

11th International Conference of the European Society for Ecological Economics (ESEE)

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Session 6. Theory, methods and practice -- 6.3. Indicators and modeling approaches

Please note: This paper is planned to be a background paper related to the European POLFREE project, which explores of new concepts and paradigms that can bring about a radical increase in resource efficiency, and a vision for a resource-efficient economy in the EU, with suggestions also for new more resource-efficient business models for firms, and ideas for a global governance regime. Several other abstracts that are submitted to this conference present work from this project. We suggest to group them together in a session

Title:

Why Low Economic Growth is Quite Likely and Would Not be the End of Economic Prosperity

Summary

The European POLFREE project (<http://www.ucl.ac.uk/polfree>) will present several scenarios for a resource-efficient future with much less resource use on global and European scales. At least one of these scenarios will probably turn out to exhibit very low, maybe zero or even negative rates of economic growth (relative change in GDP). The paper will summarize arguments that may seem obvious to many ecological economists. Such a development is often seen as the end of economic prosperity, especially because it increases unemployment, reduces the ability of governments to fulfill requirements such as paying pensions and does not allow people to pay for what they want and need to increase their well-being. But it is the experience of the author that these arguments are still widely debated and therefore deserve a proper presentation and discussion within the scientific community. ESEE 2015 seems a perfect place to do so.

Extended Abstract

The target of POLFREE is to reduce/cut down global resource use by half: This requires an annual increase in resource productivity of about 5% if the global economy keeps on growing at a rate of 3%. For Europe this would mean reducing its material consumption to 20% which also means to increase its resource productivity (GDP/material consumption) by an annual rate of 5% plus the expected growth of GDP – on average over all sectors of the economy in every year from 2015 till 2050.

Low economic growth is not primarily caused by reduced resource use. It has been a long term trend for a couple of decades (see, for example, the German research group „Wachstumsstudien“ at http://www.economic-growth.eu/English/index_eng.html). The attached graph displays/illustrates for Austria that economic growth was linear rather than exponential meaning that growth rates in percent of GDP decrease while the absolute increase of GDP from one decade to the next was around 30 bn € in constant prices of 2005 in Austria and 300 bn € in Germany (over several decades). This is very similar in most countries, with some important exceptions such as the US, Norway or Australia.

If this trend continues, another doubling of GDP can be expected before 2050.

Global GDP growth is also declining despite continuously reduced forecasts (by IMF, for example) that frequently (2 times a year) suggest that growth rates will go up again (“next year”), which they don’t (see the IMF’s World Economic Outlook of the last couple of years).

Economic reasons for this are the weakening drivers of earlier growth dynamics (a) on the supply side such as aging populations (for labour), restrictive banks (for capital), scarce resources and technical progress that cannot compensate for all this and (b) on the demand side such as household consumption, investments, government expenditure and/or exports growing slower in relative terms (see above) for various reasons.

Zero growth would mean that this year’s production and final demand would be as high as last year’s and as long as no major shifts between the components of GDP arise that consumption, investments, government expenditures, exports etc. remain at a level, which is around double the size of 20 years ago and five times the size of the 1960ies. 10% of degrowth until 2050 would mean an average decrease of GDP of less than .3% per year. Who except statisticians can tell the difference between plus 1% and -.3% ?

Such a development is often seen as the end of economic prosperity, especially because it increases unemployment, reduces the ability of governments to fulfill requirements such as paying pensions and does not allow people to pay for what they want and need to increase their well-being.

If - and only if - (a) labour productivity growth rates are higher than growth rates of GDP AND (b) this difference is not compensated by reduced working population due to an aging of the society, then reduced working in terms of less working hours per year can reduce unemployment.

On the other hand, if people decide to work less, GDP would grow less if this decrease in total working hours is smaller than the growth of labour productivity (if it is higher than labour productivity, GDP would actually decrease). Again, we are talking here about orders of magnitude of less than (plus or minus) 1% per annum - at high levels of income.

Many economists say that productivity growth follows the trend of GDP growth so

that the problem of unemployment due to large differences between the two is not expected to be too big. So, the link between jobs and growth is weaker than politicians think.

If GDP remains at a certain level (zero growth), its components may remain the same. So why should governments have less money, if the average tax rate remains the same? But if people work less, they may produce more well-being with their informal work. And the increased leisure also contributes to their well-being and compensates them for (some) loss of income.

If the percentage we pay into the pension system remains the same, pensions may not be reduced if the ratio between pensions paid and contributions to the funds remains the same.

If people have less stress during their work-life they may want to and be able to work for more years. This may be required due to demographic changes, anyway. And governments can certainly work more effectively leading to better service at lower tax revenues.

If products become on average more durable, repairable etc. we might even have more stuff at our disposal than before (the number of books on my shelf increases even if I would buy a smaller number of them every year). Zero growth does not mean “no improvements”.

Another important issue is distribution. If high earners would reduce their working hours to a larger extent, this could lead to a more equal income distribution and create jobs for people who now earn less.

A more equal income distribution could also reduce the desire of people with lower incomes to buy the newest flat screen TV which many of them can hardly afford anyway and tends to drive them into high private debts. And, of course, young people would (as now) earn more money when they grow older.