Taking the Imperative out of Growth

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The report, The Tragedy of Growth (ToG), from the British NGO Positive Money, argues that the pursuit of endless economic growth does not help the enhancement of life satisfaction, poverty alleviation and environmental protection, and more than that it has damaging impacts on all these areas. Rather than calling for better or greener growth, they call for its abandonment as policy goal.

Positive Money is to be commended for its efforts in helping to bring the deep and systemic problem of Economic Growth to the public eye. However, while agreeing with this broad orientation, it is worth taking a close look at the report's policy proposals and at the economic theory behind them. Central to this is the question of what makes economic growth happen, and what makes it so difficult to construct an economy that does not have to keep expanding. These are the drivers of economic growth.

This article is complemented by a longer and fully referenced paper that expands on the arguments presented here.

Economic growth and material flows

First, let's look at this concept of economic growth. The fundamental problem threatening human life on this planet is the ever increasing flow of materials, both renewable and non-renewable, via the activities of extraction, production, distribution and use, to eventual disposal or dispersal, into the "sinks" in the plant's air, soil and water. These flows are linked to what is measured as economic activity, via measures such as Gross Domestic Product (GDP). While, in principle, economic activity can diverge from material flows, in practice, such decoupling is at best only relative: the two things are linked and they mostly vary together. Therefore it is reasonable to use the term "economic growth" as a shorthand for the more fundamental problem of growth in material flows, and reasonable to try and tackle the drivers of economic growth as part of a wider strategy for protecting global ecosystems while providing for human well-being. Although "growth" is a system outcome, not a fundamental property of the system (the drivers of growth are more akin to those systemic origins of growth), it does have a material force in determining political and policy priorities.

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Growth imperatives under capitalism

Positive Money sees the issuance of money through credit operations as the main growth imperative under capitalism.

> *We find that a monetary system based on interest-bearing debt is incompatible with a non-growing economy. This shows the need for transformative monetary and financial policies to escape the growth imperatives of capitalism."* (ToG, p. 20)

This causality is actually back to front: growth imperatives lie predominantly in the production system of what Marx, in Capital, called expanded reproduction.

> *To accumulate it is necessary to convert a portion of the surplus-product into capital. …. The more the capitalist accumulates, the more he is able to accumulate.*

Like the exploitation of energy sources, credit facilitates this expansion but does not cause it.

ToG goes on to explore the phenomenon of financialisation. They argue firstly that banks have, since financial deregulation in the 1980s, massively increased their loans to the Finance, Insurance and Real Estate (FIRE) sectors at the expense of industrial production.

> *This pattern of financialised bank lending generates a high burden of private debt, without fostering productive, income-generating economic activity that can service this debt. The high private debt burden amounts to a growth imperative starved of growth.* (ToG, p. 21).

This, though, is only part of the picture. Firstly the banks are only one element (maybe 10% of new capital formation): most of the investment in capitalist enterprise is not financed by bank loans but by the creation of equities by companies themselves. Secondly, production itself has shifted to the global South, and the relations between production there, and investment in the multi-layered financial systems of the core capitalist countries like the UK, is to say the least, obscure. To take one example, a large part of the value created in the factories of the global South is captured in the retail and FIRE sectors of the global North, such that John Smith, who has researched this in detail, concludes that the "D" in GDP is a lie.

Capitalism means growth, but why?

ToG argues that capitalism cannot continue without economic growth. I agree, but for a different reason: the true motor of expansion, the growth of capital via the production process, is as intrinsic to capitalism as it is as inimical to a steady state economy. ToG's argument rests on the notion of "debt-based money". Specifically, they argue that interest-bearing credit is a growth imperative. Their solution, central to Positive Money's raison d'être, is a reform of money itself. Several studies, mostly based on simulation studies using post-Keyenesian theoretical models, including the one they cite, by Tim Jackson and Peter Victor, have researched whether interest-bearing credit necessarily makes economic growth inevitable. These studies broadly conclude that so long as the interest is not re-invested in production but is consumed, for example via higher worker wages, then interest payments need not conflict with a steady state economy. Interest rates should also not be "too high".

This is not surprising from the Marxist perspective: it is the reinvestment of profit (as capital (i.e. into expanded means of production, or into additional labour, or the commodities from which other commodities are manufactured) that allows for expanded reproduction, i.e. the spiral of accumulation. That applies both to profits (the direct result of surplus value extraction) and interest (an indirect result). ToG makes two reasonable points about this work. Firstly, it is misleading to consider interest as independent from the propensity to save and accumulate. Secondly, they argue that historically, the emergence of banking credit (what they call "interest-bearing debt money") was a distinct development in the "institutionalization" of capitalism and its multiple growth imperatives, so it is simplistic to isolate interest from the entire system of economic and financial relations under capitalism.

That is hardly controversial and is consistent with the more rigorous analysis of money in Marx's work. However, unlike Marx, this account falls into the trap of characterising money under capitalism as "debt-based money". This is a huge oversimplification. The money system is not so much debt-based as permeated by credit relations, but it also retains its pre-capitalist aspects, i.e. of a measure of value (the universal commodity), a medium of circulation and an object of hoarding, and during periods of crisis there is typically a rush back to cash, as equities (fictitious capital – whose valuation is based on their potential sale) are converted into cash, or its electronic equivalent).

Money is not reducible to credit (or debt) and contrary to Positive Money's view that money itself should be reformed, taking credit relations out of money is infeasible. They conclude,

> *"As a key pillar of the capitalist system, interest-bearing debt is deeply linked to the system's multiple growth imperatives, and we*

find no convincing evidence that it could comfortably co-exist with a non-growing economy." (ToG, p. 25).

But this is to airily wave away at least five studies, and detailed theoretical analyses, that have come to the opposite conclusion. It is unlikely that any of the authors would think that their conclusions should be taken in isolation from a full analysis of the political economy of growth (Jackson and Victor, for example have each written whole books that analyse the whole system, as has Lange who reaches a similar but more clearly anti-capitalist conclusion). The point is important because misdiagnosing the source of growth imperatives (in the subsidiary issue of interest-bearing credit) would mean drawing the wrong conclusions for institutional and political change.

The following table summarises ToG's problem diagnoses and our evaluation of them.

Diagnosis	**Key idea**	**Evaluation**
Growth imperatives	These lie in the nature of money and the credit system, particularly the banks.	Causality is back to front: growth imperatives lie in the production system of expanded reproduction. Credit facilitates this. Banking is only one source of credit for capitalist expansion.
	Growth imperatives apply when the system stalls.	Growth imperatives are always there.
Financialisation	Financialisation is a key problem, changing the nature of capitalism. But removing it could mean that GDP growth is re-stimulated.	Financialisation is a phase in the long-term endemic crisis of capitalism. The problem is the capitalist mode of production.

Diagnosis	Key idea	Evaluation
Nature of capitalism	Separation of owners and workers. Workers produce and owners profit. Profit realised in market transactions.	Correct so far as it goes but misses the critical role of expanded reproduction: part of surplus product converted to capital which is re-invested.
Interest bearing credit and a steady state economy.	Unlikely to be possible because credit is intimately bound up with capitalism.	Would be possible if the state of simple reproduction were adhered to, i.e. interest not re-invested (but shared or spent on consumption, or better, social welfare and ecological restoration. However it is questionable that this is capitalism (i.e. system where capital is self-expanding).
Money	Debt-based money is problematic and reform is needed to end it.	Credit is one dimension of money which combines a number of functions, pre-capitalist (universal commodity, means of exchange, store of value) with the credit relations that emerged under mercantilism and matured under capitalism. Taking credit relations out of money is infeasible.

A further consideration in assessing reform proposals is the geography of production and the role of credit. It has been argued here that credit plays a supportive rather than determinative role in the expansion of production, and hence material flows, under capitalism. Much production takes place beyond the shores of the UK, and this is so for all the countries of the global North. Controlling the expansion of finance capital (a broader category then banking credit) could only affect that outsourced production insofar as the investment is in those industries. So, for example, the measures suggested will have little impact on the capitalisation of Chinese industry, where much of the credit is generated within China. The situation with, say, Brazilian agribusiness is likely to be different, with a greater penetration of UK and other Northern finance capital, but again, credit from bank loans is not a major element. The point is that the specifics are important.

Then all that outsourced production (of food, consumer goods, electronic gadgetry, hydrocarbon fuels, etc., etc.) has to find a market. One large sector is household expenditure. Much of that has been supported by mushrooming consumer credit, and also, especially in the UK, by equity release from housing price inflation. It does make sense to restrict both consumer credit and property price inflation. However, that probably would be best done by specific policy instruments (tightening of the rules for extending credit and property and land taxation) rather than by grand changes to the organisation of the money system.

Policy shopping lists

So far the discussion has been rather abstract. ToG does make a number of concrete policy proposals in the report. Some of these follow from their analysis of interest bearing credit as a growth imperative while others would seem to stem from a variety of influences such as left social democracy and ecological economics. The new proposals fall under three categories: (i) access to public means of payment; (ii) access to credit; and (iii) immediate redistribution of power. They also acknowledge the role of other policy proposals that don't directly address money and credit relations.

Our longer article evaluates the proposals. While we agree with some of them, we do not see them as adding up to an effective programme for the removal of growth-imperatives. The ToG proposals and our assessment is summarised in the following table.

Proposals	**Key idea**	**Evaluation**
1a. Central Bank Money.	Digital accounts for citizens held at the Bank of England	Unclear why this is a counter-growth strategy. Substitutes a State entity for a private one: that could be two-edged.
1b. Universal Basic Income paid via Central Bank citizen accounts.	Non-discretionary payments to all citizens.	Worth considering to mitigate severe economic shocks (e.g. pandemic impacts). Possibly a counter-growth initiative, if accompanied by highly progressive taxation on income to control consumer spending.
2. Complementary currencies.	Strengthen local economies by raising consciousness of the local economy and "plugging the leaks".	Worth considering on the grounds indicated (middle column) but evidence for their efficacy is limited. Likely to be of greater relevance as national economies fragment and as part of a system of alternative financial institutions. Possibly a counter-growth strategy.

Proposals	**Key idea**	**Evaluation**
3. Direct clearing facility.	Business to business exchange and credit system.	Could become integrated with the dominant systems of finance capital – design and governance would be critical. Unclear whether it is a counter-growth initiative, though could promote localism.
4. Public banking	New, community-based, citizen-owned and largely not-for-profit financial infrastructure.	Could encourage clean, local, social investments so well worth having. Could be counter-growth depending on context, design, and governance.
5. Modern debt jubilees	Debt cancellation or provision of money by the State to repay debts.	To be welcomed as a measure to take highly indebted households out of poverty. Would reduce profiteering from personal hardship. Applied more widely it would be unlikely to be counter-growth in effect.

Proposals	Key idea	Evaluation
6. Monetary financing	The State (government / Central Bank) conjures money into existence to fund green and public works.	Given the elasticity between money and the generation of value it is feasible as a temporary expedient but carries macro-economic risks. Unlikely to be counter-growth in nature since it would stimulate consumption and hence material flows.
7. Tax reform	Increase taxes on high incomes. Wealth, financial transactions and property and land taxes.	Essential measures to shift the economy towards greater economic justice and greener activity. Done in the right way it could be a serious counter-growth strategy.

In our longer article, we outline an alternative package of measures. These draw upon work by thinkers in the degrowth movement, but they have been considerably amended, adapted and expanded. We present the headlines here: a fuller explanation can be found in our longer piece. Numbers 4, 6 and 13 overlap with certain ToG proposals, while number 5 requires a different approach to credit from that in ToG, i.e. Firstly, impose regulation over bank lending for tight but cheap credit. Secondly, make it a requirement that share offers are for clean production and do not lead to the replacement of labour with technology.

1. Stop subsidizing and investing in activities that are highly polluting.

2. Work-and resource sharing.

3. Minimum and maximum income.

4. Tax reform.

5. Controls on credit.

6. Citizen debt audit and cancellation

7. Support the alternative, solidarity society

8. Optimise the use of buildings.

9. Reduce advertising and marketing.

10. Establish environmental limits.

11. Make international trade agreements conform with frameworks on climate change and consumption of nature.

12. Implement ecological footprint product, repairability and service labelling

13. Abolish or augment and qualify the misleading GDP indicator.

Conclusion: the political economy of economic growth

Positive Money is to be commended for its efforts in helping to bring the deep and systemic problem of Economic Growth to the public eye. Their report contains some worthwhile policy ideas but its overall diagnosis of the growth imperative, and hence how to neutralise it, is misguided, relying on a fetishisation of the money system at the expense of the deep structures of capitalist accumulation.

As they stand, both ToG and our own proposals lack a necessary emphasis on the power interests at play, particularly on the part of incumbent firms and corporations. This will require a critical understanding of the role of the State as a guarantor and facilitator of capitalist social and economic relations, not just the money system but the entire set of property relations and the laws that codify and enforce them. This is increasingly so in this neoliberal phase of capitalism but the problem goes beyond neoliberalism as such. Where are the contradictions of the system that can be used by an organised political movement to exert leverage and force system change? A political strategy is needed, linked up with other political and social movements that are engaged in the contested terrain of the State and the other societal institutions, but that will inevitably mean debate and transformation of the policy platform on which to organise. This critique could be seen as part of that debate.