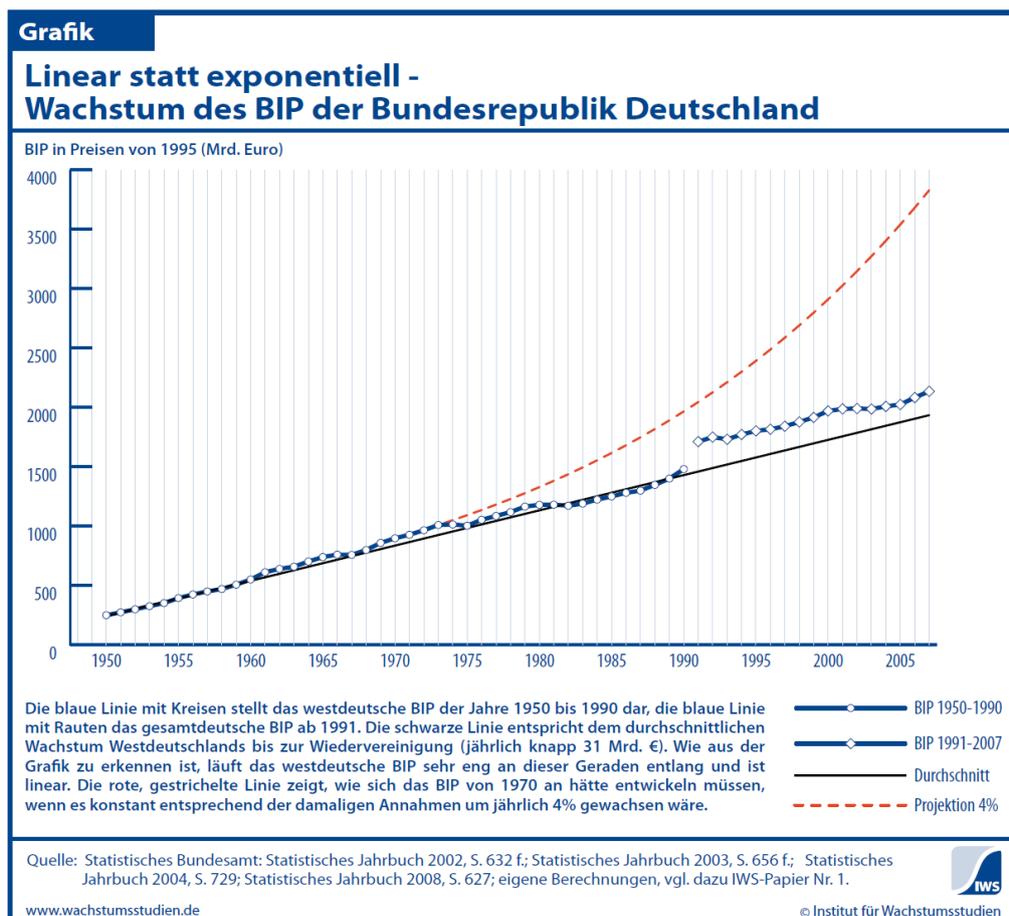


The misunderstanding of “Growing Growth”

The paper addresses a core assumption of economy theory and economic policy, namely, the assumption growth by steady high rates being typical to economies. In statistical terms such development is called exponential, however, due to its counterintuitive special dynamics we illustrate it by the term “growing growth”: Economies are not only supposed to increase by the value of more or less the same amount of further goods and services every year, but the value of the increase is expected to grow continuously. In the seventies, the Club of Rome has already criticized an exponentially growing economy in its famous book “The Limits to Growth” to be a hazard to the environment and to mankind as a whole.

In the face of the prevalent assumption, which also underlies the bestseller’s influential conclusion, based on a comparative statistical survey the paper demonstrates that for the last 50 years almost all western economics grow by constant absolute values. In other words: The economies show mere linear growth or to be more descriptive “constant growth”. As a logical result of this stabile development, for decades, growth rates have been on the decrease worldwide.

The following chart shows by the example of Germany how the assumption of exponential growth and the actual development diverge: The blue lines represent the GDP of Germany since 1950 respectively since 1991. The broken red line illustrates how the GDP would have been developed since 1970 if the assumption of an exponential growth had occurred. Over time, of course, the divergence between both developments is getting wider.



This development applies also to Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Italy, Japan, Netherland, Portugal, Spain, Sweden and Switzerland.

The paper does not lay much stress on the question, if – as it has become a popular to demonstrate in times of crises – we can reveal another misconception of economic theory. From our point of view the main surplus of the survey lies in the particular perspective the awareness of these statistical facts provides. Decreasing growth rates, which have been generally considered to be an aberration from economic normality and therefore in need of being explained, are here proven to be the typical case for western economies. And if these economies do not grow exponentially, but still constantly and therefore in quite predictable degree one of the core questions of politics almost automatically changes from “What do we have to do to raise growth rates again?” to “What do we do with the growth we are most likely to have in the future?”.

Obviously, neither in economic theory nor in politics this change of mindset has taken place yet. Growth rates still are the most prominent indicator for the success of economic policy, politicians are constantly urged to take “countermeasures”. A multitude of fundamental changes in economic and social policies (regarding e.g. the welfare system, the labour market, the tax system or the pension system), which have been taken for this reason in Germany, may therefore to be reevaluated.

In contrary to the usual critique of being ineffective or unsocial the issue addressed here is that by such reformations politics tragically tries to improve the conditions for growth in order to “restore” a normality, which, empirically, has never existed.

Adapting expectations to a more realistic economic development and by that revealing the “real value” of further growth might not only offer alternatives to nowadays politics, which is aiming at growth at as the “ultimate means”. It might also add further authority to the position of growth opponents in the public discourse, whose ideas are considered to be irresponsible with regard to the maintenance of our society’s wealth. A reassessment, which does not only take into account the social, ecologic and – at least in the long term – even economical price we continue to pay on our hunt for growth, but also applies a realistic view on future economic development, might lead to new majorities, which consider this price less proportionate than so far.

*Kay Bourcarde / Karsten Herzmann, Institut für Wachstumsstudien (Institute of Growth Research),
Postfach 11 12 31, 35357 Gießen, kontakt@wachstumsstudien.de*