

## **Economic Growth**

People living in rich countries tend to take economic growth and rising standards of living for granted. Recessions—periods during which output declines—are normally infrequent and temporary, usually lasting less than a year. Once they pass, modern capitalistic economies return to growing, and living standards continue their seemingly inexorable rise.

But a look back at history or a look around the world today quickly dispels any confidence that economic growth and rising standards of living are automatic or routine. Historically, continually rising living standards are a recent phenomenon, seen only during the last century or two. Before that time, living standards barely rose—if at all—from one generation to the next. And a look around the world today reveals huge differences in standards of living resulting from the disturbing fact that, although some countries have enjoyed decades or even centuries of steadily rising per capita income levels, other countries have experienced hardly any economic growth at all.

This chapter investigates the causes of economic growth, what institutional structures appear to promote economic growth, and the controversies surrounding the benefits and costs of economic growth. We will learn specifically the definition of economic growth, discuss its determinants, and explore growth policy. As you will see, economic growth has been perhaps the most revolutionary and powerful force in history.