Economic Growth

What makes an economy larger over the long run.

Economics

Extensive growth

- More labour, capital or land
- Adding inputs to the same process
- Subject to diminishing returns
- Cannot continue indefinitely
- Raises output, not output per person

Intensive growth

- More output from the same inputs
- Technology and better organisation
- Not bounded by diminishing returns
- Sustainable over long periods
- Raises output per person

THE DIFFERENCE THAT MATTERS

Productivity growth is what raises living standards. Everything else eventually runs into diminishing returns.

Compounding matters enormously: 2% annual growth doubles income in 35 years; 1% takes 70.