

# SLOWER GROWTH - DISASTER OR BLESSING? A DEBATE

---

THE WORLD IF 2015

Jul 1st 2015, 10:33

---

## If the rich world aimed for minimal growth, would it be a disaster or a blessing?

### It would be a disaster: Adam Posen

ECONOMIES naturally grow. People innovate as they go through life. They also look around at what others are doing and adopt better practices or tools. They invest, accumulating financial, human and physical capital.

Something is deeply wrong if an economy is not growing, because it means these natural processes are impeded. That is why around the world, since the Dark Ages, lack of growth has been a signal of political oppression or instability. Absent such sickness, growth occurs.

So the question of whether rich countries have been aiming for excessive growth is profoundly misguided. The real question is whether they are getting barriers out of people's way enough to allow growth to take place. Sometimes it requires regulation or public investment or even redistribution, rather than laissez-faire, to remove those barriers.

Fundamentals of demography, education, capital and technology determine growth potential. A government that aims at "maximal" growth above this potential will quickly be frustrated—inflation will rise, bottlenecks will occur, financial markets will "correct". A country that pursues growth persistently below potential suffers more acutely. The prospects of younger people dim, as they have in southern Europe during the forced contraction of the euro crisis. Savings are eroded, leaving many older people unable to maintain their health care and basic income.

Climate change and water scarcity, among other resource-driven threats, are real concerns. But mispricing of their true costs and misallocation of those resources are their cause, not economic growth. If anything, greater rich-country growth is the hope for dealing with those mounting disasters, in two ways.

First, it is economies growing on average at potential (Japan in the 1980s, Germany in the 2000s and now China) which have led in reducing their carbon emission per unit of GDP.

Even America has improved in this regard, despite its childish political denials of global warming, because of the natural tendency for healthy growth to promote efficiency.

## SOMETHING IS DEEPLY WRONG IF AN ECONOMY IS NOT GROWING

Second, to the degree that closure of unclean industries or inefficient processes is required to reduce environmental harm, more growth makes that adjustment easier. Laid-off workers can more easily find new employment and special interests blocking progress can more easily be bought off. Given that rich-country environmental problems are primarily political, caused by politicians' lack of courage to price carbon and water properly, growth is necessary (though not sufficient) to change those politics.

For the other great global moral challenge, the reduction of poverty in the poor world, the argument is the same, but with even clearer evidence. More people have exited poverty globally in the past 30 years than in all of prior human history, precisely because the rich world steadily grew at potential rates for most of the time. That rich-country growth led to the diffusion of innovations to poorer countries and the expansion of markets for their exports. This would not have happened if the rich world had strived for minimal growth.

### **It would be a blessing: Tim Jackson**

"ANYONE who believes that exponential growth can go on forever in a finite world is either a madman or an economist," remarked (the economist) Kenneth Boulding. John Stuart Mill devoted an entire chapter of his "Principles of Political Economy" to the concept of the "stationary state"—a state that he believed would be "on the whole, a very considerable improvement on our present condition".

Yet the pursuit of economic growth has been the single most prevalent policy goal across the world for the past 70 years. Global output is now more than eight times higher than it was in 1950. If it continues to grow at the same average rate, then the world economy will be 17 times bigger in 2100 than it is today: a staggering 146-fold increase in economic scale in the space of just a few generations.

This unprecedented ramping up of economic activity is increasingly at odds with the ecological constraints of a finite planet. By the turn of this century, it had been accompanied by the degradation of an estimated 60% of the world's ecosystems. Earlier this year the Stockholm Resilience Centre, at Stockholm University, identified four key areas in which human activity already lies beyond the "safe operating space" of the planet: climate change, land-use change, loss of biosphere integrity and overload in bio-geochemical cycles.

## WHAT STANDS IN THE WAY OF PROGRESS IS AN UNDYING ALLEGIANCE TO GROWTH AT ALL COSTS

The default response to this dilemma is to suppose that we can "decouple" growth from its material impacts and continue to do so as the economy expands indefinitely. But the arithmetic of decoupling is a profoundly challenging one. A widening scientific consensus now accepts, for instance, that tackling climate change entails achieving zero net carbon emissions by 2100 and an economy that is taking carbon out of the atmosphere, rather than adding to it, in the second half of this century.

Technological options to achieve decoupling clearly exist. But the most financially attractive of them (an aggressive pursuit of energy efficiency) may simultaneously make the task harder,

as another economist, William Stanley Jevons, once pointed out, by increasing demand still further. Green investment opportunities are certainly there. But financial priorities and institutional incentives are often pointing in entirely the opposite direction.

Most often, what stands in the way of progress is an undying allegiance to growth at all costs. Growth must go on, we insist: not just for the poorest countries, where a better quality of life is desperately needed; but even in the affluent West, where the satisfaction of human needs was long since transformed into a rampant and potentially damaging consumerism.

Questioning growth is now deemed to be the act of lunatics, idealists and revolutionaries. Yet question it we must. The mantra of growth has failed us. It has failed the 2 billion people who still live on less than \$2 a day. It is damaging the fragile ecology on which we depend for survival. It has fuelled our addiction to spiralling debt. Prosperity for the few, founded on financial instability, ecological destruction and persistent social injustice, is no basis for a civilised society.