

WHY ECONOMIC GROWTH IS NEVER SUSTAINABLE

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ABSTRACT

The first decade of the XXI century clearly shows that the notion of the people concerning the values and goals in economy should be revised. As a result of global crisis economic theory may experience essential changes, as it was during the Great Depression in the XX century. The aim of the paper is to show the necessity of reconsidering the goals in economy. The hypothesis is that growth economy has become non-sustainable and it should be substituted by an economy of a different design – steady-state economy. The paper contains a review and analysis of various ideas about the problem, focusing mainly on the interpretation of the notion of sustainable development and the costs and benefits of economic growth; the way, how we measure things in economy and about the widespread illusions about the possibility of perpetual economic growth. The conclusion is that any growth, including economic growth is never sustainable.

JEL CLASSIFICATION & KEYWORDS

■ A10 ■ B59 ■ Q56 ■ Crisis ■ Growth ■ Sustainability ■

INTRODUCTION

The first decade of the XXI century will stick in memory as the years of the global crisis. Economists throughout the World compare the present crisis with the Great Depression of the XX century, and usually come to the conclusion that the present crisis is not so deep, and the World will overcome it much easier and much quicker than the Great Depression.

The problem is that the present crisis should be considered differently than the Great Depression. It is not a financial crisis. It is not even an economic crisis. It is a global crisis. We cannot get the true notion about things if we look at them only in one dimension. The same regards the social life, which consists of three dimensions – environmental, economic and social. The main error, which is done by politicians and economists, is that they are finding the way out of the crisis only in one dimension – economical, or even more parochial – financial. This may lead to very harmful consequences – one should remember the consequences of the Great Depression.

The present crisis is a historical crisis. The way out of the crisis could be found only if people change the usual ways of considering things. The Nature cries for it at the top of its voice. This year the signals for the mankind from Mother Nature have become too obvious not to notice them. The necessity for the changes in the way of people's thinking has become critical and may be this is the last chance for us.

One rather important fact, which possibly would take its place in the history, was the speech of the President of the French Republic Nicolas Sarkozy in the 40th World Economic Forum in Davos on January 27, 2010. His speech

contained an essence of the ideas expressed by a wide range of economists, philosophers and humanists in the first decade of the new Millennium about the further ways of human development.

"This crisis is not just a global crisis. It is not a crisis in globalisation. This crisis is a crisis of globalisation... We will not be able to change our set ways if we do not change the way we measure and represent things, our criteria. That is not an issue only for the experts. It concerns us all... We will not save the future of our planet if we do not pay the true price of scarcity. That is not an issue only for the experts. It concerns us all... We cannot look at the post-crisis world in the same way as the world before the crisis. Each of us must hold the conviction that the world of tomorrow cannot be the same as the world of yesterday... Either we change of our own accord, or change will be imposed on us by economic, social and political crises." (Sarkozy, 2010)

Just two days before the speech of Sarkozy there was published the New Economics Foundation's report "Growth isn't Possible". One of the authors of this report, Andrew Simms, wrote on January 25, 2010: "Like a patient waiting for hospital scan results, this week the government nervously anticipates new growth figures for the economy. Any sign of an increase and relief could quickly lead to self-satisfaction about its handling of the recession. Approving nods may be seen later this week in Davos at the World Economic Forum. Why? Because among political and business classes, growth, measured by rising GDP, is considered always a "good thing". But is it? ... So, this week, if you find yourself cheering a return to growth, you may be inadvertently celebrating our acceleration toward an ecological cliff edge and an opportunity missed to find a new, better direction". (Simms, 2010) Perhaps, Mr. Simms didn't know about the contents of Mr. Sarkozy report, but nonetheless, in general he was right, and the dominating tone in Davos was optimistically light-headed, rejoicing the good news about the prospective GDP figures, financial market activities and credit ratings.

This paper contains a review and analysis of various ideas considering the goals of economy and their contiguity of the goals of mankind in general focusing mainly in the interpretation of the notion of sustainable development. The mix-up with the goals and means, considering economic growth as a goal, not as a mean, has led to the present state of things where the threat to the survival of the mankind may turn out to be more serious as usually expected. Thus in the paper the main focus is on the debate about the costs and benefits of economic growth, the way how we measure things in economy and about the widespread illusions about the possibility of perpetual economic growth.

"How can we act to ensure that the economy no longer appears as an end itself, but as a means to an end?" (Sarkozy, 2010) The answer to this question "concerns us all". According to several evaluations the ecological footprint, or appropriated carrying capacity is approximately 1.3 – 1.4



planets Earths. It means that humanity uses environmental resources 1.4 times as fast as Earth can renew them. If we approve the idea of Nature as a self-regulating system, it means that this figure will decrease to 1 either by decreasing the ecological footprint of those humans whose footprint is too big and, at least theoretically, it may be done by the humans themselves, or the Nature will decrease the number of the humans to adjust the total ecological footprint to the appropriate size

WHERE CAN WE NOTICE THE END OF THE CRISIS?

The present crisis is an environmental crisis – a large part of the ecosystems throughout the world have been destroyed. There is a serious threat that the changes in climate have become irreversible. Environment should be considered in broader sense than only ecological, namely, cultural, ethnical, religious etc.

The present crisis is an economic crisis – the notion about the economic goals has turned out to be false. Economic growth in the developed countries does not contribute the increase of real welfare. "While the rich got richer, middle-class incomes in Western countries were stagnant in real terms long before the recession." (Jackson, 2009)

The present crisis should be considered in the social dimension as well – it is a human crisis – moral, educational and institutional crises. People are confused about the basic values of life – "added value" has superseded real values. One may doubt that the level of education in the XXI century is higher than in the XIX century. A concept that higher education should be not elitist has lead to loss of a real higher education. As the education has been subjugated to the market, it has lost its moral aspects. The present crisis is an institutional crisis as the contradiction between the individual preferences and social goals cannot be solved without irrational concepts, such as, Th.Veblen's institutions. The hopes on escape through technological development may turn out to be an illusion as the human development significantly lacks behind it.

Still a lot of economists give more attention to the financial markets, considering that the signal about recovery will come from there. This is curiously the same as during the Great Depression J.M.Keynes considered labour market not the stock market as the main indicator of the recovery. Searching the way out of the present crisis only as a financial crisis may lead to recovery not welfare.

THE DISTURBANCE OF THE MARKET MECHANISM IN THE XXI CENTURY

Market over the centuries has proved itself as the best regulator for the economy. Thus before the Great Depression economists considered that the state intervention should be as little as possible. The Great Depression alluded that not all markets are self-regulating, and the role of state in economy is much more important. The Great Depression of the XXI. century should teach us that even the market mechanism can be spoiled, and without regulating the markets, the "invisible hand" has been weakened.

The contradiction between the real economy on the one hand and the "symbol economy", or speculative economy as it is more often called nowadays, on the other hand, has become perhaps the main problem of the World economy at present – the innovative ideas in the speculative economy have destroyed the function of market economy which equalizes the profitability of different businesses in a long run.

The idea of the threat that may cause an excessive growth of speculative economy goes back to the American economist-institutionalist Thorsten Veblen. His far-sightedness was in the fact that he recognized the separation of production from finance. Making money not goods is the main objective in the economics. The propensity to introduce technological changes, which come from workers and engineers, is in contradiction to the tendency of businessman to acquire money through the "financial products". The present events in the global economy show that the Veblen's point of view was oracular.

The Columbia University professor Jagdish Bhagwati used the term "destructive creation", in opposite to Schumpeter's "creative destruction", pointing out that with financial innovation the downside can be lethal. (Bhagwati, 2008) Indeed, the innovative ideas in the financial markets may be considered as the main perpetrator in the present dramatic situation in the World economy. Since the collapse of the Bretton Woods system, speculative economy has become more and more profitable, and the innovative ideas there have kept this profitability for more than 30 years, inhibiting investors and entrepreneurs from the real economy.

Thus the market mechanism works with disturbances. According the Cantillon's famous example about the street with four hatters on it, they couldn't stand for with profitability in a long run, as the excess supply will pull down the price, and resources will go to the industries with insufficient supply. Nevertheless, there are 29 commercial banks in Latvia, though in most other cases the standard argument is that "Latvia's market is too small for profitable business". The innovative ideas in the financial markets in different forms of financial pyramids and "Ponzi schemes" have caused a situation where people understand that earning their income with labour is for losers. Young people mainly go to study "business", not because of their interests, but because they see, that it is their best bet not to be a loser. Money is the only resource which can grow perpetually and, so it does, creating a situation where most of the money comes from the speculative economy, and thus does not have a real covering. In the end Cantillon proves to be right, and the profitability of the speculative economy collapses with a blast. Millions of people are losing their properties; they get on a mountain of debts. But governments consider it a problem of less importance – the main task is to revolve the profitability of speculative economy. A new bubble is being blown up, and politicians cheer about the recovery and the bright future for all, except the "losers" who are considered to be such, because of their weak knowledge and non-competence of work. But indeed the capability for productive work is of a small value unlike the capability for "making business".

SUSTAINABLE DEVELOPMENT AND VARIOUS INTERPRETATIONS OF IT

Still, for most of the people, economics means knowledge about making money. Persons who have succeeded in this are considered to be the best economists. The problem of goal setting in economics is paid almost none attention in business studies, as it seems to be obvious, that the goal is to get profit both in a micro and macro levels. But economics is much more complex – the exact meaning of it arises from the Greek original: "home" and "order". How to maintain the order in the place which we consider to be our home? This explanation contains also the notion of sustainability, as it is not a good order which is made only for the present moment. Until the New Ages the question of sustainability did not arise as the human action was sustainable. The goal

formulation in economic activities was not considered separately from the goals of human existence in general.

Indeed, can one consider the economic goals as self-sufficient, or are they only as means for the goal in life of the humans? Can one say that the main will for any human person is happiness? In this case the main goal is that all people should be happy.

The first two books that inspired the birth of the modern sustainable development concept were the Rome club report "Limits to Growth" in 1972, and Ernest Schumacher's "Small is Beautiful" in 1973. Due to these books and other investigations of that time period, The World Commission on Environment and Development (WCED) was established in 1983 by the United Nations. The report that WCED produced in 1987, advanced the concept of sustainable development – "...development that meets the needs of the present without compromising the ability of future generations to meet their needs" (WCED, 1987)

Since that most of the politicians have assumed this formulation, and "sustainable" has become one of the words which should be in the modern vocabulary together with "added value", "competitiveness", "challenges", "innovations" etc. Unfortunately, very often people use these words without understanding their real meaning. "Sustainable development" often is explained like "economic growth in a long run", which is very far from the exact meaning.

"The term "sustainable development" would be doomed to the scrap heap of short-lived and overused buzzwords were it not rooted in a traditional value, stewardship – the careful, economical, long-term management of land, community, and resources... People who care deeply about their community and who think conscientiously about the long-term implications of their actions are working for sustainability and stewardship, whether or not they use those words." (Kinsley, 1997)

The necessity of a common understanding of the "sustainable development" as a goal in economy has become obvious. If we don't know where we are sailing, every wind will take us there. The main discussion, which came into being even before the formulation of sustainable development concept, is about the following issues: whether it is possible to have development without growth and whether growth can ever be sustainable.

GROWTH AND DEVELOPMENT

It is necessary to make the distinction between the notions of growth and development. According to Versteegen and Hanekamp let us call those, who consider, that economic growth cannot continue because in the end it will destroy nature and human society – "idealists", and those, who think, that economic growth can continue perpetually – "conformists". (Versteegen, Hanekamp, 2005) Sometimes the debates between the idealists and conformists or "growthmen" are fruitless, because the notions of "growth" and "development" are used in different meanings. To avoid this misunderstanding, let us use a very simple definition: growth means getting bigger, development means getting better. (Kinsley, 1997) Discussions of different understandings of economic growth are useless, since economic growth is measured by a single indicator: GDP or some other like that. In any system growth can be seen externally and measured by a single indicator. In any system development is not only external, but also internal category, and it cannot be measured by a single indicator, as good it might be.

In this notion growth obviously cannot be considered as a goal, because getting bigger seldom is getting better. "We tend to think of growth as natural for economies, forgetting that in nature things grow only until maturity and then develop in other ways." (Simms, 2010) A very short and precise comment about growth was given by Kinsley: "Human growth after maturity is cancer." (Kinsley, 1997) Does the same regards to economy? There is a very efficient way how to cure the cancer – early diagnostics and early treatment.

The usual arguments of "conformists" or growthmen are that growth increases people's welfare, and thus make them happier. The problems that arise from growth can be solved by increasing growth. If growth is measured by GDP, there are a lot of objections, why the costs for the humanity may turn out to be larger than benefits. To a large degree it is doubtful that happiness or, let it call, welfare can be measured with a single indicator, even more – in monetary terms. The criticism of GDP as a measure of welfare contains a wide range of arguments, even from the "growthmen", starting from the fact, that it includes only such economic activities which are being paid for, and that it includes also such activities which are paid, but which usefulness for the mankind is rather negative, etc. As Daly mentions: "Kenneth Boulding has for many years been making the point that Gross National Product is largely Gross National Cost and has never been taken seriously." (Daly, 1991)

Let us consider a simple example. The company is producing footwear. It has spent two million dollars for an advertising campaign, the results of which should be expected in time period of one year after the campaign. As the result the sales in the next year increase for one million dollars. The efficiency of the campaign is negative; not going into details one may consider that extra profit from the campaign was minus one million dollars. But regarding the same situation from the macro level, we will cheer the campaign, because the result of it was three million dollar increase of GDP.

Some time ago a Latvian journalist asked me a question what was the proportion of the total foreign debt of Latvia to GDP in the thirties of the previous century. She was rather confused about my answer, that there is no answer to this question, as at that time there was not such a measure as GDP. Perhaps she thought about the heavy fate of journalists of that time, who did not have such a simple measure how to evaluate life standard of the nation. What were the measures of standard of living then? I looked at the publications of that time, and noticed, that the statistics started not with an aggregate measure of some kind, but with detailed statistics about the national wealth in non-monetary measures. Those measures rarely indicated the increase of the stock but the volume of it. American economist Kenneth Boulding wrote: "There are actually some very tricky and unsolved problems involved in the questions as to whether human welfare or well-being is to be regarded as a stock or a flow. Something of both these elements seems actually to be involved in it, and as far as I know there have been practically no studies directed towards identifying these two dimensions of human satisfaction. Is it, for instance, eating that is a good thing, or is it being well fed? Does economic welfare involve having nice clothes; fine houses, good equipment, and so on, or is it to be measured by the depreciation and the wearing out of these things? I am inclined myself to regard the stock concept as most fundamental, that is, to think of being well fed as more important than eating..." (Boulding, 1966)

Indeed, considering the flow more important than the stock, we don't care about the maintenance of the stock, or even more – it is better that the previous stock decreases. In this approach the answer to the popular question about the present economy of Latvia – “how to increase economic growth?” is rather obvious: we should introduce wasteful technologies; we should produce goods, which are not durable. The best way is to produce expensive things with replaceable parts, which are available only for a short time period; afterwards you have to throw out the whole thing as an “obsolete” model and buy a new one. More or less that happens in the world, where flow measures are more important than the stock measures, thus in an exponential rate turning environmental resources into waste as a constant growth rate is exponential: “a constant rate of expansion is exponential: a mere 2-percent annual expansion rate results in a quadrupling of size in just 70 years... We've accommodated our increasing human population by using more resources and producing more wastes, counting on the planet to provide whatever we want and absorb whatever we discard. Each of these factors – population, resource use, and pollution – has been growing exponentially. The annual rates at which these factors are growing might sound trifling, yet the nature of exponential growth is that it compounds, like interest. Each year, the number increases by a greater amount than the year before.” (Kinsley, 1997)

The very important and less discussed problem appears from the fact that GDP is a monetary measure. Even considering that market mechanism is still setting adequate prices on products; it is hardly believable, that it sets adequate prices on natural resources. Sarkozy in his speech calls the prices of natural resources “erratic”, and, indeed, the present scarcity of these resources and in a larger degree the expectations about the increasing scarcity in the future are increasing the marginal utilities of them in the most unusual ways.

Obviously GDP does not take into account externalities and internalities, the value of things, which are not sold in the market, but are of great importance for the people's happiness; roughly speaking, environment in its broader sense – ecological, cultural, ethnical, religious etc. According to Daly: “It is hard to know for sure that growth now increases costs faster than benefits since we do not bother to separate costs from benefits in our national accounts. Instead we lump them together as “activity” in the calculation of GDP.” (Daly, 2008) In addition to Daly, I want to point out that the increasing costs of the growth more often cannot be evaluated in monetary terms, as they do not appear in the market.

The idea of welfare maximization in non-monetary terms can be found in works of the only one Nobel Prize winner in Economics among the Soviet economists – Leonid Kantorovich and his disciple Ivan Siroyezhin. It is possible to set up a non-monetary objective function even at a macro level – maximization of bundles of necessities. The modern mathematical approach in economics gives a possibility to consider a set of objective functions. It may turn out that ideas of Kantorovich and Siroyezhin are still unappreciated and up-to-date from the point of view of sustainable development. Siroyezhin used terms “efficiency” and “quality”. He explained that by “efficiency” he meant the indicators of the scale in monetary form but by “quality” – the indicators of the structure of production in non-monetary terms. Siroyezhin pointed out, that the approach, where “efficiency” is set as a goal, but “quality” as constraints, is reversed. He considered that a goal should be formulated

about the structure of production, but the indicators of scale in monetary terms should appear as constraints. Siroyezhin wrote: “In a society with means of production as private property it is natural, that the indicator of development of the economy is taken from the scale side, because the owners of capital can get their profit only in a monetary form. ... In a society where the means of production are owned by the society ... the place of criteria is taken by satisfaction of the needs of the society, the structural side of the economy. ... The national income in this case should be considered only as a limit for the society to satisfy their needs, but it is not the indicator of the structure of production in a natural form.” (Siroyezhin, 1980) The necessity to change the approach to the objectives in economy and to substitute monetary measures with non-monetary ones seems to be rather perspective. The ideas of the development vector mentioned by Siroyezhin and based on the Kantorovich's approach of “commodity bundles” may turn out to be as one of great importance. More detailed about Kantorovich's and Siroyezhin's approaches see in (Brivers, 2009).

CONCLUSION

The arguments mentioned above clearly prove that in natural systems growth cannot be sustainable as in the end it leads to the death or collapse of the system. May be economy is a system of another kind – non natural, as it is created by humans? But economy takes place not in a virtual reality, but in the physical world.

The economic growth in Latvia during the first years of the 21st century was incredibly high. The annual GDP increase in time period 2000-2007 had been no less than 6%, last three years it had been more than 10%. It may seem that the state of mind of Latvian people and their satisfaction with the government was outstanding. But the reality is just the opposite. At the end of 2009 Latvia was close to insolvency and economic catastrophe. The beginning of 2010 shows as if there were some signs of recovery but the too narrow approach to the economy raise doubts that the recovery concerns figures not people. Latvia can be considered as a typical case where the economic development substantially drops behind the economic growth. The case of Latvia proves the fairness of Kinsley: “As with any inflationary economy, rapid expansion results in a few winners and many losers. Many real estate professionals, big builders, heavy-equipment owners, retail property owners, and large landowners do very well; most others are caught in a spiral of inflation. But expansion is seductive. The winners are very good at convincing the losers that they just need more expansion to be winners, and reassuring them that new taxes from expansion will pay for the solutions to expansion's problems.” (Kinsley, 1997)

As it is with certainty shown in Tim Jackson's “Prosperity without Growth”, economic growth makes a contribution in welfare only in low developed countries; even in such countries as Latvia, the benefit for the most of the population is miserable or even negative, because of inequality of its distribution. Perhaps, for the growthmen these arguments may seem negligible as they do not prove the physical unsustainability of growth. But, as it was mentioned in Fred Hirsch's “Social Limits to Growth”, these limits are important as well. Hirsch makes the distinction between what he calls material and positional goods. Positional goods, which include top jobs, services, recreation, and leisure, may not be expanded easily. “The satisfaction that individuals derive from goods and services depends in increasing measure not only on their own consumption but on consumption by others as well.” (Hirsch, 1977) Thus economic growth is useless, as it does not contribute happiness.

The most obvious argument on unsustainability of economic growth is that of depletion of environmental resources, environmental pollution and degradation of ecosystems. If the economy is a subsystem of the World as a global system, which obviously does not grow, then it is obvious that the expansion of the subsystem is limited, even in case it pushes out all other subsystems.

Many people feel that the next years will be a period of essential changes, first of all in the way of human thinking. Obviously, it would lead to essential changes in economic theory. In case we will be discussing the possible changes to prepare for them, and nothing will change, we may consider it like a mind training afterwards. In case if the things change, we will be prepared for the changes. Otherwise the possible changes will lead to a situation that humanity will get perplexed with possible heavy consequences.

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