

FIVE

ECONOMIC GROWTH: WHO NEEDS IT?

Main Issues

What did economic growth ever do for me?

Does it not just corrupt people and destroy the environment?

Who has been benefitting from it?

Can anyone else get a look-in?

Do we want it to continue, slow down, or simply stop?

Paper by Rosheen Callender,
Economist with SIPTU and Special Advisor
to Proinsias De Rossa when he was
Minister for Social Welfare

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Response by Richard Douthwaite,
author of the 'The Growth Illusion'
and other publications and a
Green Party candidate in the 1994
European election

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This discussion was facilitated by Eamon Gilmore TD,
Democratic Left Spokesperson on the Environment.

[The Rapporteur for this discussion not only did not produce any report, but also managed to escape subsequent detection, despite extensive enquiries among all participants...]

less structured and organised life' - meaning less work and more time for family and leisure pursuits. Because they say this while taking totally for granted the material comforts, pleasant surroundings and high nutritional standards that my work and income has given them! I don't really believe they could do without them - at least, not for long!

Nevertheless, my heart is with them: many of us who grew up in comfortable circumstances think, at some stage of our lives, that we could easily do without them: and that really, as socialists, we should. Call it Green fundamentalism, or ascetic socialism - but the numbers who actually live out this philosophy of frugality are very small; and the numbers who are prepared to oblige others to do so are, thankfully, even smaller.

Anyway, my head now tells me firmly that this is not the way: that putting the brakes on economic growth, and on people's demand for 'non-essential' goods and services, is not the answer.

It won't feed people in poor countries; and it won't give jobs, cars, central heating, holidays and decent pensions to people in Ireland. And if people want these things, which by and large, they do, who are we to say they shouldn't have them or at least aspire to them? It doesn't mean we should encourage rampant consumerism, or the often shocking levels of waste in societies such as America - quite the contrary. But it does mean recognising the material and other aspirations of all our fellow human beings, world-wide; and facilitating rather than obstructing the fulfilment of those aspirations. And it also means clearly identifying the downside of growth, the by-products that are socially, environmentally and morally unacceptable; and finding appropriate and effective ways of curbing and controlling them.

I believe that the task for socialists is to constantly find new ways of using economic growth and market forces to cure the ills that these powerful forces themselves create. We need to find new ways of taming and training the Tiger - whether Celtic or otherwise - and insisting that it feeds and treats all its cubs fairly. There's no point thinking that shooting it down, or paralysing or emasculating it, will solve anything. Because the energy and dynamism that are needed to solve these problems are inherent in the beast itself: kill off the beast and you kill off a powerful dynamic for development and change.

The Tiger is like the rest of us: just as we all carry within ourselves the seeds of our own destruction, so too do we carry the positive, constructive energy that keeps us going and impels us forward. It's only a matter of which force is uppermost and dominant at any given time - which is encouraged and which is reined in and curbed.

So, rather than seeking a ban on motor cars, for example, we should be seeking ways of making them smaller, safer, less polluting and energy consuming.

In my view, the key to taming the Tiger, and achieving 'Justice in the Jungle', lies in thoroughly understanding how markets and market forces work; and then, not just tweaking them and trying to control them here and there, but actively managing, moulding and manipulating them. Getting them to work positively, for society as a whole, rather than narrowly and selfishly in the interests of the few.

This can't really be done, successfully, by people who rely mainly on moral arguments alone. Disapproving of capitalism, and bemoaning its cruel consequences, have never been enough. It can't be done by people who think, like many Greens, that the dynamics of economic growth and market forces can simply be 'stopped', because this leaves them in the same position as King Canute, who tried to stop the waves. Nor can it be done by socialists who are still 'in denial' about the power, both positive and negative, of market forces; and the necessity to use them rather than deny them. They, too, will be left on the sidelines.

So what can be done? How can we use market forces to end poverty, discrimination, inequality, injustice? To feed all the world's people? To keep house prices down and get low wages up? To protect the environment and stop pollution? To redistribute income, wealth, resources; and to create genuine equality of opportunity?

Capitalism nowadays is so strong, powerful, intrusive and international that most people baulk at the enormity of the task. Most people either say: you can't beat them, so you might as well try to join them. Or else you can't beat them, so let's leave them to it and just drop out. Or else, you can't beat them, but you can try to put manners on them, by working for reforms and modifications here and there.

For me, socialism in the 21st century must be about beating them at their own game. Or more accurately, beating them with and within their own game. And of course, changing the rules of the game. Which means getting intensely involved. No more dropping out, or standing on the sidelines; no more denial, of the forces that are driving change. No more dreaming about stopping or slowing growth, without having the economic instruments or political power to do so.

It means understanding fully how markets work – and don't work. Seeing the difference between useful, well-functioning markets and ineffective or dysfunctional markets. Distinguishing between goods and services which can and should be allocated by well-functioning markets, and those that cannot or should not be subject to market forces alone, and those that must be removed from the marketplace altogether.

Fiscal policy

Crucially, it means understanding and controlling fiscal policy. Tax incentives and disincentives are the main instruments we have, in a democratic society, for determining where money goes, where it stays, where it multiplies and who gets the benefit. Yet most people see only that small part of the tax system that touches them, regularly and personally – in their pay-packet, pub, car or supermarket. They don't always see fiscal policy as playing a key role in setting house prices, or controlling pollution, or deciding the levels of their present and future income from work, or welfare or pensions.

In this paper I am arguing that by and large, growth is necessary and positive but needs to be very strictly monitored and controlled, in accordance with social criteria, i.e. criteria determined by the needs of society as a whole. Our real aim should be 'social growth', – shorthand for economic growth that serves truly social needs. And because I can't possibly look at every aspect of the economy and judge it by those criteria, I want to look briefly at just three important social and economic issues that have not been tackled successfully, either through traditional right-wing, 'free market' approaches or traditional left-wing responses. I want to look at where we are on aspects of environmental policy, housing policy and incomes policy; and then to draw some definite conclusions about economic growth and why we need it – and need it to continue.

The environment

Take first the issue of protecting our environment. Frank Convery argues – very convincingly, to me – that this has been a classic case of market failure and that what we should be doing, here, is managing the market more effectively and making it work for the environment rather than against it. He sees market failure in this area as arising chiefly from the fact that most environmental assets and resources are not 'owned' (in the sense that they cannot be transferred to others, or have their use and access limited in the usual ways). Also, until recently, these assets seemed to be infinitely available. Therefore you didn't have the normal interplay between supply and demand, between the economic scarcity of a commodity and people vying for its ownership and control.

This didn't seem to matter until resources that had always been 'freely available' began to look finite. The oceans and the upper atmosphere were, in the past, 'open access resources': waste could be sent up tall chimneys or into the sea without causing noticeable problems. But this is no longer so and if, as Frank Convery says, they "...remain as open access resources, they will be destroyed, the degree of destruction depending on their resilience and recuperative capacities".

It isn't enough, in my view, to simply bemoan the overfishing of the seas, the overloading of the atmosphere with pollution, or the destruction of the rain forests. Nor is it realistic to tell people to stop buying fish, cars, hardwoods, or whatever. Command economies don't work - as we now know for sure. You can't, ultimately, control what people want to produce or to purchase. But you can influence the extent to which they do so, through tax policies.

I for one would not be comfortable telling a woman (or indeed a man) in rural Ireland that they shouldn't add to pollution by having a car - a necessity for most rural workers and one of the greatest liberators for most women! Nor can I suggest this to a woman in Dublin who's getting children to different schools or playschools each morning and then trying to get to work on time herself. Certainly I would support all possible ways of minimising that early-morning stress and hassle for parents and children, e.g. through greater flexibility in working hours and school hours. Certainly the people without family or other complications should be encouraged to use their bikes and whatever public transport is available. And public transport should obviously be improved so that its widespread use is attractive in every way. (Perhaps all able-bodied people should be given free boots, umbrellas and headphones so they can walk to work, even when it's raining, and still listen to 'Morning Ireland' - apparently a major reason why many drivers take their car to work each day!)

However, to achieve such a major social change you would have to convince those people who use cars unnecessarily - most of whom are men - of the benefits to their health, happiness, bank-balance and machismo. And this is where the market comes in, again. Ordering them to do it won't work: we live in a very anti-authoritarian age. Punishing them if they don't do it will not work either, especially when society starts counting up the cost of long-drawn-out legal battles and argumentation about civil liberties and so on, which are bound to arise.

Incentivising them is the only way - or, to use more old-fashioned language, the carrot rather than the stick.

But to incentivise people to change their economic behaviour, in a direction that's socially and environmentally responsible, usually takes imagination, initiative, innovation. More work, more production, using more resources, perhaps creating even more problems!

Take a simple example I heard on the radio last week. A woman in Donegal whose mission is to rid the country (or at least the north-west) of the scourge of plastic bags had been producing an environmentally-friendly carrier bag. She was on a campaign to sell these to like-minded people and persuade them to use these, or cardboard

boxes, or both, to carry home their supermarket shopping. Her non-plastic bags were selling well. They probably sold out by the end of the radio programme. But the real problem, which emerged during the programme, was that while most people would be happy to carry their messages home in non-plastic bags, they still wanted the free plastic bags to use at home, as bin-liners. No-one, it seems, has yet found a satisfactory substitute for plastic as bin-liners. And until they do, no-one will stop using plastic. Moreover, the new invention will have to be cheaper than plastic, for everyone to use it - and plastic bags, nowadays, are usually free.

Enter fiscal policy and the need for a debate about taxing plastic bags and subsidising environmentally-friendly ones! Because this is probably the only thing that will work: changing their relative prices for the consumer while not discriminating against the less well-off - and at the same time running a strong consumer awareness programme so that people understand the reasons for, and necessity of, such a change. The same sort of approach is needed to get people to recycle their bottles, or cans, or whatever. You have to make it easy and cheap. Nothing else works.

The evidence in Ireland, as elsewhere, is that both companies and individuals respond smartly to fiscal incentives. Look at the way money poured into Inner-City urban renewal and 'Section 23' investment. Look at the money that was channelled into those notorious tax shelters, known as 'covenants' and 'Business Expansion Schemes', in the late '80s and early '90s. It's a very effective way of directing resources in a market economy.

However, we need to be much sharper and more focused about the way we use this mechanism, or rather, the way we allow it to be used. Because in my view this is one of the most unevenly and undemocratically-managed parts of our economic system, despite (or probably because of) being one of the most important. Intervention - and even peripheral participation - in this area is like trying to enter Fort Knox.

In a few other areas, like pensions, there has been wide-ranging consultation and discussion with the social partners and other interested groups and individuals, about the role of fiscal incentives in achieving social objectives; and governments have generally acted on the basis of the agreed consensus. But in relation to protecting and managing the environment, fiscal policy has been woefully under-utilised, except in a couple of obvious areas like car and petrol taxation. (These haven't actually done much to encourage smaller cars - other market forces are stronger there - but they have certainly encouraged a switch to unleaded petrol).

Even the 'serious environmentalists' in Democratic Left, Labour and the Greens haven't looked very seriously at the introduction of socially-desirable eco-taxes. The Scandinavians have put taxes and charges on waste and on emissions to air; the UK

has raised petrol prices and introduced a landfill tax; and the Germans, French and Dutch have brought in waste and water charges. But what have we done in Ireland?

We in Democratic Left were rightly proud that in government we managed to get rid of water charges - which was a very unfair tax. But we have been slow - perhaps reluctant - to go back to the difficult but crucial question of whether and how the use of water should be controlled.

The reasons for what one might call 'environmental irresponsibility' in all political parties, bar none, are obvious. No-one wants to be calling for the introduction of new taxes; no-one wants their particular 'constituency' to be 'hit'. The interest groups that would be affected are strong lobbyists and powerful adversaries. And anyway, governments don't particularly need the money at present, so why should they risk the electoral wrath of any of the vested interests?

Frank Convery has rather politely labelled this "a sort of Tiger complacency". It's that, and more. Effective taxation involves immediate pain, and usually, a political price. Loss of environmental quality is more gradual altogether - so why not let the next government worry about that...

In my view, the only way to ensure that our economic growth proceeds in a way that is socially responsible and environmentally friendly is to devise an integrated package of 'Green taxes' sufficiently coherent and convincing to pass 'the general public and taxpayer test' at national level; and then to introduce it at a time of sufficient growth and easement of other taxes as to minimise the immediate pain for the vast majority of the population.

If ever there was a chance to do that, it was in the 1998 Budget. With both income tax rates coming down by two percentage points, with the standard rate of Corporation Tax coming down by four points and the reduced rate being cut by three points, and with Capital Gains Tax being slashed down by a ridiculous 50%, from (40% to 20%), who could possibly have complained about the introduction of a few comparatively minor but well-thought-out eco-taxes on car usage, fertilisers, carbon emissions, packaging, plastic bags, or solid waste? And who, for that matter, would have complained about a small increase in PRSI, since we know that this is needed if we are going to pay for decent pensions, without too much pain, in the third and fourth decades of the next century?

However, not only did the present government blow this great opportunity to give a lot with one hand and take a little bit back with the other, but what they gave was grossly biased in favour of a class of wealthy corporate and individual interests that includes the major beneficiaries of our current 'environmentally irresponsible' tax regime. So a minority of taxpayers gained disproportionately, which will make it all

the more difficult for the majority to accept any reduction the next time round, however good and worthy the cause may be.

Edmund Burke in his treatise 'On American Taxation' said that "to tax and to please, no more than to love and be wise, is not given to men". But high economic growth does make it a lot easier "to tax and to please", if there's a strong social consensus in favour of particular taxes for particular good reasons. We in Ireland, on the Left and in the constituency that thinks of itself as socially and environmentally responsible, have yet to build that consensus. I don't think we'll build it by opposing the very growth of wealth and resources that facilitates the process and makes it easier to 'sell'. Especially in a situation where so many of the fruits of growth have to date been unfairly distributed and many people are starting once again to want redistribution of a more traditional kind.

Other countries have made a good start on this - both on building that consensus and actually introducing eco-taxes. I've mentioned some of these already. And on the matter of building a consensus: one of the most interesting examples is the development of a European Business Council for a Sustainable Energy Future, whose Chief Executive Dr. Paul Metz, from the Netherlands, was in Dublin recently, speaking at a joint Fiscal Studies/ESRI Seminar. He was explaining that his organisation's objectives were to achieve the 'five Es' (or e^5 , e to the power of five), these being Energy, Environment, Economy, Employment and Efficiency. Their approach was, he said, essentially market-based: to transform Europe's energy structure by using the market and stimulating innovation, rather than trying to enforce good behaviour or legislate against bad behaviour. He saw reform of subsidy and taxation structures as having a key role in this - eliminating the provisions with negative environmental effects and using ecological taxation as a means of reducing other taxes, or improving social welfare payments, or introducing a Citizen's Income.

In his view, recycling the new tax revenues could also, perhaps, reduce labour costs; and this could create new jobs and improve competitiveness. Interestingly, too, he had the view that as environmental and social management became more integrated into 'hard bottom line' business management, this would give them greater "shareholder value" and would help them to "lose their 'soft', ethical, stakeholder and charity character" - which he clearly sees as a liability! An interesting perspective - not to be dismissed...

So essentially what I am saying, in relation to the environment, is that we need to use the benefits of growth to solve the problems of growth in malfunctioning markets. In particular, we need to use fiscal policy in a more focused and determined way.

To do that, we need control of it. Back to politics and political power...

The second issue I want to look at very briefly is housing, because again I believe that this is a market whose functioning has been inadequately understood and therefore badly managed, to the present detriment of thousands of young people and first-time house-buyers. A combination of factors led to the recent malfunctioning of the market and consequent crisis. Instead of the normal interaction of supply and demand keeping prices in order, the market for residential property was distorted by, among other things, a barrage of unnecessary tax reliefs that brought too many investors into the market, keeping demand at a high level and positively encouraging the escalation of prices. And since most existing home-owners - who are, at any given time, the majority - also have a vested interest in rising house prices, the countervailing forces weren't very much in evidence until trade unionists and others started voicing concerns based on equity arguments and the implications of very high house prices for future wage demands and indeed for future families.

Trade union and public opinion demanded government action and a good, sharp economist was found who did understand how markets can be made to work better. Essentially what Peter Bacon said in his Report was that tax incentives had been fuelling investor interest in private rental accommodation; that EMU and low interest rates were making it even easier for them to borrow money and invest in this very profitable area; and that these tax incentives, which might have been a good idea in the past, were no longer needed - were positively not needed - and should be scrapped (this wasn't of course all he said; and this paper isn't trying to be comprehensive on the subject of house prices. I'm merely touching on it for illustrative purpose).

This 'market logic' was so clear and convincing that even a government whose most substantial financial backers (in the building and construction industry) would stand to lose by any change, found it irresistible and implemented it immediately. Presumably this was partly to avoid the inevitable accusations if they didn't; but it was also, of course, because those who would continue to be adversely affected, unless action was taken, would ultimately be more significant, numerically and electorally, than the investors and builders who stand to lose from the scrapping of Section 23 and the withdrawal of the facility to offset mortgage interest against tax where property is rented out. So they moved swiftly, before the lobbyists had too much time to build up the pressure; and anyway by then the vested interests had lost the propaganda war.

This is not to say, of course, that better understanding and more intelligent use of market forces can solve all problems, in relation to housing or anything else. But it's hugely important. And the unions, as well as the political left, have a central role to

play in ensuring that the fiscal and policy bias is towards making good-quality, affordable accommodation - be it owned or rented - available to all who need it. We can do this by making housing one of the social issues to be covered (along with environmental issues) in any new national agreement which may succeed P-2000.

We can do it by working for an agreement among all the social partners that fiscal measures affecting people who are in the market for home ownership or private rented accommodation must be an integral part of any new tax package that's agreed. This means getting into complex issues such as how to reconcile various conflicting objectives - such as a tenant's need for greater security of tenure versus the need to make it as attractive for individuals and institutions to invest in residential property as in anything else; and how, in attempting a balanced solution, do we avoid making it so attractive for investors that they start pushing out private buyers again...

Interestingly, one of the great debates recently raging in American academia is whether the rise in homelessness there is due to market failure and a malfunction of the usual supply-and-demand factors, or whether it's because the recent fad for 'community care', rather than institutionalisation of the mentally handicapped, has simply dumped too many people out onto the housing market, all at about the same time. I would have thought it was a combination of both factors - an imperfect market unable to cope with economically atypical people - but then I haven't studied the literature or the arguments. All I can say is that I wish that the Irish left, or even academia, were into debate of this kind. Because it would hugely increase our intellectual ammunition and ability to battle more effectively against injustice wherever it rears its head.

Income redistribution

The third area I want to touch upon -- and briefly, of necessity rather than choice! -- is the way we redistribute income and resources and how this can be changed for the better. The Greens have a very simple solution: Basic Income, full stop. But how can you do this without either reducing many people's living standards or increasing growth?

One trouble with the Greens is that they have never explained how they would pay for a decent Basic Income that is enough for people to live on: that fully replaces our present, inadequate, social welfare payments; and would pull people out of poverty at long last (which means it would have to be higher than current rates of social welfare).

This is all the more unexplained and inexplicable if looked at alongside a philosophy that decries economic growth and an increase in the resources that would be needed to pay for decent living standards for all our citizens. Arithmetic dictates that the Greens, and others who dogmatically endorse the Basic Income concept, can't have

it both ways. Either they want a Basic Income that is cost-neutral, i.e. avoids raising taxation, in which case we are talking about an income below that which many social welfare recipients currently receive, which will certainly not raise more people out of poverty. Or maybe the Greens think that any kind of poverty lines that the ESRI, CPA and others have sought to establish, and which are now widely accepted, are too high because they involve unnecessary consumption of unnecessary goods and services? (Interestingly, I have never seen any Green Party critique of poverty in Ireland, and how to define it, and address it, and there was no response from them whatsoever to the launch of the National Anti-Poverty Strategy by Democratic Left as part of the Rainbow government).

But if the Greens want a Basic Income that is sufficient to keep people out of poverty as currently defined (unchallenged by the Greens and even by most of the Right), then they must explain how to pay for it. The Pensions Board has recently done this in relation to retired and older people: It has said in its recent report on 'Securing Retirement Income' that the basic social welfare pension, which everyone receives as a minimum income over the age of 65 or 66, must be raised to a level sufficient for the prevention of poverty; that this means at least 34% of average industrial earnings; that this will cost an extra £440m a year over and above the cost of meeting existing government commitments; and that the cost could be met by raising PRSI or by other means.

I am hoping that the Working Group on Basic Income that's currently sitting, whose brief is to examine the feasibility, desirability and cost of introducing a Basic Income in Ireland, will provide similar hard-nosed data and choices for policy analysts and serious politicians to consider. I myself happen to be one of the oldest advocates in Ireland of the Basic Income concept, which I believe has considerable merit, in principle, as a way of simplifying our tax and welfare systems, of putting men and women on a more equal footing, of 'individualising' the tax and welfare systems and giving people the basic dignity of an independent income.

But over the last 20 years, many of these important objectives have begun to be met by means other than the introduction of a Basic Income; and, as we've reached greater clarity about how exactly a full Basic Income system would work, some drawbacks have also become apparent. And having worked with Democratic Left in government, involved with the development of policy changes and new directions in social welfare, I could never again argue, dogmatically, that Basic Income is the one and only way of meeting those objectives. To me it's the objectives that are important, not any particular way of achieving them.

During the period of the Rainbow government, for example, the long and difficult process of eliminating sex discrimination and ensuring equal treatment for men and

women in all the social welfare schemes was completed - without the introduction of Basic Income. A lot of simplification of schemes also took place - we brought the number of different rates down to only five though unfortunately this year's Budget increased it again, to seven - and the rules for certain schemes were simplified. We made a start towards individualisation but couldn't do more for lack of resources. We made pro-employment reforms in a number of schemes, designed to help long-term unemployed people to make the difficult transition back to work once jobs started to become available - reforms that pre-dated the UK New Labour's 'Welfare to Work' ideas but were in some cases later adopted by the Blair government.

Also of course, we made the famous, unprecedented switch in resources, in the 1995 Budget: spending over half the entire extra budget for that year on the £7 increase in the monthly Child Benefit, in an attempt to seriously address the problem of poverty. All the research had identified the larger families with children as being the group at greatest risk of poverty; but of course, acting on this, and directing substantial resources straight to those families via the mother in the form of a non-taxable cash benefit, brought forth a major backlash from some men, some pensioners and some other groups whose increases in that year had not been of the same order. And needless to say, this backlash and antagonism was fuelled, gleefully, by the Opposition. We never managed to live down our 'miserly' treatment of pensioners and 'abject failure' to increase all social welfare payments that year by more than the rate of inflation.

Here was a prime example of how political opportunism can interfere with strategic planning and radical reform, particularly in the welfare system. But on the other hand, these were also examples of the targeted reforms that the present system, for all its faults, does permit if you have the political will and the power to introduce them. One of the worries I now have about a full Basic Income system, in which age is the only differentiating factor in determining the amount each citizen receives, is that even if and when you introduce it (and getting to that point would be extremely difficult), it is a relatively inflexible system which cannot be easily reformed and fine tuned. The level of the Basic Income is linked directly and inextricably to the tax rate(s), which must also be determined by changes in the proportions of people who are employed, unemployed, ill, retired, etc. - demographic and labour market factors over which there is little direct control. This would make it hard to link the level of Basic Income to price or earnings inflation. And it would in fact be far more dependent on the rate of economic growth than even the present social welfare system.

This is not the time or place for a lengthy debate about Basic Income. There is an Expert Working Group currently examining the cost and feasibility of its

introduction; consultants have been appointed to provide the Group with the detailed data it needs to enable it to reach conclusions, and these conclusions will, probably next year, feed into the Green Paper which the present government has promised to publish during its term of office.

Growth: we all need it – but not all of it

The issues of Social Welfare and Basic Income bring us straight back to the question of economic growth: of whether we really need it, and whether, as Richard Douthwaite says, both the Right & Left have a common, vested interest in its continuation – the Right for its profits, the Left for improving social welfare.

Under the present system, in fact, increases in Social Welfare are not particularly dependent on growth (indeed, expenditure often increases more in a recession than a boom, since unemployment is higher). And as Democratic Left discovered when in government, the present system can be reformed and moulded to changing needs – if you have the time, the resources and the political clout. A Basic Income system would be a lot less flexible and would, ironically, leave people much more dependent than ever before on growth for any improvements.

Nevertheless, I think that Richard is essentially correct when he points to a commonality of interest between Left & Right on the issue of economic growth; where he's wrong is in the reasons he gives for this. The Left is not pro-growth simply to be able to improve Social Welfare: it goes far beyond that.

We are pro-growth so that the benefits of our Celtic Tiger economy, to whose development all the social partners in the past decade and more have actively contributed, can be shared out more equally. We are pro-growth so that more jobs can be created for our school-leavers and graduates, for women who want to be in the labour force, for returning emigrants and of course for the unemployed. We are pro-growth so that we can seriously tackle inequality, poverty and social exclusion. So that we can achieve our equality agenda by levelling-up, not levelling-down.

This doesn't mean we are blindly in favour of all growth and all its side-effects or that we can't distinguish between what Richard calls 'good growth' and 'bad growth'. And I for one would be delighted if anyone could show me a way of just stopping the 'bad growth' and letting the 'good growth' continue. So far I haven't heard any convincing arguments about how this could be done. Which is not to say that I don't take very seriously indeed the ecological arguments for doing it: for reducing and in some cases completely stopping the consumption of certain resources. It's abundantly clear that this must be done, that certain of the earth's resources are finite and can't be replaced; that many are running perilously close to exhaustion; that even the older people among us will live to see some of them run out altogether.

The ecological case for controlling and even stopping growth in some areas is unanswerable, and growth that's based on increased consumption of particular resources is not sustainable. However, it seems to me that the Greens have no answers on how this can actually be done: how the 'bad', unsustainable growth can actually be stopped. It can't be stopped solely through exhortation, argumentation and demonstrations. These are all important, but they're not enough. You need economic and political power as well.

Finally, I think it's important to stress that growth is just one – albeit an important one – of the ways we have of achieving certain objectives. It's not, – as Garrett Fitzgerald said recently in his Saturday *Irish Times* column, ... "an objective in its own right. It is simply a means of achieving social objectives" ... (6/6/1998).

Garrett Fitzgerald was explaining, in that article, that the 6% per annum growth rate currently being projected by NCB Stockbrokers was only for the period to 2006 but that during the intervening years, the factors that are both driving and necessitating it will be declining in magnitude.

If, by the year 2006, we have no more people living below the poverty line; no more unemployed people looking for work, no more immigrants or returning emigrants wanting or needing to work in Ireland, no more women wanting to enter or return to the workforce, then I'll be the first to say: "Economic Growth – who needs it?" Perhaps then we'll find that nobody needs it and we can think seriously about slowing things down. But I think it's much more likely that we'll find we do still need it – not for the same reasons or to fulfil the same objectives as we do now, but for new and different reasons.

It's hard for anyone to predict the future and economists seem particularly prone to getting it wrong. So I think we should stay firmly in the present and be very clear as to why we currently need economic growth. It's to provide the wherewithal to end inequality, poverty and unemployment, to ensure decent accommodation and living standards for all our citizens, to protect the environment, to give ourselves a better quality of life and generally to widen our options and horizons.

But we have to get our political act together, if we are to make sure that this is what happens : that the Right doesn't get all the benefits of growth for the few – or simply grab higher profits, as Richard says. The Left must get sufficient real power to ensure that a truly fair distribution occurs. This means building a stronger and more political trade union movement with a wider and more radical agenda; as well as a greatly strengthened and expanded political left that can reach out to progressive non-aligned people and say – 'here's what needs to be done and let's get on with doing it!'

Response to Rosheen Callender's paper by Richard Douthwaite

If any aspect of green economics makes the average person deeply unhappy, it is its claim that we have to halt economic growth. This is understandable. After all, who doesn't find the idea of a higher income attractive? Moreover, most of us believe that economic growth is responsible for the comfortable lives the majority of people in industrialised countries enjoy today; and, for the minority who aren't so fortunate, we find it heartening to be able to tell ourselves that the extra resources generated by the next few years' expansion should bring them up to a reasonable level too, provided the gains are properly allocated.

This means that there's no need for us to give up anything in order to make the poor better off - a wonderful notion, as it stops us feeling guilty about our affluent lifestyle. And as for the Third World, surely it's obvious that growth is necessary to raise living conditions there too?

The easiest way of handling these appealing pro-growth arguments is not to untangle the strands of truth, falsehood and self-interest they contain. Rather it is to tell ourselves and anyone else who will listen that while growth seems desirable, not all growth is good. Just as the wrong form of uncontrolled human growth, cancer, can be damaging and even fatal, so can the wrong sort of economic growth.

Unfortunately, the wrong sort of economic growth is the type we've largely been getting for at least twenty years. Why? Simply because if a largely unregulated market is left to decide which sectors of the economy are to expand and how they will do so, it's impossible to ensure that 'good growth' comes about.

Let me explain. Economic growth is considered to have taken place if the total value of the goods and services purchased in an economy increases over a year. It makes no difference whether the extra goods and services are 'good', or ones that it would have been better to manage without. "Who are we to judge?" the economists ask. 'If people want them enough to pay good money for them, that should be sufficient.'

Unfortunately, however, it's not. This failure to discriminate means that the Gross Domestic Product - the monetary value of a nation's annual output - is a mixture of goods and bads, of costs as well as benefits. For example, GDP includes the value of the work generated by dealing with traffic accidents and cleaning up oil spills, and by other similar mishaps produced by the way the economic system operates. As a result, a rise in GDP these days gives very little indication whether the welfare of the population which produced it is rising as well. Indeed, researchers who have corrected GDP figures to eliminate the bads they contain have shown that on a sustainable basis, the growth process in some industrialised countries is actually making the majority of their populations worse off.

One correction which these researchers make involves deducting the value of all those things which are purchased because they are needed to ameliorate damage done by the growth process itself and which leave people with no net benefit. Sound-proofing required to keep out increased traffic noise would fall into this category. So would the cost of dealing with asthma brought about by fumes.

Another correction removes the cost of activities which are necessary for a modern economy to function but which do not themselves give anyone any pleasure or satisfaction. Packaging materials, TV commercials, commuting to work, accountancy services, tax collectors, policemen, prison officers, all fall into this category of 'regrettable necessities'. So too, when you think about it, do the jobs most of us perform. True, earlier economic systems had equivalents of most of them - they needed transport, packaging and policing too. But what seems to be happening is that a rising percentage of all the growth in a modern economy is swallowed up by the regrettable necessities which enable the system to carry on.

A third correction allows for changes in the value of activities people carry out for themselves. For example, if I repair my own car, only the spare parts I buy will contribute to GDP. On the other hand, if I get a garage to do it, the total bill will. Similarly, if I eat all my meals at home, only the cost of the food and fuel is added to the national statistics. But if my hectic job prevents that and I have to snatch a burger in McDonald's instead, I might be worse fed but the economy seems better.

A fourth correction takes the account of the natural capital the growth process uses up. Thus if changes in agriculture increase output but cause a more rapid rate of soil erosion, the value of the additional soil lost needs to be deducted from GDP. A similar deduction is required to allow for the reduction in the natural capital stock caused by burning fossil fuel and also the damage expected from its contribution to global warming. And if forests are felled more quickly than they grow, deductions should be made for this too as otherwise, in the words of *The Economist* in 1989, "a country that cut down all its trees, sold them as wood chips and then gambled the

money away playing tiddly-winks would appear from its national accounts to have got richer". But the capital corrections are not all the one way. If people acquire more domestic capital - things like cars, washing machines and video players - the researchers add to GDP the value of the services they get from them.

Finally, the researchers allow for the fact that not all GDP ends up in national hands because interest and dividends have to be paid to investors overseas. (Some of this loss is cancelled out by equivalent payments coming the other way). They then divide their residual by the population of the country concerned to produce what they call the Index of Sustainable Economic Welfare (ISEW), one of the best guides available to deciding whether the growth process is actually beneficial. It is certainly much, much better than raw GDP.

In 1972 James Tobin, who went on to win the Nobel Prize, together with William Nordhaus, became the first economists to make corrections of this kind. Their goal was to show that there was no need to go to all the trouble to calculate an ISEW every year because it moved so closely in step with GDP and that the GDP figure would do just as well. They came away convinced that this was correct.

Since then, however, there seems to have been a significant change in the way industrialised economies operate. When Clifford Cobb repeated Nordhaus and Tobin's work in the late 1980s, he confirmed their finding that GDP and ISEW had moved in step until 1966. After that though, the ISEW had stayed more or less constant for the next twenty years, while GDP had continued to move up. And, post-1986, the United States index (ISEW) had been in a slow decline although GDP climbed.

So why is the growth process actually damaging the thing it was meant to improve, human well-being? The reason stems from the point I made earlier which was that in a market economy, individual companies make the decisions which bring about their own, and thus their country's, growth.

One important way that firms use to grow is to introduce new technologies. For example, if a firm develops a process which allows ten workers in its own highly automated plant to do the work of a thousand scattered in independent workshops around the country, and which gives the required rate of financial return on the investment required, it will put it into use. The fact that 990 people lose their self respect and means of livelihood as a result is none of its concern. Nor is the fact that the extra profit it makes could well be inadequate to compensate the 990 for their losses, even if some mechanism could be found for taxing it and distributing it to them. In other words, the technology the firm chose to use has made one group, its shareholders, richer, at the expense of a greater loss to a greater number: its workers

and their families. Moreover, the rest of us are losers too as we will have to carry the cost of supporting the 990 workers through the social welfare system.

Although it is easy to see how the adoption of such technologies could mean that growth destroys more benefits than it creates, firms have been introducing new processes for hundreds of years and, as we have seen, it is only within the past two decades or so that ISEWs have fallen despite increases in per capita GNP. What has changed? The answer can be given in one word: Globalisation, a process which has destroyed almost every government's ability to maintain a healthy balance between the interests of corporations and the welfare of its citizens. In most countries scarcely a day goes by without a politician or businessperson announcing that unless the road network is improved, or social welfare benefits reduced so that taxes can be cut, or the use of genetically modified organisms permitted, or the school curriculum made more relevant to the workplace, or the rate of increase in wages moderated, the economy will become uncompetitive in world markets.

In other words, we are being told that unless we give up or change something important to us, we, or those close to us, might find ourselves impoverished and/or out of work. Essentially, we are being threatened, and anyone looking for a handy way of spotting when an economy starts running backwards has only to look for the point at which credible promises of a rosier future get out-numbered by phrases which start with 'unless' and don't even pretend that a brighter tomorrow will come about if we agree to go along with whatever is being proposed.

The threats, which involve a choice between two unsatisfactory outcomes, are always made by people who pretend 'there is no alternative'. They are lying, of course, because there are many other ways in which the production and exchange of goods and services could be organised. Moreover, if we make the sacrifice being asked of us this time, they will come back repeatedly to ask us to make further sacrifices if only because people in other countries are also being asked to make environmental, financial and social sacrifices to maintain their competitiveness with us. If we agree to allow a motorway to be built, or social welfare provisions to be cut, pressure will be put on them to provide equivalent financial savings to firms operating in their countries. If they do, the pressure for further cuts will be switched back to us. Round and round the cycle of emmiseration will go, screwing the majority down and leaving only a very wealthy minority better off.

The cycle has gone surprisingly far already. Real wages in the US have fallen more than 10% since 1985 and the gap between the well-to-do and everyone else has been growing steadily for more than fifteen years, roughly the period that the ISEW has been falling. If American society is analysed by dividing it into five groups each representing 20% of the population, the incomes of the wealthiest 20% rose 26%

between 1979 and 1995, while the incomes of the middle 20% rose only 1% and the incomes of the bottom 20% actually decreased 9%. And if you look at the amount Americans own rather than what they earn an astonishing 99% of the new assets created by the growth process between 1983 and 1992 was captured by the richest 20% of the people. The share of all the country's assets owned by the richest one per cent rose from 20% to 36% between 1975 and 1995.

Very similar changes have taken place in Britain. In the twenty years between 1971 and 1991, real disposable incomes - that is after taxes, National Insurance and pension contributions - rose by 80% but most of the gains went to the top 20%, whose share of national income increased from 35% to 43% (1). Meanwhile, the share of the bottom 20% fell from 10% to 6%. This had serious effects on their health. Mortality in social class I - professionals - fell by 36% from 438 deaths to 282 for every 100,000 people between 1970 - 1972 and 1991 - 3, according to government figures. During the same period, however, the mortality in Class V - the unskilled - increased by 2% from 798 to 816. This means that the gap between these two groups widened from an almost two-fold differential in 1970-2 to an almost three-fold one twenty years later. In the early 1980s, this gap was equivalent to a five - year difference in life expectancy for a twenty year old (2). So not only was the growth process running backwards, but it was actually killing people at the bottom of the social pecking order.

The gap between rich and poor has widened in the so-called developing countries as well. In Thailand, for example, where very rapid growth has taken place during the past twenty years, the ratio of share income of the richest 10% to the poorest 10% rose from 17 times to 38 times during that period.

The gap between rich and poor countries is growing too. During the past three decades, the poorest 20% of countries have seen their share of global income decline from 2.3 % to 1.4 %. As a result, the ratio of the income of the richest 20% of countries to the poorest 20% has more than doubled. It rose from 30.1 to 61.1. In more than a hundred countries, the average income per person in 1995 was lower than it had been fifteen years previously, according to the 1996 Human Development Report. More than a quarter of humanity - 1.6 billion people - were worse off despite the fact that between 1960 and 1993, total global income had increased six-fold.

Three incontestable conclusions can be drawn from all this. The first is that the growth process is making life worse for a significant proportion of the world's population and no better for all but a tiny minority of the rest. The second is that those who argue that the existence of widespread poverty makes growth necessary are either blissfully ignorant of what the process is currently doing or are cynically

manipulating us for their own selfish ends. A fairer distribution of wealth and income would be a far more effective way of dealing with poverty than growth in its present form. And the third conclusion? That opposing the present pattern of growth by standing firm against the erosion of income levels, social structures and the environment that globalisation is bringing about is, quite literally, a matter of life and death for millions of people.

So what would happen if we resisted the threats and refused to give transnational corporations what are effectively subsidies so that they can reap as attractive a return on their capital in our country as they can get elsewhere in the world? The answer is that unemployment could rise in the way they say it would. But this is not inevitable. If local capital were mobilised to make up for any missing transnational investment spending, or if the overall level of demand were to be maintained by, say, generating extra spending among the poor, the number of people in work could be maintained.

True, if transnationals stopped bringing investment into the country it could mean that a shortage of foreign exchange developed. However, if the government allowed the exchange value of currency to fall, it would not only correct this but, by increasing exports and deterring imports, it could help stop the threatened rise in unemployment. In short, the transnationals' actions could be readily rendered harmless given the national will. Significantly, though, this devaluation based strategy will be much more difficult to carry out in countries in the European Union which join the European single currency system. Perhaps this is the reason the Euro is being promoted so hard even though very few benefits are expected to arise from its use.

What all this means is that we've no need to be against growth. We just have to be against the main type of growth taking place at present. If firms can produce a greater value of goods and services without:

- reducing the number of people they employ
- cutting wages and other employees benefits
- increasing the amount of energy and raw materials they use
- needing more transport services
- shifting the distribution of income in favour of the better off
- releasing genetically-engineered organisms into the environment
- patenting life-forms
- using technologies that make work less interesting and fulfilling
- increasing the amount of waste that goes to landfill or into the environment
- driving smaller firms out of business or damaging local economies
- allowing chemicals which are not quickly and harmlessly broken down into safe and stable constituents to leave their factories

- purchasing goods or services from parts of the world where prices are subsidised because environmental, social or working conditions are significantly inferior to those in the countries they are supplying
- increasing human, animal or plant exposure to nuclear and electro-magnetic radiation
- making production and supply systems less sustainable than they are already
- and several more conditions you'll be able to think of yourself...

then the growth that results is fine. But if any of the above conditions cannot be met, and the damage done in consequence is not heavily outweighed by gains in other areas, their expansion proposals have to be trenchantly opposed.

The fact that so many conditions have to be satisfied before we can be reasonably sure that growth will turn out to be beneficial says a lot about why the process has been so damaging recently. As the old song says about a good man, good growth is hard to find.

1 *Social Trends*, HMSO, 1994

2 *British Medical Journal*, January 4, 1997

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