David Pilling, The Growth Delusion
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THE CULT OF GROWTH

For over seventy years the advanced societies of the world have preened in the mirror and mostly admired what they saw: growth. The mirror is called gross domestic product and it has become our principal means of judging how beautiful we are, both as economies and as societies. The economy— the thing that GDP seeks to measure— is all around us. You can't smell it or touch it. But it is the background noise of the modern world. It is the staple fodder of headlines, business channels, and political debate. Yet, for such a fundamental concept, surprisingly few know precisely what the economy is or how we gauge its progress. All we know is that it must constantly be moving forward, like a shark.

We define the economy in terms of GDP.* In modern times, and against its inventor's warnings, GDP has become a proxy for a country's well-being. If the economy is growing, then things must be good. If it is shrinking, then not so much. But the mirror into which we have been staring is more of the fairground than the bathroom variety. The image reflected back is grossly distorted and increasingly at odds with reality. Our economic mirror is broken.

We are living in an "age of anger," defined by popular backlash and rejection of previously cherished institutions and ideals, up to and including Western liberalism itself. In the US that has led to the rise of Donald Trump. Britain has voted for Brexit, and in Europe unconventional parties, both on the right and the left, have shaken the status quo. There are political convulsions, caused by popular revolt, from India to Brazil and from the Philippines to Turkey.

There are many competing explanations for what has caused popular rage in countries that have, judged by conventional measures, never been richer. There is, though, a common thread. People do not see the reality of their lives reflected in the official picture, the picture painted principally by economists. Some of the forces at play in this backlash stem from issues of identity, a sense of helplessness, lack of affordable housing, an absence of community, and anger against money politics and rising levels of inequality. Some stem from the fact that our definitions of "growth" and "the economy" no longer fit people's lived experience. This book aims to explain the gulf between what experts say about our lives and what our lives actually feel like.

Though almost everyone has heard of GDP, few know it was invented as recently as the 1930s as a tool to counter the Great Depression and then reworked as a means to prepare for the Second World War. The first thing to understand is that the economy is not a natural phenomenon, a truth to be discovered. Before 1930 it practically didn't exist. It is a man-made thing, like cotton candy or car insurance or double-entry bookkeeping.

If GDP were a person, it would be indifferent, blind even, to morality. It measures production of whatever kind, good or bad. GDP likes pollution, particularly if you have to spend money clearing it up. It likes crime because it is fond of large police forces and repairing broken windows. GDP likes Hurricane Katrina and is quite OK with wars. It likes to measure the buildup to conflict in guns, planes, and warheads, then it likes to count all the effort in reconstructing shattered cities from the smoldering ruins. GDP is good at counting, but a pretty poor judge of quality. It has terrible table manners. For GDP, a dinner setting of three forks does just as well as a knife, fork, and spoon.

GDP is mercenary. It doesn't deign to count transactions where no money changes hands. It doesn't like housework (here, at least, I find common cause) and it shuns all volunteer activities. In poor countries it struggles to account for most human endeavor, the bulk of which takes place outside the moneyed economy. It can count a bottle of Evian in the supermarket but not the economic impact of a girl in Ethiopia who trudges for miles to fetch water from a well.

Growth is a child of the manufacturing age, and GDP was designed primarily to measure physical production. It struggles to make sense of modern service economies, quite a defect in rich countries where services, like insurance and landscape gardening, dominate. It is not bad at accounting for production of bricks, steel bars, and bicycles—" things that you can drop on your foot." 3 But try it out on haircuts, psychoanalysis sessions, or music downloads and it becomes distinctly fuzzy. It is bad at measuring progress, precisely the thing we imagine it is good at. To our principal measure of growth, an antibiotic is worth pennies, even though a syphilitic billionaire from a century ago might have handed over half his fortune for a seven-day course.

Our definition of the economy, in short, is pretty crude. As someone remarked casually to this author, "If you're stuck in traffic for an hour, that contributes to GDP. If you go around to a friend's house to help out, that doesn't." It was, he said, "all you need to know." In the hope that he was wrong about that, I hope you'll read on.

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We all sense instinctively that something is wrong. But we struggle to put our finger on it. The global financial crisis of 2008 was the ultimate signal that economics had let us down. In the run-up to the collapse of Lehman Brothers and the onset of recession in virtually the whole Western world, the cult of growth had led us to celebrate our economies. People like Alan Greenspan, chairman of the Federal Reserve, said everything was going swimmingly and that the markets should be left alone to create ever more wealth.

In fact, our standard measures had told us little about how growth was being created: that it was built on a foundation of exploding household debt and ever cleverer (for which read "ever more stupid") financial engineering by bonus-crazed bankers. Advanced economies had supposedly reached a new nirvana known as the Great Moderation, in which booms and busts had been consigned to history by clever technocrats and in which the market, if left to its own devices, always reverted to a happy state of equilibrium.

Economic growth told us little about rising inequality nor about huge global imbalances. The US was running huge trade deficits financed by Middle Eastern oil exporters and China, both of which were busy recycling their trade surpluses into US Treasury bonds. The Chinese were in effect lending Americans money so that they could afford all the stuff being produced in the factory of the world. That's what kept the growth merry-go-round spinning. Until it stopped. Years later, many Western countries, especially in Europe, are still struggling to bring their economies back to pre-2008 levels. Much of the growth of the previous years had, it turned out, been an illusion.

One problem with growth is that it requires endless production and, its close cousin, endless consumption. Unless we want more and more things and more and more paid experiences, growth will eventually stall. For our economies to keep on moving forward, we must be insatiable. The basis of modern economics is that our desire for stuff is limitless. Yet in our heart of hearts we know that way lies madness.

Several years ago the satirical magazine the Onion ran a piece about Chen Hsien, a fictional Chinese worker producing fictional "plastic shit" for bored Americans. In true Onion style, the piece was

borderline offensive, yet it cut to the bone of a real issue. Chen was constantly shaking his head in wonder at the incredibly useless things he was being asked to make, from salad shooters and plastic-bag dispensers to microwave omelet cookers, glow-in-the-dark page magnifiers, Christmas-themed file baskets, animal-shaped contact-lens cases, and adhesive-backed wall hooks. “And I also hear that, when they no longer want an item, they simply throw it away. So wasteful and contemptible,” he scoffs. “Why the demand for so many kitchen gadgets? I can understand having a good wok, a rice cooker, a tea kettle, a hot plate, some utensils, good china, a teapot with a strainer, and maybe a thermos. But all these extra things— where do the Americans put them? How many times will you use a taco-shell holder? ‘Oh, I really need this silverware-drawer sorter or I will have fits.’ Shut up, stupid American.”

Chen’s rant hits a nerve because most of us in the rich world know that we are constantly buying things we never knew we wanted and will never use again. Advertising and envy of our friends and neighbors prompts us to buy more and to upgrade constantly. By the time you read this, my iPhone 5 will be a joke. We know too that goods like washing machines and toasters are deliberately designed to break so that we will purchase still more in a never-ending cycle of consumption.

The sort of things Chen makes sound ridiculous. But they are far from fictional. The SkyMall shopping catalog, which enables airline passengers to order from the comfort of their seats, has offered a variety of must-have items, including a portrait of your pet dressed as seventeenth-century nobility ($ 49), a mounted squirrel head ($ 24.95), a life-size hanging jungle-monkey statue ($ 129), and, most important, rubber lips for your dog ($ 29.95). When economists say the world’s current problems are caused by a chronic lack of demand, one wonders what else we might possibly want.

From the perspective of economics, the world has never looked so good and our spending power has never been so prodigious. The US has been growing more or less relentlessly since the first set of national accounts was published in 1942. The same is true of Britain and most of Europe. After a blip following the 2008 financial crash, most economies have resumed their upward trajectory, albeit at a more sedate pace. So even if growth has slowed, our economies have never been bigger. If accumulated growth is a proxy for well-being, then we must never have been so content.

One obvious problem with putting too much faith in growth is that its fruits are never evenly shared. Our standard gauge of average income— or well-being— is calculated by taking the size of a country’s economy and dividing it by the number of people living there. Averages are a trap. They are deeply misleading. Bankers earn more than bakers, who earn more than the unemployed. To take an extreme, if the entire economic pie of a wealthy country went to one individual and nothing went to anyone else, then the average person would be doing very nicely, thank you. But the typical person would have starved to death.

The real world is not quite so extreme— outside North Korea at any rate— but even in countries like the US averages can be grossly skewed. Let’s just imagine for a moment that a large proportion of the wealth created each year goes to just 1 percent, or even 0.1 percent, of the population. Sounds far-fetched? In fact, the top 0.01 percent of Americans, just 16,000 families, has seen its share of national wealth quintuple since 1980. They now enjoy a bigger slice of America’s economic pie than their counterparts did in the so-called Gilded Age of the late nineteenth century. 6 If your country’s economy is growing solely because the rich are getting richer and if you are working harder and harder just to maintain your living standard, then you are entitled to ask what, precisely, is all this growth for?

That is particularly true since study after study shows that people’s happiness depends not on their absolute wealth, but rather on their wealth relative to those around them. In an experiment written up in a paper called “Monkeys Reject Unequal Pay” two capuchin monkeys were initially perfectly content with a reward of cucumbers when they successfully performed a task. But when one monkey was

subsequently given tastier grapes as a reward, the monkey receiving plain old cucumbers became enraged, angrily flinging the previously satisfactory salad vegetable at its handler. The monkeys' economy had grown, since grapes are better than cucumbers. But the resulting inequality brought only discontent. Humans are the same. When employees at the University of California were given information about the salaries of their peers, those discovering they were paid below the median suddenly became less satisfied and more likely to seek a new job. The attitudes of those earning above the median were blithely unaffected.

Economic growth, then, is partly the aggregate effect of an arms race between individuals who must always stay one step ahead of their neighbors. Imagine going to your local restaurant to discover that no one is any longer prepared to work for a waiter's or chef's wages. Your relative wealth depends on someone else's relative poverty. And it is that individual compulsion to get ahead or to stay ahead that keeps us running faster and faster on the economic hamster wheel, propelling the economy forward without making us any happier. If a waiter earns $ 100,000 a year, you must earn $ 200,000 to keep him bringing you food. If he earns $ 200,000, you must earn $ 400,000, and so on.

It was not always thus. For thousands of years no one had heard of growth. Agricultural economies were basically static. Only with the Industrial Revolution did humans become capable, slowly at first, of increasing output from year to year. That is why Britain, then Europe, then America and Australia and New Zealand gradually began to pull away from the pack, leaving the still predominantly agrarian economies of Asia, Africa, and Latin America behind.

If growth is a relatively new concept for human societies, then the economy is an even newer one. Before the invention of GDP, it was pretty difficult to define what an economy was, even if you wanted to. Before then, an economy was pretty much a cost saving, what Jane Austen meant when she wrote to her sister in 1808, "I shall eat ice and drink French wine and be above vulgar economy."

Now we are all too familiar with the concepts of the economy and economic growth. One could go as far as to say that they rule our lives. But what do they mean precisely? If the experts have designed a system that does not help us understand our reality, then the government is also left without a reliable metric with which to understand society. And if what we are measuring is wrong, or insufficient, then what we get, in terms of direction and policy, will be wrong and insufficient too. Governments make policies to maximize measured outcomes. For decades that has meant maximizing growth.

In Britain former prime ministers Tony Blair and David Cameron both launched projects to measure well-being as well as economic growth. Although these endeavors petered out in public, they have begun to shift the debate as well as to affect how policymakers think about the economy. Britain, for example, led the way in attempts to measure public services such as health and education, which are undercounted by conventional economic yardsticks.

In France, Nicolas Sarkozy, a right-of-center former president not exactly known for chiseling at the foundations of capitalism, set up the Commission on the Measurement of Economic Performance and Social Progress. In a foreword to the final document he wrote, "We will not change our behavior unless we change the ways we measure economic performance." Experts had long known, he said, that we were not properly measuring our economies, let alone our well-being. "We knew that our indicators had limitations, but we went on using them as if they didn't… We have built a cult of the data, and we are now enclosed within."

The danger, said Sarkozy in remarks that foreshadowed a populist backlash across the world, was that people knew instinctively when the wool was being pulled over their eyes. "That is how we begin to create a gulf of incomprehension between the expert certain in his knowledge and the citizen whose experience of life is completely out of sync with the story told by the data. This gulf is dangerous

because the citizens end up believing that they are being deceived. Nothing is more destructive of democracy."

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We live in a society in which a priesthood of technically trained economists, wielding impenetrable mathematical formulas, sets the framework for public debate. Ultimately, it is the economists who determine how much we can spend on our schools, public libraries, and armies, how much unemployment is acceptable or whether it is right to print money or bail out profligate banks.

Bill Clinton's "It's the economy, stupid" meant voters only cared about the state of the economy. At the time this carried more than a grain of truth. Though few people could give a precise definition of what the economy actually was, many did vote according to their perception of how it was performing. That might be based on personal experience: whether their job felt secure and their mortgage payments manageable. But two quarters of something as nebulous as negative growth— the technical definition of a recession— could be enough to bury a political career. Voters had been hijacked by an abstract concept.

Since then something has changed. The backlash we are witnessing suggests that people are calling time on the economists and their faulty representation of our lives. That can be very liberating. It can also be very dangerous. We don't want non-experts building our bridges, flying our planes, or performing open-heart surgery. Do we want non-economists running our economies? The problem with economists is that they often claim a scientific precision that their profession does not merit. They also speak a language that fails to resonate with people's lived experience. That is why it is so important for citizens to learn the rudiments of the economists' lingo, to gain the tools to analyze what they are being told and to demand change if necessary.

Defenders of GDP say it was never meant to reflect well-being. To criticize it for failing to capture everything important in life is like blaming a tape measure for not telling us about a person's weight or personality. That would be a valid rejoinder if the economy were just another concept, one of many we used to judge how we are doing as societies. But economic growth has become a fetish, a proxy for everything we are supposed to care about and an altar on which we are prepared to sacrifice all. In pursuit of growth, we are told, we may have to work longer hours, slash public services, accept greater inequality, give up our privacy, and let "wealth-creating" bankers have free rein. If environmentalists are right, the pursuit of growth without end could even threaten the very existence of humanity, ransacking our biodiversity and driving us to unsustainable levels of consumption and CO_2 emission that wreck the very planet on which our wealth depends. Only in economics is endless expansion seen as a virtue. In biology it is called cancer.

Guiding you gently through the technicalities of GDP is one of the purposes of these chapters. So too is fleshing out the possible alternatives— none of them perfect— from measures of wealth, equality, and sustainability to indicators of "subjective well-being" (happiness to you and me).

The aim of this book is not to declare war on growth. Some will fault it for that. Rather it is to show what is wrong with our measurement of growth in the hope that we can knock it from its pedestal. The way we measure our economies has its logic, though it is becoming less logical as we shift from manufacturing to services and from analog to digital. But it is a very narrow measure, a slit of a window through which to view our world. We need to broaden our perspective so that the image we capture is more reflective of our lives.

This book came about because, after twenty years of reporting for the *Financial Times* from five continents, I have reached the conclusion that our habit of seeing everything through the prism of

economic growth is distorting our view of what is important. I know because I learned how to do it. From my very first days reporting from Latin America in the 1990s I taught myself how to compare every number to GDP and to mention it in almost every article— to lend a bit of gravitas. I didn't spend too much time worrying about what exactly GDP was or what it was supposed to mean.

Only years later did I begin to give it more thought. One catalyst was my experience in Japan in the mid-2000s, reporting on a country whose economy, in conventional terms, had stalled. Japan was regularly written about as though it were some kind of basket case stuck in perpetual stagnation and without the wits to haul itself out of misery. None of this felt right. Certainly, Japan had problems and it was true that its economic miracle, which had so astonished the world in the 1980s, had run out of steam. But Japan's supposed misery— as measured by nominal GDP— really didn't feel like misery at all. Unemployment was extremely low, prices stable or falling, and most people's living standards rising. Communities were intact, certainly in comparison to those in America, Britain, and France. Crime was low, drug use almost nonexistent, the quality of food and consumer goods world class, and health and life expectancy among the highest in the world. And yet, viewed through the prism of economics, Japan was an abject failure.

Economics can present a distorted view of the world. So much of what is important to us, from clean air to safe streets and from steady jobs to sound minds, lies outside its range of vision. Of course, we could just throw up our hands and let others worry about the precise definition of economic growth. But that would mean recusing ourselves from the debate. It would mean leaving everything that matters in life to the self-designated experts. And look where that has got us.

* For the purposes of this book, unless otherwise stated, "the economy" and "GDP" are interchangeable terms since we define the economy by the size of its GDP. The economy will also sometimes appear as "national income." GDP growth is synonymous with growth.