Economic Growth in a Sustainable Development Context

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Overview

• A brief introduction
• The Current Situation & **THE PROBLEM**
  – Defining Sustainable Development
  – Economic growth as a requirement for sustainable development – Our Common Future
• The Responses from the Economists
  – Neoclassic Response – Solow
  – Economics and Energy – Georgescu-Roegen
  – Steady-State Economy – Mill and Daly
  – Degrowth – Latouche and Alier
Weakness in Retailing Dims Outlook

WASHINGTON (AP) — The outlook for the economy appeared dimmer on Monday after a report said Americans spent less at retail businesses for a third straight month in June.

Retail Sales
Total retail and food service sales, seasonally adjusted.

<table>
<thead>
<tr>
<th>APRIL</th>
<th>MAY</th>
<th>JUNE</th>
</tr>
</thead>
<tbody>
<tr>
<td>$420 billion</td>
<td>-0.5%</td>
<td>-0.2%</td>
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The report led some economists to reduce their estimates for economic growth in the April-June quarter. Many now think the economy grew even less than in the first quarter of the year, when it expanded at a sluggish 1.9 percent annual rate.

Spending in June fell in nearly every major category — from autos, furniture and appliances to building, garden supplies and department stores. Over all, retail sales slid 0.5 percent from May to June, the Commerce Department said.

Retail sales had not fallen for three straight months since the fall of 2008, at the height of the financial crisis.

The weak American spending figures were reported on the same day that the International Monetary Fund slightly lowered its outlook for global growth over the next two years.

“However hard you look, there’s just no good news in this report at all,” said Paul Ashworth, chief North American economist at Capital Economics.
The message

Source: http://thepixelwatch.com/

= Good
GDP and the real economy

Real Gross Domestic Product, 1 Decimal (GDPC1)
Source: U.S. Department of Commerce: Bureau of Economic Analysis

Shaded areas indicate US recessions.
2012 research.stlouisfed.org
**THE PROBLEM**

\[ Y = AL^aK^b \]

- **Y** = Total production
- **A** = Total factor productivity
- **L** = Labor input
- **K** = Capital (resource) input
- **a** & **b** = Output elasticities determined by available technologies

Two ways to Grow **Y**

1. Increase inputs **L** and **K**
2. Increase Productivity **A**

Function validated using data from 1900-47
Sustainable Development

- Term originated after publication of *Limits to Growth* by D. Meadows et al in 1972
  - Commissioned by Club of Rome
Defining Sustainable Development

• 1992 World Bank Report *Sustainable development concepts* by John Pezzey documented over 40 different definitions in the peer-reviewed literature

• Common themes
  – environmental concerns
  – the plight of the world’s poor
  – a social responsibility to future generations
Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

It contains within it two key concepts:

- the concept of 'needs', in particular the essential needs of the world's poor, to which overriding priority should be given; and
- the idea of limitations imposed by the state of technology and social organization on the environment's ability to meet present and future needs.
• From Chairman Gro Harlem Brundtland

- Environmental degradation, first seem as mainly a problem of the rich nations and a side effect of industrial wealth, has become a survival issue for developing nations. The downward spiral of linked ecological and economic decline in which many of the poorest nations are trapped.

- The downward spiral of poverty and environmental degradation is a waste of opportunities and of resources. In particular, it is a waste of human resources. These links between poverty, inequality, and environmental degradation formed a major theme in our analysis and recommendations. What is needed now is a new era of economic growth – growth that is forceful and at the same socially and environmentally sustainable.
Defining growth in *Our Common Future*

- Economic growth essential to eliminating poverty
- Based on sustaining and expanding the resource base
- Non-absolute limits of
  - Technology
  - Social organization on environmental resources
  - Biosphere’s ability to absorb waste
- Growth must be more energy efficient than in the past.
Some growth metrics from *Our Common Future*

- Economic growth defined as increase in per capita income (GNI per capita)
- Less developed nations
  - In Asia → 5%
  - In Latin America → 5.5%
  - In Africa and West Asia → 6%
- Industrialized nations → 3-4%
Intent of growth in *Our Common Future*

- Industrialized countries invest in less developed nations to decrease global income inequities
  - Globalization & Free Trade
- Growth should be dematerialized and energy efficient
GNI per capita, PPP (current international $) 1986 -1990

http://data.worldbank.org/
Robert Solow, Nobel Laureate (born 1924, Nobel Prize in 1987)

Picture by Olaf Solow
Solow thoughts On SD

• “an injunction not to satisfy ourselves at the expense of future generations”
• (infinite) Substitutability of production capital
  – “The world does not need natural capital”
• Distributional equity, present and future
  – Saving or investment
  – Current consumption or providing for the future
• Must account for rents on nonrenewable resources
• GDP and GNP are “incomplete” for measuring well-being
  – No depreciation of capital resources
• NNP (GDP – depreciation) does not measure degradation or stewardship
• Must account for depleting non-renewable natural resources (NNR)
  – A deduction from NNP for depletion of NNR
“Yes-or-no lends itself to stalemate and confrontation; more-or-less lends itself to trade-offs”
Nicholas Georgescu-Roegen (1906-1994)

Published in 1971

http://steadystate.org/discover/definition/
Georgescu-Roegen Contribution

• Applied thermodynamic properties to the economy
  – Defines economics as a function of energy
  – Energy subject to entropy laws

• Theorized a 4th law of thermodynamics...entropy for matter

• Based on 4th law there can be no steady state or growth economy since both energy and matter degrade over time
Georgescu-Roegen’s Hourglass

Fixed amount of sand – 1st law of thermo
Sand flows from top to bottom – 2nd law of thermo
Can’t flip hourglass – 2nd law of thermo
Isolated system – no sand enters, no sand leaves

Energy determines economic growth, the question is how big is the hourglass and how fast is it emptying?
<table>
<thead>
<tr>
<th>GR’s answer</th>
<th>(from Energy and Economic Myths)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• War and all its instruments should be prohibited</td>
<td></td>
</tr>
<tr>
<td>• The standard of living in poorer nations should rise</td>
<td></td>
</tr>
<tr>
<td>• Population should shrink to level supportable by organic farming</td>
<td></td>
</tr>
<tr>
<td>• Use Solar energy or controlled fusion, no energy waste allowed</td>
<td></td>
</tr>
<tr>
<td>• End extravagance ...</td>
<td></td>
</tr>
<tr>
<td>• Get rid of fashion</td>
<td></td>
</tr>
<tr>
<td>• Make durable goods more durable and repairable</td>
<td></td>
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<tr>
<td>• A good life is increasing amount of leisure spent in an intelligent manner</td>
<td></td>
</tr>
</tbody>
</table>
Herman Daly (born 1938)

http://www.publicpolicy.umd.edu/directory/daly
Steady-State economy

- The economy is an open system within a closed biophysical system
  - Growth is limited
  - There is an optimum scale at where growth stops
- Difference between growth and development
  - Growth is quantitative expansion
  - Development is qualitative improvement
Daly Limits to growth

• Scale of human activity within Carrying Capacity of the earth
• Renewable resources exploited at regeneration rates
• Non-Renewable exploited at rate of replacement of equivalent renewable resources
• Technology should be efficiency oriented and not throughput oriented
Sustainable growth is an Oxymoron

• Sustainable development is development without growth
• Growth is limited by Human Appropriation of Net Primary Product of Photosynthesis, NPP
  – Peter Vitousek, Paul R. Ehrlich, Anne H. Ehrlich and Pamela Matson (1986)
  – 5 billion people (1986) → 40% of terrestrial NPP
  – By linear extrapolation, 12.5 billion → 100%
  • Currently, population is just over 7 billion
2004 ➔ 6.4 Billion people


Figure 3. The economy as an open subsystem of the ecosystem

From *Beyond Growth* by Herman Daly Page 48
Serge Latouche

Source: http://winecountry.it/articles/trade-shows-and-events/1319
De-Growth <> Décroissance

• From France
  – some acceptance in Italy and Belgium
• “Think globally, act locally” – Serge Latouche
• Anti-capitalist, tyranny of growth
• Rebound effects – any gains in efficiency are cancelled by increases in consumption
• “Economic growth is NOT environmentally sustainable” – Joan Martinez-Alier
3 Level of the Economy

• Top level – provides loans, borrowing against the future growth of the economy, produces “virtual wealth”
• Real economy – industry, innovation, technology, manufacturing – subject to leverage by top level – must grow to satisfy debt
• Real-real economy – flow of energy and materials – resource and sink limited
But degrowth is not just a quantitative question of doing less of the same, it is also and, more fundamentally, about a paradigmatic re-ordering of values, in particular the (re)affirmation of social and ecological values and a (re)politicisation of the economy. It aims to take us out of the economy, of the domain of the calculable and economic rationality, and ask fundamental questions about the nature of wealth, its distribution, its use, and misuse. **Thus degrowth is not just a quantitative question of producing and consuming less, but a tool proposed for initiating a more radical break with dominant economic thinking.**

-- Valerie Fournier in *Escaping from the economy: the politics of degrowth*
La Décroissance,
c’est la joie de vivre.
Conclusion

The current economic growth models will NOT lead to a sustainable planet, we are robbing the future to grow the present at the expense of the poorest among us

Presented 3 competing viewpoints for economic growth within a sustainable development context

- Neoclassic (Keynesian) – dematerialized growth required to eliminate poverty and reduce environmental degradation
- Steady State – economic growth has limits determined by biosphere
- Degrowth – who cares?...its not about growth or economics but about the quality of life
Sources


