Published on *Adam Smith Institute* (http://www.adamsmith.org)

Growth ? the most powerful force in the universe [1]

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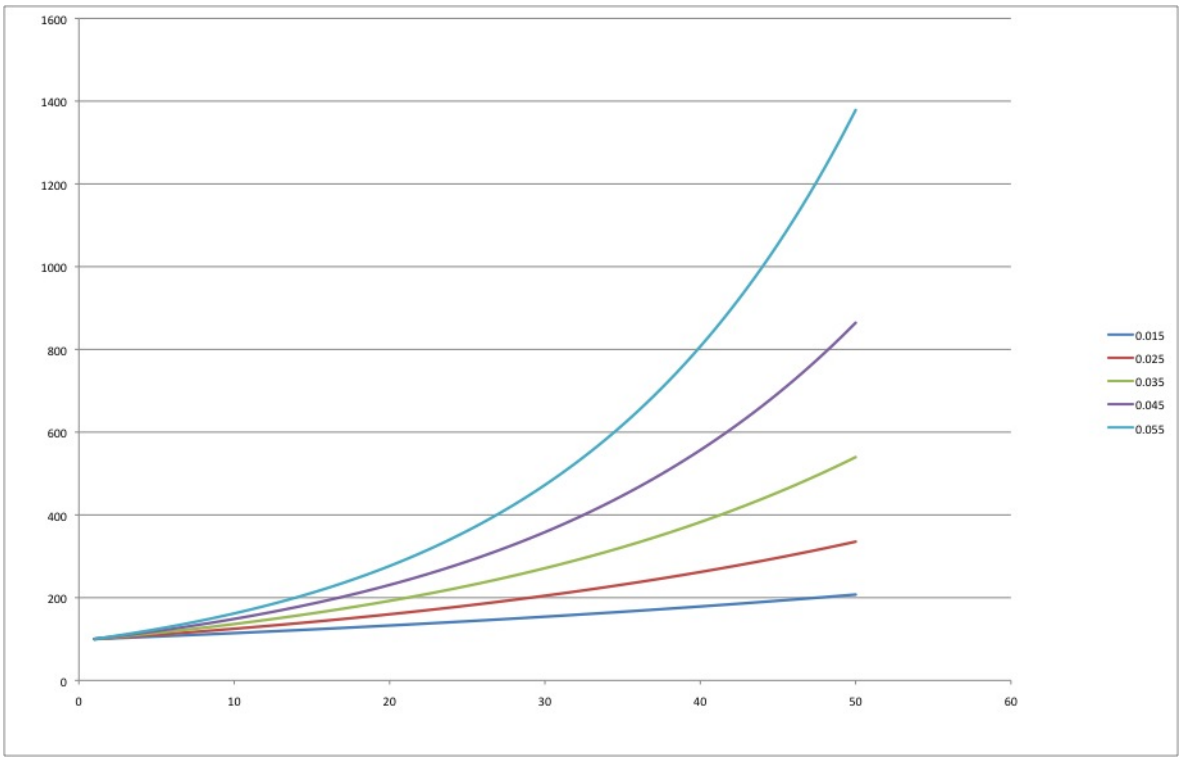

[3]

Many on the left often get frustrated by free marketeers? obsession with economic growth rates ? as they see it, we?re so infatuated with the free market that we ignore the individuals at the bottom. Realistic left-wingers usually accept that state spending will hurt the growth rate, but say that small losses are worth it to promote welfare now. But, as Tom pointed out on Friday [4], what seems like a small reduction in the growth rate will have a massive long-term impact.

Take the chart above as an example. From the same starting point (100), each line shows the 50-year growth of economies at 1.5%, 2.5%, 3.5%, 4.5% and 5.5%. The initial difference is minor, but over the 50-year period a huge divergence takes place. By the end of the period, the country growing at 5.5% has increased the size of its economy by almost fourteen times, while the country growing at 1.5% has barely doubled in size. Most African countries haven?t even managed that.

The in-between scenarios tell a similar story ? 2.5% growth multiplies the size of the economy by 3.3 times, 3.5% by 5.4 times and 4.5% by 8.6 times. Marginal increases in the rate of growth create massive benefits in long-term prosperity ? the reverse implication being that dents to the growth trend now which seem small can have a hugely detrimental impact to people?s lives in the long-run. This long-run isn?t even that long ? 50 years ? and the divergence from the mean becomes pretty marked after just five or ten years. It?s not ideology that makes us preoccupied with growth so much as this realization that compound growth ? like compound interest [5], as Einstein is reported to have said ? is the most powerful force in the universe for ending poverty.

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