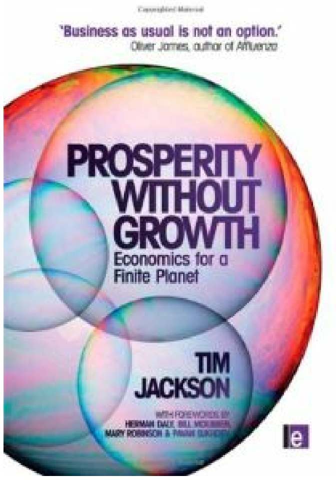

Book Prosperity Without Growth

Economics for a Finite Planet

Tim Jackson
Earthscan, 2009
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Recommendation

Gross domestic product (GDP) is a common measure of economic growth. But GDP fails to account fully for the ecological damage that growth wreaks. By prioritizing economic growth, societies based on capitalism permit excessive consumption of oil and other finite natural resources. Growth promotion, for example, has led to an orgy of deregulation that is depleting vital resources and compromising air and water quality. One of the 21st century's major challenges will be learning to accommodate capitalism without allowing the climate to suffer unsustainable damage. Professor of sustainable development Tim Jackson questions the ecological impact of product innovation, labor productivity and other pillars of modern capitalism. And he's as thorough as a scientist should be, right down to the mathematically rigorous appendix. The form is good – and so is the content. *BooksInShort* recommends this innovative book to readers seeking insight into the governance and policy challenges of spreading prosperity while safeguarding the environment.

Take-Aways

- Economic growth and pollution control are widely accepted priorities that often clash.
- Gross domestic product (GDP) measures economic output, but not its ecological cost.
- Governments must encourage economic activities that limit ecological damage.
- Endless consumption is a dead end, given the theory of diminishing marginal utility: The more you consume the less satisfaction you gain with each additional purchase.
- Economic stimulus may set the stage for a subsequent recession by misallocating capital among consumers, companies and public agencies.
- Full employment is preferable to GDP growth, which can occur even when jobs are scarce.
- Fascination with novelty drives innovation, a key component of economic growth.
- Only a few "Cinderella" firms run ecologically sustainable businesses.
- Jobs in a sustainable economy are likely to reside in "low-carbon activities" like education, restoration, agriculture and health.
- Voluntary initiatives cannot do enough. Government intervention is needed to save the ecosystem.

Summary

Prosperity Defined

Prosperity is more than material wealth. It is a sense of security that allows people to live happier, more meaningful lives. The benefits of prosperity tend to be societal, not individualistic. Major sources of "shared prosperity" include reasonable access to education and medical care, sustainable consumption of natural resources, clean air and water, and a stable labor market.

> "Prosperity speaks of the elimination of hunger and homelessness, an end to poverty and injustice, hopes for a secure and peaceful world."

Economic output is a far narrower measure of social progress than prosperity. Economists measure output – which has explicit and implicit costs – in terms of gross domestic product (GDP), which represents consumer purchases, business investment and government spending, plus exports minus imports. Consumer purchases are the largest component of GDP.

> "The idea of a nongrowing economy may be an anathema to an economist. But the idea of a continually growing economy is an anathema to an ecologist."

Strategies that are thoughtlessly preoccupied with growth do not adequately recognize the physical limits of the planet. For example, many government policies nurture consumption at the expense of saving and investing. While GDP measures the private gains earned, for instance, by producing oil, it fails to reflect the public cost of air pollution due to the resulting carbon emissions, or to account completely for the consequences of de-emphasizing renewable fuel sources. The need for renewable fuels will intensify in the foreseeable future. According to the International Energy Agency, worldwide oil production could peak by 2020. Scarcities of certain rare earth metals could develop even sooner.

Economic Growth, Economic Stability and Marginal Utility

The global financial panic of 2008 had its roots in a myopic commitment to economic growth. Weak government regulation contributed to the overexpansion of the mortgage-backed securities market, which collapsed, feeding the financial panic that gripped major banks and investment firms, and dramatically reduced worldwide credit availability. Like other financial calamities, the 2008 panic suggests that economic growth and economic stability are mutually exclusive. Indeed, actively pursuing economic growth can actually reduce economic stability. Regulatory intervention to stimulate economic growth may set the stage for a subsequent recession by misallocating capital among consumers, companies and public agencies.

> "The prevailing vision of prosperity as a continually expanding economic paradise has come unraveled."

Such government missteps raise doubts about how much economic growth is really necessary. Economic theory poses similar questions. Theoretically, all goods and services embody a factor that economists call "diminishing marginal utility." This means that each additional unit of a particular product or service gives the owner less satisfaction than the previous unit did. A boy who eats three pears, for example, would get the least pleasure from eating the third pear. If endless consumption is impossible, then endless economic growth is unnecessary.

> "The age of irresponsibility demonstrates a long-term blindness to the limitations of the material world."

Revenue also has diminishing marginal utility. Studies show that once people have a basic income that covers their needs, acquiring more money is linked only loosely with personal satisfaction. In a global survey, the Worldwatch Institute found that people in Denmark, Ireland, New Zealand and Sweden earned less income than U.S. residents, but expressed greater satisfaction with their lives.

Beyond Consumerism: The Concept of Decoupling

Consumerism is a worldwide culture that pushes economic growth. The consequences of the consumer ethos include a wasteful fascination with novelty. Relentless product innovation satisfies this craving for something new, which fuels economic growth. While many innovations obviously have improved living standards, constant demand for novel products propels unsustainable economic activity that damages nature.

> "This blindness is as evident in our inability to regulate financial markets as it is in our inability to protect natural resources."

Switching to public policies that minimize environmental destruction may restrain economic growth, at least initially. After a period of adjustment, however, perceptive countries would reap long-term gains from sustainable changes to their economies. A sudden shift to a no-growth or a slow-growth economic policy would hurt the U.S., the U.K. and other capitalist countries. If the move to more sustainable forms of economic activity is gradual, however, the transition will be easier and the gains surer.

> "Material goods provide a vital language through which we communicate with each other about the things that really matter: family, identity, friendship, community, purpose in life."

"The conventional response to the dilemma of growth is to appeal to the concept of decoupling," which can work two ways. "Relative decoupling" is a decrease in the negative environmental impact of every unit of economic production. In other words, even with relative decoupling muting the impact, environmental damage could mount as production increases. "Absolute decoupling" refers to an absolute decrease in total environmental damage ("resource impacts") due to economic activity. This is the way to keep carbon emissions at a sustainable level. Truly protecting the planet's air quality will require dramatic worldwide cutbacks of between 50% and 85% in carbon emissions by 2050 to meet targets established by the Intergovernmental Panel on Climate Change (IPCC). Imagining what the economy will look like in 2050 is difficult, but now is the time to start conceptualizing new economic models to prevent ecological disaster.

More Labor, Less Energy

Labor productivity generally is considered a good thing. Increased productivity means lower labor costs per unit of production. But advances in productivity also tend to add to economic "throughput," transforming raw materials to products while consuming nonrenewable natural resources and spitting out pollution as a byproduct. Companies need greater incentives to offer products and services that require substantial labor and consume less energy. They also need less incentive to invest in automation, which erodes employment opportunities and adds to the carbon emission problem.

> "Economics – and macroeconomics in particular – is ecologically illiterate."

Many jobs in the sustainable economy of the future should support "low-carbon economic activities," and are a likely to reside in such fields as education, training, restoration, repairs, library science, agriculture and gardening, and health and physical fitness.

Public policy should call for full employment, but not necessarily for economic growth. Implementing such a concept would require a new regulatory structure to deal with economic recessions. For example, future regulations could encourage more business owners to reduce employees' working hours during a recession instead of eliminating jobs. A University of Massachusetts study found that a government investment of $100 billion over two years in six pressing areas – "retrofitting buildings, mass transit [and] freight rail, smart grid, wind power, solar power and next generation biofuels" – would generate two million jobs. If consumers spent the same amount, that economic activity would create 1.7 million jobs; a similar expenditure in the oil business would lead to 600,000 jobs.

More Wealth, Less Joy

Macroeconomic terminology poses obstacles to prosperity. Macroeconomists obsess over countable units of materials and manufactured goods, and pay insufficient attention to the planet and its population. They tend to confine their analyses to the components of GDP, a narrow measure of progress that excludes the ecological and social costs of growth. Macroeconomists mistakenly treat the economy as if it were somehow separate from society and the environment.

> "The new macroeconomics will need to be ecologically and socially literate, ending the folly of separating the economy from society and the environment."

Social psychologist Tim Kasser calls for a "new vision of prosperity." He argues that economic growth obliterates "intrinsic" human values. Self-acceptance is fundamentally valuable, but materialistic assets such as fame and wealth command more public approbation and attention. In just one contrast, Kasser says that, although people intrinsically value being part of a community, the drive for economic growth encourages excessive labor mobility, making transience more commonplace. Such uncounted costs of economic growth may run deepest in developed countries, where both personal income and social isolation have increased. Studies conducted by the University of Sheffield on behalf of the BBC (British Broadcasting Company) cast doubt on the assumption that more income means greater happiness. The researchers applied an index of community activity to British cities in multiple regions. They found that, during a 30-year period (starting in the 1970s), loneliness increased in every region though incomes, on average, doubled.

> "Simplistic exhortations for people to resist consumerism are destined to failure."

Not everyone lives in an "iron cage of consumerism." Some citizens of developed countries have concluded that their former, mindless material accumulation hindered their pursuit of happiness. They are choosing simpler lifestyles to enhance their personal contentment and minimize ecological damage. For example, a 2005 international conference in Sydney, Australia, triggered the so-called "Downshifting Downunder" movement toward simpler lifestyles.

Moving Beyond Materialism

Conservation is in a losing battle with consumerism. Even people who want to make ecologically intelligent choices struggle to do so. Too few companies serve them well. Firms that focus on environmental sustainability operate on the business world's fringes. Ecology-driven enterprises make up "a Cinderella economy that sits neglected." But with the right changes to public policy, more companies would make protecting nature a mandate. The Cinderella economy would grow, transforming entire industries. Mass transit might expand faster than personal transportation. Sales of energy-conserving products and services increasingly could rival fossil fuel sales.

> "The limits on economic activity are established in part by the ecology of the planet and in part by the scale of the global population."

However, achieving a sustainable economy is impossible without rebuilding the regulatory structure. Applying the force of law is critical. Merely encouraging individuals and corporate citizens to respect nature is an inadequate approach.

The Role of Government

Predictably, supporters of laissez-faire economic policy will oppose the idea that government should intervene in the economy for the purpose of meeting social and ecological goals. But such intervention is already happening. Governments have designed and implemented policies to move people in the proper direction. Smart government intervention can support sustainable economic activity that is both productive and environmentally conservative. But finding a better balance between growth and stability requires a united effort. Individual campaigns will never be enough to succeed. In *The Challenge of Affluence*, Oxford historian Avner Offer noted that people often respond myopically to immediate needs and later regret the long-term consequences.

> "The cultural drift that reinforces individualism at the expense of society, and supports innovation at the expense of tradition, is a distortion of what it means to be human."

Government's response to the need to aim for prosperity without exacting the unpleasant side effects of economic growth should follow a basic, three-step process:

1. **"Establishing the limits"** – Government is responsible for putting boundaries on ecosystem abuse. Taxing the use of carbon-based fuel is one way to limit the depletion of natural resources, and the deterioration of air and water quality. Imposing and increasing such taxes can provide important funding for pollution mitigation.
2. **"Fixing the economic model"** – Investing in the environment may produce smaller returns than conventional stocks and bonds. After all, investors in environmental integrity are also creating a public benefit. People would be more willing to make "ecological investments" if they had proper incentives.
3. **"Changing the social logic"** – Choosing simpler, more sustainable lifestyles is critical. So are efforts to restore communities and make them more resistant to recession. Taking these big steps would replace the wasteful culture of consumerism with an ethos of environmental sensitivity.

> "Stuff on its own doesn't help us flourish."

The word "frugality" may seem old-fashioned in a consumer-driven society. But British journalist Harry Eyres, a writer for the *Financial Times*, has put the word in a friendlier light, noting that it derives from the Latin word for “fruit.” It is a useful reminder that conservation, not consumption, can bear great rewards.

About the Author

Tim Jackson is Economics Commissioner on the Sustainable Development Commission, an independent adviser to the U.K. government. He teaches at the University of Surrey and directs the University’s Research group on Lifestyles, Values and Environment.