



**Would a zero growth economy be achievable
and be sustainable?**



**Giuseppe Fontana, University of Leeds and
University of Sannio**

**Malcolm Sawyer Emeritus Professor of Economics,
University of Leeds and FMM Fellow**



Introduction



- ▶ Purpose of paper is to examine the macroeconomic conditions under which a zero growth regime would be achievable and sustainable.
- ▶ The arguments for zero growth come from the de-growth school.
- ▶ Our analysis is heavily reliant on post-Keynesian macro-economics.



Preliminary comments

- GDP measure of market economic activity, not of economic/social welfare
- Used (i) GDP related to carbon use, etc, (ii) to consider rate of profit, paid employment/unemployment etc.
- Does zero growth really mean zero growth?
- Is a zero growth economy a stationary economy?



Outline of post Keynesian analysis

- ▶ Level and change in economic activity is demand driven
- ▶ Demand itself largely driven by investment, which is modelled in terms of 'animal spirits' /growth expectations, capacity utilisation and rate of profit.
- ▶ Differing propensities to save out of profits and out of wages
- ▶ PK analysis usually runs from demand to economic activity; our contribution is to ask enabling consistency of demand with pre-specified level of economic activity, i.e. zero growth

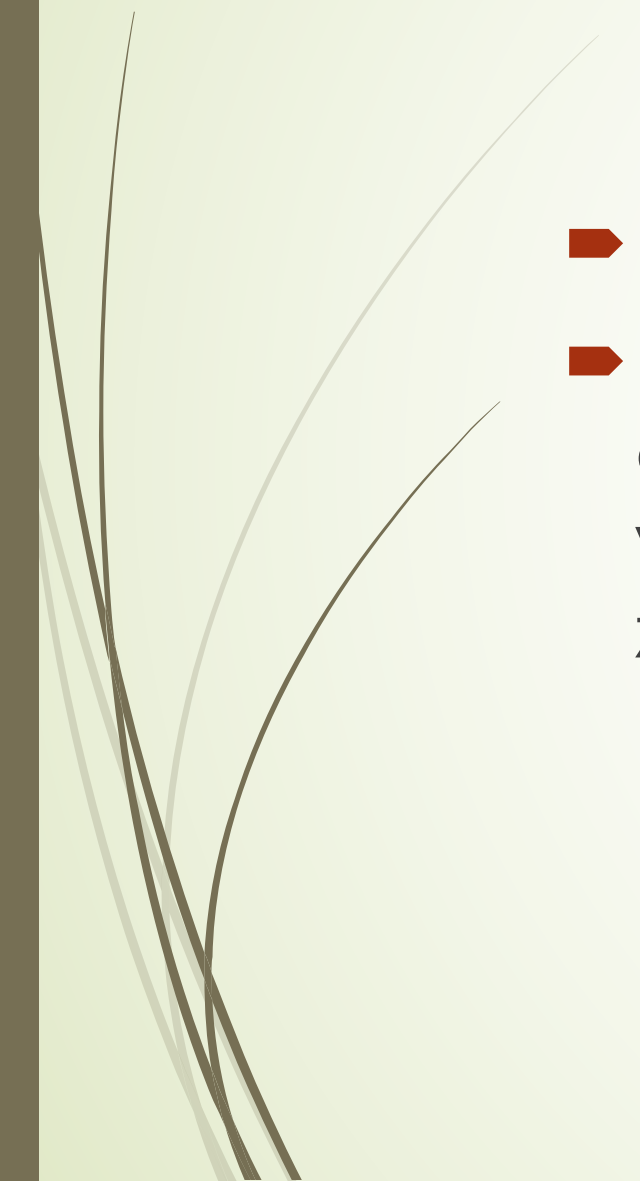


Outline of post Keynesian analysis

- ▶ Move to a zero growth economy (ZGE) would involve net investment close to zero, reduction in growth promotion expenses (e.g. advertising): enable higher proportion of GDP on consumer expenditure.



Net investment

- ▶ Need to ensure net investment is close to zero
 - ▶ Investment is driven by ‘animal spirits’, growth expectations and the drive to accumulate. How would they be restrained to be compatible with zero net investment?
- 



Rate of profit

- ▶ Cambridge equation: rate of profit = rate of growth/propensity to save out of profits
- ▶ The relationship between rate of profit and rate of growth can be modified in various ways e.g. allowing for budget deficit, savings out of wages, consumption out of wealth, autonomous (dis)savings, depreciation etc.
- ▶ Possibilities for rate of profit to be positive alongside zero rate of growth.



Rate of profit

Requires specific conditions to be met

Some of the cases may not be sustainable, e.g. where persistent deficits required.

Even when rate of profit is positive, likely to be smaller than under zero growth than with previous growth rates.



Rate of profit

- The major question of the compatibility of zero growth with capitalism still arises though not as acute as zero rate of profit.
- Role of not for profit organisations




Monetary imperative for growth

- ▶ We argue, as many others have, that while there is an 'investment/profits' imperative for growth, there is not a monetary imperative




Employment and unemployment

- Employment is measured in terms of labour hours
 - Level of employment demand determined
 - Under zero growth, the potential level of output and thereby of employment is historically determined.
 - Combination of average annual hours worked and length of working life which would be compatible with the pre-determined level of employment.
- 




Employment and unemployment

- Could the resulting hours of work be regarded as full employment? And how is full employment to be considered?
 - Would the average hours of work be 'acceptable' to all?
 - What would the consequences be if not 'acceptable' to some?
- 



Rate of interest

- Spectrum of interest rates: some brief remarks
 - Rate of interest on deposits
 - The 'fair rate of interest', life cycle hypothesis and pension provision
 - Rate of interest on loans
- 



Productivity and innovation

- Would expect some elements of 'learning by doing' and thereby rising labour productivity, which can be taken in the form of shorter working hours (though noting question raised previously)
- Would research and development continue?



Productivity and innovation

- ▶ How far can R &D be detached from profit motives?
- ▶ Can R & D involve new products and new processes which enhance human welfare without raising GDP?



Concluding comment

- Can net investment be limited to zero?
- Consequences of a low/zero rate of (net) profit
- Could zero growth output and employment be sustained?
- Role of the State and 'social norms' for the directions of investment and of research and development