PROSPERITY WITHOUT GROWTH, ECONOMICS AFTER CAPITALISM

'What you call love,' says Draper, 'was invented by guys like me to sell nylons.'
(Heidkamp 2008)

I should elaborate a bit on what Social Banking actually is. Essentially sites like Zopa in the UK and Prosper in America allow users to borrow and lend money, effectively cutting out the middleman. The central premise is straightforward – there's a network of lenders and borrowers and, as Zopa concisely put it, the "people who have spare money lend it directly to people who want to borrow. There are no banks in the middle, no huge overheads, and no unethical investments." It's a neat idea that's likely to appeal to the anti-capitalist in all of us. What's more, a quick comparison of the interest rates indicated on Zopa show that social borrowing can be extremely competitive, especially considering the big lenders wariness in the post credit crunch market (http://articles.taxationweb.co.uk/personal_finances/index.php?id=493)

INTRODUCTION

This paper argues that 1) economic growth is unsustainable ecologically and perhaps economically, even if environmental questions are set aside. In turn, economic growth does not correlate well with rising welfare in mature economies. 2) However, a capitalist economy needs to grow for structural reasons. Alternative economic structures that provide for sustainable increases in welfare, increased social justice and increased participation, are necessary. 3) Social sharing/ commons, a concept described most fully by Benkler, provides a way of raising standards of living, in an economy marked by static or negative growth in GDP. Free and open source software are perhaps the best known examples of social sharing.

ECONOMIC GROWTH?

While there is no formal growth target in the UK, non-inflationary continuous expansion (NICE!) is the goal of economic policy. Indeed most policy is measured in terms of its potential contribution to higher economic growth. Increased economic growth is understood to raise standards of economic well being by most economists and policymakers. However, critics argue that rising economic growth may not be environmentally sustainable. It has proved difficult to achieve rising economic growth without rising levels of CO_2, while British CO_2 output is falling slightly, this fails to take into account the carbon footprint of goods manufactured abroad but consumed in the UK or of airline emissions. The approach of theorists such as Hawken (1999) et al who advocate a form of 'Natural Capitalism' where energy and resource use does not grow with output, has failed to materialise to date.

Other critics, most notably Kenny and Kenny (2006) have marshalled impressive empirical evidence that after relatively low levels of per capita GDP are achieved the correlation between rising welfare and growth is often poor. Some of the studies suggest that rising GDP may correlate with declining levels of mental health and happiness.

However, criticism of economic growth predates mature capitalism. In 1819 the political economist Sismondi observed, 'I have seen production increasing, whilst enjoyments were diminishing. The mass of the nation here, no less than philosophers, seems to forget that the increase of wealth is not the end in political economy, but its instrument in procuring the happiness of all. I sought for this happiness in every class and I could nowhere find it. [...] Has not England, by forgetting men for things, sacrificed the end to the means'. (quoted in Luxemburg 1971: 175-177). Radical environmentalists have argued that economic growth is environmentally unsustainable for several decades, yet growth has continued, without apparent catastrophe. Lomborg (2001) has argued that economic growth correlates strongly with greater efficiency in resource use and that empirical evidence suggests the environment is becoming cleaner with such growth.

Yet from climate change to the threat to commercial fish stocks to the challenge of rubbish disposal, economic growth forever looks unrealistic. While environmental problems predate industrialization, just a few decades of capitalist development in part of the globe, have created obvious strain. If all human beings on the planet consumed at the same level as US citizens, it has been suggested we would need several planet Earths (Wilson 2002). Continued economic growth into to the distant future looks somewhat optimistic on a planetary scale . Putting the case in bleak terms Professor Joel Kovel notes:

If the world were a living organism, then any sensible observer would conclude that this 'growth' is a cancer that, if not somehow treated, means the destruction of human society, and even raises the question of the extinction of our species. The details are important and interesting, but less so that the chief conclusion – that irresistible growth, and the evident fact that this growth destabilizes and breaks down the natural ground necessary for human existence, means, in the plainest terms, that we are doomed under the present social order, and that we had better change it as soon as possible (Kovel 2002: 5).

Even if technological solutions could be found to remove environmental threats, there are other reasons for taking a skeptical approach to the assumption of continuous economic growth. A wide range of commentators have suggested that social factors may lead to declining or static growth. (Hirsch 1977) in 'The Social Limits to Growth' sees rising consumption which fuels growth as eventually tailing off, making rising GDP difficult or impossible to achieve.

Rather than being based on a functional need for increased welfare, economic growth may be fuelled by a sociological need to maintain status as identified by theorists such as Polanyi and Veblen. Their approach explains the existence of a so-called 'hedonic treadmill', the more we have, the more we need to maintain satisfaction, because we are racing to prove our status against neighbours who are preserving their status by consuming new goods.

Writing in March 2008, it is clear that rising oil prices, increasing financialisation of advanced economies, together with a liquidity crisis, are all leading to lower levels of economic growth over the next year at least. Some commentators would argue these factors may lead to a sustained slowing or negative growth in the long term rather than as a product of the standard business cycle of 'boom and bust'.

In short, there are a number of distinct reasons why the question of sustaining and improving welfare in a static or shrinking economy is interesting and vital.

PROSPERITY WITHOUT GROWTH

The Victorian social critic John Ruskin famously argued that rising economic growth might lead not to increased wealth but what he termed 'illeth' (Frank 1999: 73). Abstract economic activity measured in monetary terms includes a growth in all manner of social ills. War is good for economic expansion, disease leads to more economic activity, in short GDP is a crude measure of well being. A host of policies from preventative medicine to measures for improved mental health might reduce consumption of goods typically expensive forms of pharmaceuticals and high technology medicine, while directly improving standards of welfare.

Amartya Sen (1997)has argued that economic development should be measured in terms of increased personal freedom and with a nod to Aristotle a growth of capabilities. Such development may not grow with consumption of goods and services. Sen and other development economists stress the need for more sophisticated policies to improve welfare and more sophisticated measures of economic welfare than GDP. Sen also notes that redistribution is vital, inequality leads to exclusion, and such exclusion turns relative poverty into a source of potent social ills, because poorer citizens may lack access to effective education and health care.

Rogers has argued convincingly that built in obsolescence means that the consumption grows while goods fall apart prematurely. Policies aimed to improve the durability of goods and to improve the possibility of upgrade technology, would clearly reduce company profits while increasing welfare.

By enabling more home working computer technologies could be used to dramatically reduce the need for commuting in many areas. This would reduce economic activity (in this case the largely miserable journey to work) while improving welfare.

Imaginative policies that cut economic activity while improving welfare could be multiplied here but my main inspiration is the promise of social sharing identified by Benkler, which I discuss towards the end of this piece of writing.

I would agree with Bello's (2008) broad approach:
'In contrast to the Northern elites' strategy of trying to decouple growth from energy use, a progressive comprehensive climate strategy in both the North and the South must be to reduce growth and energy use while raising the quality of life of the broad masses of people.
Among other things, this will mean placing economic justice and equality at the center of the new paradigm.

The transition must be one not only from a fossil-fuel based economy but also from an over consumption-driven economy.

The end-goal must be adoption of a low-consumption, low-growth, high-equity development model that results in an improvement in people's welfare, a better quality of life for all, and greater democratic control of production.'

CAPITALISM AND GROWTH

John Bellamy Foster compares globalised contemporary capitalism to a treadmill:
First, built into this global system, and constituting its central rationale, is the increasing accumulation of wealth by a relatively small section of the population at the top of the social pyramid. Second, there is a long-term movement of workers away from self-employment and into wage jobs that are contingent on the continual expansion of production. Third, the competitive struggle between businesses necessitates on pain of extinction of the allocation of accumulated wealth to new, revolutionary technologies that serve to expand production. Fourth, wants are manufactured in a manner that creates an insatiable hunger for more. Fifth, government becomes increasingly responsible for promoting national economic development, while ensuring some degree of 'social security' for a least a portion of its citizens. Sixth, the dominant means of communication and education are part of the treadmill, serving to reinforce its priorities and values.

[...] Everyone, or nearly everyone, is part of this treadmill and is unable or unwilling to get off. Investors and managers are driven by the need to accumulate wealth and to expand the scale of their operations in order to prosper within a globally competitive milieu. For the vast majority the commitment to the treadmill is more limited and indirect: they simply need to obtain jobs at livable wages. But to retain those jobs and to maintain a given standard of living in these circumstances it is necessary, like the Red Queen in Through the Looking Glass, to run faster and faster in order to stay in the same place. (Foster 2002: 44-45)

While rising welfare can be decoupled from economic growth, there are a number of reasons why a modern capitalist economy requires constant economic expansion. Corporations are owned by share holders. While shares have increasingly been bought and sold for speculative motives, shareholders generally demand dividends. Dividends are a share of profit and floated corporations have a legal requirement to maximize them. A race for profit is built into the economic system. More growth is required to make profit.

Marx famously argued that firms tend to replace workers with capital. To over simplify a complex argument, such capital investment leads to an over all decline in profit which fuels the search for expansion so as to restore profitability. Whatever one thinks of Marx’s approach to value, the core assumptions are clear and difficult to refute. Companies must invest in the most up-to-date and efficient technology. If they fail to do so, they will be out competed by more efficient rivals and forced to close. However increased production tends to lead to over supply (Marx would argue a decline in the proportion of living labour which he sees as the source of exchange value), depressing price and profit. To maintain profit, sales need to be expanded and/or efficiencies increased. A firm that fails to maintain profit will be unable to invest in new innovation and thus will be wiped out. Marx’s assumption that capitalism is dynamic, unstable and highly productive remains true today.

On the right the neo-Austrian economist Schumpeter has argued that with the rise of monopoly or oligopolistic markets, despite reduced competition, growth is still functional. He developed the concept of ‘creative destruction’, firms gain monopoly power and thus profit through patents. When patents are legally exhausted, profits collapse and new products must be patented. The biro pen is a classic textbook example, when a patented monopoly product the biro sold for many dollars, when the patent period ceased the price tumbled to a few cents. Again, production must be expanded in the long run, despite monopoly profits in the short run which might be based on constrained supply. Supply siders like Marxists see capitalism as dynamic and growth orientated (1).

If we ignore the legal requirement for profit, and my thumb nail sketch reading of Marx and Schumpeter's assumptions, other reasons suggest that economic growth as a means of maintaining profit is vital. We live in a credit based economy where ever more esoteric financial instruments dominate economic activity. To pay back interest, growth must be used to maintain payments. Debt provides the means and the motive for economic expansion.

So while it is possible, in theory, to increase prosperity without economic growth, the present structures of global capitalism require infinite economic growth. Capitalism is like a bicycle if one stops peddling, it falls over.

We can go deeper still. In a market economy we do not directly produce goods because they are useful to us. We produce goods that we exchange for money that we can then use to exchange for other goods. This seems a sensible and convenient arrangement. However, we constantly have to sell if we are to buy. This means that we have to persuade others to buy our goods if are to survive. A mismatch often develops between the usefulness of goods and their value from exchange. We thus have to sell goods that previously had no use to maintain our ability to buy goods and services. This tendency has a tendency to get out of hand.

Producing for use is not a priority at all. If you buy a book, for example, instead of borrowing it from the library this increases exchange value, but it would be better ecologically and socially to provide books, children's toys, tools, etc via libraries because this would circulate use values more widely. Anything that increases exchange values is encouraged in our society because it allows the market economy to function, this however means that use values are largely ignored or achieved through duplication and waste.

The drive for economic growth has become the goal of society with a variety of distorting consequences which tend to reduce welfare:

In 1992 alone U.S. business spent perhaps $1 trillion on marketing, simply convincing people to consume more and more goods. This exceeded by about $600 billion the amount spent on education--public and private--at all levels. Under these circumstances we can expect people to grow up with their heads full of information about saleable commodities, and empty of knowledge about human history, morality, culture, science, and the environment. What is most valued in such a society is the latest style, the most expensive clothing, the finest car. Hence, it is not surprising that more than 93 percent of teenage girls questioned in a survey conducted in the late 1980s indicated that their favorite leisure activity was to go shopping. (Foster 2002: 46-47

Capitalism of course selects those who are most aggressive and inspired at increasing profit:

The Chairman of the board will always tell you that he spends his every waking hour laboring so that people will get the best possible products at the cheapest possible price and work in the best possible conditions. But it is an institutional fact, independent of who the chairman of the board is, that he'd better be trying to maximize profit and market share, and if he doesn't do that, he's not going to be chairman of the board any more. If he were ever to succumb to the delusions that he expresses, he'd be out. (Foster 2002: 48)

Every member of a capitalist firm could be replaced by another and the system would still maintain its trajectory. Capitalists may be good or bad, the distinction is pointless, the workings of capitalism require constant growth.

Individuals in firms who decide that there is a kinder, gentler way of doing things or who have priorities other than profit trying to produce what is most ecological or useful, for example, either fail to rise to the top or are replaced: 'People who are genuinely forthcoming and disinterestedly helpful do not become managers of large capitalist firms. The tender-hearted are pushed off far down the ladder on which one ascends to such positions of power. For capital shapes as well as selects the kinds of people who create these events'. (Kovel 2002: 38)

We thus have any interesting problem, economic growth is unsustainable for a variety of reasons, however it is inherent in a modern capitalist economy. Providing alternatives to capitalism is no easy task but it is necessary. I suspect that ultimately it is easier to change the economic system than basic ecological realities, however most commentators reverse my approach.

SOCIAL SHARING

Generally economic activity is conceptualized as either market based or state controlled. If capitalism is criticised the only alternative that is normally cited is that of a planned centralized economy. The experience of the Soviet Union suggests that the alternative to capitalism is bureaucratic, stifles personal freedom and is hugely inefficient. Command economies generally have a poor environmental record, although Cuba has been cited as having achieved sustainable development by the WWF (2). However the growth of the world wide web, developed for no personal gain by such figures as Tim Berners-Lee has led to what the Economist has termed 'an intriguing alternative'. Benkler (2006) has developed a sophisticated analysis of what he terms 'social sharing'. We live in an increasingly knowledge/culture based economy and such an economy is increasingly dominated by non market based production. The development of free or open source software is one example, along with the operating system Linux.

The Economist explains 'open source' in the following terms:

BY NOW, most people who use computers have heard of the "open source" movement, even if they are not sure what it is. It is a way of making software (and increasingly, other things as well), which relies on the individual contributions of thousands of programmers. The resulting programs are owned by no one and are free for all to use. The software is copyrighted only to ensure it remains free to use and enhance. In essence, therefore, open source involves two things: putting spare capacity (geeks' surplus time and skill) into economic production; and sharing. (Economist Feb 3rd, 2005)

Open Source has a longer pedigree than the Economist suggest. Social sharing in the forms of commons regimes, according to theorists such as Ostrom (1991), provides a highly sophisticated way of maintaining environmental resources such as forests, pasture land and oceans. Increasing welfare can be combined with improved environmental quality and falling GDP by introducing policies to conserve and extend commons.

I have suggested:

Yochai Benkler's contention that social sharing provides an economic alternative to both markets and the state sounds both novel and obscure (Economics focus, February 5th). Yet the principle of "usufruct", which allows resources to be used by any individual provided he or she leaves them in at least as good a state as they were given, can be found in ancient Roman law. Commons regimes (where local communities share the use of common land through rationing, so replenishing their resources without eroding them) are found throughout history and across four continents. Such sharing provides a way of restoring economics back to its original promise as a science that finds ways of matching scarce resources with unlimited human wants. In other words, while there may be no such thing as a free lunch, you can use my crockery as long as you wash and dry.
(Economist 17th Feb, 2005)

Social sharing has an important role in providing access to physical consumer goods. Benkler notes the importance of car clubs as a way of improving access to transport through sharing. Such social sharing could be used to improved access to a range of consumer goods that are only used on occasion while reducing resource use.

I am personally skeptical that markets can ever work equitably or efficiently, however a line of thinkers drawing on Polanyi have suggested that markets can be embedded in local communities and made to work for rather than against human prosperity.

Equally Socialism can be based on worker participation rather than central control. Democratising economic control has a number of benefits. Already one of Britain's most successful businesses is based on employee ownership, the John Lewis group. The concept of mutuals and the theme of open source/social sharing/commons suggest that interesting and effective forms of economic regulation that move us beyond capitalism and traditional command economies can be conceptualised.

SOCIAL SHARING: AND POLICY

Moving to an economy based on social sharing rather than conventional market or governmental action has a huge number of implications. Government would increasingly act to roll back both the state and the market. While I am optimistic that social sharing could be extended over a whole economy, the role of social sharing in the form of FOSS is already part of mainstream thought. Social sharing will not raise revenue for government or the private sector but has huge potential for cost reduction. In an increasingly information orientated economy, the decommodifiction of knowledge has the potential to raise individual prosperity, reduce dependency on the formal market economy and to cut costs for all.

There are some obvious gains for government from quite modest changes. Free software has a strong track record, already governments across the planet are using it to cut tax bills. Patent reform could make it much cheaper to source pharmaceuticals, which would drastically reduced NHS bills. Open source principles would make it cheaper to research and develop new medical technology.

Social sharing will not create work but as one wag once argue if work was that good the rich would keep it all to themselves! Work should be meaningful and provide a means to gain access to all the goods and services individuals need. Low or no cost access to resources would mean that individuals would be less dependent on the formal economy. Work sharing and down sizing would become increasingly attractive as practical alternatives. In short, rather than a growth in employment, revenue and profit, social sharing would provide greater access to the resources that individuals need, greater prosperity with less conventional economic growth.

Banking might appear to be a long way from social sharing but an open source bank, Zopa, already exists. It brings lenders and borrowers together who agree their personal interest rates. This is a long way from the sub-prime crisis and the inflated salaries of city workers.

The 26th Retail Bankers International Forum voted Zopa "Most threatening non-bank competitor". in April 2008:

Douglas Doulton, CEO of Zopa said: "This is a very gratifying award to win, especially ahead of such big brands and one of our Social Lending competitors in the USA. Zopa has won a number of major awards from the banking industry now, so clearly we've made them look up and take notice. Once we get more of their customers to see the better deals that Social Lending can offer, and the refreshing difference that borrowing and lending with other people can be, these awards may seem rather ironic!" (http://www.easier.com/view/Finance/Banking/News/article-171709.html)

If social sharing can be extended to banking it can be extended to many other areas of life. An economy beyond both capitalism and top down planning by central government, is possible, however the implications are vast. An economy cannot be designed as a minutely imagined utopia, Hegal famously argued we cannot over leap our age (Ware 1999: 8). For example, who would have imagined a market economy before the market or capitalism based on modern finance, several centuries ago? My task here is to indicate that it is possible to think outside the boxes (capitalism or central planning), describing how an alternative economic system would function in detail is something beyond one essay from one author. The alternative put forward here is participatory so a blueprint would challenge its very nature. Merely putting commons/social sharing on the map of policy makers would be an achievement, this form of economic regulation is usually unrecognised by economists and politicians. It provides to my mind the germ of a solution to the dilemma of sustainable development, it must be encouraged to blossom. (3)

My analysis may appear radical, in fact compared to the expansionary logic of capitalism it is rather modest. The alternative to a post-capitalist economy, even a 'sustainable' one, was illustrated by J.G. Ballard in his short story 'The Subliminal Man' written in 1963 (1969: 68).

'People won't stand for it.'
'They will. Within the last twenty-five years the gross national product has risen by fifty percent, but so have the average hours worked. Ultimately we'll all be working and spending twenty-four hours a day, seven days a week. No one will dare refuse. Think what a slump would mean-millions of layoffs, people with time on their hands and nothing to spend it on. Real leisure, not just time spent buying things.' He seized Franklin by the shoulder. 'Well, Doctor, are you going to join me?'

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Note

1. Schumpeter for reasons that do not easily relate to the discussion here was a pessimistic right-winger who believed that capitalism would be replaced by socialism, Marx argued for quite different reasons that communism would replace capitalism, although Lord Desai suggests Marx thought this might not occur for many centuries if at all (Desai 2004).

2.. While I am not convinced of the efficiency of all Cuban institutions, the country has at least managed to combine economic development with some evidence of environmentally sustainable practices. While as an ecosocialist I am generally skeptical of green business initiates, I am happy to praise Lush's work to eliminate palm oil in their product. (http://www.guardian.co.uk/environment/2008/mar/03/ethicalliving.forests). I still think the structural features of markets and governmental control lead to a number of serious negative consequences.

3) The mistakes are all of course, mine. Vania Phitidis and Brian Heatly gave me valuable and detailed feedback, more than anyone Nick Hildyard has inspired that ideas behind this paper, I would like to dedicate this paper to Nick and the other members of the Corner House (http://www.thecornerhouse.org.uk/).