

The illusion of “degrowth” in a poor and unequal world

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Branko Milanovic, November 18, 2017

I have recently had Twitter and email discussions with a couple of people who are strong proponents of “degrowth”. From these exchanges I got the impression that there were unaware of just how unequal and poor (yes, poor) the world is today and what would be the trade-offs if we really were to decide to fix the volume of goods and services produced and consumed in the world at the current level.

This is just an attempt to present some back-of-the-envelope calculations that should be improved very much in a serious attempt to examine the alternatives.

Let us suppose, for the sake of the argument, that we interpret “degrowth” as the decision to fix global GDP at its current level (assuming for the time being that the amount of emissions is also fixed at the current level). Then, unless we change the distribution of income, we are condemning to permanent abject poverty some 15 percent of world population that currently earn less than \$1.90 per day and some quarter of humankind who earn less than \$2.50 per day. (All dollar amount here are in PPP terms, that is in dollars of equal purchasing power across the world, based on the 2011 International Comparison Project.)

Keeping so many people in abject poverty so that the rich can continue to enjoy their current standard of living is obviously something that the proponents of degrowth would not condone. One of my correspondents explicitly rejected that scenario. So, what are we to do then? We can of course, they say, increase incomes of the poor and reduce incomes of the rich so that we stay within the envelope of the current global GDP. So, let’s suppose that we decide to “allow” everybody to reach the level of median income currently existing in Western countries, and as people who are below that level move toward the target, we gradually reduce incomes of the rich (which for simplicity I shall assume to be all living in the West).

The “problem” is that the median after-tax income in the West (about \$14,600 per person per year) is at the 91st percentile of the global income distribution. Clearly, if we let 90 percent of people increase their incomes to that level, this would “burst” our GDP envelope several times over (2.7 times to be exact). We cannot be this “generous”. Let us suppose next that we let everybody reach only the income level that is slightly higher than the Western 10th percentile, exactly that of the 13th Western percentile (\$5,500 per person per year). Now, by a “lucky accident”, Western 13th percentile coincides with the global mean income, which is at the 73rd global percentile. We could bring up all the bottom 72 percent, but we also have to reduce incomes of everybody above so that the entire world lives at the global mean.

How much of a reduction would this imply for the global top 27% (those with incomes above the global mean)? Their incomes would have to be cut by almost two-thirds. Most of them, as we have said, live in the West. The immiseration of the West would not take place through transfers to the poor: we have “allowed” them to produce and earn more. The immiseration of the West would take place through gradual and sustained reduction of production and income until everybody who is “rich” loses sufficiently so that they drop to the level of the global mean. On average, as have seen, this is about two-thirds, but the very rich would have to lose more: the global top decile would have to lose 80%; the global top ventile (richest 5%) would have to lose 84%: and so on. Factories, trains, airports, schools would work one-third of their normal time; electricity, heating and hot water would be available for 8 hours a day; cars may be driven one day out of three; we would work only 13 hours per week (to make Keynes happy to have guessed correctly in his “Economic possibilities for our grandchildren”) etc.—all in order to produce only a third as many goods and services that the West is producing now.

Stop for a moment to consider the enormity of what is being proposed here. The global Gini should go to zero, from the current value of 65. The world would have to move from an inequality level that is higher than that of

South Africa to complete equality that has never existed in any recorded society. Countries have difficulties implementing policies that reduce Gini by 2-3 points, and we are proposing here to shave off 65 Gini points.

On top of this, world population is projected to increase by several billion. Our envelope which is fixed in the absolute amount will have to sustain more people; in other words, the mean income will have to drop.

On the positive side, however, such a dramatic squeeze of income distribution will change consumption patterns. We know that the rich have higher average emission per dollar spent (AED) than the poor. This is because they consume emission-intensive services and goods like airplane trips and meat much more than the poor. Squeezing everybody to the same level would mean that the total emissions produced by the new GDP (that would remain the same in value but whose composition would change) would be less. There would be thus some "slack" in our envelope which might allow us to either let some people be a bit better off than the rest, or move everybody to a mean income slightly above that of the Western 13th percentile.

Say that the increase in population and the decline in AED just offset each other: we are then back to the original scenario described before when everybody would have to live at the point of the current Western 13th percentile and the rich world have to lose about two-thirds of their income.

It does not seem to me that this outcome, however much we may tweak the assumptions, is something that is even vaguely likely to find any political support anywhere including from the proponents of degrowth themselves many of whom would have to cut their consumption by perhaps 80 to 90 percent. It would make more sense, if we want to think seriously about how to reduce emissions, not to engage in the illusions of degrowth in a very poor and unequal world but to think how the most emission-intensive goods and services could be taxed in order to reduce their consumption. The increase in their relative prices would cut real income of the rich (who consume them) and would reduce, even if slightly, global inequality. Obviously, we need to think about how new technologies can be harnessed to make the world more environment-friendly. But degrowing is *not* the way to go.