Talking Cents

August 2015

Talking Cents is an ecumenical group charged by the Anglican Diocesan Council to promote an alternative to current economic and political thought, and to encourage debate within the Church. Ministry Units are encouraged to distribute these articles. This issue is contributed by David Hall a member of the Auckland Anglican Social Justice Working Group.

Is Growth Essential for Prosperity?

Over recent years I have become more and more concerned about the basic assumption in government and political circles of all political colours that we cannot have prosperity without growth.

This assumption seems to ignore that we live on a plant with finite resources and the mathematics of unlimited growth means that resources will eventually run out. Growth advocates respond by saying that technology will find an answer so we do not need to worry about the implications of using up all the planet's resources.

At the national level the growth we are talking about is a year to year increase in Gross Domestic Product – GDP. Any government that fails to deliver an increase in GDP is in trouble with voters, for we are told that living standards are dependent on year by year increases in GDP, that Growth is essential for Prosperity. But is it?

GDP is a relatively recent construct. It was first mentioned in a report to the United States Congress in 1934 by Simon Kuznets, a Russian born American economist. It was only towards the end of World War Two during the discussions that led to the so called Breton Woods system for international finance that GDP became the basic measurement of a national economy. It is now the measurement used throughout the world as the primary indicator of a nation's performance.

So what does GDP represent? Professor Tim Jackson in his book *Prosperity without Growth* describes GDP as *"really nothing more and nothing less than a measure of "busy-ness" in the economy. It measures the amount of spending and saving by consumers."* [1] Jackson then goes on to look at the well-documented shortfalls in the way GDP is calculated. He writes" *These (shortfalls) include the failure of GDP to account properly for changes in the asset base; to incorporate the real welfare losses from having an unequal distribution of income; to adjust for the depletion of material resources and other forms of natural capital; to capture the external cost of pollution and long-term environmental damage; to account for the cost of crime, car accidents, industrial accidents, family breakdown and other social costs; to correct for 'defensive' expenditures and positional consumption or to account for non – market services such as domestic labour and voluntary care".* [2]

These shortfalls seem to be very important considering the way in which GDP is used as a measure of success or failure. One good example of this is that the Canterbury rebuild is trumpeted as contributing to the increase in GDP and hence growth, but the costs of the earthquake are ignored.

The exclusion of the cost of pollution and long-term environmental effects also distorts cost benefit analysis of projects. For example sustainable electricity generation by wind or

[1] Jackson: Prosperity without Growth" p179 Earthscan 2009.

[2] Id page 179

sun or tide, which have no negative environmental impact, are directly compared with the cost of electricity from fossil fuel plants, which have not had the environmental and pollution costs included, and are deemed "uneconomic". Similarly, the capital and running cost of petrol/diesel powered cars are not recognized when compared to electric cars. If these environment costs were recognized we could well have a fully sustainable non-polluting transport system in New Zealand possibly within 10 years with a dramatic drop in our carbon emissions.

Growth as defined by increasing GDP is an illusion. If this is so, then is "prosperity" also an illusion? By linking prosperity to increase in GDP or growth we are effectively saying that the measure of prosperity is confined and limited to how much we earn and what we spend. This effectively locks us into the "iron-cage of consumerism". We must spend so the economy can grow irrespective of the "stuff" we spend our income (and borrowing) on.

We are currently living in an era of low inflation, in fact some commentators are talking about the dangers of deflation. Yet only 30 or so years ago inflation was the biggest challenge facing governments. Inflation with growth was considered just acceptable but inflation without growth – stagflation – was disastrous. The economists' answer was de-regulation and the free market. This has led to globalisations and the consumer culture. We must spend, spend, spend to ensure that we get growth, but at what cost?

If the only measure of prosperity is what we spend on ourselves, then prosperity is indeed an illusion. But there is much more to living a prosperous life than just dollars and cents. Relationships are important, as is our ability to contribute to the social life of the community we live in and the overall state of that community. None of this contributes to growth in GDP but goes a long way to a prosperous life.

So if prosperity is far more than growth in GDP, why is consistent increase in GDP so important? Why do governments rise and fall on their ability to manage the economy to produce annual increases in GDP?

From my perspective some of the reasons include:

- GDP as presently defined is easy and quick to calculate.
- We have fallen under the spell of the new high priests of society – the economists.
- The way in which GDP is calculated has allowed politicians to ignore the too hard issues such as climate change and increasing inequality.

So is there anything we can do to change this situation? As Christians we are taught that "**the love of money is root of all evil**" (1 Tim 6:10) so we do need to look at ways in which to define and measure prosperity (or the common good, which I prefer), that are not focused purely on economics. At the same time, we need to break the dependence on increasing GDP - as presently defined - as the only way to measure prosperity.

This will not be easy as it requires some fundamental re-thinking of not just economic theory but how we relate as a society. But we do have some useful pointers for example in philosophy, ethics, and political science. The **common good** is a collective "good" that is shared and beneficial for everyone in a given community. From this we can develop a much wider definition of "prosperity" to include social relationships as well as the basics of food, shelter and health.

The definition of GDP also needs to be completely revised to take into account, many if not, all of the shortcomings identified by Professor Jackson.

Hopefully a more comprehensive definition of GDP will lead governments and politicians to start to address some of the serious issues we face as humans**. Ultimately we will need to aim for zero economic growth if we are to achieve a sustainable society that our grandchildren can enjoy.**