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The pro-growth progressive: how economic reform can make us happier

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The origins of growth

As Australians, we're used to economic growth. It's the benchmark by which governments are often judged. Yet it is easy to forget how unusual growth is in human history. Go back a few centuries to the Victorian era and the average person was no better off than the average caveman. There were a lucky few who enjoyed tea in china cups, but the true living standards of 1800 were better captured by Charles Dickens than Jane Austen.

Indeed, economic historian Greg Clark makes the point that, on some measures, the vast majority of the world's population were worse off in 1800 than their ancestors of 100,000BC. For example, Britons in the Victorian era were shorter – reflecting their poor diet and exposure to disease in childhood.

In 1800, life expectancy was about 30 to 35 years, pretty much what it was on the savannah. Citizens of 1800 probably worked longer hours than cavemen. From the Stone Age to the Renaissance, most people ate about 2000 calories a day, compared to the 3000 calories a day that we consume. In fact, most of us would find it difficult to get by on 2000 calories a day, because our bodies are significantly bigger than those of our ancestors.

There's something slightly shocking about the thought that our ancestors – just seven generations ago – experienced Stone Age living conditions. For them, it was normal to go to bed hungry. Everyone knew someone who had lost a baby in childbirth – sometimes with the loss of the mother, too. Illness was normal and uncontrollable.

There was simplicity in a world without economic growth. An artisan would engrave his prices on the stone wall of his workshop, knowing that his son would be charging the same. Life for most was, as Thomas Hobbes famously put it, "nasty, brutish and short".

Then – beginning in a little island off the coast of Europe – something changed. With the industrial revolution, people began to experience rising living standards. Average income tripled from 70 cents per person a day in 1800 to $2.30 by 1900. In the 20th century, average incomes worldwide rose tenfold to $22 per person a day.

That transformation had immediate effects on people's health. A person born in 1900 could expect to live to 40. By 2000, babies born in a developed nation could expect to live until their 70s. People aren't just living longer – we're living healthier. A survey of elderly veterans in the United States found that, in 1910, nearly all were suffering from digestive disorders. By the end of the 20th century, just one-fifth suffered from digestive disorders.

Underpinning economic growth has been a massive rise in productivity. Workers today create more value in an hour than their predecessors. A century ago, it took 1700 hours of work to buy a year's food supply for a family. Working a typical week, that's 10 months' labour. Today, a family's food supply takes a month and a half of work.

That's true of other products too. Since the late 19th century, the number of working hours to buy various products has dropped dramatically. It used to take 260 hours of work to buy a bicycle – now it takes seven hours. It used to take two hours of work to buy a dozen oranges – now it takes six minutes. Unsurprisingly, that's meant an increase in the number of leisure hours: from two hours a day in the late 19th century to six hours a day now.

The Easterlin paradox

If you had to name one central fact to characterise the past two centuries, it would be income growth. It has made us healthier and allowed us to enjoy more leisure. It has lengthened our lives and allowed us to be more generous.

Yet some now argue that economic growth has gone too far. In *Growth Fetish*, Clive Hamilton argued that, once a society has developed to the point at which most people live reasonably comfortably, the pursuit of growth is pointless and should be curtailed. Internationally, books like Tim Jackson's *Prosperity Without Growth* became best sellers.

At the core of many of the anti-growth arguments was the contention that, once incomes reach a certain threshold, more money doesn't buy more happiness. The person most closely associated with this idea is Richard Easterlin, who wrote a famous article in 1974 that looked at the relationship between gross domestic product and happiness across nine countries. Easterlin found there was no statistically significant relationship, and concluded that, across countries, money didn't buy happiness. The relationship became known as the "Easterlin paradox". His article has since been cited over 2000 times, and has become one of the most famous ideas in the social sciences.

Last decade, a pair of economists at the University of Pennsylvania – Betsey Stevenson and Justin Wolfers – decided to revisit the Easterlin paradox. But rather than using data for just nine countries, they exploited the fact that we now have more happiness surveys. A lot more. The centrepiece of Stevenson and Wolfers' analysis is a massive 2006 survey, in which Gallup asked nearly 140,000 people in 131 countries about their life satisfaction. Across those countries, the relationship between satisfaction and GDP is almost perfectly linear. There is no evidence of satiation. If anything, money seems to buy more satisfaction as you get richer. When we move from nine countries to 131 countries, the Easterlin paradox simply doesn't hold up.

Interestingly, money doesn't just buy more happiness. In countries with higher levels of GDP per capita, people are more likely to say they experienced enjoyment, and more likely to say they were pleased at having accomplished something. People in affluent nations are less likely to have experienced physical pain, loneliness depression and boredom. Indeed, people in richer countries are more likely to tell an interviewer they experienced love in the previous day. That's right, Paul McCartney, money can buy you love.

Environmental concerns

A popular belief is that economic growth and environmental damage go hand in hand. This concern comes in two forms – some people argue we will use too many inputs (like natural resources), while others argue we will produce too many outputs (like pollution).

The view that our economy will eventually use up all the stuff in the world is based on a static view about where our GDP comes from. If it were the case that all workers produced goods requiring non-renewables and if we never became any more efficient at producing those goods, then rising incomes and population would eventually use up all the world's resources.

But it turns out that neither of these things are true. Most workers don't produce goods from non-renewables. In fact, three-quarters of Australians work in the service sector. For detectives and doctors, barristers and baristas, the product of their jobs doesn't weigh much, leading some to dub the phenomenon "the weightless world" of work. In fact, the entire output of the US weighs only marginally more today than it did a century ago. There are more Americans, and they're much better off than their great-grandparents – but the product of the country isn't getting much weightier.

Productivity too, is always increasing. Today's cars use less fuel. Our computers use less electricity. And, thanks to recycling, our paper uses fewer trees. Our economy is also shifting from one resource base to another, a phenomenon that economist Paul Collier characterises (not very reassuringly) as "running across ice floes". In the 19th century, the British government worried it was going to run out of tall trees for the masts of ships. We will probably look back at arguments about "peak oil" in the same way.

The other environmental concern about growth is that people say it leads to more pollution. Here, the best example is urban air pollution. In the 1950s and 1960s, people became concerned that growth would inexorably choke cities like London and New York. Yet through cleaner cars, cleaner factories and by shifting industrial pollution away from the largest urban areas, we have managed to reduce urban air pollution while still enjoying economic growth. (Economists refer to this tendency of environmental outcomes to worsen and then improve as the "environmental Kuznets curve").

Today, our major environmental challenge is climate change. Here again, I am optimistic that we can decouple growth from carbon pollution, in the same way as we successfully did with urban air pollution and with the CFCs that were damaging the ozone layer. I do not believe the best way to deal with climate change is by abandoning economic growth. Indeed, I think growth will help us address dangerous climate change, because higher incomes will provide more resources to aid with the transition.

An imperfect measure

One of the curious things about economic growth is that while it closely tracks many of the things that we care about – such as health, longevity and love – it is far from being a perfect measure of well-being. Indeed, growth in Australia's GDP (or our gross national income or gross national product, if you prefer) captures some things that we would think of as bad, and fails to capture other things that most of us would regard as good.

Robert Kennedy put this best in a speech at the University of Kansas, less than three months before he was tragically shot: "Our gross national product ... counts air pollution and cigarette advertising, and ambulances to clear our highways of carnage. It counts special locks for our doors and the jails for the people who break them. It counts the destruction of the redwood and the loss of our natural wonder in chaotic sprawl. It counts napalm and counts nuclear warheads and armoured cars for the police to fight the riots in our cities. It counts Whitman's rifle and Speck's knife, and the television programs which glorify violence in order to sell toys to our children. Yet the gross national product does not allow for the health of our children, the quality of their education or the joy of their play. It does not include the beauty of our poetry or the strength of our marriages, the intelligence of our public debate or the integrity of our public officials."

More recently, Australian economist John Quiggin has argued that there are three things wrong with GDP as a measure of a nation's economic well-being: "it's gross (doesn't net out depreciation of physical or natural capital), domestic (doesn't net out income paid overseas) and a product (takes no account of labour input)".

GDP per person also has the problem that it's just an average. To see this, let's suppose that you're having a drink at your favourite pub, with another eight of your friends. Now, let's imagine that Australia's richest person, Gina Rinehart, pops by in her fluoro vest for a drink. According to the most recent *BRW* rich list, Rinehart is worth $20 billion. So if we just look at averages, the average wealth per person in the pub is $2 billion. Alas, that doesn't make you a billionaire.

The same problem occurs if economic growth goes only to the richest. In Australia, recent decades have seen an increase in inequality, but that doesn't change the fact that incomes have risen across the distribution. According to a 2011 OECD report, the past quarter-century saw incomes for the richest tenth grow by an average of 4.5 per cent a year. For the poorest tenth of Australian households, incomes grew at 3 per cent per year. Australia's experience contrasts with the US, where incomes for the bottom tenth barely budged in a generation. But it does highlight the importance of talking about both growth and inequality.

Boosting growth

By now, you've probably guessed my secret: I think growth is good. As Winston Churchill said of democracy, it's not perfect – merely better than all the alternatives. The challenge now is to find the set of policies that are best for promoting economic growth.

In the long-run, the key to boosting growth is raising productivity – producing more with the same set of inputs. During the 1980s and 1990s, tariff cuts, competition policy and enterprise bargaining were among the underpinnings of productivity growth, but what is the answer to the modern productivity puzzle?

In my view, the best productivity policy we can pursue today is to improve our education system. Raising the skill level of the workforce is essential if we are to adapt to changes in the labour market. We need to raise the quantity of education – boosting the average number of years of schooling that each person receives. That means encouraging young people to complete high school, undertake vocational training and go to university. Getting education right isn't just good for our economy, it's also great social policy. A first-rate education is the best anti-poverty vaccine we've yet devised.

Education is also good for civic activism. A bit more school, some vocational education or a few years at university are all factors that help make you more likely to join organisations, volunteer at the local sports club or donate money to a worthy cause. This is music to the ears of someone like me, who cares passionately about strengthening community life.

Another crucial element to the productivity puzzle is technology. As recently as the early-1900s, American jurist Oliver Wendell Holmes quipped that, if all the medicines in the world were dumped into the ocean, it would be better for humanity and worse for the fish. A century on, medical advances have vanquished diseases like smallpox, polio and tuberculosis from the developed world. Our emergency departments are considerably better at saving critically injured patients. And in mental health, we are steadily doing better at diagnosing and treating mental illness as soon as it appears.

Maintaining the rate of technological growth in Australia is crucial to improving our living standards. That means we need to continue to innovate here, but it also means we need to take up the best ideas from overseas. As a small open economy, it will always be the case that most of the new technologies that boost our productivity are invented overseas. In that sense, open markets are the best innovation policy we can devise.

No place for complacency

There's an old joke that goes:

Q: How many conservative economists does it take to change a light bulb?
A: None. The darkness will cause the light bulb to change by itself.

While economic growth tends to benefit all Australians, you should not mistake my belief in the benefits of growth with complacency about the need for government to help build a better Australia. Unlike the conservative economist in the joke, I do not believe that markets can solve all problems. Government has an important role to play in providing public investments and managing risks. But it should also promote pro-growth policies, since growth tends to raise well-being.

Building on successful pro-growth initiatives of the past and coming up with innovative new ones is therefore a key task for my Labor colleagues and me in the months and years ahead.

Dr Andrew Leigh is the federal member for Fraser, the shadow assistant treasurer and the shadow minister for competition. This essay first appeared in *Labor Voice*.

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