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Commentary

A further critique of growth economics

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1. Introduction

Four years ago I wrote a critique of the "Growth Report", a two-year study by the prestigious international Commission on Growth and Development, published by the World Bank (Anon., 2008). Here I would like to reflect on the "reaction" to my review—specifically that it was ignored! Many issues and many people are deservedly ignored. But should we ignore the question of whether growth still increases wealth faster than illth, as it did in the past empty world, or whether in the new full world it has begun to increase illth faster than wealth? Is growth still economic in the literal sense, or has it become uneconomic? This is the main question raised in my review. Surely it is not a trivial question, and my discomfort at seeing it roundly ignored transcends the mere personal pique that one feels at being brushed off. So I will begin with a few remarks on why I think my critical review failed to initiate a dialog with the authors of the Growth Report, and why I think that is indicative of a deeper failing within the economics profession. Following that I will consider the eleven fallacies and confusions that in my experience most frequently obstruct reasoning about growth.

1.1. The Growth Report

The "Growth Report" was done by a blue ribbon panel of 18 members from 16 countries, including two Nobel laureates in economics. It had many august sponsors, the main one being the World Bank. It can fairly be taken to represent the prevailing orthodox view on growth. My review was quite critical. I expected a debate, or at least a reply from the authors of the report. As indicated, they ignored it. Is this fact insignificant, or like Sherlock Holmes' dog that failed to bark in the night, might it be the clue to solving a mystery?

A few sympathetic former colleagues at the World Bank made sure that a copy of my review was sent to authors connected with the World Bank, with the suggestion that a reply was in order. The editor of *Population and Development Review* renewed his offer to the authors to publish their reply, if they chose to make one. No reply. I realize, of course, that one could waste a lot of time replying to all critics. Some critics are morons. Forgive my immodesty, but for the time being I am assuming that I am not a moron.

Might there be other reasons for silence? Certainly the Commission did not lack intellectual firepower or financial backing for a reply. I think perhaps they made a political calculation of interest and advantage. What would be gained from their point of view by a reply? A blue ribbon panel of experts is presumed to be correct (especially if defending growth!), and a single critic is presumed to be wrong. Why risk upsetting that default presumption with a reply? The Report, after all, was a political manifesto (that is why it had so many co-authors and sponsors), a hymn to growth in the guise of an objective study. It had been widely and favorably reported by the establishment media and therefore had already achieved its goal—namely, to counter the emerging and threatening suspicion that the economic growth of the past empty-world era was morphing into uneconomic growth in the new full-world era. Scholarly debate about the correctness of the report, and the continued viability of growth as the supreme goal of all nations, were not on the agenda—it was very much off message. Probably the authors believed that the case for growth was so ironclad and obvious that any defense of it against criticism was unnecessary. But then, why did they bother to mount such a grand defense of growth in the first place?

I tell this story because it illustrates the unhappy state of public discourse on economic matters, and the lack of seriousness of many economists engaged in such discourse. *The Journal of Economic Perspectives*, for example, has a policy of not printing comments on articles they have published. Perhaps because they would get too many comments, exposing too much disagreement? Or so few comments because there is such a consensus among economists? Other economics journals do publish comments and replies, but it seems that this practice is less frequent than in the past. Why comment on someone else's work—there is not much academic credit in so doing. Correcting errors may be a necessary part of science, but since economics is not a science anyway, why waste time on it?

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Besides, you might make an enemy. Furthermore, consensus among experts is considered the hallmark of a mature science, so by prematurely declaring a consensus among "all *competent* economists", and avoiding public debate on fundamental questions, economists preemptively lay claim to the status of a mature science.

The advantage of a reputation as a "mature science" is that economists can profitably sell themselves as credibility-enhancing professional consultants to all sorts of interest groups. This was convincingly demonstrated in the documentary film, "*Inside Job*", detailing the disgraceful behavior of some prominent economists leading up to the 2008 financial debacle.

Pointing to the silence of others when invited to reply to criticism, while a fair debating tactic, is a less than convincing argument against their position. One needs a more direct and specific critique. That was provided in my review, but limited to the specifics of the Growth Report, and will not be repeated here.

What I have called "silence" could just be lack of a response to my particular review, invited by the editor of the journal in which it was published. Perhaps the authors of the Growth Report responded to other critics in other venues who might have raised the same or different issues. Also the Commission may have responded in their own subsequent publications. A wider review of the literature is in order.

There have been two further publications by the Growth Commission since their main Report in May of 2008. In 2009 they published, *Post-Crisis Growth in Developing Countries*, which asked if the unforeseen financial crisis of September 2008 (four months after the publication of their Report) required any important changes in their conclusions. Understandably the Commission was absorbed in considering a massive "critique" of growth-mania coming from the real world. Academic criticisms could wait. The Commission's vision of growth as *summum bonum* remained undiminished, however, and was even reinforced by the crisis. Their next publication, *Equity and Growth in a Globalizing World* (2010), provided another opportunity to reply, but there was no direct reference, nor anything that might be construed as an indirect reply.

Google and Google Scholar searches of the Commission, the Report, and of the names of each of the Commission co-Chairmen (Danny Leipziger and Michael Spence) combined with my name, failed to turn up any replies. That did not surprise me as much as did the fact that a search for any reviews of the Report itself turned up only a few, and they were mainly just descriptive summaries. For example, *Amazon.com* urges prospective purchasers to "be the first to review this book". Help from a research librarian who surveyed other data bases failed to turn up critical reviews, replies, or rejoinders. The Commission was not overwhelmed with reviews, perhaps another reason, and an understandable one at that, for their belief that a reply was unnecessary. As lamented earlier, there is not much incentive to write reviews—especially critical ones. Alas, disagreements tend to remain unexpressed, doubtful claims un-debated, and errors uncorrected.

This unwillingness to engage in discussion, from both directions, leads me to reflect more broadly on the major fallacies of growth economics in the more general context of economic and environmental policy. In this larger context these fallacies also played a part in the 2012 US presidential election. The one thing the Democrats and Republicans agreed on is that economic growth is our number-one goal and is the basic solution to all problems. The idea that growth could conceivably cost more than it is worth at the margin, and therefore become *uneconomic* in the literal sense, was not considered, because if true, it would totally overturn the applecart.[1] But, aside from political denial, *why* do many people (especially economists) not understand that continuous growth of the economy (measured either by real GDP or resource throughput) could in theory, and probably has in fact, become uneconomic? What is it that might confuse them? The remainder of this essay considers eleven confusions or fallacies that frequently serve as "thought-stoppers" in discussions about growth.

2. Eleven Confusions About Growth

1 *One can nearly always find something whose growth would be both desirable and possible*. For example, we need more bicycles and can produce more bicycles. More bicycles mean growth. Therefore growth is both good and possible. QED.

However, this confuses aggregate growth with reallocation. Aggregate growth refers to growth in everything: bicycles, cars, houses, ships, cell phones etc. Aggregate growth is growth in scale of the economy, the size of real GDP, which is a value-based index of aggregate production and consequently of the total resource throughput required by that production. In the simplest case of aggregate growth everything produced goes up by the same percentage. Reallocation, by contrast, means that some things go up while others go down, the freed up resources from the latter are transferred to the former. The fact that reallocation remains possible and desirable does not mean that aggregate growth is possible and desirable. The fact that you can reallocate the weight in a boat more efficiently (and even redistribute it more equitably among passengers) does not mean that there is no Plimsoll Line. Too much weight will sink a boat even if it is optimally allocated and justly distributed.

Reallocation of production away from more resource-intensive goods to less resource-intensive goods ("decoupling") is possible to some degree and often advocated, but is limited by two basic facts. First, the economy grows as an integrated whole, not as a loose aggregate of independently changeable sectors. A glance at the input–output table of an economy makes it clear that to increase output of any sector requires an increase in all the inputs to that sector from other sectors, and then a second round of increased inputs required by the first round of input increases, etc. Second, in addition to this supply interdependence of sectors there are demand constraints—people are just not interested in information services unless they first have enough food and shelter. So trying to cut the resource-intensive food and shelter part of GDP to reallocate to less resource-intensive information services in the name of decoupling GDP from resources, will soon result in a shortage of food and shelter, and a glut of information services.

Aggregate growth was no problem back when the world was relatively empty. But now the world is full, and aggregate growth likely costs more than it is worth, even though more bicycles (and less of something else) might still be possible and desirable.

2 Another confusion is to argue that *since GDP is measured in value terms it is therefore not subject to physical limits*. This is another argument given for easy "decoupling" of GDP from resource throughput. But growth refers to *real* GDP, which eliminates price level changes. Real GDP is a value-based index of aggregate quantitative change in real physical production. It is the best index we have of total resource throughput. The unit of measure of real GDP is not dollars, but rather "dollar's worth". A dollar's worth of gasoline is a physical quantity, currently about one-fourth of a gallon. The annual aggregate of all such dollar's worth amounts of all final commodities is real GDP, and even though not expressible in a simple physical unit, it remains a physical aggregate and subject to physical limits. The price level and *nominal* GDP might grow forever (inflation), but not *real* GDP, and the latter is the accepted measure of aggregate growth.

3 A more subtle confusion results from *looking at past totals rather than present margins*. Just look at the huge net benefits of past growth! How can anyone oppose growth when historically it

[1] For a cogent argument that ecological economics must be more willing to overturn applecarts, see, Andersen and M'Gonigle (2012).

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