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Optimizing Allocation of Resources: Chile and the Solow Growth Model

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Oral Presentation 1.2

**OPTIMIZING ALLOCATION OF RESOURCES:
CHILE AND THE SOLOW GROWTH MODEL**

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Despite economics' touting of the existence of a magic hand, economies at the macroeconomic level seldom operate without intervention. National governments constantly employ whatever fiscal and monetary policies they have at their disposition to achieve their own short term, sometimes even political, goals. Economic growth is typically the first goal pursued by policymakers, but governments can have other pressing issues, such as unemployment or inflation, would cause them to deviate from the all important goal of growth. Governments have limited resources that are channeled to the factors of production, such as human capital, physical capital and labor, according to their goals. If a different, more efficient allocation of resources can cause an increase in the growth rate of even one-percent, then the cost of ignoring the optimal allocation of scarce resources is very high. The difference between four and five percent growth over a ten year span is almost fifteen percent; a number significant enough to warrant research in this area.

Using the Augmented Solow Model (ASM) developed by Mankiw (1992), this paper focuses on Chile to develop an accurate tool for normative policy making at the macro level that would maximize long-term growth by optimizing the allocation of resources. This study finds that the Chilean economy has flourished over the last quarter decade in part by achieving an optimal allocation of resources.