The End of Economic Growth

By Adam Parsons

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"*Economic growth cuts poverty!*" is forever the inveterate, unrelenting dictum of World Bank statisticians. These four simple words, stale and contentious as they are, were in fact the title of a recent Forbes magazine article based on World Bank predictions for eliminating poverty in South East Asia[1]. As reported in the American journal that speaks to the super-rich, if economic growth continues to increase in this region of the world with the largest concentration of poor people, then "poverty can be significantly reduced, if not eliminated, within a generation."

This prognosis, made by the bank's Operations Director for South Asia, was shortly followed by their World Development Indicators for 2007[2] and the apparently good news that absolute poverty levels have fallen beneath one billion people. The bank's Chief Economist, François Bourguignon, was careful to point out that these figures "go beyond growth" to ask how income is distributed and whether health care and education are conjointly improving, but the unspoken assumptions remained clear; globalisation is good, free trade and liberalisation is a prerequisite for ending poverty, and the only answer to human needs is a market-based world economy as defined by the Washington Consensus.

The release of the annual figures, which this year seemed to be almost swept under the carpet by the international media, is still crucially important for two reasons; not only are the World Bank's statistics the only view we have on whether the incomes of poor people are rising or falling, but the implied success they demonstrate in tackling poverty is used as powerful ammunition by the rich nations who seek to perpetuate and defend the existing economic architecture which is inherently biased in their favour. The basic motivation for the World Bank to continue propagating these figures, according to many interpreters[3], is to vindicate their policies and prove they are working. It is worthwhile, in this context, to repeatedly examine and demystify the basic arguments of the pro-globalisation thinkers and so-called 'trickle-down theorists'.

How *Not* to Count the Poor

In 2002, a report titled *How* not *to count the poor* was published by two US academics, Sanjay Reddy and Thomas Pogge, who contended that the World Bank figures on how many poor people there are in the world were "misleading and innaccurate", "neither meaningful nor reliable", and extrapolated "incorrectly from limited data"[4]. So conclusive and unequivocal was this assessment that the United Nations followed it up with their own damning summary of faulty methodology and "conceptual errors"[5].

When the annual figures on world income were released in the following year, many activists and NGOs naturally didn't hesitate to question them; the arguments weren't simply focused on the technical minutiae of 'conversion factors' and 'Purchasing Power Parity' measurements, however, but on the underlying implications of what such shoddily researched yet supposedly authoritative information really means. As one commentator in the UK wrote[6]: "That the key global economic statistic has for so long been derived by means which are patently useless is a telling indication of how little the men who run the world care about the impact of their policies. If they cannot be bothered even to produce a meaningful measure of global poverty, we have no reason to believe their claim that they wish to address it."

The latest World Bank figures are more cautiously presented, with a notable emphasis this year on the inclusion of China and India . In the first two World Development Reports in 1990 and 2000/01 these two largest nations on earth were embarrassingly not even mentioned, which was consequently a major argument against the reports lack of veracity, although they are now both referred to as a chief reason for a decrease in world poverty levels – even when you consider developing countries "without these two giants", we are told, "you still find very high growth rates."[7]

Putative Successes

The survey of data goes on to quote a number of putative successes; real per capita income growth in Sub-Saharan Africa has been stronger in the period since 2000 "than any time since the 1960s", it says, alongside higher growth rates in middle income countries, and there is no hesitation in asserting that "one factor behind this performance is strong macroeconomic polices", in other words, those policies known collectively as economic liberalism. This growth in low-income countries, it goes on to brazenly attest, has "clearly resulted" in lower poverty incidence.
Some of the other improvements need not be questioned in the same way, such as the 34 million children in the developing world who gained the chance to attend primary school, the nearly doubling of external financing for health and education, and the "significant progress" made on Millennium Goal 7 to halve the proportion of people without access to safe drinking water by 2015, but the overall picture that the report portrays needs to be permanently kept in mind. Extreme poverty is "increasingly concentrated in fragile states", it says, which comprise 35 stricken countries like Gaza, Zimbabwe, Afghanistan, the Congo and Sudan, although Sub-Saharan Africa is more stricken in general than any other corner of the earth; the share of the region's people living in extreme poverty may well have dropped 4.7 percentage points between 1999 and 2004, but it still results in 41 percent of the entire population left struggling to survive on less than one dollar a day, and a world in which an estimated 16,000 children die daily from hunger-related causes. Sub-Saharan Africa now accounts for 30 percent of the world's extreme poor, says the report, compared with 19 percent in 1990, and "only 11 percent" in 1981, still an almost 300 percent difference in less than three decades.

Does the "rapid global growth" in 2006, in this context, really provide cause for the "optimism about progress in advancing the Millennium Development Goals" as the World Bank continues to submit? Is just under one billion people living in extreme poverty, about a sixth of the human population, with almost half of the remaining developing world living on two dollars a day, really cause for a note of "optimism" at all?

Depressing Contradictions

For a report that seeks to subtly toot its own horn, it is amazing how many depressing contradictions can be found when comparing its findings to concurrent happenings in the world. On the day after the World Bank's poverty figures were released, Ban Ki-moon, the new Secretary-General of the United Nations, visited East Africa to reflect on the fact that the number of slum-dwellers worldwide is set to reach a new high in 2007. Speaking in Nairobi , a city that boasts the largest slum in Sub-Saharan Africa, the U.N. emphasised that unless more private sector help is provided then the developing country governments alone will be increasingly overwhelmed by the challenge to provide adequate housing for the poorest of the poor.

This year has also seen the release of a number of independent and disquieting studies into poverty and wealth distribution; according to the recent McClatchy Newspapers analysis of 2005 census figures in the US, for example, the number of poor Americans living in deep or severe poverty has reached a 32-year high, growing by 26 percent from 2000 to 2005, what they described as "a distressing sidebar to an unusual economic expansion."[8] Poverty levels are falling, says the World Bank. Poverty levels, at least on a national basis in the richest countries, are actually increasing like never before, say the independent studies. In the UK , even the latest official figures show that poverty has increased for the first time since Tony Blair came to power in 1997.[9]

Crisis of Inequality

The key issue concerns not just poverty levels and the misleading 'dollar a day' measure, but the corresponding crisis of inequality. The World Bank report freely admitted that despite abject poverty being on an apparent decline in global terms, inequality among citizens in the same country is on the rise. In the past decade, it also admits, poverty reduction was not always or everywhere commensurate with income growth. As contemporary studies have shown[10], inequality is in fact harmful to economic growth, and income distribution is not only worsening year-on-year, but it results in the paradox of overall decreasing poverty levels and a simultaneous increase in the number of people living in extreme poverty.

The income gap has so widened, according to a recent analysis of tax data in the US[11], that the top 10 percent of Americans have reached a level of national income share not seen since before the Wall Street Crash of 1929. The top one percent of wage earners, it showed, saw an increase of 14 percent, compared to an overall percentage decrease in earnings for 90 percent of the country. The income gap is growing faster in the US , as other figures reveal[12], than in any other developed nation.

Corporate Greed

The ongoing squabble in Congress concerning CEO pay is a like an allegory to help understand the question of corporate greed; members of a powerful lobby group called the Business Round Table[13] are hotly contending proposed measures to rein in CEO compensation. The members of the Round Table, it turned out[14], received 50 percent more than even the average Chief Executive – about nine million dollars each compared to the average CEO annual salary of six million dollars – and still they bitterly fight to keep their salaries growing.

The US government, meanwhile, continues to argue that its tax policies, benefiting the top one percent of the country more than anyone else, are not adding to the widening income gap but are simply "more progressive"[15]. Higher taxes for the rich, they argue, would cause top earners to work less and take fewer risks, thereby stifling the deity of economic growth and threatening the goose that lays the golden eggs, a claim left unsupported by a shred of economic theory or empirical evidence[16]. It doesn't require any study or national survey to comprehend the reason why corporations are so keen on maintaining the status quo; in the words of the late British economist Sir Dudley Seers, "Those with high incomes… will inevitably try to find ways of maintaining privilege, resorting… to political violence rather than giving it up[17]."

Growth Isn't Working

The pursuit of economic growth as a sole measure of national success is not, despite the dogmas of the World Bank, a foregone conclusion or an inevitable assumption. The mounting evidence is unassailable; as written in the recent New Economics Foundation report entitled *Growth Isn't Working*[18], if one billion dollars in overseas aid truly lifted 434,000 people out of extreme poverty, as claimed by a separate World Bank report[19], and if the developed country governments had kept their 1970 pledge to provide 0.7 percent of national income in aid, then the world would be an altogether different place. Rather than setting the Millennium Development Goals and merely aiming to halve poverty below the one-dollar-a-day line by 2015, world leaders could instead have been celebrating its complete eradication. We would now be six years into a programme to eradicate two-dollar-a-day poverty.

The reality, of course, is far from a fairy tale ending; the shortfall of aid from the 1970 target is over $150 billion, and even in the past two years, despite G8 promises made in 2005 to increase aid by 50 billion dollars before the end of the decade, overall aid levels have continued to fall[20]. Global priorities, despite the World Bank's disingenuous "optimism" and rhetoric, are clearly more aligned with hegemony and primacy than a sincere pledge to eradicate poverty. Patronage-aid, as concluded by the NEF report[21], mainly serves as a power tool for developed country governments and international institutions like the World Bank and IMF, thereby entrenching further "the inequitable structures of the global economic system which underlies the more fundamental problem."

Hackneyed Metaphors

The 'trickle-down theorists', in no short number, argue with the same few hackneyed metaphors to illustrate their obsession with economic growth, like the rising tide that lifts all boats, or that, rather than share the cake more evenly, it is better to bake an even larger one. It is almost universally accepted amongst economists and governments that if more national and global income is created through economic growth, then a trickle-down effect will follow, thereby enabling the poorest members of society to increase their proportion of total income. As the rich man eats more cake, you might say, the poor man scrambles for a few more crumbs. What this complacent premise fails to account for is the billions of people earning less than two dollars a day who are fortunate to own a corrugated shelter, let alone a 'cake' or a 'boat' to rise in. Poverty eradication is a nice enough idea, the lesson seems to be, so long as it remains consistent with the assumption of the rich getting richer.

To plead for a redistribution of wealth, even for a one percent redistribution of the incomes of the richest 20 percent to the poorest 20 percent, is tantamount to asking for a magic wand so long as the existing macroeconomic polices drive international politics. A belief in the panacea of economic growth could be called the noumena of today's world leaders, as without it the ideological premise of the Washington Consensus and it's 'ten prescriptions' would crumble before our eyes; liberalisation and privatisation only make sense if market forces are continually unleashed in the blind pursuit of infinite expansion. Another rudimentary metaphor to add to the trickle-down theorists limited repertoire, in this sense, might be the description of a cancerous tumour.

To borrow a quote from a key U.N. paper on the ignominies of poverty reduction[22]; "There are times when the enunciation of the most elementary common sense," said the late Keynesian economist J.K. Galbraith, "has an aspect of eccentricity, irrationality, even mild insanity." One might hope that the Neoliberalists disavowal of those who dare to question the profit motive will one day be viewed in a similar vein to the arrest of Galileo when he affirmed that the sun doesn't orbit the earth. The only certainty is that a paradigm shift in thinking is required if our obsession with outmoded orthodox economics is ever to be overcome, if our "failure to make what is important measurable rather than making what is measurable important"[23] is ever to be understood, and if the truly panacean solution of the principle of sharing is ever to govern economic affairs. The only question then remaining is how far we continue on a path towards disaster before the wake up call is heard.

Adam W. Parsons is the editor of Share The World's Resources (www.stwr.net), an NGO campaigning for global economic and social justice. Adam can be reached editor@stwr.net

Notes

[1] Chisaki Watanabe. 2007. "World Bank: Economic Growth Cuts Poverty." (Forbes Magazine) 4 April.
[2] World Bank, 2007. "World Development Indicators." Washington D.C. (The World Bank) 13 April.
[3] For example: Chakravarthi Raghavan. 2002. "World Bank poverty data, methodology faulted". Third World Network.
[4] Sanjay G. Reddy & Thomas W. Pogge, 2005. "How Not to Count the Poor" (Colombia University) Version 6.2.3. 29 October.
[5] Chakravarthi Raghavan. 2002. Ibid.
[6] George Monbiot, 2003. "Poor, but pedicured: It appears that those at the bottom are getting richer – but sadly the maths just doesn't add up." (The Guardian) 6 May.
[7] World Bank, 2007. "World Development Indicators." Washington D.C. (The World Bank) 13 April.
[8] Tony Pugh, 2007. "U.S Economy Leaving Record Numbers in Severe Poverty." (McClatchy Newspapers) 22 February.
[9] Mike Brewer, Alissa Goodman, Alastair Muriel & Luke Sibieta, 2007. "Poverty and inequality in the UK : 2007." (The Institute for Fiscal Studies: IFS Briefing Note No. 73). 27 March.
[10] For example: Jan Vandemoortele, 2002. "Are we really reducing global poverty?" (United Nations Development Programme: Bureau for Development Policy) New York , July 2002.
[11] Thomas Piketty and Emmanuel Saez. "Income Inequality in the United States : 1913-1998," (Quarterly Journal of Economics). February 2003. Data updated in March 2007. The updated data series is available at http://elsa.berkeley.edu/~saez/TabFig2005prel.xls

[12] Figures reported in Paul Buchheit, 2007. “The Income Gap: Profits Up 93%, CEO Pay Up 571% — Worker Salaries Stagnant.” (Counterpunch.org). 28 February.
[13] Sarah Anderson, Sam Pizzigati, Chuck Collins, John Cavanagh and Charlie Cray. 2007. “Selfish Interest: How Much Business Roundtable CEOs Stand to Lose from Real Reform of Runaway Executive Pay.” (Institute for Policy Studies). 10 April.
[14] Chris Frates, 2007. “Highest-Paid CEOs Fight Compensation Reform.” (The Politico). 11 April.
[15] Paul Buchheit, 2007. (Counterpunch.org). Ibid.
[16] Robert H. Frank, 2007. “In the Real World of Work and Wages, Trickle-Down Theories Don’t Hold Up.” (The New York Times). 12 April.
[17] Seers, Dudley. 1969. The Meaning of Development. International Development Review 11(4).
[18] David Woodward and Andrew Simms, 2006. “Growth isn’t working: the unbalanced distribution of costs and benefits from economic growth.” (New Economics Foundation). 23 January.
[19] Goldin, I. et al (2002) “The role and effectiveness of development assistance: lessons from World Bank experience” (World Bank: Washington DC) 18 March.
[20] Organisation for Economic Co-operation and Development. 2007. “Development aid from OECD countries fell 5.1% in 2006.” (OECD). 3 April.
[21] David Woodward and Andrew Simms, 2006. Ibid.
[22] Jan Vandemoortele, 2002. Ibid.
[23] David Woodward and Andrew Simms, 2006. Ibid. See ‘Conclusion’.