

Economic growth? Forget it.

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Politicians in developed countries are still obsessed with growth without realising that growth is history because as our incomes have grown, we consume fewer material items and more services, and the chance of productivity growth in services is limited, even with AI. The question is, when will politics begin to reflect this new reality?

https://youtu.be/dRfNWh_95MM?si=8ntNZuhjqM0gu8tA

This is the audio version:

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And this is the transcript:

Economic growth? Forget it. That's what I'm telling you to do because that's what you need to do, because economic growth is history. Let me explain why.

Despite the fact that all our politicians in the UK, and in most countries across Europe, and in the USA, and elsewhere, are obsessed with the idea that growth is going to pay for our futures, it isn't, and it can't, and it won't.

It might pay for the futures in some countries in the world who have yet to reach our stage of supposed economic development because they consume fewer material goods than we do and, therefore, have the capacity to both make and consume more material items. But in countries like the UK, the USA, and the whole of Europe, the capacity to consume more goods is reaching its limit.

And that's not because of climate change, although obviously that has an impact. It's because we've had enough. And by enough, I mean we consume sufficient, and we don't want to consume more. And this data is very clear from the patterns of consumption that we can see within the economy.

As people's incomes grow, the proportion of their spending on the consumption of material goods falls.

As a matter of fact, there is a limit to the amount of food that you can consume.

There is a limit to the number of cars that you can own.

There is a limit to the amount of furniture that you require.

There is a limit to, well, almost everything that is material. Because we just can't keep dedicating our time to consuming material goods.

But we can consume more education, more healthcare, more entertainment, more socialising, and so on.

So as we get richer, we consume very much more in the way of services than we do in the way of goods. And as the population as a whole gets richer, very obviously, that means that an economy becomes more service-orientated and less production-orientated, and we have seen this trend in the UK and most other so-called developed countries in the last 40 to 50 years.

It's obvious that not only do we make less, but as a proportion of our national income, we consume less.

Now, I'm not saying that means we actually consume less in total because that has not been true. We have consumed more in total, but as a proportion of our national income, we consume less.

And as we tackle, as we should, the problem of poverty, and we lift people out of it, as we should, this will become even more obviously apparent, because the richer we make those who are in need, the less they will spend on material goods as a proportion of their income as well.

So, this problem is only going to get worse in terms of declining demand for goods in proportion to total economic activity as we tackle the problem of inequality, as I hope we will, but what does this mean for growth then? The problem with growth and our obsession with it is that whilst it is relatively easy to create growth, when we consume more things, it is very much harder to create more growth when we consume more services, whatever they might be - as I say, healthcare, education, entertainment, going out for meals, whatever.

The point is, that as we produce more things, a single person can have more and more equipment that they can be given to control. And, as a consequence, in proportion to their labour cost input, the amount of goods produced rises. And that is what productivity growth means. And productivity growth is what has driven most of economic growth to date.

But, when we look at services, productivity growth is very much harder to create. A doctor sitting in front of a patient is going to take 15 minutes for a 15-minute appointment, if that is what you might get, whether or not they are paid more or less, and whatever the situation might be with regard to the patient's well-being. By and large, a patient who's been told they can have 15 minutes will take 15 minutes. Productivity gains inside medicine are, therefore, very difficult to secure. Sure, we can put more equipment in the hospital, but very often that will actually simply require that we put more people in the hospital to use it, because if we use equipment to treat people, inevitably, somebody is going to have to explain what is going on to the patient, manage the equipment the patient is being subject to, whatever it is, and so on.

And we can say the same in education. You can put 30 people in a classroom, and you will get reasonable outcomes in secondary education. If you put 50, you will actually get significantly worse outcomes, even though productivity looks to be better. Actually, we find this when we get to higher education as well. Putting 600 people into a university lecture room does not necessarily improve educational outcomes. So, productivity gains in services are very hard to secure.

And that's also obviously true with regard to entertainment. There are a certain number of people who are required to make a television programme, for example. You can try doing it with AI, but people will notice. And anyway, someone actually has to manage the output, come what may.

And this is true with regard to leisure. If you are going to a restaurant, you are going to need somebody to take your order. You are going to need somebody to cook your food. And I can't see how AI is going to change very much of that for a very long time. In other words, productivity gains in services are going to be low.

And the amount of productivity gain that we can get as a consequence of consuming more is also going to be low because, as a proportion of income, the amount of stuff that we want is going down. Therefore, growth is economic history. We're not going to get it.

So, those politicians who are basing all their assumptions on the idea that because we once had two per cent annual economic growth, we can, therefore, have it now are making a false assumption. They are extrapolating something that cannot be extrapolated because there has been a change, and the change is that our incomes have reached the point where we consume services and not goods and therefore, the

extrapolation no longer holds good.

We are not going to see growth of the scale that we did up until the time of, broadly speaking, the global financial crisis in 2008 because the opportunity to do so no longer exists.

It is a simple, straightforward statement of fact that this is true in the UK, the USA, continental Europe, Australia, Japan, and other countries where the consumption of goods is going to decline as a proportion of income even before we take climate change into account.

In that case, what is going to happen to economic policy that is based upon the assumption of growth? Simply, and straightforwardly, that policy is going to fail. Because the growth will not be delivered. The politician who promises that will fail, and the narratives that are built around the fact that we can be made better off by increasing productivity in the production of goods that will then increase our income into the future, is false.

We have to look for other criteria of success. And that other criteria of success will be how much do we enjoy and how are we benefited by the services that are available to us? And this is particularly important for those who are looking at the balance between the state and private sectors because many of the services that we want which would improve our lives the most, are in the UK at least, provided by the state.

We want more education and better-quality education.

We want and even expect, better healthcare.

We want better social care.

We want better palliative care, and there's hardly any of that right now.

We want better management of our environment.

Many of those things are actually services. And as a consequence, what we want, if our well-being is to be improved, is not more, in the sense of a higher level of achieved growth, but better quality, and until the government understands that it is quality and not quantity that matters when it comes to the economy, they are going to mismanage it.

We are in a new economic era where the quality of services will define our well-being. The quantity of goods that we consume will not do so to the extent that it did in the past. This is the new economy. What is government going to do to deliver what we need?