Debunking the Ideology of Growthism: An Austrian Economics Perspective

Kairis, Zannis

(6818 words)

This paper takes the position that growthism represents a threat to prosperity and that the Austrian School of economics provides theoretical tools and insights that are best suited to unpick the former's fallacious assumptions. Growthism is taken here to refer to the economic and political mind-set that holds that growth, as measured by an increase of GDP in a period of time, is to be achieved and maximised at all costs. [1] To the author's knowledge, there has, to date, been no unified Austrian account of growthism in spite of a wealth of interspersed critiques of its various aspects and its constitutive elements. On the contrary, growthist ideology is often under fire from the Left and the various anti-capitalist movements[2] variously on grounds of environmental unsustainability (in the case of Left Ecology), of its perceived role in exacerbating inequality, and other. Consequently, it could appear that there is no pro-free market case to be made against growthist doctrines. This would, however, be misleading and that is what this paper seeks to address. For while growth, broadly construed as an increase of the total value of the output of an economy (as appraised by the parties comprising it) over a period of time, is indispensable to prosperity, it is this paper's contention that neither does GDP capture it and nor can it be pinned down satisfactorily with any other metric due to the peculiar nature of value. The Austrian subjective theory of value (henceforth STV) will help dispel misconceptions associated with the GDP metric and ultimately

[1] A similar definition is employed in, among other places, Haques essay: U. Haque, 'This Isn't Capitalism — It's Growthism, and It's Bad for Us', *Harvard Business Review*, October 2013. Retrieved from: https://hbr.org/2013/10/this-isnt-capitalism-its-growthism-and-its-bad-for-us [Last accessed 27 February 2015].

[2] Indicatively: Hamilton (in: C. Hamilton, *Growth Fetish* (London, UK: Pluto Press, 2004) makes the case against growthism on grounds of both its ecological unsustainability and on the detrimental consumerist culture it breeds. Jackson argues along similar lines (in T. Jackson, *Prosperity without Growth: Economics for a Finite Planet* (Abingdon, UK: Routledge, 2009/2011), while Welton (in K. Welton, *Cap-Com: The Economics of Balance* (Dana Point, US: Pandit Press, 2002) emphasises growthism's ethical challenges (inequality, oppression and other) along with a non-normative account of its —ultimately— self-defeating tendency whereas Zovanyi (in G. Zovanyi, *The No-Growth Imperative: Creating Sustainable Communities under Ecological Limits to Growth* (Abingdon, UK: Routledge, 2013) focuses purely on the ecological implications of growthist doctrine.

expose its limitations vis-à-vis the objective of measuring real growth[3]. Therefore, targeting a growing GDP 'as is' is at best problematic. We shall then examine the outcomes that such policies have: not only do they —predictably— fail to bring about sustainable long-term growth but they also impede the fulfilment of the productive potential of the economies in question. Typically, such policies, as contended in the Austrian business cycle theory (henceforth ABCT), result in the distortion of the price mechanism and breed malinvestments that in turn destroy capital and increase the instability of the system. Next, we shall argue that the structure of political incentives in place plays a key part in the perpetuation of the abovementioned interventions. Finally, the Hayekian theory of knowledge offers a supplementary substantiation of the thesis that government policy should not plan for GDP maximisation considering that it is both unable to achieve it sustainably and that its interventions will have sub-optimal unintended consequences.

In order to consider whether it should rest upon the government to proactively spur growth we must first ponder about whether growth, in the afore-analysed meaningful —for prosperity— sense, can be measured. It does not take a bold prediction to expect that most mainstream economists would be inclined to respond affirmatively. Not only can we measure it but the GDP metric, for all its weaknesses and flaws, does exactly that: its fluctuations reveal how much higher (or lower) total monetary value corresponds to the finished goods and services that were produced within a geographical area (usually at the level of the country) in a specific time period (usually annual). With a quick look at the rate of change of that metric we can readily tell if an economy is growing and by how much. Not only that but it is also adjusted for inflation and excludes subsidies that did not add value to the final products so as to avoid unnecessary distortions. Granted, they might concede, it may not provide the most accurate depiction of prosperity-related production and consumption

[3] 'Real' here does not mean merely 'growth adjusted for inflation' but rather growth in the broader prosperity-enhancing sense developed above.

given that it includes things such as natural disasters' relief-related spending, healthcare and medicines (that could, for instance, be bumped up by an epidemic) and other economic activity that does not necessarily constitute a betterment of living conditions. Nonetheless, in their opinion, it is a relatively accurate indicator of prosperity for, on the one hand, one-off events and outlier cases are evened out in the long-term and/or on the very aggregate level of national accounting (especially for larger states), and on the other hand, the differential between the GDP alone can eschew such pitfalls, given that there is no reason to assume that such one-off turns of luck will not have a 'random' distribution[4].

If we assume, for the economy of this paper, that defenders of the use of the GDP metric are correct in the aforementioned points, it still does not follow that its use for the stated goal is warranted. The next (and in this paper's view) most important objection is the implicit understanding of value that comes pre-packaged with GDP. Given that GDP, by its definition, refers to market values there is no need for its grounding on an explicit theory of value. Market values are 'objective' and relatively uncontroversial[5]. Yet, what is not explicit is the fact that they are fundamentally different to, and in no direct relation with, the value that individuals attribute to goods and services and that is determined by the importance they place on them for the achievement of their desired ends. Value thusly conceived is tied to individual preferences and the satisfaction of individual needs and therefore its maximisation would be a key ingredient to achieving growing levels of prosperity. However, while the above is not an exotic understanding of value it has one major deficiency: it is not easily measurable — if at all. For market values are distorted by a variety of factors external to

[4] The implication is that if positive and negative one-off events occur randomly (for instance that the number of epidemics and/or natural disasters will be roughly the same, at least over longer terms) the GDP of two consecutive and long-enough periods (e.g. fiscal years) will balance out these differences and render them statistically insignificant. The rate of change of the GDP alone should suffice for our reasons, without having to subtract the estimated participation of such economic activities to the total output as this is expected to remain roughly stable.

[5] Controversy may arise only on side-issues, such as, for instance, the measurement of inflation (inasmuch as GDP figures adjust for that) which we shall briefly discuss later.

the individual and her preferences, most notably, but not exclusively, the fiscal and the monetary policies of governments. Measuring it, thus, and even more so, making estimations about the aggregation of such value 'outputs' would be practically impossible. The feasibility of such a task is further put into question for a couple more reasons, as we shall see in the next paragraph. In spite of its apparent problems, thus, GDP is used for lack of a better alternative. It is this paper's contention however that this pragmatic move is grossly misleading.

The Austrian subjective theory of value, as developed in the 19th century by Menger and von Boehm-Bawerk, and as supplemented by marginalist price theory, puts forwards precisely such a conception of value. Far from being a controversial heterodoxy it is, in one of its many adaptations, part and parcel of mainstream economics. It is therefore surprising that it is often assumed that an increase in the total market values, that GDP accounts for, should automatically translate into growth meaningful for the prosperity of individuals. The argumentation that would justify such an abstraction is simply missing. Given that, essentially, GDP represents overall spending in money prices, or —to use von Mises words[6]— in exchange ratios between money and other goods and services, it is clear that it is not tantamount to an aggregation of the kind of individual valuations that precede every transaction according to the STV. What is more, since goods and services have different values for each individual there can be no common and ultimate standard of value. Furthermore, as Mueller[7] argues, valuations are not only heterogeneous among consumers but also differ for the same individuals according to the ever-changing circumstances (needs, taste, time-preferences, alternatives available, technological progress and other) in which they make choices. In other words, even if we were to find a satisfactory proxy for the individual valuations for every transaction that took place (or a representative sample thereof), it would have been merely a

[6] L. Mises, *Human Action: A Treatise on Economics* (Auburn, US: The Ludwig von Mises Institute, 1949/1998), p. 218.
[7] A. Mueller, 'What's Wrong With Economic Growth?', *Mises Daily*, August 2005. Retrieved from: https://mises.org/library/whats-wrong-economic-growth [Last accessed 11 March 2015].

snapshot of a static preference structure. But what practical value could such a measure have? Not only, then, is the GDP metric different than, and unconnected (in any direct way) to, the aggregation of individual values, but also, the latter is by definition impossible to measure in a manner that would not be distortive to its essence.

In any case, even if one insisted upon the equivalence of the two values, they would have to address the three objections we mentioned in passing. Namely, the distortions that the market values used in the GDP are subject to: the government's fiscal policy, the centralised monetary policies and the calculation of inflation and more specifically of the price index by which the GDP is deflated. One should not forget that there are two main funding sources for a government that seeks to spur growth[8] with increased spending: taxation and compulsory savings (albeit the latter is not used often anymore). Infrastructure projects, wars, and other large-scale public sector investments are typically funded by either source. When neither is the case, funding comes from deferring compulsory taxation and/or savings to the future via debt and/or the inflationary avenue. This is where monetary policy comes in. Lax policies from central banks (ZIRPs, QEs and similar) enable the profligacy of governments by hiding the bill for present spending to the 'vague' and seemingly remote future or by obscuring it through inflation.

Whatever opinion one may have about the effectiveness of such 'growth stimuli', it is clear that individual choices and preferences play little role both at the stage of funding them and at that of choosing where and how to make use of them. Why would then such decisions have anything to do

[8] Indeed, with most Western countries having rates of government spending as a percent of the GDP close to or even above 50% (e.g. in the cases of Denmark, France, Finland, Belgium, Italy and other), this is far from being a hypothetical scenario of extraordinary measures. Governments' share on the GDP-captured activity is enormous. (Source: The Heritage Foundation, *2015 Index of Economic Freedom*, 'Explore the Data – Macro-economic data', 2015. Retrieved from: http://www.heritage.org/index/explore?view=by-variables [Last accessed 19 March 2015]).

with the prosperity of a society of individuals? To counter this objection, one would have to go as far as to claim that bureaucratic choices represent the informed will of all. If, for the sake of the argument, we assume that in a democratic polity the above is the case, we would still have to explain how a democratic majority (usually based on a minority of voters in Western democracies) should be seen as representative of all, even for those who voted for parties backing completely opposite policies. The many weaknesses of the above case become easily apparent; GDP-captured consumption neither amounts to individual preferences-based consumption nor can it serve as a satisfactory approximation of it. Besides, as discussed before (in footnote 7), public spending in most economies is far from negligible and accounts for roughly half of the GDP. Therefore, the aforementioned objections cannot be dismissed as trivial; on the contrary, they directly affect half of what is being measured, let alone the indirect impact they have upon the productive process and the economy as a whole (by putting into place new sets of artificial (non-market) incentives, by drying up the capital goods markets that are diverted to the large-scale public projects and so on).

A final point that —justifiably— stirs controversy vis-à-vis the GDP metric is that of how it seeks to account for inflation. In effect, for the calculation of a 'real' GDP, competent statistical bureaus hypothesise a basket of 'representative' goods and services and compare their corresponding prices for the required reference periods (usually monthly or annually). However, this is little more than a statistical construct that is based on dubious assumptions about the 'typical consumer' and preconceptions about consumption patterns. As such, its import is limited for non-average consumers and households, id est for the vast majority of people that cannot be described completely accurately by the hypothesised average person. To complicate things further, the basket of goods differs between countries and even changes for the same country, often on an annual basis (whereas in the past the baskets of goods were relatively fixed for most countries), allegedly to account for shifting consumption trends but in the opinion of critics, in order to downplay the

importance of goods and services that are affected most by a given inflationary wave[9]. And while it could be countered that the abovementioned distortions are not important in the grand scheme of things (the size of the GDP) and should be discounted, this would be unwarranted, for a mere difference of 1% in the rate of growth could suffice for a government policy to be evaluated as successful instead of inadequate and vice versa. The upshot can be claimed to be that resorting to GDP figures, especially for our reasons here (studying the relation of growth and prosperity), has been proven to be ill-advised for a series of reasons. It comes as no surprise then that even Kuznets, who inspired GNP, the precursor to GDP, disapproved of the metric's use as a general indicator of welfare[10].

Having established the impossibility of measuring a growth that is congruent with STV and therefore a harbinger of prosperity, let us now turn to the problems that result from the non-acknowledgment of this very impossibility. Without a doubt, the above delusion, coupled with the idea that state interventions can stimulate growth is a powerful combination. And while we have seen it at work during periods of positive growth too, it is during recessions that the support for it is almost unanimous and a wide consensus between orthodox economists and politicians is achieved.[11] Following Keynes, or at least the dominant interpretations of his work, policy makers the world over opt for loose monetary policy in tandem with increased public spending in an almost knee-jerk-like

[9] While an exhaustive discussion of the objections to the calculation of CPIs lies outside the scope of this paper for practical reasons, one can find the most compelling arguments in: H. Hazlitt, *The Inflation Crisis and How to Resolve it* (Auburn, US: The Ludwig von Mises Institute, 1978/2009) & in: M. Rothbard, 'Money Inflation and Price Inflation', *The Free Market*, Vol.4, No. 9, 1986. Both authors, ultimately, differentiate between inflation as a monetary phenomenon and the price inflation that the CPI sets out to capture which they deem is carried out problematically and is of little value.

[10] S. Kuznets, 'National Income, 1929-1932', *Senate document no. 124* (73rd US Congress, 2nd session), p. 7, 1934. Retrieved from: http://library.bea.gov/cdm4/document.php?CISOROOT=/SOD&CISOPTR=888 [Last accessed 21 March 2015].

[11] Rivot (In S. Rivot, *Keynes and Friedman on Laissez-Faire and Planning: Where to Draw the Line?* (Abingdon, UK: Routledge, 2013) esp. ch.3) comprehensively traces the various phases that the consensus went through and ponders about whether it has been dissolved in the post-2008 world. It is this paper's contention, that its broad foundations remained essentially unaltered (the provision of a framework that allowed for fiscal and monetary interventionism so as to micromanage the economy) in spite of the varying importance and liberty that was given to either the monetary or the fiscal side of intervention each time.

fashion as a reaction to the slightest hint of anaemic GDP figures, let alone to a full-blown recession. While the extent to which Keynesianism is applied (it certainly is not with reference to its provision for surpluses during the upturn), or indeed taken seriously in the mainstream of economics, during the expansionary phase of the cycle is debatable, the exact opposite is the case when it comes to recessionary periods. This was exemplified in the response to the global crisis of the late 2000s, as evidenced by the QEs that central banks the world over have introduced sooner (in the case of the BoE (2009), the US Federal Reserve (2008), and other) or later (in the case of Japan with its aggressive Abenomics (2013), the ECB (2015), and other), the lowering of interest rates that was practiced almost uniformly that has sent them close to 0% (even in negative territory in some occasions) or in any case at, or near, historic lows and the generous fiscal packages that included anything from public works to bailouts of banks, insurance firms, carmakers or even of insolvent sovereigns (most notably in Eurozone's periphery). Naturally, this was mirrored in the academia and the broader public sphere, as evidenced by the rising popularity of works from notorious Keynesians and neo-Keynesians such as Skidelsky[12], Krugman[13], Davidson[14] and Stiglitz[15] that sought to account for the crisis and point to a way out of it along the abovementioned lines.

In essence, growthism is merely the call for an expansion of those policies and for their permanent adoption. If state interventionism can spur growth, the argument goes, why not appoint the same policies on a broadened and more permanent basis? After all, if we are to take full advantage of our growth capacity (which for them is usually a fixed amount, even when non-determinable) it makes sense to think that this is the only way of achieving it. Keynes, the original inspiration behind such policies, warned against profligacy during the good times and instead, as mentioned above, urged

[12] R. Skidelsky, *Keynes: The Return of the Master* (London, UK: Penguin, 2009).
[13] P. Krugman, *End This Depression Now* (New York, US: W. W. Norton, 2012).
[14] P. Davidson, *The Keynes Solution: The Path to Global Economic Prosperity* (Basingstoke, UK: Palgrave Macmillan, 2009).
[15] J. Stiglitz, *Freefall: Free Markets and the Sinking of the Global Economy* (London, UK: Penguin, 2010).

for fiscal consolidation during the upturn; the accumulation of surpluses could then be expended on deficit spending when the aggregate demand (henceforth AD) is deemed to be needing a boost[16]. He had even argued against inflation (and deflation) and in favour of having price stability as a policy target[17], prompting some to call him a precursor to monetarism. [18] Thus, while it would be a fair assessment to expect that Keynes would be against growthism, the policies he advocated opened the Pandora's box of growthist problems. For policy makers operate on short-term horizons seeking re-election and/or immediate popularity while they are in office and they therefore lack adequate incentives to roll back policies that are perceived as growth-friendly or that represent direct or indirect handouts. Buchanan and Wagner[19] elaborate, on such incentives-based grounds, a compelling argument for the impossibility of curtailing 'expansionary' and similar deficit-spending policies once they are unleashed. Further, a prolonged period of artificially low interest rates breeds new elites that are dependent on leveraging and cheap loans and they, too, naturally lobby for a preservation of the status quo. This is not to mention small-scale debtors (working & middle class individuals) who, pushed by the loose money policies, amass debts of all kinds (mortgages, credit cards, consumer loans and similar) during such periods, and they too have an incentive to support (with their vote and with their participation in interest groups) the perpetuation of low-interest policies.

[16] A fair and concise synopsis of the various formulations of his position on the issue (especially during the 1920s) is that he advocated for a cyclically balanced budget (this view is mirrored, indicatively, in F. Langdana, Macroeconomic Policy: Demystifying Monetary and Fiscal Policy (Dordrecht, The Netherlands: Springer, 2002). pp. 75 – 76 and elsewhere).

[17] J. M. Keynes, *A Tract on Monetary Reform* (London, UK: Macmillan, 1924).

[18] For example, Milton Friedman, perhaps the most prominent monetarist, called Keynes' Tract as 'the most explicitly monetarist work amongst the writings of the Cambridge School'. In: J. Presley, 'Modern Monetarist Ideas: A British Connection?'. In R. D. Collison Black (ed.), *Ideas in Economics* (Totowa, US: Barnes & Noble Books, 1986), p. 192.

[19] J. Buchanan, and R. Wagner, 'Democracy and Keynesian Constitutions: Political Biases and Economic Consequences'. In J. Buchanan, J. Burton, and R. Wagner (eds.), *The Consequences of Mr. Keynes* (London, UK: The Institute of Economic Affairs, 1978).

However, not only do these policies fail to achieve growth that is at once sustainable and meaningful for the prosperity of the people, but they also plant the seeds for serious economic problems down the road. More specifically, the correlation between loose monetary policy and assets bubbles is now well established. For instance, Maddaloni and Peydro, looking into a dataset of the Euro-area and the U.S. bank lending standards found robust evidence that lax monetary policies with low interest rates tend to soften lending standards.[20] They also found that the situation is exacerbated by the high securitization activity that is entailed (or at least is to be expected in such an environment), which obscures the qualitative attributes of securities and other financial instruments by deferring the risk. Too low for too long interest rates, therefore, induced a broader build-up of risk on banks' assets and thereby played a key role in bringing about the recent financial crisis with all its repercussions for the other spheres of the economy. [21] Lemieux surveys Austrian and other arguments that put the blame for the sub-prime bubble on the Fed, as well as Greenspan's responses to them, and concludes that while it may not have been the only factor leading to the crisis, Fed's artificially low-rates policy is what made the bubble possible.[22] Historical examples whereby the above combination of interventionist policies created bubbles abound. [23] We shall underline, that in most of these examples (including in the recent global financial crisis) the monetary regime that paved the way for the bubble did not coincide with a recession or economic atrophy that normally justifies (from a mainstream economics perspective) such monetary

[20] A. Maddaloni, and J. Peydro, 'Bank Risk-taking, Securitization, Supervision, and Low Interest Rates: Evidence from the Euro-area and the U.S. Lending Standards', *Review of Financial Studies*, Vol. 24, Issue 6, 2011, pp. 2121 - 2165.
[21] Ibid.
[22] P. Lemieux, *Somebody in Charge: A Solution to Recessions?* (Basingstoke, UK: Palgrave Macmillan, 2011), esp. ch. 6. It should be noted that Lemieux raises an objection to the Austrian assertion for a strong correlation between interest rates and house prices by pointing out that house prices started rising as early as 1998 (a couple of years before the Fed initiated the policy of suppressing interest rates). Nevertheless, this is a misrepresentation of the Austrian view: asset prices naturally rise and fall, there is nothing wrong by default with the appreciation of the value of an asset. Artificial interest rates, however, tend to turn a natural rise (or even a falling tendency) into an unsustainable boom which is —then— inevitably followed by a bust.
[23] For instance, Garrison (in R. Garrison, 'The Roaring Twenties and the Bullish Eighties: The Role of Government in Boom and Bust', *Review of Austrian Economics*, Vol. 8, Issue 1, 1994, pp. 3 - 19) uses the 1920s and the 1980s as his case studies, whereas Keeler (in J. Keeler, 'Empirical Evidence on the Austrian Business Cycle Theory', *Review of Austrian Economics*, Vol. 14, Issue 4, 2001, pp 331 - 351.) looks at empirical evidence from 8 different economic cycles in the US.

looseness. This is particularly illuminating for it shows that these policies were, instead, simply conforming to the growthist imperative and not responding to an extraordinary situation that calls for intervention. As argued previously, once the idea that central authorities (governments and central banks alike) can intervene and propel growth gains intellectual and political credibility and such policies are enacted, they will tend to dominate regardless of the phase of the cycle and the existence or not of other 'extenuating' circumstances.

Whereas these processes may seem sporadic and isolated they were in fact described fairly accurately by the Austrian business cycle theory as a recurring pattern which is what typically sets off business cycles.[24] ABCT holds that the inflationary boom is the starting phase of the cycle and is made possible because of an expansion of credit. This is carried out in one of the following three ways (and more often with a combination of them): either the money supply is expanded via a quantitative easing programme (whereby a central bank purchases treasury securities from banks), or the interest rates are set to an artificially low level (citing arbitrary inflation/growth/employment targets) notwithstanding the suppressive effect that QEs have on the interest rates anyway (when the two coincide, which is more often than not), or, finally, the regulatory framework governing bank-created credit is loosened (for example by lowering tier one capital requirements or by further relaxing the —already arbitrary— cash reserve ratio). Almost invariably, because profits in capital intensive industries tend to rise initially (because of the cheap credit and of the perceived stimulating effects of such policies) the stock market goes through an intense bull market creating a euphoric economic climate. However, when inflationary pressures become apparent (they may lag —as is currently the case— depending on the specifics of an economy) and consumer prices catch up, the stock market plateaus and enters a bear phase, sometimes in a violently steep way. When

[24] It first appeared more than a century ago in: L. Mises, *The Theory of Money and Credit* (New York, US: Skyhorse, 1912/2013) based on ideas of other economists (most notably of Wicksell) but was later expanded and presented in its most comprehensive form by Hayek in: F. A. Hayek, *Monetary Theory and the Trade Cycle* (New York, US: Augustus M. Kelley, 1933/1966).

inflation is clearly out of control and market-determined interest rates start rising, the central bank will normally put on the brakes for fear of hyperinflation and a credit crunch is triggered. Capital-intensive businesses are desperate for funds in order to remain solvent (or in the best scenario in order to deleverage) which results in further sharp increases in (the market-determined) interest rates. The economy inevitably enters a recession whereby prices for capital goods tend to fall sharply but they are not necessarily followed by consumer goods which may, in fact, continue to rise for a considerable period (stagflation). Hence, living standards take a hit on two fronts. After a protracted period of bailouts, over-indebtedness, limited (compared to those actually needed) liquidations, and reduced economic activity, the central bank regains its loose monetary mind-set and a new —equally unsustainable— boom is then ready to begin.

Unfortunately, though, increased volatility in the system is not the only negative effect of the above-analysed process. Artificial expansions of credit disrupt the market-dictated structure of production by distorting its key ingredient: the price discovery mechanism. Not only does this lead to investments in projects with low time-preference that will never be profitably completed and thus lead to a bubble-burst, as we saw, but in effect it represents a destruction of capital. The bigger the bubble the faster is the depletion of capital. With capital being scarce (unlike fiat money), malinvestments in bubble-related assets result in stagnation for sectors of the economy that comprise genuine demand for the satisfaction of real needs. In effect, communities are thus impoverished in the now, while their future prospects are also undermined by the macroeconomic policies of the government and the central bank (inflation, indebtedness, and instability in the medium/long-term). The effects of the fiscal policies that go hand-in-hand with the growthist monetary agenda are not better either. Apart from their crowding out effects that were discussed earlier, in most cases they seek to boost demand in activities that entail capital consumption: warfare and welfare are the obvious examples, since they tend to be the most common ones for

self-explanatory political reasons. Public work projects, although sometimes less wasteful than their alternatives, are equally arbitrarily-selected/planned and end up wasting capital in the name of the satisfaction of questionable or outright invented needs.[25] In addition, as the Ricardian equivalence theorem predicts[26], consumers do adjust their spending in anticipation of higher taxes (and perhaps of a recession too), something that minimises the spill over effects of the artificial boost of demand.

With fiat money being predominant in most parts of the world (thanks to legal tender laws that ban alternative currencies and not because of the free choice of the people) spending can expand unchecked for long periods and ultimately beyond the recuperative capacity of the economy. As a result, a deep crisis is the only real barrier standing in the way of fiscal and monetary activism. Moreover, because the adverse consequences of such policies are experienced long after the initiation of the latter, the causality is not well-established or gets forgotten. It is also the case that certain actors and interests groups have a stake in the obfuscation of that relation. Politicians, for instance, as explained above, operate in a short-term environment whereby there are incentives for such activism. Further, while malinvestments render the economy a negative sum game (as regards to the real aggregates and the overall health of the economy), or, in the most conservative of analyses, at best a zero sum game, certain actors profit considerably from such intense cycles. For example, recipients of new money will enjoy improved standards of living (at the expense of people with older money and/or later recipients of the new money) for a period (Cantillon effects); people working in the financial sector, that —as explained above— attracts disproportionately more

[25] The ruling ideology of 'helicopter money', largely echoing Keyne's propositions to prop up demand even by completely reckless spending (such as by digging ditches and then refilling them, or, by filling bottles with banknotes, burying them at great depths in disused mines and then hiring people to dig them up again), reduces the accountability of the government. Worries about whether public spending is efficient, optimal, or if it is responding to any real needs are discarded as irrelevant for public investments serve first and foremost as a multiplier which will allegedly set in motion the stalled engine of the economy. Aggregate demand, after all, has a simple linear relationship with government spending (AD=C+I+G+(X-M)) for them.

[26] Even if we do not take it to have the force of a law, it describes an existing tendency, as shown, for example, in: R. Barro, 'The Ricardian Approach to Budget Deficits', *The Journal of Economic Perspectives*, Vol. 3, No.2, Spring 1989, pp. 37 – 54.

investment during the boom period, are often paid by transaction fees and commissions (on profits) and are therefore semi-immune to the effects of the downturn or, at least, are in a better position relative to before the cycle. Political incentives along with dominant growthist imperatives are reinforced by the scholarly arrogance of representatives of the neoclassical synthesis that deem that the micromanagement of the economy is not only possible but an exact science, lead to a political and intellectual environment where the implementation of the above policies appears inexorable. It is no wonder, then, that the same mistakes are repeated time and again in defiance of their clearly detrimental repercussions.

At any rate, one does not need to espouse the scepticism pertaining to the political incentives that operate on such policy decisions to oppose them. Hayek's theory of knowledge, which is fully compatible with assumptions of good faith as regards to policy-makers, disputes the claim that the economy can be managed centrally in ways that will produce better outcomes than the organic alternatives. Ergo, the whole growthist project, too, is cast into doubt. Hayek took issue with the scientism in social sciences which, he saw, as a reflection of the philosophers' traditional demand for demonstrative justification coupled with the vulgar associationist assertion that all scientific explanations can ultimately take the form of two-variable linear relationships. He countered that the subject matter of the social sciences is much more complex than that and that all such attempts to reduce multivariable and nonlinear phenomena into such simple formulations is distortive and ultimately anti-scientific. [27] For him, it constitutes hubris on the part of humanity and is best explained by the modernist pride of men in their ability to reason which was heightened by the rapid advance of the natural sciences: Their accuracy, objectiveness and sound logic (as evidenced, for instance, by their mathematical methods) is what the social sciences need to replicate, and, be

[27] Most of these ideas were developed in the essays collected in: F. A. Hayek, *Studies on the Abuse and Decline of Reason*, B. Caldwell (ed.) (Abingdon, UK: Routledge, 2010).

modelled on, if they are to achieve similar progress. However, Hayek objected strenuously to the very possibility of knowledge of the processes under the purview of social sciences. In a nutshell, this was so for him, due to, on the one hand, the fact that knowledge is fragmented and dispersed among the many millions of individuals and, on the other hand, because the limits of human reason mean that many things will remain unknowable to individuals. [28] In addition, the tacit nature of most of the knowledge that individuals could be said to possess (for instance, their ordinal preferences or opportunity cost calculations are never revealed and their needs and wants may be only partially inferred) means that economies should be studied as organic wholes that evolve through contingency via very complex internal and dynamic phenomena which defy the methods of scientific explanation applied to the natural sciences. Ignoring this inevitably leads to a scholarly path of mere speculation and to the positing of spurious relationships. On the policy level, given that price signals are the only means that can encapsulate such tacit and/or dispersed knowledge and make its communication to others possible (as a result of action, however, and not of design), every move that results in their distortion inevitably produces sub-optimal outcomes, at least from the perspective of the satisfaction of individual preferences.

To be sure, Hayek's assertions have a strong element of apriorism, especially with regard to the nature of knowledge and of our cognitive capacities. As such, they do not represent a definite and indisputable blow to the premises of central-planning. However, what is not often acknowledged by those who are quick to adopt the above line of argument against Hayek, is that the views he attack are also based effectively on arbitrary apriori foundations. The only difference being that Hayek deemed appropriate to write extensively on the philosophy of knowledge that underpins his policy recommendations and thus his apriori arguments were made explicitly. On the contrary, the various

[28] A. Gamble, 'Hayek on Knowledge, Economics, and Society'. In E. Feser (ed.), *The Cambridge Companion to Hayek* (Cambridge, UK: 2006), ch. 6.

proponents of central planning took the capacity of central bodies to collect all the relevant information and to act upon it (in beneficial ways) for granted and therefore their assumptions are rarely interrogated for they are covert and/or implicit. For those unconvinced by either side of the argument the ultimate arbiter can only be the practical implications of the implementation of policies stemming from each. In this paper's view, a good deal of the Hayekian theory of knowledge[29] along with the incentives-based approach, and the arguments that we made against the use of the GDP as a prosperity metric, suffice for the theoretical rejection of centralist politics (and therefore of those policies that growthism calls for). Nonetheless, empirical evidence too seems to vindicate the Hayekian position; not only do free market institutions produce consistently better outcomes than their centralist counterparts[30] —ceteris paribus— but the latter also initiate the vicious cycle of a boom-bust period with its pernicious consequences, which we came across earlier.

Overall, we have reviewed the various difficulties with the growthist agenda and argued for its abandonment. First off, GDP calculations, which are critical for growthists insofar as the thrust of their argument calls for the maximisation of GDP, were found to be problematic. On top of that, we illustrated how the implicit theory of value that informs these calls differs from the Austrian STV, which, as established, offers the only understanding of value that is congruent with prosperity. Maximisation of an aggregation of arbitrary market prices that do not correspond to individual valuations and preferences could easily coincide with deteriorating living conditions and therefore

[29] 'Good deal' manifests that wholesale endorsement of Hayek's positions is not necessary. In effect, what is indispensable to it is that market arrangements, because spontaneous and organic, will always produce better outcomes for all involved parties. It is an already softer formulation of von Mises' position (which predates Hayek) about the impossibility of socialism on grounds that without decentralized markets and prices there could be no rational calculation of prices.

[30] Certainly, comparing between the exact same conditions (like in in vitro experiments in the natural sciences) is not possible in the social sciences, however this 2014 paper (J. Babecky, and T. Havranek, 'Structural reforms and growth in transition', *Economics of Transition*, Vol. 22, Issue 1, 2014, pp. 13 – 42) comes as close as it gets: The authors offer a meta-analysis of 60 studies which examine the economic performance of formerly centrally planned economies after undergoing free market reforms and found strong evidence that their liberalisation had very positive macroeconomic effects in the medium and long-term. Crucially, their findings hold even after correction for publication bias.

cannot form the basis for any political platform. Next, the ABCT helped elucidate not only the workings of the business cycle and how the government and the central bank set it off, but also, why the growthist agenda becomes so persistent even in the face of its apparent limitations. On the one hand the short-term outlook in which politicians operate, and on the other hand the advent of Keynesianism[31] which enabled discretionary policies and the state's meddling with the economy (both on the monetary and the fiscal) foster the creation of an environment of permanent volatility, whereupon specific interest groups are profiting while the majority is being impoverished surreptitiously. In light of this, it is not surprising that the few cases that escaped the growthist doctrine and experienced strong growth despite carrying out substantial fiscal consolidation programmes are suppressed both politically and in the academia, since they don't fit with the dominant growthist narrative. [32] Finally, Hayek's theory of knowledge, which we briefly examined, offers an alternative and/or additional explanation on why top-down policies consistently produce outcomes inferior to that of decentralised economic decision making. In a nutshell, not only is it difficult to maximise growth but it may not even be possible to measure it in a way meaningful for welfare. Disregarding the elusive and subjective nature of value, either on misinformed premises or because of self-interested behaviour on the part of the few, can only lead to instability, capital depletion and therefore relative impoverishment in the long-term. Drawing on the three aforementioned resources from the Austrian school caters uniquely for the needs of a theoretical uncovering of the misconceptions and perverse incentives that inform this growing threat of our times.

[31] In theory, monetarism rejected the discretionary elements of Keynesianism and focused on the monetary realm. However, in practice, pure monetarism was rarely applied for a considerable period. Instead, the neoclassical synthesis which allowed for interventions on both domains constituted the consensus for the past few decades.

[32] Consider the case of Belgium, which achieved a debt reduction of 50% between 1993 and 2007, all the while it more than doubled its real GDP over the same period (Source: Eurostat, 'General government gross debt' & 'GDP', *Eurostat*, 2015. Retrieved from: http://ec.europa.eu/eurostat [Last accessed 30 March 2015]. Spain and Ireland are two further cases.

Bibliography

1. Babecky, J., and T. Havranek, 'Structural reforms and growth in transition', *Economics of Transition*, Vol. 22, Issue 1, 2014, pp. 13 – 42.
2. Barro, R., 'The Ricardian Approach to Budget Deficits', *The Journal of Economic Perspectives*, Vol. 3, No.2, Spring 1989, pp. 37 – 54.
3. Buchanan, J., and R. Wagner, 'Democracy and Keynesian Constitutions: Political Biases and Economic Consequences'. In J. Buchanan, J. Burton, and R. Wagner (eds.), *The Consequences of Mr. Keynes* (London, UK: The Institute of Economic Affairs, 1978).
4. Davidson, P., *The Keynes Solution: The Path to Global Economic Prosperity* (Basingstoke, UK: Palgrave Macmillan, 2009).
5. Eurostat, 'General government gross debt' & 'GDP', *Eurostat*, 2015. Retrieved from: http://ec.europa.eu/eurostat [Last accessed 29 March 2015].
6. Gamble, A., 'Hayek on Knowledge, Economics, and Society'. In E. Feser (ed.), *The Cambridge Companion to Hayek* (Cambridge, UK: 2006).
7. Garrison, R., 'The Roaring Twenties and the Bullish Eighties: The Role of Government in Boom and Bust', *Review of Austrian Economics*, Vol. 8, Issue 1, 1994, pp. 3 – 19.
8. Hamilton, C., *Growth Fetish* (London, UK: Pluto Press, 2004).
9. Haque, U., 'This Isn't Capitalism — It's Growthism, and It's Bad for Us', *Harvard Business Review*, October 2013. Retrieved from: https://hbr.org/2013/10/this-isnt-capitalism-its-growthism-and-its-bad-for-us [Last accessed 27 February 2015].
10. Hayek, F. A., *Monetary Theory and the Trade Cycle* (New York, US: Augustus M. Kelley, 1933/1966).
11. Hayek, F. A., *Studies on the Abuse and Decline of Reason*, B. Caldwell (ed.) (Abingdon, UK: Routledge, 2010).
12. Hazlitt, H., *The Inflation Crisis and How to Resolve it* (Auburn, US: The Ludwig von Mises Institute, 1978/2009).
13. Jackson, T., *Prosperity without Growth: Economics for a Finite Planet* (Abingdon, UK: Routledge, 2009/2011).
14. Keeler, J., 'Empirical Evidence on the Austrian Business Cycle Theory', *Review of Austrian Economics*, Vol. 14, Issue 4, 2001, pp 331 – 351.
15. Keynes, J. M., *A Tract on Monetary Reform* (London, UK: Macmillan, 1924).
16. Krugman, P., *End This Depression Now* (New York, US: W. W. Norton, 2012).
17. Kuznets, S., 'National Income, 1929-1932', *Senate document no. 124* (73rd US Congress, 2nd session), 1934, p. 7. Retrieved from: http://library.bea.gov/cdm4/document.php?CISOROOT=/SOD&CISOPTR=888 [Last accessed 21 March 2015].
18. Langdana, F., *Macroeconomic Policy: Demystifying Monetary and Fiscal Policy* (Dordrecht, The Netherlands: Springer, 2002).
19. Lemieux, P., *Somebody in Charge: A Solution to Recessions?* (Basingstoke, UK: Palgrave Macmillan, 2011).
20. Maddaloni, A., and J. Peydro, 'Bank Risk-taking, Securitization, Supervision, and Low Interest Rates: Evidence from the Euro-area and the U.S. Lending Standards', *Review of Financial Studies*, Vol. 24, Issue 6, 2011, pp. 2121 - 2165.
21. Mises, L., *The Theory of Money and Credit* (New York, US: Skyhorse, 1912/2013).
22. Mises, L., *Human Action: A Treatise on Economics* (Auburn, US: The Ludwig von Mises Institute, 1949/1998).

23. Mueller, A., ‘What’s Wrong With Economic Growth?’, *Mises Daily*, August 2005. Retrieved from: https://mises.org/library/whats-wrong-economic-growth [Last accessed 11 March 2015].
24. Presley, J., ‘Modern Monetarist Ideas: A British Connection?’. In R. D. Collison Black (ed.), *Ideas in Economics* (Totowa, US: Barnes & Noble Books, 1986).
25. Rivot, S., *Keynes and Friedman on Laissez-Faire and Planning: Where to Draw the Line?* (Abingdon, UK: Routledge, 2013).
26. Rothbard, M., ‘Money Inflation and Price Inflation’, *The Free Market*, Vol.4, No. 9, 1986.
27. Skidelsky, R., Keynes: The Return of the Master (London, UK: Penguin, 2009).
28. Stiglitz, J., Freefall: Free Markets and the Sinking of the Global Economy (London, UK: Penguin, 2010).
29. The Heritage Foundation, ‘Explore the Data – Macro-economic data’, *2015 Index of Economic Freedom*, 2015. Retrieved from: http://www.heritage.org/index/explore?view=by-variables [Last accessed 19 March 2015]).
30. Welton, K., *Cap-Com: The Economics of Balance* (Dana Point, US: Pandit Press, 2002).
31. Zovanyi, G., *The No-Growth Imperative: Creating Sustainable Communities under Ecological Limits to Growth* (Abingdon, UK: Routledge, 2013).