When growth is not growth

After wrestling through four conferences on “Knowledge-based growth” in the past three months, I am at the end of my tether. Not only have I come to the conclusion that most people who use the phrase “knowledge-based” don’t in fact know what they are talking about (or are simply lobbying for more government funding for company or university R&D budgets), but that most are clueless too about “growth”.

I will come to the “knowledge-based” stiff in a minute, but first “growth”. Surely you have to be brain-dead not to notice that the large proportion of the “growth” that the world’s rich western economies boasted over the 15 years to September 2008 disappeared in a puff of smoke in the wake of Lehman Brothers’ collapse. We had been counting the illusory gains of property and stock market bubbles and debt-funded leverage. All of a sudden, most European economies – and most of the complacent citizens living in them – found the growth had gone, and they were no longer as wealthy or economically prepared for retirement as they thought they were. The same happened in Hong Kong of course, as property prices crashed in the Asian Financial Crisis in 1998.

There is a temptation to blame GDP as the evil genie at the heart of this mismeasurement of progress – and there is no question that our reliance on GDP as the main measure of our progress is profoundly stupid – but we need to recognize too that “growth” may not be growth at all, and in its own right might not necessarily be good.

France's Nicolas Sarkosy and Britain's David Cameron have been winning credit for their recent attacks on the concept of GDP. In May, David Cameron called for the British people to focus more on GWB – General Wellbeing – and less on GDP. More scientifically, Sarkosy set up a commission headed by economists Joe Stiglitz and Amartya Sen to lead an assault on "GDP fetishism". Briefing the world on the Commission's findings in September last year, Sarkosy was blunt: growth "was destroying more than it was creating". He reminded us that GDP is simply a measure of market activity – not of social wellbeing.

But Cameron and Sarkosy are neophytes when it comes to frustration with GDP. Back in 1968, three months before he was assassinated, presidential hopeful Robert Kennedy launched a full frontal attack, complaining that "there is much that GDP does not comprehend", adding: "It does not allow for the health of our families, the quality of their education or the joy of their play." He complained that GDP was boosted by pollutive industry, by more ambulances to cope with more accidents and sickness, by more jails to accommodate the growing population of criminals, by destruction of America's ancient forests, by nuclear warheads – even by cigarette advertising. By contrast, it did not measure the unpaid work of a mother in the home, or a family looking after their elderly, or the healthiness of children, or the quality of education, or the integrity or efficiency of government officials.

Bhutan's King Jigme Singye Wangchuk went even further in 1972 when he abandoned GDP, and instead created an alternative – GNH, or Gross National Happiness. From quaint origins in the rarified atmosphere of one of the world's most isolated Buddhist countries, GNH has attracted increasing interest because beyond measuring market activity, it strives scientifically to capture sustainable development, the protection of cultural values, conservation of the natural environment, and good governance.

Whatever the progress on this front, it is depressing to hear so many conference speakers talk loosely of growth without pausing for a moment to define what they are talking about. Surely growth is only meaningful if it lifts starving people out of poverty, affords honest and efficient government that provides services that allow us to sleep safely and comfortably with our loved ones at night, purges our societies of diseases, enables our citizens to live long and healthy lives, provides us with education systems that provide literacy, cultural appreciation, and the skills needed to support ourselves in fulfilling careers.

Do we really see growth when a family decides to buy a third car, or a tai-tai spends HK$40,000 on a handbag? Do we really see growth when our home rises in value from HK$1m to HK$4m?

Recognition of the problem has emerged in debate in the Asia Pacific Economic Cooperation grouping (APEC), where officials no longer talk simply of growth but of five different kinds of growth – sustainable growth, balanced growth, secure growth, inclusive growth and – yes – knowledge-based growth.

Most of these refinements I can grapple with. Sustainable growth is obviously tailored to our environmental crisis, global warming, and the alarming pace at which we are exhausting the world's natural resources to satisfy our consumer tastes. Balanced growth and secure growth focus on the need to protect against national and international conflicts over where and how we manufacture and consume. Inclusive growth is clearly targeted at reducing the large and widening rich-poor divide that is a particularly acute problem in societies like Hong Kong.

But "knowledge-based growth" seems mired in ideas about using computers, and about getting governments to spend more taxpayer money on funding R&D. Don't get me wrong: I have nothing against knowledge-based growth. In fact, I think it might be a very good thing – which is why I have been spending all of this time at conferences on the subject. But peoples' thinking about how "knowledge-based growth" might be a good thing seems horribly muddled. Despite many efforts around the world in recent decades to show a link between high R&D spending and economic success, more innovation, or more patent applications, none has been found. There is just no correlation.

So in pursuing knowledge-based growth, what are we trying to achieve? Surely some key measures should be:

- Education or training that provides individuals with the competences to perform higher value-added work that enables them to earn a better standard of living;
- Innovation, in particular innovation that improves the quality of peoples' lives or generates solutions to problems that remain unsolved – like cures for cancer;
- Efficiency-generating innovation that enables us to produce things with fewer resource inputs or less wastage, or with less stress, risk or delay;
- Fostering a state of inquisitiveness that improves peoples' ability to tackle and solve newly emerging problems;
- Development of systems that improve how information/knowledge can be transferred and exploited.

Perhaps most important of all, these measures should apply to all walks of life, not just to science, IT and the internet. Knowledge-based growth – and the innovation linked with it – is just as important in the waste-disposal industry, or hairdressing or the restaurant business as it is in high-tech industries.

Wrestle with these, and we might just end up getting growth that is worth having – growth that will not exhaust the world's resources over the coming 50 years or melt our ice-caps. We need leaders who know not how to count, but what to count. That would truly be "knowledge-based growth".

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