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Scientific Session "Growth vs. Degrowth – Do we really have the choice?"

Long Version

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A post-growth society for the 21st century - Does prosperity have to wait for the return of economic growth?

BACKGROUND: AN INAUDIBLE DISCOURSE ON GROWTH

Since the 1970s, growth rates in the wealthiest European countries have been sluggish, if not in decline, and Europe is not the only region affected. For the generations born after the 1970s – in the wake of the thirty-year post-war boom – the political discourse on the return to growth is becoming increasingly outdated.

Some leaders are hoping for a return to the thriving post-war decades or the onset of a new industrial revolution, whilst others would be quite content with an annual 2% growth rate once the crisis has passed. Moreover, for the vast majority of politicians, growth is synonymous with prosperity: more growth is needed to create more jobs, reduce inequalities, maintain the quality of the welfare states and, ultimately, make people happy.

These political discourses on growth are thus doubly dissatisfying. Unfortunately, the authors developing alternative ways of conceiving growth are failing to address this dissatisfaction. First of all, because the demonstration that the end of economic growth is inevitable given our finite world seems far from robust, as do the hopes for a new wave of growth buoyed up by green technologies. Second, although the literature on the growth indicators that can replace GDP certainly addresses paramount social and environmental objectives, it often says too little about the role of GDP growth in reaching these objectives, be it with regard to employment, income equality or access to essential services such as health care and education.

PURPOSE OF THE REPORT

To respond to this dissatisfaction with the current political and media discourse on growth, this report attempts to answer – as far as possible – the two following questions:
1. Can we have any certainty about the future of growth?
2. Assuming that the coming decades will be a period of weak growth fluctuating between an annual 1% growth and a stagnant GDP, can we still prosper?
To answer these questions, we have studied the economic literature, organised seminars bringing together practitioners, policy makers and experts and carried out a modelling exercise to investigate the links between the energy-climate nexus and the economy.

1. IS THERE A FUTURE FOR ECONOMIC GROWTH IN THE DEVELOPED WORLD?

Growth rates exceeding 1% a year are a recent phenomenon in the history of humanity and those seen in Europe during several decades following World War II are something of an exception. Growth is the result of complex mechanisms that can be linked up with factors such as the compositiontion of the economy (tertiarisation), the diffusion of new technologies with a strong transformative potential, energy and the social compromise. However, economists are clearly quite unable to establish robust forecasts covering several decades.

For the last forty years, economic growth has been on the decline in the rich countries, and a weak-growth environment could well persist or even worsen. In fact, it is not inconceivable that today's new technologies turn out to be less "radical" than those that propelled the industrial revolution, or that the tertiarisation of the economy underway in industrial countries is durably slowing down productivity gains, particularly in those countries that have opted for development models based on education, healthcare, caring for the elderly and, more generally, on "personal" services.

On top of this, there is the challenge of growing energy resource scarcity and reductions in global greenhouse gas emissions. Here too, we find a great deal of controversy. While some consider economic degrowth to be inevitable, others believe that these environmental challenges present a tremendous opportunity to return to growth, start a new industrial revolution. As we have seen, the current state of natural resources is sometimes worrisome. Yet, to understand the possible macroeconomic impact of energy resource scarcity or emissions reduction, it is necessary to call on an economy-energy-climate model such as the CIRED model that we use. Our findings show that, while the most pessimistic scenarios are confirmed (for energy resources, trends in the cost of low-carbon technologies and lifestyles), the macroeconomic impact may be several tenths of a percentage point of annual growth or even stronger during the transition period spanning the next twenty years. Moreover, if growth is already weak, this represents a substantial drop.

There is thus "radical" uncertainty about the future of economic growth. Our future policy choices and the technologies that we may invent in the coming years are uncertain. This opens up a large range of possible economic pathways with an equivalent number of growth outcomes. And the eventuality of low growth rates, floundering around 1%, stagnation or worse, is not to be excluded.

2. CAN WE PROSPER WITHOUT GROWTH?

In political discourses, growth and prosperity are often synonymous. Yet, it would appear from this report that adapting to very low growth rates by public authorities to reduce inequalities in wealth, secure social protection and improve life satisfaction.

The links between growth and prosperity are much weaker than is generally supposed. There is, in fact, no correlation between happiness and long-term growth in the richest countries, any more than between employment and long-term growth. Employment and growth appear to be strongly correlated in the short term, but many economists contend that it is not so much growth that drives employment as employment that helps restore growth: no need for growth in order to create employment, but rather a tautological need for “employment policies” (labour market, industrial strategy, wage policy, public-sector employment, etc.). Likewise, although happiness and growth are strongly correlated in the short term, this is primarily due to employment: what people need to feel happy is not so much growth as jobs. In the political discourse, the detour *via* growth is very often unnecessary.

On the other hand, the links between growth, long-term inequality and social protection are much more tenuous. Weaker growth deepens income inequality over the long term, and yet greater equality seems to be crucial for self-reported happiness and the effectiveness of health care systems. A low-growth society thus needs to redouble its efforts as far as redistribution is concerned.

Similarly, we observe that weak growth complicates decisions about the trade-offs required to secure the financing of the state pension systems: without growth, there is all the more reason to step up contributions and/or work longer and/or decrease pensions *relatively*. The same holds for the health sector: with a rising demand for health care in a low-growth context, the need arises to increase contributions and/or cut expenditures and/or radically reform the system. Ultimately, without a “bubble of oxygen” from growth, we need more reforms, more political action.
Unfortunately, a weak-growth context puts a powerful brake on policy, whether the policy goal is to reduce inequalities or reform the social protection system. Since the pie is not growing as fast as it used to, it is intuitively more difficult to modify the distribution of wealth between workers and rentiers, active and inactive workers, or arbitrate collectively between public and private health services. A weaker growth regime thus imposes more arbitration

By way of conclusion, we give a brief reminder of what has been outlined above. The analysis shows that it is not so much society’s economic growth that matters, but rather the individual and collective choices that we make: whether or not to adopt a development model based on “personal” services, whether or not to reach our climate objectives. These choices will lead to different levels of prosperity and economic growth. The level and growth rate of GDP are above all the outcome of our choice of development paths – they are not what determines the prosperity of the industrialised countries. This conclusion may appear trivial to some, but it is nonetheless fundamental. Many political discourses make a “detour” *via* GDP growth to reach the destination of prosperity but in many respects this seems pointless and – after decades of sluggish growth – outdated.

It is now time for policy makers to take a fresh look at growth, accept the radical uncertainty surrounding its future and construct, first of all, a positive narrative for the future that bears no reference to growth and, then, a society that is able to concretely free itself of the shackles of growth: a post-growth society.