

Dematerialising Growth is Humanity's Greatest Challenge

The most harrowing challenge confronting the humanity today is whether the growth we have been used to since the second world war is sustainable. Is Thomas Malthus going to have the last laugh? Will the 21st century be a century of peace, prosperity and promise or of doom, desperation and despair?

Charles Dumas of London-based Lombard Street Research notes that, at purchasing power parity, China now generates a little over a quarter of world economic growth in a normal year, while emerging and developing countries together generate 70 per cent. Even at market exchange rates, the growth of China's gross domestic product is as big as that of the US in normal years for both countries.

Today, almost two-thirds of humanity lives in high-income or high-growth countries. That proportion is up from less than a fifth 30 years ago. Unfortunately, the remaining 2 billion live in countries with stagnant, or even declining, incomes. Even within countries and within regions there are stark disparities that have sharpened since globalisation. What makes this really worrying is the accentuation of inequity with the rise in population. World population would rise by 30% and the income 4 ½ times by 2050. Some two-thirds of the 3 billion increase in global population expected will live in countries today enjoying little or no growth.

The first question aptly asked by Jeffrey Sachs of the Earth Institute is whether the planet will have room enough for 7-10 billion people by 2050. The power of technology has helped the developing countries like India and China to grow phenomenally during the past decade and rightly so. The question is what is the cost of this growth? Our fundamental problem is that we have not been able to price the natural capital and account for the impact of human activity on it. Our economists and accountants simply write off the loss of natural resources from the base line growth analyses as externalities. Our economic system has price for everything we can do without but not for priceless things like air, greens, glaciers, rivers, forests and oceans. Despite all our talk of productivity we have not succeeded in getting more for less from nature but destroyed the planet wantonly counting as income what in fact is blatant destruction of natural capital. The result is massive glacier melt, ground water depletion, habitat destruction and more toxic chemical and pollutants.

The failure of the financial system after the sub prime crisis shows that the market forces are unable to solve the problem. The main problem is that the ideology of the market economics denies the very existence of these catastrophic problems. Hence we are short of even the practical tools to help solution. Market forces have never been the best guide as technological pathways often overlook the needs of the poorest of the poor.

The overriding challenge is to bring the billions living in developing countries to industrialized countries' income levels as rapidly as possible and empower poor countries to earn their standing among the high-growth category. This issue is addressed by the recently published Growth Report, product of a commission consisting mainly of policymakers from developing countries, under the chairmanship of Michael Spence, a Nobel-laureate economist at Stanford University.

The report is based on an analysis of 13 countries that have managed growth of 7 per cent a year over the last 25 years. They are diverse: Botswana, Brazil, China, Hong Kong, Indonesia, Japan, South Korea, Malaysia, Malta, Oman, Singapore, Taiwan and Thailand. The report proposes "ingredients" of rapid growth such as investment of at least 25 per cent of gross domestic product, predominantly financed by domestic savings, including investment of some 5-7 per cent of GDP in infrastructure; and spending by private and public sectors of another 7-8 per cent of GDP on education, training and health. They also include: inward technology transfer, facilitated by exploitation of opportunities for trade and inward foreign direct investment; acceptance of competition, structural change and urbanisation; competitive labour markets, at least at the margin; the need to bring environmental protection into development from the beginning; and equality of opportunity, particularly for women.

Is GDP growth the ultimate satisfier of human specie? Richard Layard of the London School of Economics and the UK's House of Lords produced an elegant, brief and influential exposition of the new doctrine two years ago. He argues happiness is the sole goal of human activity. Second, happiness is measurable. Third,

we know what makes people happy and unhappy. Finally, policy should aim at achieving the greatest happiness.

The key question that needs answering is whether this materialistic model of growth ushers happiness. Does high income always leads to happiness? We know far too many rich people who are the most miserable people in the world. Should not the main objective of policy makers be to eliminate extreme poverty and save environment?

Even more important to ask is what will happen to this planet if all 8 billion people own cars, cookers, refrigerators, washing machines, plasma televisions and flush their toilets with the same intensity of water as only a few millions can afford today? The saving grace of poverty is that the per capita use of natural material by the poor countries is a fraction of rich countries. Do we realise we are able to breathe fresh air only because 5 billion people live in poverty? Is our obsession with materialistic growth not a recipe for disaster? Should we not concentrate all our effort on dematerialising growth?

The problem is the acquisitive character of the current growth model. This not only triggers climate change but also results in Afluenta, an emotional disorder caused by envious greed described by Oliver James in his book by the same name. The question is what can business do to replace this model by one that creates enjoyment through experience without causing environmental damage. A whole lot of companies like the Disneyworld, Nintendo and now the Indian Premier League are creating enormous wealth by letting people have fun. Daniel Kahneman, a Nobel economist at Princeton University and Daniel Gilbert a Psychology professor at Harvard University and author of "Stumbling on Happiness" reckon people cherish experiences over commodities. People love 'doing' than 'having'.

In a national survey of more than 12,000 Americans conducted by Harris Interactive on behalf of Northwestern Mutual Financial Network, respondents were asked to think of an experiential and a material purchase they had made with the "aim of increasing your happiness." Van Boven, a Colorado University professor found that when asked which made them happier, most respondents chose their experiential investment over their material possession. The most durable amusements are the ones which have application and attention. So, can our policy makers focus on exploring and exploiting the enormous possibilities inherent in moving our economy from this acquisitional mode to an experiential mode? The alternative is catastrophic to humanity's survival.