

**Sources of Growth**

---

---

---

---

---

---

---

---

- The Sources of Growth**
- Capital accumulation – investment in productive capacity
  - Available resources
  - Growth compatible institutions
  - Technological development
  - Entrepreneurship

---

---

---

---

---

---

---

---

- Investment and Accumulated Capital**
- Years ago it was thought that physical capital and investment were the keys to growth.
  - The flow of investment lead to the growth of the stock of capital.

---

---

---

---

---

---

---

---

### Investment and Accumulated Capital

- Capital accumulation does not necessarily lead to growth.
- Products change, and useful buildings and machines in one time period may be useless in another.

---

---

---

---

---

---

---

---

### Investment and Accumulated Capital

- Capital is much more than machines – it includes human and social capital.
- *Human capital* – the skills that are embodied in workers through experience, education, on-the-job training.
- *Social capital* – the habitual way of doing things that guides people in how they approach production.

---

---

---

---

---

---

---

---

### Investment and Accumulated Capital

- All economists agree that the right kind of investment at the right time is a central element of growth.

---

---

---

---

---

---

---

---

**Available Resources**

- For an economy to grow it will need resources.
- What constitutes a resource at one time may not be a resource at another time.

---

---

---

---

---

---

---

---

**Available Resources**

- Technology plays an enormous role here.
- Greater participation in the market is another way by which available resources are increased.

---

---

---

---

---

---

---

---

**Growth-Compatible Institutions**

- Markets and private ownership of property foster economic growth.
- When individuals get much of the gains of growth themselves, they work harder.

---

---

---

---

---

---

---

---

**Growth-Compatible Institutions**

- Another growth-compatible institution is the corporation.
- Because of limited liability, corporations give owners and incentive to invest their savings in large enterprises.

---

---

---

---

---

---

---

---

**Growth-Compatible Institutions**

- Mercantilist economic policies inhibit economic growth.

---

---

---

---

---

---

---

---

**Technological Development**

- Growth isn't just getting more of the same thing.
- It's also getting some things that are different.

---

---

---

---

---

---

---

---

### **Technological Development**

- Growth involves changes in technology.
- **Technology** – changes the way we make goods and supply services, and in the goods and services we buy.

---

---

---

---

---

---

---

---

### **Entrepreneurship**

- Entrepreneurship is the ability to get things done.
- That ability involves creativity, vision, and a talent for translating that vision into reality.

---

---

---

---

---

---

---

---

### **Turning the Sources of Growth into Growth**

- In order to be effective, the five sources of growth must be mixed in the right proportions.

---

---

---

---

---

---

---

---

### Turning the Sources of Growth into Growth

- It is the combination of investing in machines, people, and technological change that plays a central role in the growth of any economy.

---

---

---

---

---

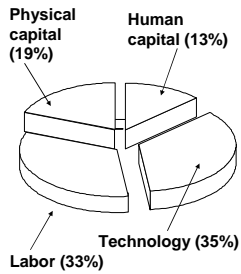
---

---

---

### Sources of Real U.S. Growth, 1928-2005

- The five sources of growth must be mixed in the right proportions.
- Economist Edward Denison estimated the importance of four sources of growth.



---

---

---

---

---

---

---

---