# Growth – the good, the bad, and the ugly



When India reported double-digit growth in 2010, the excitement was monumental. So was the collapse a year later. After disappointing forecasts for US growth in April this year, the Fed put a much-anticipated interest rate increase on hold again. Sensing popular discomfort with globalisation, French President Nicolas Sarkozy's first act in office was to commission a high-level report looking into what he thought would be the limitations of economic growth.

These examples show three things: first, economic growth measured in terms of gross domestic product (GDP) matters a great deal, sometimes more than we are aware of; second, economic growth rates are relative; and third, growth is by no means an unquestioned imperative any more.

Historically, sustained economic growth has been a relatively recent phenomenon. Before the mid-18th century, economies did not expand over a long period of time, living standards generally were stable and innovations had no measurable impact in economic terms. That changed when fundamental transitions in technology, human capital and physical capital evolved and coincided beginning around 1750. Over the course of three industrial revolutions, growth became the mantra of modern economic thinking and political rhetoric.

No other parameter has occupied our mind to the same extent, or worked its way into political debates and decision-making processes in a comparable fashion. Governments, corporations and individuals alike judge their fate based on growth. Budgets, profits and individual welfare are deeply dependent on it. And because blatant income differences between countries make comparisons based on living standards difficult, growth rates have become the universal reference point for measuring economic success.

So far, so good. Yet the trouble is the future of growth is rather uncertain, for many reasons. First, economic growth has plateaued since the beginning of the financial crisis. The developed world – which represents more than 60% of global GDP – has not found a way to return to pre-crisis growth rates. As the Bank of England's chief economist pointed out recently, no one knows whether sluggish growth is a temporary post-crisis dip or a longer-lasting valley. The stakes are greatest where living standards are highest – and so is the debate over why we need growth and where it should come from.

Second, there are conflicting signals regarding which factors will stimulate growth in the future and which will work against it. You will come up with different answers depending on your point of view. An optimist would cite the progress of technology and the power of innovation as key drivers for future growth. He would also take into account an aspiring developing world that will step up to compensate for the developed world's faltering economic dynamism. A pessimist may see demographic growth (and its effect on per capita growth), automation and limited natural resources as key stumbling blocks for a return to sustained growth. A realist would probably ask for reliable political and economic institutions as a prerequisite for nations to prosper.

And third, growth has become a bad word in some sectors. Starting with the oil crisis back in the '70s, strong voices began calling for a halt to growth altogether. Of course, the concept of economic growth mostly draws criticism in saturated economies where income and wealth are evenly distributed, not in places where people aspire to a better living standard. So-called sufficiency theory claims that we do not need to accumulate more goods than we already have and that we can cater for ourselves within the boundaries of nation states or other manageable entities. These arguments have increasingly found their way into political and public debates and cannot be ignored. Let us get this straight: Growth is not a purpose in and of itself. It can have an ugly face in the form of pollution, over-consumption of natural resources and unhealthy levels of stress. But rather than condemning growth, we should ask for the kind of growth we want, not toss the concept overboard altogether.

Economic growth is the most powerful single determinant that has ever entered political and economic language. Lack of growth hamstrings governments and the private sector alike; questioning growth challenges the fundamentals of today's political and economic system; abolishing it in turn demands alternatives even the concept's most ardent critics have not come up with so far. One thing is for sure: as with any other dominant idea, the concept of economic growth is out there to be appreciated, to be questioned and to be reassessed in the light of today's global economic development. This is why the 46th St. Gallen Symposium will shine a spotlight on growth and look at it from all sides – the good, the bad, and the ugly.

## Progress – for a new wave of growth

In economically sluggish times, one wonders where the next wave of growth will come from – and what kind of growth it will be. It will most likely not come from traditional industries, as good management and automation might be trimming them down. Likewise, demographics and the anticipated rise of a middle class in developing economies do not seem to unlock much growth potential in the short term. Hence, we should not look for more of the same, but for what could be truly new.

That leaves technology to do the job. And this essentially means progress. Great waves of economic growth have always been driven by innovation, once inventions had been refined and reached the stage where they became transformative. If that happens, technology can become a prime force for boosting economic growth. But we are not there yet. Innovation is, in reverse, growth-driven. It is hard to think of a society that does not want to grow and still keeps on innovating.

Progress happens anytime and everywhere. It is a human ambition to take things to the next level. We should not stand in the way, as progress helps societies advance, do things better and correct the defects of past developments. Neither should we fall into the belief that progress can be steered towards a specific destination. The invention of the steam engine wasn't the revolution: It was the wider social and economic context, in combination with a refined technological innovation, which much later created the conditions to unleash the first Industrial Age. That is the case with digital technology, too.

We seem to be on the verge of something big, something we cannot quite grasp at the moment. We assume that it will be of a disruptive nature and that it will change the way we work, produce and live. Some call it the second Machine Age. It is increasingly recognised as the weak signals of future growth, growth that could even surpass the prosperity of the Industrial Age. But since innovation-led growth is essentially a black box, the best we can do now is look at the frameworks that best foster progress and prepare for the future as much as we can. This involves doing more basic research, investing in education and infrastructure, pushing for the free flow of capital and unfettered cross-border trade and allowing talented entrepreneurs to move freely around the globe. Such conditions are most likely to create a environment for progress to unfold and create growth.

## Wealth – a decent ambition

Before 1750, subsistence-level income was the rule. Wealth creation on a broader scale kicked in only after a period of sustained economic growth. Today's wealth is effectively the result of two hundred years of steady economic growth. Because the human lifespan covers just a fraction of this centuries-long period, it is easy to forget that growth has neither been self-evident in the past, nor can it be assumed for the future. The bottom line is: we cannot take today's wealth for granted. Where there is no growth, there will be no wealth. This might sound obvious, but it is a truth we need to be reminded of, not only when it comes to distributing wealth (see chapter below) but also when it comes to appreciating the roots of wealth.

In one of the most thought-provoking recent explanations of why some nations are richer than others, Acemoglu & Robinson have compellingly demonstrated that a country's wealth is the result of economic institutions created and agreed upon by political institutions. The more participatory political institutions are, the better the economic institutions that are put in place – and the more these economic institutions contribute to a country's prosperity. But good institutions aren't enough. Wealth creation can be endangered in many ways. There are those who plead for wealth without growth but have yet to come up with an alternative that matches the aspirations of the individual. It is hard to see how this could happen in a free society that thrives on individual choices, rewarding investments and freedom of research.

There are also those, like Brynjolfsson & McAfee, who say that although today's progress, namely digital technology, makes economies grow, it simultaneously contributes to stagnating average incomes and job creation. Where the two used to grow in sync with GDP per capita and labour productivity, they seem to have been decoupled. In other words, economies keep on growing, but for a large chunk of workers – and with them, their families – the prospect of increased wealth is fading. Without raking up the old fear that progress is necessarily a job-killer, the crucial question remains: What will substitute for today's job-loss, and how can we prepare for this? This will define the wealth of the future and how it will be distributed.

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## Distribution – growth for the benefit of all

Governments repeatedly get trapped in arguments over wealth distribution. When growth points upwards, discussions over who gets what share die down. But as soon as growth shows signs of slowing down, the dog-fight over the scraps starts. When growth is stagnant, wealth is a zero-sum game: Whoever wants a bigger slice of the cake has to take it away from someone else. This isn't the case in growing economies. As much as they may differ, from debt-ridden South European countries to heavily subsidised economies in South-East Asia, from saturated societies in Northern Europe to protectionist economies in Latin America, when economic fortunes fade, people suffer. They suffer most where political decision making is entrusted to a small elite, where economic institutions serve only the few and where people have been denied progress and prosperity. Where this happens, wealth distribution has been built on the wrong foundation in the first place.

Each society has to strike a balance between making growth benefit all without robbing people of their individual rewards. Generally speaking, societies that strike this balance well are more stable and enjoy more freedom, as current developments show. One instrument to accomplish this is transfer payments, as the modern welfare state demonstrates (sometimes to excess). But this model increasingly shows signs of stress, as the many it serves cannot agree on how to harmonise it with the requirements of the digital age, where new working and living patterns prevail. The core principles of the modern welfare state still dates back to the Industrial Age and may have become less just and less effective over time than many believe. Already, a middle-income family in any given developed economy struggles to keep up with the rising costs of living, let alone save for retirement.

If you need proof of how the modern welfare state can miss the mark, just look at the rising level of social inequality in much of the developed world. The IMF has linked the Gini coefficient to growth rates and found out that the more unevenly income is distributed in a society, the more future growth will be negatively affected. This may seem alarming, but it is important to draw the right conclusions: The answer cannot be even more redistribution of income and wealth. Instead, we have to find ways to make innovations in fields like health care systematically available to people, how to stop the hollowing out of the middle class and how to educate people to give them the means and tools to face the brave new world.