No-growth economy could mean fewer crashes and higher wages, study shows

November 10 2017

Credit: University of Sussex

An economy based on zero growth could be more stable – experiencing fewer crashes – and bring higher wages, suggests a new University of Sussex study.

Running counter to dominant economic thinking, the new research shows that economies can be stable with or without growth and are in fact likely to be less volatile if we stop chasing ever-increasing GDP.

The idea of a no-growth economy is not new – British economist John Maynard Keynes in 1936 predicted an end to growth – but it has gained traction in the past few years as people have increasingly come to view infinite growth as environmentally unsustainable.

Dr Adam Barrett, a mathematician at the School of Engineering and Informatics at the University of Sussex, says: "Our economic system relies on growth but, because we live on a finite planet, most people agree there is a limit to how long this can continue.

"Slowing down economic activity therefore makes a lot of sense in theory but the charge has always been that this leaves you vulnerable to financial crises.

"My research suggests that not only is this not necessarily true but that, if anything, zero-growth scenarios are more likely to remain stable. An end to growth did not trigger instability in my tests."

Instead, financial crises have much more to do with erratic debt behaviour than whether or not the economy is growing, Dr Barrett says: "The more rapidly businesses try to change their level of debt in response to changing conditions, the more likely there is to be an economic crisis."

Dr Barrett's paper is the first to assess the relative likelihood of a crisis emerging from a period of zero growth versus a period of positive growth.

The study found that, in contrast to the alarming conclusions of French economist Thomas Piketty, an end to growth would not cause rising inequality: the share of profit going to workers would actually increase. However, the study does concede that this would be accompanied by more frequent substantial drops in levels of employment.

Interestingly, all the scenarios modelled by Dr Barrett included a positive interest rate for loans, a key feature of a capitalist economy. This could be seen as a sign that a move to a stable no-growth economy could be achieved without dismantling our entire banking system. Indeed, the research modelled gradual and sudden transitions to a post-growth economy and found that neither would trigger a crisis; although, again, there would be some fluctuations in the level of employment in the absence of an active government.

Unlike other studies, which search for an elusive sweet spot where an economy is steady and robust to all shocks, Dr Barrett accepted that all real economies are subject to fluctuations and cycles. He says: "None of the studies so far really take account of the fact that capitalism is unstable and prone to crisis even during a period of strong and stable growth." Instead, he characterised crises as "run-away explosive behaviour" and paid less attention to small bumps in the road.

Using a new mathematical model based on American economist Hyman Minsky's theory of financial instability - work that was much overlooked prior to the financial crash of 2008 but which has been receiving increasing attention in recent years – Dr Barrett ran a series of scenarios in which productivity is forever growing (at two per cent per year) and some scenarios in which productivity stops growing.

He allowed the models to play out for a period of 250 years, after which the patterns began to repeat.

The study 'Stability of zero-growth economics analysed with a Minskyan model' is published in the journal *Ecological Economics*.

More information: Adam B. Barrett. Stability of Zero-growth Economics Analysed with a Minskyan Model, *Ecological Economics* (2017). DOI: 10.1016/j.ecolecon.2017.10.014