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Reply to Tom Rawski's note
June 25, 2004

IMMISERISING GROWTH – Note #2

Definition

Immiserising growth arises when an increase in economic activity is associated with a fall in real living standards. The increased economic activity may be reflected in greater inputs of labour (people; labour hours), capital, land or any other resources which have an opportunity cost.

Purview

Immiserising growth may apply at the level of the individual, the household, the farm, the firm, groups of firms, sub-regions, provinces, countries, inter-country regions, and so on. The unit of aggregation depends on the purpose of the analysis.

Theoretical antecedents

Bhagwati (Bhagwati, 1958), who is responsible for the modern-day discussion of immiserising growth, drew on work by Edgeworth (1894) on "indemnifying growth". Bhagwati and Johnson (1955) began by examining circumstances in which declining [barter] terms of trade outweigh the benefits of growth. This is a sharp focus which resonates with some of the points below in this note. However, in later work during the 1960s and early 1970s, this sharpness is lost. Bhagwati and others began by arguing that in a world of trade distortions (a sub-optimal policy environment), growth of production could induce a net loss of output. For example, he argued, tariffs could induce FDI targeting the domestic market, but with such inefficiencies that the result would be less favourable than a world free of tariffs (and of tariff-hopping FDI). For Bhagwati, at least, this provided an intellectual underpinning for the neo-classical critique of market interventions underlying industrial policies. These were said to lead to directly unproductive rent seeking behaviour, a sub-optimal form of economic organisation. Thus, new investments in this regime which departure from perfect markets yield sub-optimal growth outcomes compared to the counterfactual of perfectly functioning markets, and hence probably constitutes immiserising growth. In my view, the concept of immiserising growth in this more recent literature is thus shorn of meaning.

Immiserising growth in a closed economy

Immiserising growth can occur in a closed economy. For example, in a world of diminishing, and then negative marginal rates of return, net additions to economic activity lead to a loss of output. (I remember illegally compiling political pamphlets in the 1960s, with fellow students round a table gathering cyclostyled paper and stapling the piles. There came a stage when by adding one more student we began to get in each other's way, and our total output declined). This accords with a Malthusian view of the world.

Immiserising growth in an open economy.

Once we move from a closed to an open economy, the valuation of output becomes an important component of immiserising growth. In a world of declining barter terms of trade, if the income terms of trade also fall (in other words the fall in prices of the products exported is greater than the increase in demand), we are unambiguously in a world of immiserising growth. But, even if income terms of trade rise, we may well be in a Bhagwati-type world where the opportunity cost of the resources required to obtain the enhanced income (which may be small if demand is not price elastic) is such that the counterfactual use of the additional resources used would be greater if production was destined for the home market. Finally, there is the additional problem of the numeraire which is used. That is, if the factor underlying the volume expansion of exports is currency devaluation, then the declining incomes arising from immiserising growth ("what is the global purchasing power of the resources arising from economic activity?") may not be reflected in domestic currency, but only in PPP currencies.

How does all this relate to Tom Rawski's data on China?

Two points:

- Rising real wages of a substantial part of the population, or conversely, falling incomes of a particular region, may or may not constitute immiserising growth; it all depends on the unit of analysis (individuals, households, regions, countries, etc). I take Tom's data to show that China as a whole has not experienced immiserising growth. The 150m losers only experienced immiserising growth if their incomes fell despite working harder (for example, because their real wage rate fell).

- My own argument is perfectly consistent with Tom's data. I have not argued that China has experienced immiserising growth. I do however believe that other countries are experiencing immiserising growth, and largely as a result of China's success. In some cases their income terms of trade are falling. But in other cases, the products which they are exporting are experiencing falling prices in a context where their productivity is low and their productivity growth rate is rising more slowly than the prices of their output are falling. Moreover, they are also being excluded from many markets by China's very success – this means that the resources they have set aside for production (for example, investment in new factories targeting exports) faces falling productivity as capacity utilisation falls.

I hope that this adds light rather than heat or darkness….

Bhagwati J. N. (1958), "Immiserizing Growth: A Geometrical Note", Review of Economic Studies, No. 3, pp. 201-5.

Bhagwati, J. N. (1987), "Immiserizing growth", in The New Palgrave: A Dictionary of Economics, (J. Eatwell, M. Milgate and P. Newman, eds.), London: Macmillan