

GROWTH, CAPITALISM, & 'GREEN ECONOMY'

A RESPONSE TO

Why do capitalist economies need to grow?

The issues raised by ecosocialists about the relationship between capitalism, growth, and environmental disaster are important ones, and I'm therefore glad that Green House has published Bill Blackwater's 'Why do capitalist economies need to grow?' However I disagree with much of what he says, and I want to explain why.

As a child, one of my favourite types of puzzle was 'joining the dots'. By working along the sequence of numbered dots, you could reveal a picture. Often of course, after just some initial dots I would try to guess what the picture was going to be, and often I got it wrong. That's my feeling about Bill Blackwater's paper. The dots he describes really are there, and there is a picture to be drawn – but because he hasn't considered all the relevant dots, the picture he imagines turns out wrong.

His picture is one which shows capitalism as incompatible with a non-growing economy, and a growing economy as incompatible with ecological sustainability. Hence to achieve sustainability we need an economy that is both non-growing and non-capitalist.

This picture immediately rings alarm bells for me politically, because of the great difficulty of persuading large numbers of people that such an economy would be desirable. A non-growing economy looks unattractive to most people. A functioning non-capitalist economy has become increasingly hard for most people to imagine. Achieving both together looks at first sight near-impossible. And therefore the pessimistic conclusion suggests itself that if this picture is correct, there is little chance of avoiding total ecological disaster.

Despite that, it is still possible that the picture might be accurate, and it will be necessary to look in some more detail before deciding one way or the other. But if there is some mistake in the analysis, some key dots left out when the picture was drawn, that would be very welcome politically, as that might point to a practical way forward for reaching a society which, even if neither non-growing nor non-capitalist, would at least enable us to avoid ecological disaster.

Points of agreement

I will start from the points where I agree with Blackwater's analysis. The most important of these is that "capitalism" is an extremely important – in fact, the most important – category for understanding why the world is as it is, and why it is moving in the direction of ecological disaster. The structure and dynamics of the capitalist system are crucial. Without an analysis of how they work, we are left with a shallow environmentalism which does not begin to tackle the big picture and the big issues, even though of course it may draw attention to some important factors and generate some significant campaign wins.

It is similarly shallow to see the world simply in terms of bad people and bad “values”. It is absolutely essential (as ecosocialists argue) to consider the distribution and workings of economic power, which go a very long way to explaining why it is that the wrong people and the wrong values are in command. This is not all about the failings or wickedness of those particular people – we are looking here at a whole interlocking system.

It is also the case that capitalist firms seek profit, and profits are easier to come by if total output is increasing. Capitalist banks seek profit largely through charging interest, and again interest is easier to obtain if the total of incomes to pay it is growing.

There is also another relevant point about here capitalism, which is the way it fosters and exacerbates inequality. Extreme inequality is an important factor getting in the way of a shared sense of the common good, which would be the most effective basis for reaching global agreements, for example on climate, biodiversity, and forest conservation. It may prove necessary to reduce global inequality first in order to arrive at the sorts of strong international ecological agreements we need.

Capitalism in times of no-growth

However at this point, I start to disagree with Blackwater’s paper. Certainly capitalist firms are more likely to flourish at times of high economic growth. This is clearly their “preferred” situation, and they will act through lobby groups to try to maintain conditions and policies favourable for growth (at least in the short and medium term), for example pressing for the expenditure of taxpayers’ money on the types of transport, taxation, and education systems that favour growth.

Most of the economic history of capitalism shows it to have been a time of growth. However, there have also been periods when the growth economy has faltered – Japan recently, for example, a large part of Europe following the 2008 financial crisis, and most importantly, the depression of the 1930s. In no case has that led to capitalism coming to an end. Profits have been hit, dividends have fallen or disappeared, some firms have gone out of business, and capitalists generally have not been so happy. But the capitalist system has continued.

It has not continued unchanged, however. Moves to modify the system with the aim of restoring and maintaining growth have sometimes been successful – the most important example being the way that Keynesian macroeconomic management was introduced to stabilise economies, helping to produce full employment, and resulting also in strong trade unions and the development of the welfare state. All this constituted a drastic modification of capitalism, but capitalism is what it remained.

The 1930s depression is an example of a capitalist crisis – analysed by socialists as a fundamental one – but one which it was possible for capitalism to overcome. Similarly, the ecological crisis strikes at the basis of capitalism, but we should not underestimate the ability of the capitalist system to reinvent itself, especially when the power of governments, electorates, the scientific community and activist groups is added on to the survival needs of business.

In circumstances of no-growth, competition amongst capitalists tends to become more severe, because they are all seeking to maximise their own profits within a fixed or even falling total. There is also a strong tendency to try to squeeze more out of employees, the self-employed and small business, and the environment, and to get governments to bring in more favourable policies. But this can all go on within the context of a non-growing capitalist economy.

It is also important to note that capitalist firms don't actually have to aim at growth. A recent report from PwC (reported in the Financial Times 15.10.14) bemoaned the fact that many family-run companies prioritise family and community ties over aggressively going for growth. PwC of course saw this as underperformance and a regrettable lack of ambition. But perhaps it indicates the possibility of a better way of doing capitalism. Similar points were made in a Green House gas by Hugh Small: 'When businessmen fear growth':

http://www.greenhousethinktank.org/files/greenhouse/admin/When_businessmen_fear_growth_1_Dec_12.pdf

Credit, debt & growth

Next there is the claim that credit compels the economy to grow. "Credit is not just what allows the economy to grow; it is also what compels it to do so." (page 8) This is similar to the claim sometimes made that economic growth is primarily caused by the creation of credit and debt. But there is no mechanism whereby this can happen. The reality instead is that economy-wide credit and debt which involve the charging of interest only work in a growth economy. Only then is everyone able to repay what they borrowed, plus pay interest on it. The argument that credit creation causes growth has cause and effect the wrong way round. Growth makes possible credit creation and the charging of interest without simply leading to inflation and mass bankruptcy.

Growth can't be created just through finance. Growth comes primarily from what happens in the real economy – production, technological change, the skill and knowledge of the labour force, the availability of raw materials. Growth has come from steam engines, computers, raw materials from colonies, not simply from printing money.

This way of seeing things has the advantage of helping to explain the 2008 financial crash. There was no shortage of credit being created, no shortage of debt – and so if they had been sufficient to cause economic growth, it would not have faltered in 2008/9. What created the crash were the signs that economic growth was going to stop in the US and Europe – because of rapidly rising prices for oil, food, and metals. And since the debt economy was dependent on growth, the prospect of a short- and medium-term end to growth was sufficient to crash the finance system.

This is not to say that credit and debt play no role whatsoever in economic growth. They can stimulate it and their absence can hold it back, particularly in the short run. However it is important to see that they are not the main motor driving the process. If they are seen that way we are likely to be misled into believing that what is wrong with economies can be fixed through monetary and banking reform, when we also need structural changes in the 'real economy' (outside the finance sector).

Unemployment, imperialism & growth

A third point of disagreement arises from the claim that growth is necessary for employment. This is simply the way economies are currently organised, but there is no necessity about it. All that is necessary to deal with this problem is to introduce a shorter working week, and possibly a lower age of retirement, a higher age for leaving full-time education, and a reduction in the penalties society heaps on the unemployed. There is also no necessity for high unemployment to cause the economy to crash if growth makes it possible to pay out high rates of unemployment benefit, or even just high wages to those who remain in employment.

The mention of Rosa Luxemburg's theory about imperialism and capitalism is interesting (page 7). But the way I would elaborate on that is to say that, since Luxemburg's time, to some extent capitalism has replaced moving into colonies with moving out into the atmosphere and the oceans. It has extended its reach geographically beyond countries and out into other spaces, continually externalising its costs in order to maximise its profits. It has also extended its reach psychologically, within the psyches of people seen and addressed as "consumers" ripe for exploitation. Imperialism continues, but it is now part of an even more all-encompassing system.

Where does this leave us? I have left out the question of whether we really need an end to economic growth in order to prevent ecological disaster, because Blackwater's pamphlet also leaves that question out. I will simply say here that I think that issue is more complicated and less clear-cut than he assumes.

Wishful thinking and the reinvention of capitalism

An intoxicating mixture of wishful thinking and Hegelian philosophy has led generations of Marxists to underestimate the capacity of capitalism to renew itself and survive despite its self-destructive tendencies. They have tragically underestimated a whole sequence of means by which capitalism has survived, including fascism, Keynesianism, and neoliberalism, and made a series of political miscalculations as a result. The sense that "capitalism will do the job for us" has led many socialists to put too little effort into devising a better system and arguing for why that would be a practical and moral advance.

I have grown sceptical about claims that capitalism is going to destroy itself. I am much more inclined to believe that it will only be destroyed when large numbers of people get together and mobilise around a clear set of ideas about creating a better system. My own preference is for an economy based mostly on networked democratic co-operatives, operating within a framework of sustainability limits.

However it might be that this time round capitalism actually will destroy itself, in the process of destroying the ecological foundations which make this a habitable planet for humans. This is possible given the current combination of the hold of neoliberal ideology, the difficulties of achieving effective international agreement, and the time-lags involved between taking action on issues like carbon emissions and getting results. But there is no indication that this collapse would create the basis for a better society. It would be more likely to create what Marxists have called 'barbarism': a setback to the whole historical process rather than in any way a step forward.

I want to return to my point about the 1930s and Keynesianism. Keynes had an understanding of the dynamics of capitalism. It was not the same as Marx's: it pointed to the radical modification of capitalism rather than its self-destruction or overthrow. It is of course possible to argue that Keynesian theories were wrong – or even if correct in the 1930s and 1940s, wrong in the 1970s and since. Here I am merely referring to Keynesianism as an example of a set of ideas which: (1) responded to a crisis; (2) entailed a drastic modification of economic theory, the role of government, and the capitalist system; but also (3) were compatible with the continuation of capitalism, despite the fact that many in the 1930s – Marxists particularly – saw the depression as heralding the end of the capitalist system.

The historical context for capitalism is changing again now. It is possible to imagine a no-growth capitalism (and in fact that is what we have had recently in some years and some countries). It is also possible to imagine a capitalism existing within a framework in which there is far greater government and international regulation of the use of resources and the environment, including a system for rationing the production of fossil fuels and a system for levying taxation to pay for maintaining critical ecosystems. Instead of Keynesian macroeconomics, there could be a mega- or meta- or eco- economics, with the principal level of management being global rather than national, and the principal concerns being with climate, ecosystems, and resources rather than with unemployment and bankruptcy. As with Keynesianism, the “catch” is that this is compatible with a “micro” level of competing capitalist firms continuing within that larger managed context. This would represent a shift away from the stupidity of neoliberalism to something much more favourable to the long-run interests of capitalism.

Whether all that will happen, of course I don't know. The hold of neoliberal ideology may be simply too great, and the complexities involved in establishing a global system of ecological management too difficult to deal with. But I find it far easier to imagine how we would get there than I do to imagine how we might arrive at an ecosocialist economy through some conveniently inevitable process of capitalism destroying itself.

'Green economy'

Two systems rule the world. No longer can we say the two systems are capitalism and Communism. Today the two systems that matter are economy and ecology. They operate according to very different principles. One is the world of climate, ocean currents, pollination, the carbon cycle, the flow of nitrogen, food chains, multiple interactions of different species. The other is the world of markets, money, high-frequency trading, mergers and acquisitions, trade and investment deals, dodgy banking.

The zone where they meet has become increasingly important as the pressures of the world economy on the ecological base have intensified. The concepts we use to discuss this zone have also become more important. Yet when we consider them, we find that almost all are deeply ambiguous. The classic example is “sustainable development”. The same is true of “beyond GDP”, “natural capital”, “decoupling”, “corporate social responsibility” – and “green economy”. What exactly do they mean?

That is perhaps an unfair question, because the ambiguities of this whole class of concepts can be seen to be deliberate, or at least in some way politically useful. All of them are about drawing together wide-ranging coalitions of people and organisations which have different objectives, interests, and ideas.

If we ask whether a capitalist economy can also be green, whether green capitalism is possible, the answer must surely be that it depends on what you mean by 'green'. Capitalism operates through incentives and inequalities, which essentially determine the flows of resources. If 'green' includes anything like equality or social justice, or democracy applied within economic life, I think we have to say that it is incompatible with capitalism. If, however, we ask whether capitalism could more sensibly organise itself, including through the use of state intervention, in order to protect its own long-term interests by doing a much better job of looking after the resources it depends on, then I think we have to say about capitalism could become much more green than it is now, and in fact needs to in order to secure its own survival.

Inside the term 'green economy' we have a whole spectrum of versions, including both the co-operative-based economy I mentioned earlier as being the best outcome, and a "green capitalism" that simply amounts to firms such as Unilever acting with some sense as to what is in their own interests. These different versions are united in their opposition to both neoliberalism and the indiscriminate pursuit of economic growth.

However the arguments between those versions of 'green' are important too. Bill Blackwater's Green House 'Gas' on growth and capitalism can help us to get some clarity – provided we see where it goes wrong!

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