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Human growth:
Avoiding European disintegration

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Abstract: Many economists, including mainstream economists, have declared the necessity of an ambitious public investment program for Europe. The continuation of the present laissez-faire and austerity approach, they say, will deepen the dissatisfaction of European peoples with the European project. In effect, in the absence of inspiring progressive alternatives, there is the real prospect of nationalistic reactions everywhere, with fragmentation and the end of the EU (or even worse) as a consequence. At the bottom of the EU-fatigue there is dissatisfaction with the present economic paradigm, which implies social and economic strain and stagnation for a large majority, and growing wealth and privilege for a tiny minority (the "one percent"). A new social and economic paradigm should be necessary to reverse the negative and dangerous trends that the now more than 30 years old neoliberal paradigm has implied. To be effective, a new social and economic paradigm should underlie the new, ambitious European investment program. The guiding general idea of such a new, hopeful paradigm and program should be the idea of *human growth*. Human growth can be understood as the growth of human capabilities — the all-round development of individuals and societies. The paper summarizes a dynamic simulation model for the efficient allocation of investment. Investment efficiency is understood in the sense of the intersectoral allocation of investments being able to fulfill desired patterns of capability growth. That is, efficient investment programs are those that maximize the capacity of the production system — and in general, the socioeconomic system — of generating human growth.

1. Polanyi's message

> Under the gold standard the leaders of the financial market are entrusted, in the nature of things, with the safeguarding of stable exchanges and sound internal credit on which government finance largely depends. The banking organization is thus in the position to obstruct any domestic move in the economic sphere which it happens to dislike, whether its reasons are good or bad. In terms of politics, on currency and credit, governments must take the advice of the bankers, who alone can know whether any financial measure would or would not endanger the capital market and the exchanges. … The financial market governs by panic. (Polanyi, 1944, p. 229)

The present globalization wave, as the previous ones described in Karl Polanyi's *The Great Transformation*, is a financialization wave, as the financial sector appears as the major and most consistent leader and beneficiary of the general marketization policies of deregulation, liberalization and privatization. One of the lessons of *The Great Transformation* is that previous globalization waves radically undermined established systems of social relations, thus provoking in time socially and/or nationally "protectionist" reactions.

2. Polanyi after 2008

> After 1930 market economy was in a general crisis. Within a few years fascism was a world power. (Polanyi 1944, p. 242)

So it seems that, if the lesson from *The Great Transformation* holds also for the present globalization wave, we should expect social and national reactions trying to “re-embed” the de-regulated, unbridled forces of the market within new networks and rules of social life. Nationalism seems to be the more primitive and irrational form of “protectionist” reaction: an eroded and divided society, in which political parties and elites have lost legitimacy, is unified around the myth of the great — and abused — Nation. Minorities become potentially treasonous; other nations become potentially enemies. Fascism can present itself in several different guises, from the more folkloristic and semi-democratic, to the aggressively imperialistic and genocidal. We are perhaps already witnessing different forms of implementation of evolving, “post-modern” fascism.

The social protectionist, or socialist reaction, on the other hand, is a more rational reaction, which is based on an analysis — by the social movements and their intellectuals — of the nature of the existing social conflict and its possible progressive resolutions. The socialist response is therefore less visceral and more difficult. It requires generous class solidarity, even at the international level. It requires ability to form wide programmatic alliances, and to unify the plurality of social forces characteristic of modern, late capitalism. It requires endurance and patience, clarity about long term interests and objectives, and capacity to postpone and negotiate for further advancement.

3. Appealing to social consciousness

The European evolution after 2008 does not encourage optimism about the future of “social-protectionist” response to the crisis. In spite of expectations opened directly after the crisis, neoliberalism and austeritarianism are as entrenched as before. Perhaps even more seriously, it does not seem to exist an articulated social project to propose as an alternative to crude, neoliberal capitalism.

It seems necessary to appeal to the social consciousness of Europeans with a renewed form of the socialist project. The social movement must be able to articulate a common, hopeful strategy for European transformation. Such a wide vision for change in Europe should imply a new economic and social paradigm beyond neoliberalism, including democratic reform of European institutions. Paradigm Change for Human Growth could be such a new, inclusive paradigm for Europe.

Given the present EU-fatigue and distrust, a program for institutional reform and democratization should perhaps consider a first phase of increased autonomy for national parliaments and governments. However, the crucial devolution of autonomy and sovereignty would only come with the transfer of the key aspects of economic policy — such as fiscal, and in particular, investment policy — from the financial markets to the national and EU programs for human growth.

4. Human growth as a new European paradigm

> [T]he victory of fascism was made practically unavoidable by the liberals' obstruction of any reform involving planning, regulation, or control. (Polanyi 1944, p. 257)

The direction and content of socioeconomic development in the EU have been essentially determined by market laissez-faire, ultimately dictated by the financial markets' irrational, manic-depressive psychology. The institutions and the economics of the orthodoxy which form the constitutional ideological ground of the EU inescapably lead to mass unemployment, large and increasing inequalities of incomes and wealth, increasing alienation of large sections of the population, and finally to the kind of nationalistic reaction that we see today.

To avoid a protracted crisis and the trend toward disintegration and internicine conflict, institutions and policies of the EU need to be changed. To start with the most urgent, a massive investment plan should clearly signal the end of orthodoxy and austeritarianism, and the new orientation of the EU — away from neoliberalism, and towards democracy and human growth. Human growth should be the new idea that reunites the European nations behind the EU project, and replaces the neoliberal — in fact, anti-democratic — paradigm.

The key for opening the way for progressive change is thus to form a powerful set of ideas capable of awakening the minds and hearts of Europeans to the dangers of the present situation, but also to the possibilities of transforming Europe in the direction of peace and hope. That new direction and inspiring new paradigm could be the paradigm of human growth.

5. Paradigm change in Europe important signal for the world

A well-defined and well-specified program for paradigm change in Europe should be important not only for Europe, but for also decisively inducing similar changes at the global level, resolutely reducing global economic instability and international political/security conflict and tension.

6. Human growth in economics and internationally

On the one hand, the idea of human growth conveys the idea of *growth*, which is loaded with positive associations in the presently prevailing ideological context of neoliberalism. But on the other hand, in *human growth*, growth is qualified: human growth is not any kind of growth. Human growth is the kind of growth that increases the universe of life possibilities of all persons in society. Human growth is also the kind of idea which is apt to evoke different associations and aspirations in different people, and may open the space of intellectual discovery and debate away from the negative and sterile prevailing view of human beings as selfish and narrow minded *homo oeconomicus.*

In a sense, the debate on human growth has been conducted since long in economics in the form of a debate about the limitations of — and alternatives to — GDP as an indicator of society's welfare, or of any other meaningful notion of socioeconomic advancement. The discussion about the limitations of, and alternatives to, GDP is in fact a discussion about what really counts when the advancement of a society is to be measured with some quantitative accuracy. Also, besides this debate referring to social accounting and the economics of welfare, the wide literature on the idea of *human development* has referred to the same problematic, from a more conceptual and philosophic point of view.

In our sense, the most fruitful notion of overall socioeconomic advancement is the idea of human growth. We will understand human growth as the expansion of every relevant domain of exertion of human capabilities (faculties, aptitudes, abilities) for every individual in society.

The idea of human growth as the enlargement of human capabilities is of course not new. In different forms and to different degrees, the idea has been present in most philosophical and ethical traditions all over the globe. In the West in particular, the paramount ethical and political goal of human growth as capability expansion has been postulated within both the liberal and the socialist social-philosophical frame of ideas (for the liberal, see e.g. Nussbaum 2011, Sen 1999; on the socialist, e.g. Buzaglo 2014).

At the international level, a highly relevant illustration of the general recognition of human growth and capability goals, is the recent adoption by the United Nations of a set of 17 Sustainable Development Goals, with 169 specific targets to be fulfilled by all countries until 2030 (United Nations 2015). These goals and targets represent, directly or indirectly, a compromise for every country for the creation, until 2030, of a specific set of human capabilities.

7. “Big push” investment planning for human growth

> Since the introduction of “functional finance” in all important states, the directing of investments and the regulation of the rate of saving have become government tasks. (Polanyi 1944, p. 252)

A massive, “big push” investment program for human growth in Europe would thus be totally in line with the manifest efforts by the international community to leave behind the neoliberal phase of destabilizing and haphazard directing of investment by the financial markets — all this in a general context of stagnation, unemployment, growing income and wealth disparities, and increasing social and political tensions, national and international. A European investment program for human growth needs of course not to limit itself to the goals of the UN 2030 Agenda, but should include a more ambitious and wider set of goals and targets, specifically inspired by the European problematic, and attacking the social and economic causes behind growing nationalism, xenophobia and racism (mass unemployment, growing social exclusion and alienation, regional imbalances and disparities, etc.).

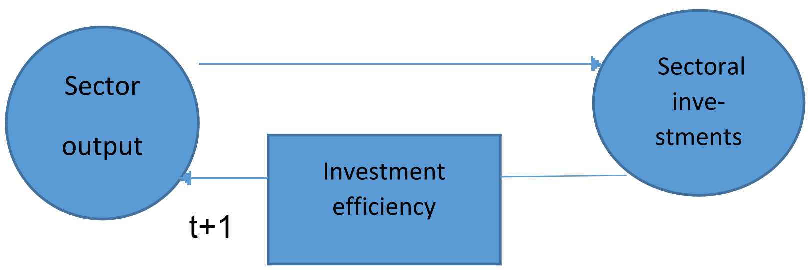
That is, we are speaking about *investment planning,* a subject which is anathema for the official economics of the neoliberal age. How for society to rationally and effectively allocate investment among different ends has been a forbidden subject in mainstream economics, because it is assumed that in a market society investment allocation is best (“optimally”) done by private investors in the market. It is even “demonstrated” that it is impossible to form a social choice function capable to represent society’s preferences — i.e., it is impossible to construct a function able to guide economic policy and planning choices. According to mainstream theory, any such attempt should be flawed in some important sense (Arrow's famous "impossibility theorem"). However, for many decades now, most economies have had large public sectors, and have collectively (often democratically) allocated an important share of total investment through the public sector — thus doing something that for economics is apparently impossible, or at least seriously flawed.[1] Collective decision making cannot be done by a social choice algorithm constructed by some clever mathematician, but must be done through a (hopefully transparent and democratic) political process. Models and algorithms, at best, may help to put light on the character of the problem to be solved by the decision process.

8. An investment policy simulation model

Let us now try and present an outline of a simple, consistent investment planning model for human growth in Europe. The model is a *policy simulation model*, that is, it does not pretend to explain or replicate the almost infinite complexity of a real modern economy evolving in time, but to describe the plausible mechanisms governing the restricted parts of the economy that are relevant for efficient investment policy planning. In particular, we are interested in the relationship between means and ends, or instruments and objectives — that is, between (sectoral) investments and human capabilities. The model is largely based on dynamic input-output and social accounting matrix theory (for a more detailed description, see Buzaglo 2016).

The basic causal structure and law of motion of the model is given by the classical theory of growth or capital accumulation. In every sector of activity, growth depends on investment, for given factors of output response to investment, or (sectoral) investment efficiency parameters. As the dynamic input-output model, the model follows a (disaggregated) "Harrod-Domar" law. Figure 1 shows an intuitive visualization of the basic law of motion over time.

Figure 1

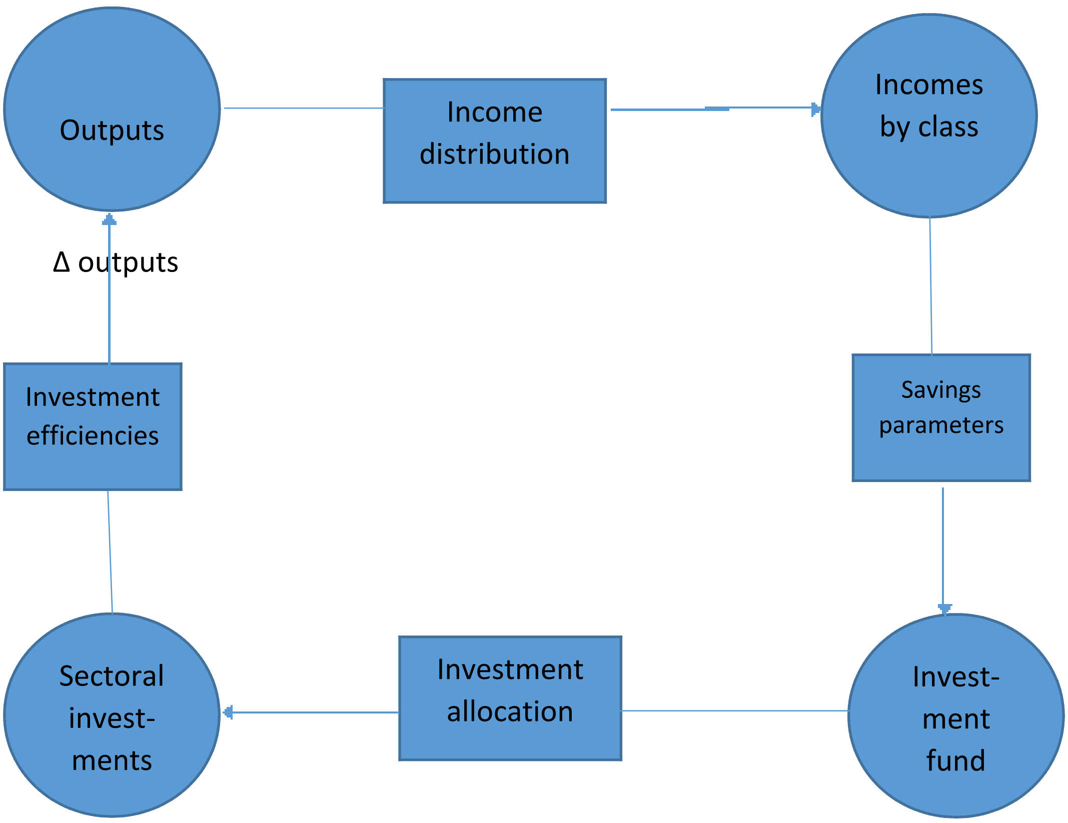


[1] Was the Nobel Prize given to K. Arrow a flawed collective decision? Seriously, not only the Nobel Committee make collective decisions: most private investment decisions are also taken by collective bodies such as corporations. Even *individual* investment decisions are (flawed?) collective decisions, taken by about 86 billion individual neurons, in turn composed of billions of molecules, in turn composed of many atoms, in turn composed of a large and growing number of particle-waves … and so on, with no end in view. Science could paraphrase Madam Thatcher: "There is no such a thing as individuals."

Growth thus depends on the level and distribution of investment. Economic policy, in particular fiscal policy, influences the level and distribution of investment, thus influencing sectoral rates of growth, i.e. the level and composition of output over time. Knowingly or unknowingly, willingly or unwillingly, the public sector has an important role in determining the direction and rate of structural change and growth in the economy. The role of public investment policy can be to induce status quo (or even involutionary) growth, or to foment structural transformation and human growth.

In order to visualize both sides of fiscal policy, i.e. fiscal income and expenditure policies, it is convenient to also represent income generation and distribution. Figure 2 shows how incomes generated in production are distributed among different income groups or classes (and the government). The public sector redistributes incomes through taxes and subsidies, and finances its expenditures, including investments.

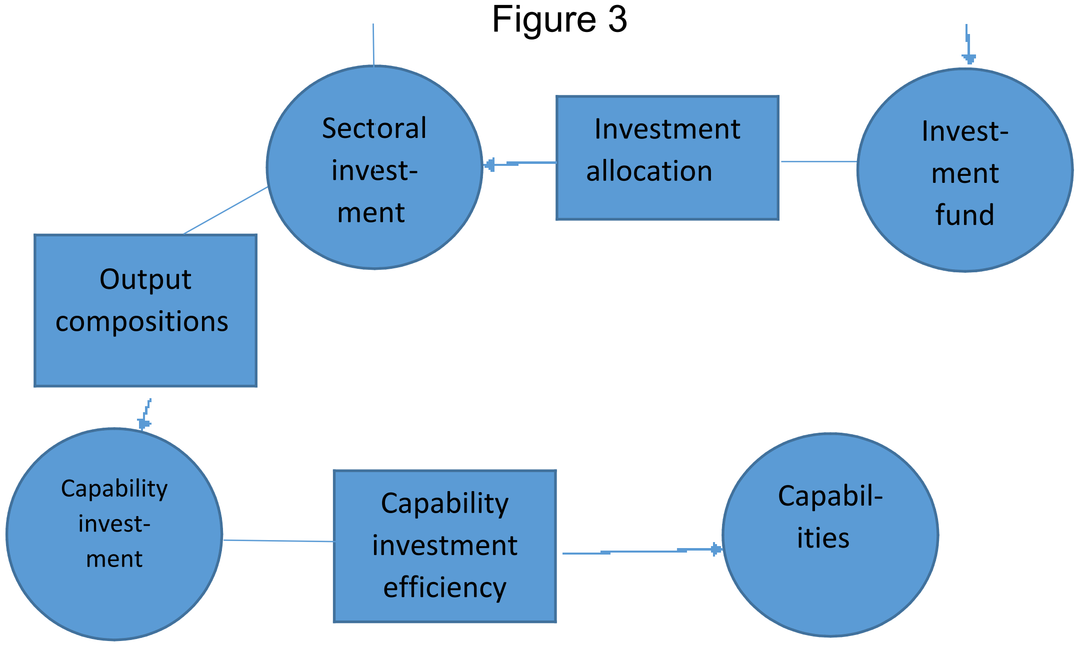
Figure 2



Both income distribution and investment allocation — the upper and lower boxes — can be understood as policy functions: income distribution and investment policies may both be used to achieve desired patterns of human growth. However, in this presentation, devoted to the urgent necessity of a "big push for human growth" in Europe, we focus on the planning of investments with that aim.

In order to be able to plan the allocation of investments for human growth, we need a link between the production system shown in Figure 2 with the space of human capabilities. There exists a link between investments in the producing sectors and investments in capability-creating activities. We want to know how investment in goods and services in the producing sectors should be re-oriented in order to achieve desired human growth goals. In order to do that, we need to know in what proportions investments in the different capability-creating activities are composed of goods and services from the different producing sectors. And/or also, we need to know in what proportions investments in the different producing sectors contribute to the formation of each one of the different categories of capabilities.

Figure 3



In Figure 3 we show the connection between investment in the output producing sectors with investment and growth in human capabilities. The upper level of the figure shows the lower part of Figure 2, describing how investment policy orients the allocation of investment among the producing sectors, thus modifying output structure over time. In the lower levels of the figure these investments, in turn, are transformed in capability creating investments, according to known proportions of the output compositions of capability investments.

The last step is to determine the effect of the investments in the different capability creating activities in the growth of their respective human capability index. Given known investment/capability parameters, or capability investment efficiency parameters, the (effect of capability investments on the) growth of the different capabilities is determined.

The message of Figure 3 is then that the level and distribution of investments in the producing sectors influences the growth and composition of capabilities. Also, that different goals of human capability growth can be approached by steering investments in the producing sectors so that the goals are fulfilled in such a large extent as it is possible. Investments conceived in this manner could be called “human-growth-efficient,” or simply “human-efficient” investments.

9. Concluding remarks

We have taken from Polanyi's *The Great Transformation* some lessons and insights, which were indeed shared by many people at the time, but have almost disappeared from the intellectual horizon after more than thirty years of universal marketization and commodification. A first lesson is that globalization waves undermine and unravel established forms of economic life, leading eventually to social and/or national reactions. The nationalistic reaction, in particular, may take gravely deleterious forms, such as fascism. Another important lesson is that entrenched [neo-] liberalism in policy, and political prevalence of financial interests in society, can block any possibility of regulation in the general interest, so opening the way for fascism.

Our paper defended the social response to the crisis. The common theoretical and ideological ground for a wide program for progressive change in Europe should be the idea of *human growth*. A key component of this wide program for change should be a large, "big push" investment program for human growth. Adoption of such a program should clearly signal the end of the neoliberal age and the start of new, hopeful paradigm for human growth in Europe.

The investment policy simulation model in the paper shows the possible logical structure of programming investment for human capability growth. It is possible to reorient investment — from the stagnation and inequality induced by the financial markets, to economic regulation aimed at human growth. As Polanyi also tells — and we have forgotten — economic regulation and investment planning were commonplace before the neoliberal age, that is, during the "Golden Age of Growth."

To *summarize* our *main policy points*:

1) To counter growing nationalist and reactionary trends, it is crucial to articulate a common, hopeful social alternative to rampant, neoliberal capitalism. The alternative should be a new, wide vision for change in Europe — a new whole economic and social paradigm beyond neoliberalism. That new paradigm beyond neoliberalism should be constructed around the idea of human growth: *a new paradigm for human growth in Europe.*
2) Human growth can be understood as the expansion of every relevant domain of exertion of human capabilities (faculties, aptitudes, abilities) for every individual in society — the all-round development of individuals and societies. The extant Sustainable Development Goals (United Nations 2015) constitute an operational and uncontroversial set of 17 capability goals to be fulfilled by all countries until 2030. These goals should be enlarged, and adapted to the specific European problematic.
3) A massive, "big push" investment program for human growth in Europe should signal the end of the neoliberal age and the beginning of new, hopeful paradigm of human growth.
4) The investment policy planning model of the paper shows how investment in the different sectors of the economy can be (re)oriented over time in order to fulfill capability targets — that is, how an investment program for human growth could be conceived, and its fulfillment followed in time.

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