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Welfare with or without Growth?

Do We Need to Reduce Economic Activity to Protect the Environment and Increase the Quality of Life?

Reaction to Two Articles on Green Growth and Degrowth in GAIA (2015):

I. Seidl and A. Zahrnt, R. Loske

Michael Jakob, Ottmar Edenhofer

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In a recent issue of the *Oxford Review of Economic Policy*, we published an article on *Green Growth, Degrowth, and the Commons* arguing that neither “green growth” nor “degrowth” provide sound conceptual foundations for policy formulation (Jakob and Edenhofer 2014). Instead, the discourse should be focused on a welfare-theoretic basis that puts societal goals center stage. We proposed “welfare diagnostics” as an integrated framework to correct the over-use of limited resources as well as under-provision of public goods.

In this issue of *GAIA*, Seidl and Zahrnt (2015) as well as Loske (2015) have responded to our article and raised some criticism. We appreciate the opportunity to respond in turn and identify in which aspects our perspective on the issues at stake differs.

Assessing Trade-offs between Different Policy Objectives

First, Seidl and Zahrnt (2015) as well as Loske (2015) emphasize the importance of weaning our economies off their “addiction to growth” and criticize that this aspect receives too little attention in our work. Seidl and Zahrnt (2015) argue that growth is deeply engrained in the basic institutions of capitalism, such as monetary policy or social security. Loske (2015) points out that a post-growth economy based on cooperation and sharing would look very different than our current economic system of a competitive

market economy. In this regard, the main point of contention consists in a different understanding of the implied means-ends relationship to achieve human well-being. As we readily concede, economic growth cannot be a societal goal in itself, but can only be useful if it helps to achieve other objectives. Yet, that converse statement is also true. Nothing is gained by a shrinking economy in itself. Lowering the rate of economic growth does not automatically guarantee better working conditions or a better state of the environment.

We agree with the argument that economies need to be resilient to the possibility of lower or even no economic growth, regardless of whether one thinks of economic growth as a good or a bad thing. There are numerous convincing reasons why economic growth may slow down in the future, including the possibility of slowing technological progress, demographic change, slowing growth in developing countries as they become richer, the impacts of environmental degradation, or the costs of policies to conserve limited natural resources. Even proponents of a growth agenda should be able to agree that adapting to the possibility of slower growth in the future expands the option space for the formulation of economic policies.

Yet, Seidl and Zahrnt (2015) as well as Loske (2015) imply that a wide-spread addiction to economic growth prevents the adoption of measures that would improve well-being, but reduce economic growth. Our approach provides a general framework to assess trade-offs between different policy objectives. For instance, consumption is a valid goal, in particular in poor countries where needs are far from being met. However, consumption also comes with disadvantages, such as resource use and work-related social issues including adverse health impacts and lack of time to spend with friends and family. As a consequence, achieving a good life requires finding the appropriate balance between competing objectives. Finding this balance may be guided by two central questions:

1. What goals do we wish to achieve as a society, i. e., what is our notion of a good life?
2. What are possible ways to achieve these goals?

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The first question is normative, and people may have very different conceptions of how they want to live. The second question is positive and includes assumptions on, e. g., technological developments, or the workings of social institutions.

One reason that the debate on economic growth has resulted in a gridlock is that too little attention has been paid to clearly formulate firstly the implied trade-offs, and secondly, how to assess those trade-offs. A productive debate requires identifying why people arrive at different conclusions. For instance, proponents of economic growth may show relatively little concern with regard to the

economic growth can provide the financial resources to expand access to education. On the other hand, more education can either increase (due to higher productivity) or decrease economic output (due to more time and effort used for education). Clearly, assessing the role of education in social welfare involves a complex analysis that cannot be restricted to economic growth.

Loske (2015) criticizes our approach of welfare diagnostics as being one-sided, identifying critical minimal thresholds without discussing critical maxima, such as overconsumption. In our view, this criticism misses the point. As we emphasize in our paper, wel-

Overcoming the decline of natural capital and insufficient investments in the capability of people is at the core of welfare diagnostics.

impacts of economic activity on the environment either because of a relatively low valuation of the environment as a value per se, or because of technological optimism to decouple production from resource use. Vice versa, proponents of degrowth arguably support growth reductions because they put a higher valuation on the negative impacts of economic growth and are at the same time unconvinced by the possibility to “dematerialize” economic activity. Formulating the issues at stake in terms of welfare theory can help move the debate forward by clearly identifying points of disagreement that stem from different assumptions and worldviews. From this starting point, a compromise may be possible in view of normative goals (e. g., as we argued, meeting basic needs should be an objective on which most observers are likely to agree) and aspects that are amenable to empirical assessment (such as how realistic assumptions are on technical progress required to achieve decoupling).

Putting Societal Goals Center Stage

Second, Seidl and Zahrnt (2015) and Loske (2015) take issue with our notion of welfare diagnostics. Seidl and Zahrnt (2015) are concerned by the lack of operationalization of our framework. As examples, they discuss the relationship of education, employment and health systems with economic growth. They point out the intrinsic value of education (instead of a mere vehicle to foster growth) and the potential to improve health by low-cost interventions such as prevention. We understand this point not so much as a critique, but rather as an elaboration of our argument. That is, outcomes should be put into the focus of the discussion, and some objectives are likely better served by more growth, others by less, depending on the context. For instance, in many industrialized countries health conditions could likely be improved more easily by prevention than by expensive treatment of symptoms, whereas in poor countries, sizable new investments will be required to ensure access to basic healthcare. Likewise, education can be seen as valuable in its own right. On the one hand, eco-

fare diagnostics aims to achieve the right balance and to correct the overuse of scarce resources as well as the under-provision of public goods. From this perspective, the main problem of having too much of something lies in having too little of something else. Hence, overconsumption can clearly be related to, e. g., a lack of leisure (taking into account the time spent earning money to finance a luxurious lifestyle), insufficient environmental quality (given the resources used in production), or meaning of life (if consumption substitutes for the fundamental desire of human beings to discern their place in the universe). Loske (2015) further argues that failing to address the question of having too much is not particular to our approach but pervades the entire sustainable development discourse. This is only true for an overly narrow view of sustainability. An appropriate concept of sustainability would rather provide a comprehensive list of social objectives. Sustainable development would then be understood as choosing a course of action that minimizes trade-offs and maximizes synergies between these objectives.

New Impetus for Green Tax Reforms

Third, Seidl and Zahrnt (2015) are unconvinced that environmental tax reforms will be implemented on a broad scale. Their main concern is that – though the argument of a “double dividend” has been known for quite some time (Parry 1995) – little action has been taken to put these theoretical insights into practice. We beg to disagree. The original double dividend literature pointed out that interaction with other market frictions can undo the economic benefits of eco-taxes. Recent research, however, has identified additional effects, including savings behavior that results from changes in the value of fixed factors, such as land, and a larger tax base in countries with large shadow economies (Edenhofer et al. 2015). The existence of these additional effects has recently appeared in public discussions and could provide a new impetus for green tax reforms. In addition, a large number of countries has already put (in some instances quite high) prices on fossil energy

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use (OECD 2015). To date, almost 40 countries and more than 20 subnational entities have adopted climate policies in the form of carbon taxes or emission trading schemes (Kossoy et al. 2015). We are optimistic that these developments could consolidate into green fiscal reforms in which there is broad support by finance ministries for green taxes, not only for their environmental effects, but also for their potential to raise new public revenues.

Conceptual Framework for Analyzing Economic Policies

Fourth, Loske (2015) argues that our paper is focused on the Anglophone degrowth literature and pays insufficient attention to post-growth literature from, e.g., Germany and France. We did not intend to provide a comprehensive overview of the literature, but rather aimed to provide a conceptual framework for analyzing economic policy. Therefore, we have discussed some well-known Anglophone contributions as examples. Neither was our intention to dismiss the large body of literature mentioned by Loske as irrelevant. To the contrary, we acknowledge that these authors provide numerous insights into the negative consequences of policies aiming to maximize economic growth and propose alternatives for how to conceive of the good life in a society. However, by its very nature, the degrowth/post-growth literature puts the concept of economic growth in the middle of its discussion. As discussed, the essence of this literature should first and foremost be assessed in its capability to present ideas for advancing social progress, rather than the extent to which it supports the well-known argument that economic growth will not cure all social ills.

Welfare Diagnostics Informs about Promising Pathways to Achieve Human Well-being

Finally, by emphasizing the potential benefits of post-growth societies, Seidl and Zahrnt (2015) focus predominantly on industrialized countries, and Loske (2015) remains silent on the question of how a post-growth society could be put into place in poor countries. We agree that rich countries' incomes, as usually measured, arguably are more than sufficient to meet the requirements of a good life for everyone, at least on aggregate. However, it is also essential to identify the potential undersupply of health care, local public goods and education in industrialized countries. Additionally, failure to meet the material requirement of some segments of the population is a problem of unequal distribution rather than of a gross domestic product (GDP) that is too low. Indeed, for these countries, continued growth of consumption is unlikely to be the solution to social problems. However, on the global scale, the picture looks very different: more than one billion peo-

ple live under the threshold of extreme poverty of 1.25 US dollars per day, almost the same number lack access to water, and more than two billion lack access to sanitation.¹ Enabling people in poor countries to escape from poverty will require more economic output, and hence continued growth of consumption.

For this reason, economists must broaden the focus of their analysis. Overcoming the decline of natural capital and insufficient investments in the capability of people is at the core of welfare diagnostics. This kind of diagnostic does not justify a materialistic world view. Rather, it aims to inform policy makers about promising pathways to reduce human suffering and to increase human well-being. In the end, public policy should enable societies to meet the needs of the present without endangering the well-being of future generations.

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¹ Database query “world development indicators” at *World DataBank* 2014: <http://databank.worldbank.org/data/views/variableselection/selectvariables.aspx?source=world-development-indicators>.