

The Growth illusion

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To address poverty, economic growth is not an option: it is an imperative.

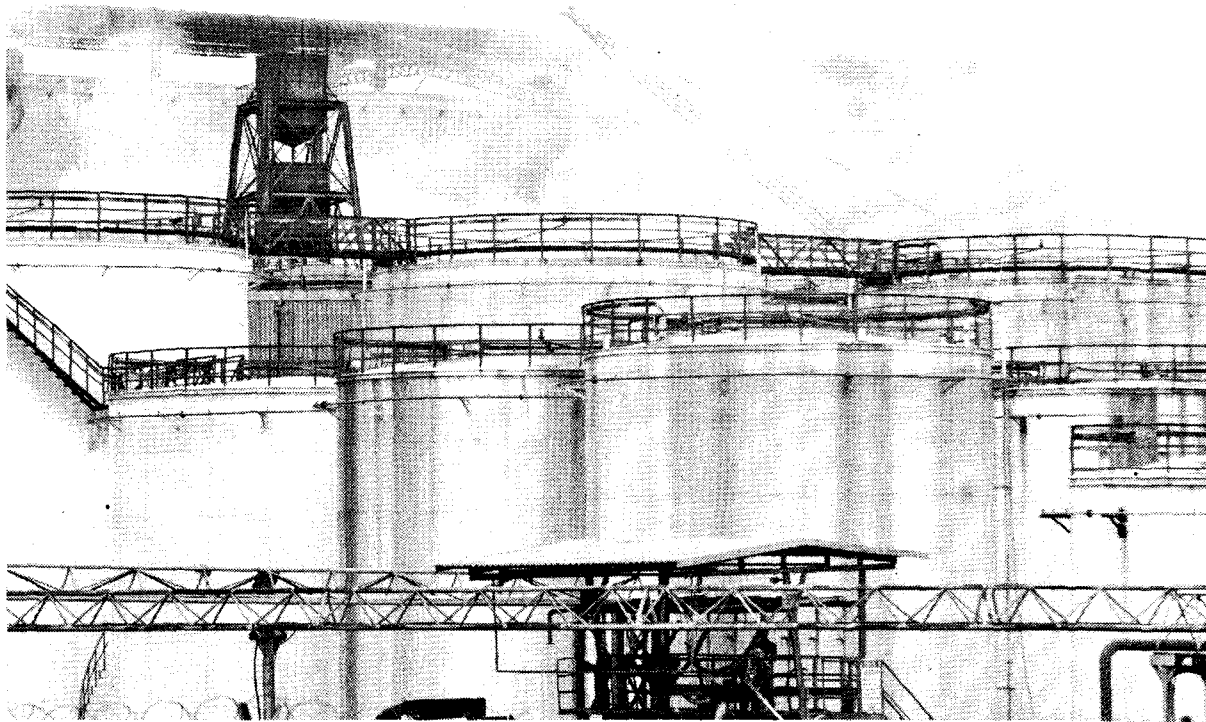
- Mahbub ul Haq, former World Bank vice president

Economic growth provides the conditions in which protection of the environment can be best achieved. - International Chamber of Commerce

Perhaps no single idea is more deeply embedded in modern political culture than the belief that economic growth is the key to meeting most important human needs, including alleviating poverty and protecting the environment. Anyone who dares to speak of environmental limits to growth risks being dismissed out of hand as an antipoor doomsayer. Thus most environmentalists call simply for "a different kind of growth" although it is seldom evident what kind it would be.

Nobel laureate economist Jan Tinbergen and his distinguished colleague Roefie Huetting point out that there are basically two ways for an economy to grow by our current mode of reckoning. One is to increase the number of people employed. The other is to increase the labour productivity - the value of output per worker of those already employed. Historically, increases in labour productivity have been the most important source of growth. About 70 per cent of this productivity growth has been in the 30 per cent of economic activity accounted for by the petroleum, petrochemical, and metal industries; chemical intensive agriculture; public utilities; road building, transportation; and mining - specifically, the industries that are most rapidly drawing down natural capital, generating the bulk of our most toxic wastes and consuming a substantial portion of our nonrenewable energy reserves.

Furthermore, the more environmentally burdensome ways of meeting a given need are generally those that contribute most to the gross national product (GNP). For example, driving a mile in a car contributes more to GNP than riding a mile on a bicycle. Turning on an air conditioner adds more than opening a win-



Heavy industries consume a substantial portion of our nonrenewable energy reserves.

dow. Relying on processed packaged food adds more than using natural foods purchased in bulk in reusable containers. We might say that GNP, technically a measure of the rate at which money is flowing through the economy, might also be described as a measure of the rate at which we are turning resources into garbage.

We could expend a lot of effort on the probably unrealistic goal of making GNP go up indefinitely without creating more garbage. But why not instead concentrate on ending poverty, improving our quality of life, and achieving a balance with the earth? These are achievable goals - if we can free ourselves from the illusion that growth is the path to better living.

A DISILLUSIONED ECONOMIST

In 1954, R.A. Butler, the British chancellor of the Exchequer, made a speech to a Conservative Party conference in which he pointed out that a 3 percent annual growth rate would double the national income per capita by 1980 and make every man and woman twice as rich as his or her father had been at the same age. The speech proved to be a turning point in British life. Previously, national goals had been set in terms of specific targets, such as building 300,000 houses a year or establishing a national health service. Henceforth, the primary goal would be economic growth. The ideological debate between Left

and Right as to how a fixed pie would be distributed was largely defused. Attention centered on how to increase the size of the pie.

In 1989, Irish economist Richard Douthwaite set out to document the benefits of the subsequent doubling of Britain's per capita income. In his own words.

Problems only arose when I attempted to identify what they (the benefits) were, especially as it quickly became apparent that almost every social indicator had worsened over the third of a century the experiment had

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taken. Chronic disease had increased, crime had gone up eight fold, unemployment had soared and many more marriages were ending in divorce. Almost frantically I looked for gains to set against these losses which, in most cases I felt, had to be blamed on growth.

Eventually . . . I gave up. The weight of evidence was overwhelming: the unquestioning quest for growth had been an unmitigated social and environmental disaster. Almost all of the extra resources the process had created had been used to keep the system functioning in an increasingly inefficient way. The new wealth had been squandered on producing pallets and corrugated cardboard, nonreturnable bottles and ring-pull drinks

cans. It had built airports, supertankers and heavy goods lorries, motor ways, flyovers and car parks with many floors. It had enabled the banking, insurance, stock brokering, tax-collecting and accountancy sector to expand from 493,000 to 2,475,000 employees during the thirty-three years. It had financed the recruitment of over three million people to the "reserve army of the unemployed." Very little was left for more positive achievements when all these had taken their share.

We might apply a similar

test to the fivefold increase in global output since 1950. The advocates of growth persistently maintain that economic growth is the key to ending poverty, stabilising population, protecting the environment, and achieving social harmony. Yet during this same period, the number of people living in absolute poverty has kept pace with population growth: both have doubled. The ratio of the share of the world's income that went to the richest 20 percent and that which went to the bottom 20 per cent poor has doubled.

And indicators of social and environmental disintegration have risen sharply everywhere. Although economic growth did not necessarily create

these problems, it certainly has not solved them.

THE LIMITS OF GROWTH

Few would dispute that there has been real and consequential human progress over the past several centuries and that advances in technology and the consequent productivity increases have resulted in real gains in human well-being. At the same time, as this chapter elaborates, there is little basis for assuming that economic growth, as we currently define and measure it, results in automatic increases in human welfare. As British economist Paul Ekins points out, it is possible to conclude that a particular instance of growth has been a good thing only by:

* Showing that the growth has taken place through the production of goods and services that are inherently valuable and beneficial;

* Demonstrating that these goods and services have been distributed widely throughout the society; and

* Providing that these benefits outweigh any detrimental effects of the growth process on other parts of society. Our measures of GNP make no such distinctions. Indeed, a major portion of what shows up as growth in GNP is a result of:

* Shifting activities from the nonmoney social economy of household and community to the money economy with the consequent erosion of social capital;

* Depleting natural resources stocks - such as forests, fisheries, and oil and mineral reserves - at far

above their recovery rates; and

* Counting as income the costs of defending ourselves against the consequences of growth, such as disposing of waste, cleaning up toxic dumps and oil spills, providing health care for victims of environmentally caused illnesses, rebuilding after floods resulting from human activities such as deforestation, and financing pollution-control devices.

DEPRECIATION

Standard financial accounting deducts from income an allowance for the depreciation of capital assets. The economic accounting systems by which economic growth is measured make no comparable adjustment for the depletion of social and natural capital. Indeed, economic accounting counts many costs of economic growth as economic gains, even though they clearly reduce rather than increase our well-being. The results are sometimes ludicrous. For example, the costs of cleaning up the Exxon Valdez oil spill on the Alaska coast and the costs of repairing damage from the terrorist bombing of the World Trade Center in New York both counted as net contributions to economic output. By this distorted logic, disasters that are tragic for the people and the environment are often counted as good for the economy.

In their book *For the Common Good*, Herman Daly and John Cobb Jr. reconstruct the national income accounts for the United States from 1960 to 1986, counting only those increases in output that relate to improvements in well-being and adjusting for the depletion of human and environmental resources. The result is an index of economic welfare rather than gross output. Their index reveals that, on average, individual welfare in the United States peaked in 1969, then remained on a plateau and fell during the early and mid 1980s. Yet from 1969 to 1986, GNP per person went up by 35 per cent, and fossil fuel consumption increased by around 17 per cent. The main consequence of this growth has been that most of us are working harder to maintain a declining quality of life.

(Extracted from Daul C. Korten's *When Cooperation Rule the World*)