productivity goes up as unemployment goes down. A smarter work force means employees have the capacity to be trained and obtain promotions (upward employment mobility), better wages and an improved quality of life. As employees gain upward employment mobility a percentage of this group will become new business owners (entrepreneurs) themselves and they will then hire more people which in turn leads to greater GDP and long run aggregate supply (LRAS). The government must show the public and private sector that it is serious about improved public education in the school system as well as career development through vocational and business education programs.

Open & Accountable Governance: Transparency in governance allows the public and the private sector to freely see exactly where, and on what, their tax dollars are being spent. This openness and transparency significantly reduces the opportunity for corruption, nepotism, cronyism and extortion which increases accountability, efficiency of government and improves business and consumer confidence. This increased government accountability and efficiency reduces the cost of government which lowers the need for higher taxes and allows the public to keep more of its hard earned income. As the public's savings and deposits improve so will consumer and business confidence which in turn leads to greater spending and improved GDP. The creation, passage and implementation of the following acts are critical to establishing an open and accountable government:

1. Freedom of Information Act – that includes a whistle blowers act and an ombudsman's act.
2. Fiscal Responsibility Act – that imposes public spending limits, GAAT accounting practices, size of government limits and holds leaders and public managers accountable to performance measures.
3. Civil Society Act – that insures that civil society is intricately involved in government planning, decision making, policy and legislation.

Even Enforcement of the Rule of Law: The even or equitable enforcement of the rule of law is essential to all stable societies as it is the foundation from which democracy and stable societies are built. It is imperative that people are not only invested in the rule of law but that they clearly understand that upholding it is what provides them

greater opportunity and quality of life. A repeated or sustained break down in the enforcement of rule of law at any level (government, judiciary, private sector or public) causes a domino effect to the stability of a nation and, over time, leads to widespread disregard for the rule of law and national and even regional instability. When a society or country provides equitable enforcement of the rule of law it creates greater stability which improves business, investment and consumer confidence thus improving the opportunity for socioeconomic growth.

Economic Growth: The government must stimulate economic growth by acting on the above stated matters. This will require significant courage by the government of the day, as change will require a paradigm shift in the way the Bahamas is governed and managed. Improvements must also be made to: immigration policies; monetary policies; trade agreements; energy costs; taxes; duties; tariffs; political party constitution; the constitution; and a number of other threads of our socioeconomic fabric.

The issues that the Bahamas faces are not unlike those faced by many other nations. It is important that the people and the leadership of the country now focus on the solutions to the problems and not the symptoms. The country needs to now focus on finding new leaders in all parties that understand these new guiding principles and will act on them. There is no need for blame or shame, as what was done is done, it is what the nation does from this point forward that will make it or break it. The focus and attention must be placed on who is most capable of providing new leadership focused open, accountable and collaborative governance.

ORG will serve civil society by conducting research that will provide actionable solutions to the core problems affecting the Bahamas. ORG will educate citizens about these problems and the recommended solutions. ORG will seek to hold governments and political party's accountable to higher standards and to greater levels of performance. ORG is the power of the people driven by the people.

The citizens of the Bahamas have never had a civil society organization that has united around the core problems and drivers of our socioeconomic condition and it is ORG's belief that if the Bahamas wishes to succeed, then its people, the government and all political parties must understand and appreciate the benefit of civil society coming together and putting the needs of the nation ahead of party politics.

Support ORG and unite around the needs of the nation.