The Greens | European Free Alliance
in the European Parliament

A Post-Growth Society for the 21st Century

An executive summary

GREEN NEW DEAL

GEF GREEN EUROPEAN FOUNDATION

This paper is an extended executive summary of the report titled "A post-growth society for the 21st century", by the foundation IDDRI (Institut du développement durable et des relations internationales). The report received financial support from the Greens/EFA Group in the European Parliament.

The full report is accessible at this website address:
http://greennewdeal.eu/green-economy/publications/2011/en/a-post-growth-society-for-the-21st-century.html

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Foreword

By Philippe Lamberts and Yves Cochet
Members of the European Parliament, Greens/EFA Group

Economic growth has been stagnating at around 0% in Europe for several years. Over the course of the last decades, it has consistently fallen. Yet, the dominant discourse remains that of the need to return to growth, as if it were *sine qua non* to any economic, social or even environmental policy. The objective of economic growth has undergone a remake over the years couched as “intelligent”, “inclusive” or “sustainable” but whatever you call it; it remains the be-all end-all of public policy.

Nevertheless, when it comes to economic growth, there is a great uncertainty for our countries. For many environmental, economic, historical and social reasons, we can no longer count on a return to economic growth in Europe as a solution to current and future challenges. This is addressed in the IDDRI and CIRED report “A Post-Growth Society for the 21st Century: Can we prosper without a return to economic growth?” The report received the financial support of the Greens/EFA group of the European Parliament.

As Greens, our observation leads us to this assessment: it is an illusion to blindly follow the objective of economic growth – measured by GDP – as a cure-all. It's an illusion and a dangerous one at that. Economic growth is blind to inequality and insecurity. Growth is indivisible from our ecological footprint because of the environmental damage it causes and because of its contribution to the depletion of our natural resources. It distills the qualitative objectives of human development down to a quantitative increase in economic growth.

With that observation as a starting point we have two major areas of work. On the one hand we must come up with a message that drops the obsession with economic growth while offering a clear and coherent direction to take. Alternatives exist such as the idea of post-growth or prosperity without growth. Without waging a war of words, the Greens want to shift away from the growth rhetoric and focus on real objectives like fighting climate change, reducing inequality, creating jobs, promoting scientific research, etc.

On the other hand, beyond the message, we need to start our work immediately to find concrete ways to ensure the prosperity of our societies and the well being of our fellow citizens, two things that are not dependent on economic growth. The report emphasizes the strong possibility that there will be little to zero growth in the years to come. For this reason, we will need to change our paradigm and the governance of our society as a consequence. It would be wise to begin preparing for this today rather than react to sudden, even violent, destructive change when it takes place.

Of course, we cannot deny that while money does not buy happiness per se it does contribute to building a better future for us all. It is our responsibility to propose innovative, ambitious yet realistic solutions. For example, we must answer fundamental questions posed by the organization and workings of a post-growth society: how will we fund social security, create jobs, and preserve our environment? Beyond words and good intentions, that is the real challenge that we face. The study offers some various possible areas that could be explored in that direction.

The challenge will be all the greater as the cake ceases to get bigger it will be all the harder to divvy up large pieces for everyone. A post-growth society will require harder choices and an increase in debate and political courage. As Europeans it will raise crucial questions about our relationship to the rest of the world, considering our energy and resource dependence. Will we be able to have self-discipline in limiting our consumption and in succeeding in an ecological transition?

Last but not least, we must be able to propose a realistic yet optimistic transformation. We need not alternatives that are from the top down but rather ones that are built from the ground up. Our discourse must be one of assisting our citizens to transition rather than preaching what they must do. A prosperous society for all, starting today: that is our platform and it is together that we will conceive of and implement it.

A post-growth society for the 21st century

Politicians across Europe from the left and right have become obsessed with looking at economic growth in terms of GDP as an essential component of individual and collective prosperity. This study challenges that assumption. Instead, it argues that levels of GDP and GDP growth rates are a result of society's choices in how it wants to develop and that **politicians should move away from their obsession with economic growth per se and focus on what they want to achieve for society.**

This paper is an executive summary of the study entitled *A post-growth society for the 21st century. Does prosperity have to wait for the return of economic growth?* It sets out some of the main arguments and sums up some of the main conclusions. The full study can be downloaded here:
www.bit.ly/postgrowth

Growth rates in Europe have been sluggish since the 1970s and have been showing no signs of dramatically picking up in the near future. In this context, some European leaders are hopeful of a new industrial revolution and a return to the boom years following the Second World War whereas others would be happy with an annual growth rate of around 2% once the current economic crisis has passed.

The study suggests **that low growth rates are likely and that there is even fundamental uncertainty about future growth prospects.** The challenge for European citizens and politicians is to accept this uncertainty and to create a society that frees itself from the shackles of looking at growth on its own – a society which focuses on other ways to ensure wellbeing and prosperity. This is what the study calls a "post-growth society".

Declining growth rates over the last 40 years

Before turning to the concept of 'post-growth' in more detail, it is important to have a clear understanding of what is meant by growth and very broad economic trends from a historical perspective.

What is economic growth?

Economic growth is the year after year variation of what an economy produces or, in other words, all of the final goods and services bought and sold within a given territory. A nation's economic growth is generally measured in terms of Gross Domestic Product (GDP). One of its main weaknesses is that it does not measure non-monetary aspects of life such as people's levels of education, human health or the state of the environment, and fails to account for social equality

The highest growth rates in economic history were recorded after the Second World War, with average income per capita in Western Europe going up by nearly 4% every year. This growth was driven by a number of factors, including technological and organisational innovations. This sustained increase in growth levels in turn led to a rapid increase in people's living standards. However, this virtuous circle of growth came to an end in the 1970s as hourly productivity gains in European economies dropped.

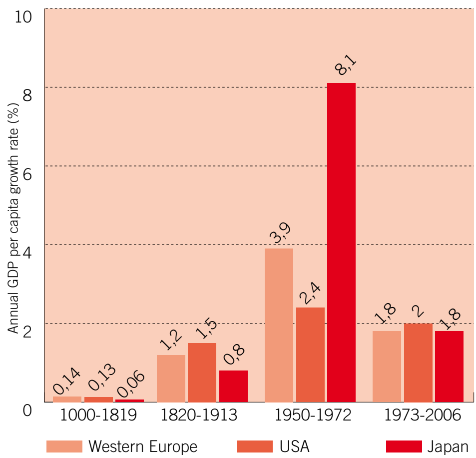
Gains in productivity were a key factor in boosting growth. More productivity essentially means producing more in a given day. This was achieved thanks to technological innovations such as weaving machines or steam engines. Technologies such as steam power, which emerged during the industrial revolution in the 19th century, made it possible to reorganise production and distribution processes. Steam power provided a cheaper source of energy and meant that factories could be concentrated geographically and production sites located closer to primary resources and consumers. Innovations in the workplace also helped boost productivity. Examples of these are large-scale factories and assembly-line work.

Paradoxically, the two world wars played a big part in boosting growth too. This was partly because housing, factories and machinery destroyed during the war had to be rebuilt. In addition, Europe was able to take up various technologies (e.g. for mass production) developed in the US.

Productivity gains began falling away in the 1970s and 1980s in various European countries. By the 1980s, factories had, for example, been modernised and reorganised and so there was less room for relatively easy productivity gains. Another factor was the shift of European countries towards being services-based economies as the services sector generates lower productivity gains than the industrial sector. For example, the share of manufacturing industries in GDP fell from 20% to 13% in France and from 31% to 24% in Germany.

Over the last 40 years, growth rates have been at about 2%, which corresponds to the average since the beginning of the first industrial revolution in the early 19th century. **From this trend and for all the reasons explained above, it can be deduced that the high growth rates following the Second World War were the exception rather than the rule.** European societies therefore need to come to terms with the reality that future growth rates are uncertain and, if anything, are likely to be low.

Growth rate of per capita output from the year 1000 to the present day



Fundamental uncertainty about growth

The study argues that this shift towards European economies based on services is one of three factors showing that there is considerable uncertainty about future growth prospects. Others are reduced benefits from innovation compared to the past (e.g. the benefits from mobile telephony are lower than the benefits from the invention of electricity), the scarcity of environmental resources and the need to reduce global greenhouse gas emissions.

Looking to the future, optimists think that recent innovations in terms of new information technologies have not yet come to fruition and that the services economy offers the potential for new growth. They also argue that fighting against environmental degradation should help reduce our consumption of material resources while increasing our income.

However, pessimists say that recent innovations have less transformative power than past innovations and that the shift towards a services economy makes it harder to achieve productivity gains and thus sustained growth. In addition, for them, protecting the environment and the increasing scarcity of resources represents an impediment to growth.

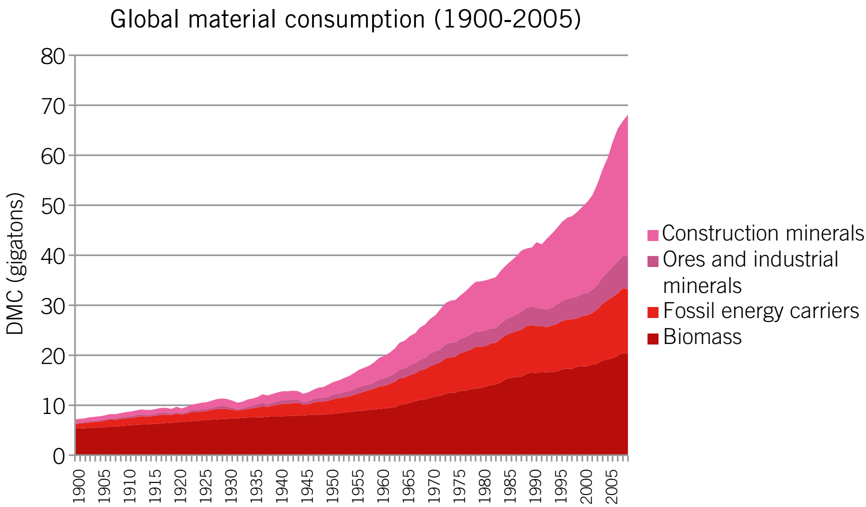
The key conclusion here is that there is fundamental uncertainty about future growth trends. This is because there is uncertainty about the political choices that Europe makes in the future and the technologies that Europe may invent in the future. **Different choices for society will have different impacts on growth.** The best approach would therefore be to make the choices first and then look at their economic consequences rather than focussing on economic growth *per se* as society's ultimate ideal.

The key for the future is to develop a collective proposal in which the economy and society would no longer be dependent on the need for a sustained increase in GDP. The open question for Europe is if it will be able to put in place a serious approach to dealing with the uncertainties of the future and if it can build a cohesive society in the context of structurally weak or even stagnant growth.

A finite environment – a brake on growth?

The study also discusses the notion of a "finite environment" of dwindling natural resources that may be putting a brake on economic growth.

Growth in GDP depends on many factors, including the extraction and use of many natural resources (e.g. oil, coal or gas). A big challenge for Europe and the world is the rapid depletion of available stocks of such resources.



In this respect, the study looks at whether the scarcity of environmental resources and the need to stop global warming put a brake on economic growth. The context here is a world of scarce resources, for instance where fossil fuels are almost exhausted, hi-tech minerals such as rare earths are often available in limited quantities and only in certain parts of the world. Rare earths are examples of hi-tech metals that are used in cutting edge manufacturing processes for the electronics, IT and telephony sectors. The European Union is in a particularly bad position in that it has a high dependence on energy imports, has no rare earths and is the world's main consumer of arable land in third countries.

The authors of the study used an economy-energy-climate model called IMACLIM to look at the macroeconomic impact of the challenges of dwindling energy resources and the need to reduce greenhouse gas emissions. The IMACLIM model was used to come up with over 400 scenarios for the evolution of growth according to the amount of energy resources still available, the evolution of low-carbon technology costs and lifestyle changes. **While the limited amount of natural resources is already a sign indicating that countries will find it hard to achieve growth, this is far from telling the whole story.**

The IMACLIM model helps us to look at the building blocks of the complex dynamic interaction between the environment and factors such as available resources, low-carbon technology costs and lifestyle changes. The model concluded that the macroeconomic impact of climate change policies may reach 0.5 percentage points of annual growth, at least during a transition period (until 2030) under the most pessimistic assumptions. "[...] this cost is substantial in a period of already low growth," says the study.

"While the political and media debates on energy and climate issues often seem to focus on new technologies for producing and consuming energy, what appears even more crucial is that we change our lifestyles in order to respond to these environmental challenges and minimise the macroeconomic cost of action. Indeed, the simulation exercise shows that we can continue today's unsustainable lifestyles and place our trust in technological innovation alone: but this 'strategy' could have a particularly high macroeconomic cost".

What should politicians do to achieve necessary lifestyle changes?

Faced with the depletion of natural resources, policymakers and decisionmakers need to put in place the necessary infrastructure to allow for more energy-efficient and low-carbon lifestyles. Examples of this are low-carbon public transport for long and short distances, innovative financing tools to upgrade the energy-efficiency of housing and standards to reduce wastage. Other examples include policies to inform and incentivise a shift in preferences towards products with low-energy content, involving, for instance, local supply chains.

With regard to this modelling exercise, it is important to remember that its figures must not be viewed as predictions but as orders of magnitude. They can be used to help identify the main issues involved in moving towards energy solutions based less on fossil fuels and more on renewable energies. IMACLIM therefore looks at different growth paths and their economic and environmental consequences. The models provide information with which to consider different policy options such as whether or not to change our urban environment and thereby reduce greenhouse gas emissions.

The results of the modelling exercise confirm the diagnosis of uncertainty surrounding the future of growth. **Under pessimistic but plausible assumptions for the coming decades (concerning energy resources, the cost of renewable energy or lifestyle changes), growth is likely to be significantly reduced.**

Can we prosper without growth?

The bottom line is that many factors (e.g. the shift towards service-related economies) point to a trend in which average growth in the EU may not rise much and may even be lower in the coming decades than over the last 30 years. Whether growth is stagnant or low, the key point here is that there is fundamental uncertainty about growth prospects.

In political discourse, growth and prosperity are often synonymous. Growth is presented as a solution to economic and social problems, in the short and long term alike, to the right and left of the political chessboard. Does this mean that a society evolving in this low-growth context is condemned to decline in economic and social terms? Or can we build a cohesive society in a world with weak growth?

To answer these questions, the study reviewed literature and the linkages between growth and four public policy objectives: self-reported well-being (which equates roughly to happiness), employment (i.e. people staying in work/finding new work), reduced income inequality and social protection (i.e health and pensions systems).

The links between growth and prosperity are much weaker than generally supposed. Above a certain level of national wealth, which has already been exceeded in European Union countries, growth does not determine levels of happiness. In fact, over the long run, this depends more on the level of inequality than on income. In the short run, recessionary periods see high levels of dissatisfaction. These variations in subjective well-being, however, can be explained through job losses. What people need to feel happy is not so much growth as jobs.

Is unemployment caused by a decrease in growth? In the short term, a decline in growth correlates with a rise in unemployment, which is hardly surprising. However, for many economists, it is not so much growth that creates employment, but employment that creates growth. And this is even more the case in the long term.

To sum up, **there is no clear causal link between growth on the one hand and happiness and employment on the other. Growth is not necessary to achieve these objectives.** They can and must be achieved as such by policies that boost employment or reduce inequalities – rather than by waiting on the arrival of growth.

On the other hand, weaker growth complicates the task of reducing inequality and this change is essential to self-reported happiness and effective healthcare systems. Likewise, weak growth makes it even more necessary to reform social protection systems in order to secure their funding.

Unfortunately, a weak growth environment makes policy reforms not only more necessary, but also more difficult, whether the goal is to reduce inequalities or reform the social protection system. Since the cake is not growing as fast as it used to, it is more complicated to modify the distribution of wealth between wage earners and rentiers, active and inactive workers, or to choose – individually and collectively – for example, between health services (and thus taxes in the case of public health systems) or plasma screens. **A weaker growth regime requires more trade-offs and, ultimately, more policy action.**

Moving to a new post-growth paradigm

In the face of potentially low growth rates, policymakers do not need to abandon objectives such as reducing inequalities in wealth, securing social protection and improving life satisfaction. One option is for politicians to move away from the objective of growth *per se* towards better inequality reduction measures or employment policies. "We don't need to wait until growth arrives to attain prosperity, we just have to work at making prosperity happen," says the study.

"In a nutshell, our analysis shows that it is not so much a society's economic growth that matters for prosperity, but rather the economic and social regime that creates more or less prosperity."

If we assume that European countries will be experiencing low growth for the foreseeable future, the study has its recommendations to make: "A low-growth society must thus redouble its efforts to redistribute wealth or improve access to essential services such as education, health and pensions. Likewise, weak growth reinforces the need to reform social protection systems in order to secure their funding".

Society can make different choices, each of which will have different impacts on future GDP growth – e.g. addressing the elderly's need for autonomy by providing more help or by robotising solutions and dispensing remote medical care.

A reasonable position would be for society to make these sorts of choices first and then examine their consequences for growth. This implies societies that can adapt to a broad range of growth rates in the future. "This does not mean being indifferent to growth but **elaborating a collective proposal for a future in which the economy and society would no longer be dependent on the need for a sustained increase of GDP"**.

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