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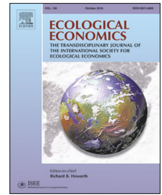

Analysis

The Post-growth Challenge: Secular Stagnation, Inequality and the Limits to Growth

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A B S T R A C T

Critics have long questioned the feasibility (and desirability) of exponential growth on a finite planet. More recently, mainstream economists have begun to suggest some 'secular' limits to growth. Declining growth rates have in their turn been identified as instrumental in increased inequality and the rise of political populism. This paper explores these emerging arguments paying a particular attention to the dynamics of secular stagnation. It examines the underlying phenomenon of declining labour productivity growth and unpacks the close relationships between productivity growth, the wage rate and social inequality. It also points to the historical congruence (and potential causal links) between declining productivity growth and resource bottlenecks. Contrary to some mainstream views, this paper finds no inevitability in the rising inequality that has haunted advanced economies in recent decades, suggesting instead that it lies in the pursuit of growth at all costs, even in the face of challenging fundamentals. This strategy has hindered technological innovation, reinforced inequality and exacerbated financial instability. At the very least, this paper argues, it is now time for policy to consider seriously the possibility that low growth rates might be 'the new normal' and to address carefully the 'post-growth challenge' this poses.

> '[The GDP] measures everything… except that which makes life worthwhile.'
>
> Robert Kennedy, 1968.

1. Introduction

The pursuit of economic growth has been a defining feature of the global economy for well over half a century (Coyle, 2014; Philipsen, 2015; Victor and Dolter, 2017). Growth narratives are evident in every sphere: economic, secular, social and political. Indeed, their prevalence and centrality in political discourse is so pronounced that it is credible to speak of something like a 'growth fetish' (Stiglitz, 2009; Hamilton, 2003) – a predominant, often unquestioned assumption that economic expansion is an irreducible good without which social progress is impossible.

Critics of this view also have a long pedigree. Robert Kennedy's speech (cited above) at the University of Kansas in March 1968, fifty years ago this year, remains both resonant and prescient of the ensuing critique (Jackson, 2018). The publication of the Club of Rome's Limits to Growth report (Meadows et al., 1972) four years later established the resource and environmental parameters of the growth critique. Their analysis too has stood the test of time (Turner, 2008; Jackson and Webster, 2016).

Political responses to the Club of Rome were striking. Over the next decade or so, politicians of almost every hue stood up to repudiate the report. US President Ronald Reagan saw fit to insist on several occasions that there are 'no limits to economic growth, because there are no limits to human ingenuity',[1] an argument which owes more to rhetoric than to logic. The economist Kenneth Boulding, giving evidence to a US House of Representatives Select Committee hearing responded differently. 'Anyone who believes that exponential growth can continue indefinitely on a finite planet,' he remarked, 'is either a madman or an economist' (Boulding, 1973).

The final decades of the twentieth century saw the central issue largely relegated to questions about the speed and efficiency with which it would be possible to 'decouple' economic growth from its material impacts and thereby avoid the need to transform the economic system itself. Ecological modernisation (Von Weizsäcker et al., 1995; Mol, 2001) – and then later eco-modernism (Breakthrough 2015) – prevailed as the politically acceptable response to the question of resource and environmental limits and the deeper critique of growth-based economics was kept alive largely through marginal voices such as those of economists like Daly (1977), Waring (1988) and Douthwaite (1992), supported at times by a parallel argument about the social limits to growth (Easterlin, 1974; Hirsch, 1977; Layard, 2005).

It is probably fair to say that these 'marginal voices' enjoyed a little

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[1] 'Remarks at Convocation Ceremonies at University of South Carolina, September 20th 1983. Online at: http://www.reagan.utexas.edu/archives/speeches/1983/92083c.htm.

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more attention during and after the 'dot com' recession at the turn of the millennium.[2] But in the decade that has passed since the financial crisis of 2008, there has been a much more pronounced resurgence of interest in the growth critique from a variety of different perspectives (D'Alisa et al., 2014; O'Neill et al., 2018; Jackson, 2009, 2017; Raworth, 2017; Fioramonti, 2015; Victor, 2008/2018). A deeper recognition of environmental and social limits has certainly played some part in this more recent debate (Rockström et al., 2009). But a fascinating new dimension has arisen. As economic uncertainty continued to haunt the most developed countries, some mainstream economists were prepared to flirt with the idea that lower growth rates were not simply a temporary or cyclical phenomenon in the wake of the crisis. The term 'secular stagnation' – first coined in the 1930s – has been revived to describe a decline in the rate of economic growth in advanced nations that appears to be only partly to do with the financial conditions of 2008 and to have its roots in factors that predate the crisis by several decades at least. As the futurist Martin Ford (2015) has suggested, there are 'good reasons to believe that the economic goldilocks period has come to an end for many developed nations.' Low and perhaps declining growth rates may be here to stay.

The aim of this paper is to explore this phenomenon in more detail and to understand some of its most serious implications. Section 2 discusses the evidence for a slow-down in the growth rate. Section 3 explores one particular aspect of this dynamic, namely the role of labour productivity growth, and speculates on the link between this phenomenon and evidence of the declining energy return on energy investment. Section 4 elaborates on some of the most important impacts of the decline, particularly in terms of rising inequalities in income and wealth. Finally, Section 5 draws the threads of the analysis together to propose both a particular interpretation of recent 'crises of capitalism' and an escape route from them.

Specifically, my argument is this: the rising inequality and political instability witnessed recently in advanced economies is neither an accidental aftermath of the financial crisis nor an inevitable result of declining growth rates. Rather, these phenomena are a direct consequence of continuing to cling to the 'growth fetish', at a time when economic (and resource) fundamentals are pointing in a different direction. The 'post-growth' challenge of the title is not so much about trying to 'turn growth off' but rather about protecting social progress and environmental integrity in the face of what some well-known economists are now prepared to call the 'new normal' (Summers, 2014; Galbraith, 2014; Storm, 2017).

2. Confronting Secular Stagnation

In November 2013, five years after the collapse of Lehman Brothers, the former World Bank chief economist and US Treasury Secretary Larry Summers gave a speech to the International Monetary Fund's annual research conference which sent something of a shock wave through the audience. He suggested that the slow growth rates and continuing uncertainties of the post-crisis years were not just temporary after-effects of the financial crisis itself. 'The underlying problem may be there forever,' he said (Summers, 2014; FT, 2018).

Summers was certainly not the only, or the first, commentator to make such a claim.[3] But he was certainly the most well-known economist to do so. The repercussions were profound. It suddenly became acceptable to ask previously unthinkable questions. What if the rates of growth expected by economists and so desired by politicians were no longer available to developed countries? What if sluggish demand was not caused by cyclical underinvestment or debt overhang, inevitable echoes from the 2008 financial crisis? What if it represented a more entrenched change in underlying economic fundamentals? Could an era of falling growth rates in advanced economies (Fig. 1) be the 'new normal'?

Summers attributed the slow-down over recent decades to 'underconsumption' by households in the context of rising personal debt and heightened political risk. Others believed the problems arose from the supply side. According to Say's Law, 'supply creates its own demand': making things provides people with income which they must then spend back into the economy. As long as the supply potential of the economy continues to grow, so the argument goes, there should be no bottlenecks on growth; the problem must be with the supply potential of the economy. The US economist Robert Gordon suggested that the slowdown in growth was a result of a decline in the pace of innovation. Many of the big technological advances of the last two centuries are now over, he argued. Taken together with six 'deflationary headwinds' including: an aging population, rising inequality, and the 'overhang' of consumer and government debt, Gordon (2012, 2016) suggested that the era of easy growth for advanced economies was over.

Responding to the supply side explanation, Summers invoked a kind of 'inverse Say's Law': namely, that a lack of demand could itself create a lack of supply. John Maynard Keynes had shown how Say's Law could go wrong, once the demand for money and financial assets came into the picture. If people hoard money or use it to buy (or speculate in) financial assets, then incomes never find their way back in as demand and the simple equivalence between supply growth and demand growth is broken. For reasons similar to those highlighted by Keynes, Summers argued that a slowdown in demand, combined with increasing investment in financial assets would divert funding away from productive investment. This was the underlying cause of a diminished supply potential. Creating more and more cheap money (through low interest rates and quantitative easing, for instance) cannot solve this problem, he argued, because cheap money only encourages more speculative lending.[4]

Whatever the balance between supply and demand side factors, the global implications of a 'secular stagnation' are now beginning to become clear (Fig. 1). In the mid-1960s, the trend growth in per capita GDP (shown by the solid line in Fig. 1) was over 4% per annum, By 2016, it had fallen substantially from its mid-1960s peak to little more than 1% per annum. The decline was not always uniform. Following the second oil crisis in the early 1980s, there was a partial recovery of the trend growth rate. A similar recovery is visible towards the end of the scenario period, in the wake of the financial crisis. It is yet to be seen whether this latter recovery heralds a new era of higher growth for the OECD nations. The analysis in the following section casts some doubt on that possibility. But a simple linear extrapolation over the last five decades (see the dotted line in Fig. 1) suggests there may be no growth at all in the per capita income of the OECD countries within less than a decade.

3. The Productivity Puzzle

Behind the decline in per capita growth rates lies another yet more telling statistic: the trend in labour productivity growth. Fig. 2 reveals that the pattern in labour productivity growth is similar to that for the growth in per capita GDP (Fig. 1), but with some notable differences. There is no partial recovery in the growth rate following the second oil crisis, only a slowing down of the decline. Furthermore, there is nothing in the way of an upturn during the final years. Labour productivity was growing at only 0.6% per year in 2016, only a little over half the growth

[2] I am grateful to an anonymous reviewer for pointing this out to me.

[3] The term 'secular stagnation' had first been coined by Alvin Hansen in his Presidential Address to the American Economic Association in 1938 (Hansen, 1939) to describe a situation in which economic fundamentals pointed to serious problems for the growth paradigm. For a useful overview of the more recent debate see the collection of essays edited by Teulings and Baldwin (2014).

[4] See for instance: https://www.cbpp.org/blog/summers-lack-of-demand-creates-lack-of-supply.

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