

# Why LIMITTS TO GROWTH won't hurt Sustainable Development and Economic Growth in Europe

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## Extended Abstract

The European Union's Lisbon Strategy focusses on economic growth and competitiveness, whereas the EU Sustainable Development Strategy aims at continuous improvement of the quality of life and well-being for present and future generations. We argue that **well-being of all people should serve as one of the overarching aims of European Policies**, thus bringing the goals of sustainable development closer to the everyday concerns of individuals.

Does economic growth solve or cause current problems (like unemployment, rising poverty, resource consumption and environmental degradation)? We have to ask this principal question, if we call for an absolute decrease of global resource consumption, since **we continue to use more and more resources and energy, although we use them more and more efficiently**. It seems that Rebound Effects are out of control and therefore the question about the reasonability of economic growth has to be on the agenda again - more than 30 years after the publication of the "Limits to Growth".

More than 30 years after the Report to the Club of Rome the Limits have moved much closer. In this respect, two questions are particularly relevant:

1) Under which conditions can decreasing economic growth in the richer parts of the world be made acceptable? How can well-being still increase while economic growth decreases. How to manage the distribution of income and capital (in the broadest sense as man-made, natural, human and social capital) in a society that moves from growth to a "Steady State"?

2) Under which conditions is a society under "Steady State" conditions able to „survive“ without producing even more unemployment, economic crisis and poverty than under the conditions of economic growth?

Debates on sustainability have led many decision makers to acknowledge the limitations of nature as a *fait accompli*. However, this acknowledgement is rarely reflected in

practice. Limitations of nature are unavoidable and will dominate our economy and our lives very soon. Some parts of the populations of European countries which practice today already a post-materialistic lifestyle, are already prepared for the paradigm shift, but the majority is not.

And we are only at the beginning with finding new lifestyles and new ways of remunerating useful work, whether in the formal or informal sectors.

Both European policy documents, the Lisbon Strategy and the Sustainable development Strategy, are followed by politico-administrative processes to measure progress with regard to their proclaimed goals. In this contribution we therefore also review these processes and discuss suggestions on how to measure sustainability and economic growth in Europe.

Indicators are crucial and the present systems are in urgent need of reform. The current method of GDP calculation measures the level of formal economic activity. The size and growth of the formal economy is related, among others, to the level and growth of employment, production, consumption and competitiveness, which are decisive factors in elections. In public discussion, GDP and wealth are frequently used as synonyms, but in reality, they are not related this way, even though the parallel differences in GDP per capita and wealth between developed countries and developing ones might suggest such an implicit relationship.

But GDP as currently calculated and trends in welfare have become de-coupled. Formal growth of the economy is not in line with the presently widespread public perception of reduction, not increase, of well-being. Continuing to propagate GDP as *the* benchmark for economic success and focussing efforts on its increase could lead to increase of production and consumption even if the costs of economic activity at the margin outweigh the benefits. The explanation for the apparent inconsistency in the relationship between GDP and wealth can be derived from the two "blind spots" of GDP.

- GDP calculation is not sensitive to distribution of the benefits of the economic activities. It can still grow in a situation in the rich part of the population benefits overproportionally related to the rest of the population.
- GDP does not take into account the use of the economic activity. Production of arms and restoration of ecological damage, which are in the best case neutral - adding zero additional wealth - make it grow further. Paradoxically, a society might have its highest economic growth just before it collapses.

These blind spots are not a result of a "failure of GDP". The failure emerges from an inadequate usage of the results. GDP intends to measure economic activity - not wealth!

A reform of the method of GDP calculation could include costs that are currently externalised. Having the depletion of critical capital stocks in the accounts would make them more accurately represent net welfare benefits of formal economic activity.

In a way, this would mean, that GDP would be diminished by future repair costs for ecological damage caused by present economic activity. This would mean that GDP would shift from a numerical to an evaluated indicator - with all the methodological problems related

to such a change (how to evaluate which parts of present GDP have which impact on the future?)

Therefore, a reform of the method of calculating GDP could not be undertaken alone, but should be included into an overarching sustainability assessment of the results of economic activity. Such a shift is principally possible and would promote a transition to more sustainable development and growth - which would then be in line with each other. Currently there is also a large informal sector of the economy, where many citizens, many of them women, perform useful work in ways not accounted for positively in GDP calculation. Also, what citizens want is not necessarily more jobs, but having a positive role and a fulfilling profession combined with an adequate "piece of GDP" for each of them. And on the other hand, there are many existing superfluous activities, the elimination of which could go hand-in-hand with an environmentally-positive shifts in the economy. Institutionalizing more of the work currently done at home and shifting towards sustainable business models could increase productivity of the natural resources. -

A more fundamental suggestion is to leave the path of GDP calculation altogether when talking about quality of life and well-being, as the European Strategy for Sustainable Development does. Despite its deficiencies, GDP is a good measure of *economic activity*, to which other economic variables, such as formal employment (the number of jobs) or tax revenues are theoretically and empirically related. Corrected GDP values would be much less useful in determining such interdependencies. When we attempt to measure quality of life or well-being, which are the central policy goals of the EU-SDS, these could therefore also be measured independently from GDP calculation. Several accounting methods for quality of life/well-being/happiness are nowadays available.

THE FOLLOWING PARAGRAPH DOES NOT FIT AT ALL!!!!

We would need a list of happiness indicators.

Europe is the region with the highest quality of life in the world. This quality of life is influenced by a whole set of observable global changes which are interconnected with each other (megatrends).

- The economic change from a location-bound production to a globalized service society.
- Demographic development (ageing, sinking average life work time).
- Change of the working sphere based on economical and/or personal needs (away from the classical „normal employer-employee relationship“ towards new forms and all topics related to that like unemployment, new forms of partnership, of entrances and exits, etc.).
- Change of life habits (flexibilization, new consumption patterns).
- Individualization, dissolution of communities (families, enterprises, associations, parties, churches, interest agencies).
- Intensified competition around limited natural resources, climatic change and other changes of the natural environment.

From an economical point of view these changes can be seen as a suboptimal use of capital and with it a degradation of the competitiveness of the Austrian and European economy. A purely monetary understanding of economic development is not sufficient to a comprehensive

understanding of these changes. Therefore a broader scientific approach including social aspects, arts and culture is needed.

In an internationally recognized view (OECD, World Bank etc.) it is not only about the preservation and increase of economical **capital (tangible assets and financial capital)**, but just as much the preservation of the socio-economic-ecological system. This system consists of: nature (**nature capital**), humans (**human capital**), the relations between humans (**social capital**) and the durable values such as infrastructures and culture achievements, created from it.

The further development of Europe should be founded on **systemic models, strategies and conversion-relevant concepts**, which allow less environmental consumption, a fair distribution and an economy, in which the needs of humans for quality of life and sharing the social life are satisfied in the best possible way. For that it is necessary to realize revenues in all forms of capital mentioned based on specific investments.