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## What kind of growth is sustainable?

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## Presentation of Arguments

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## Why we need growth

We live in a growth society – and this leaves its mark on our behaviour, our value judgments and our institutions. In the past, economic growth was instrumental in increasing our quality of life: economic growth was the successful response to the social crisis of the 19<sup>th</sup> century and the job crisis of the 1920s, providing the foundation for post-war reconstruction (Blazejczak, 1998).

In political circles, high growth rates are commonly still considered an essential prerequisite for our future development. In the white book “Towards Higher Employment via Economic Growth Based on Innovation and Qualification” commissioned by the Austrian social partners, Aiginger et al. (2006) argue that higher growth based on innovation and qualifications are an important lever for job growth, and therefore reducing unemployment. At the EU level, the heads of state and government agreed in the “Lisbon Strategy” to “become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion” (European Council, 2000).

From these commitments, it becomes clear that economic growth is considered the primary solution for social, economic and even some ecological challenges. Below are some of the arguments put forward to explain why economic growth is necessary:

- Economic growth enhances prosperity (disposable income);
- Economic growth translates into job growth, curbing unemployment;
- Economic growth defuses distribution conflicts;
- Economic growth enables development aid payments;
- Economic growth facilitates public debt servicing and helps finance our social welfare systems;
- Economic growth ensures a head start in the systems competition;
- Economic growth strengthens environmental protection by technological progress and increased availability of (financial) means;
- Thus, economic growth is seen as an appropriate means to offset unwanted side-effects produced by any market-based economic system (competitive and performance pressure, concentration of income and wealth, etc.).

It is also argued that without economic growth there is no guarantee that an economy would transform into a service-sector economy or that technological progress would adopt an environmentally-friendly approach. In a stagnant economy, unemployment would then increase in line with annual productivity growth, as rationalisation investments continuously reduce the required workforce.

Moreover, it is held that stagnating economies are less buoyant and crisis-proof than growing economies, since market-economy production incentives fall when interest rates fall and profit taking drops.

For the reasons cited above – the list is by no means exhaustive – stimulating economic growth remains the big issue in scientific and political circles, although it can really no longer be disputed that economic growth is becoming increasingly ineffective as chief problem solver (decoupling of growth in prosperity from economic growth, “Jobless Growth”, etc.).

On the other hand, economic growth is closely tied to the exploitation of (ever scarcer) natural resources. This results in increased waste volumes, emissions, etc., ultimately endangering our economies and indeed our own existence on an irreversible scale (climate change, loss of biodiversity, desertification, but also increasing food prices, poverty, etc.).

Therefore, alternatives to an economic system solely based on quantitative growth should be considered when trying to find solutions to our current and future problems. To date, however, the risk of long-term negative growth as a potential consequence of sustainable development has not been sufficiently examined. This paper aims to contribute to the process of exploring the possibilities and limits of sustainable growth.

## Objective of the project

In EU-level negotiations and discussions on the implementation of the renewed EU Strategy for Sustainable Development, held since June 2006 as part of a specially created review mechanism, it has become clear that a certain amount of ambiguity exists as to how economic growth and sustainable development relate to one another. The question derived from this is: “What kind of growth promotes sustainable development?” The term “sustainable growth” as used in business circles (and found in EU documents) primarily refers to long-lasting growth and not necessarily to the compatibility of (quantitative) growth with sustainable development.

Our Earth can only tolerate a limited increase in the pressures on the environment before the global balance in the ecosystems start to “tip” (cf. overview given by Jäger et al., 2007). Economic growth is the main “driver” of global environmental change in as much as it correlates directly with an increase in the exploitation of natural resources and produces additional waste and pollution in the process (cf. Global Environment Outlook (GEO) of the United Nations Environment Programme, [www.unep.org](http://www.unep.org)). Inhabitants of the rich industrialised countries in particular cause global environmental problems with their ever-increasing appetite for consumption. Apart from this scale effect, with its negative influence on the environment, there are also some positive factors influencing environmental development: structural change, technological progress and changes in factor use, for instance, can result in beneficial effects for the environment. Due to the scale effect, no reduction in the burden on global ecosystems can be discerned, growing technical efficiency in the use of raw materials and energy notwithstanding. Quite the contrary: mankind continues to produce and consume ever more goods, requiring more and more energy in the process.

**It is against this backdrop that the present paper intends to discuss the following question: What conditions are necessary to allow for a different kind of growth in wellbeing – one that is geared toward compatibility between economic growth and sustainable development – and would be acceptable to inhabitants of the ‘rich’ parts of the world?”**

This leads to the following key questions:

- Does economic growth resolve the issues we have (such as unemployment, rising poverty, the destruction of natural resources and environmental pollution) or is economic growth precisely what causes these problems?
- What options do we have for a different type of qualitative growth?

The purpose of this document is to offer a rationale, that is, to present a volley of arguments relating to the questions posted. This Presentation of Arguments explores different positions and hence does not always provide solid answers.

The focus of this paper will not be on the global dimension of the issue – growth in emerging and developing economies – but will certainly treat it as a significant factor in the general set-up. Furthermore, it does not focus on the choice of suitable measurement units and concepts.

## Purpose of this paper

This “Presentation of Arguments” wishes to equip “users” in public administration, politics, science and research, as well as members of civil society, with arguments relating to the issues outlined above which have been “tried-and-tested” by experts. We compiled and illustrated these arguments to the best of our knowledge and belief, and with the aim of presenting a balanced view.

The paper is outlined as follows: Chapter 2 will start out by defining terms and discussing the question why growth, as currently defined, could be problematic. Chapter 3 will highlight the drivers of growth: what actually prompts (economic) growth. Chapter 4 identifies the factors capable of impeding economic growth. Finally, quasi as a synthesis of the previous statements laid out, we will discuss in chapter 5 what (other) kind of growth we need as a society.

## Conclusions

The facts in this paper have been set forth to prove that, overall, economic growth in its current definition does not enhance quality of life. Although growth in physical capital is liable to improve objective conditions, it has no bearing on people's subjective perception. In our climate of perpetual stress, pressure to perform and be competitive, fear of losing one's job, lack of fairness in distribution (erosion of the middle class) and rampant consumerism, we are constantly losing natural, human and social capital – and that, in the final analysis, decreases the general level of prosperity.

All this speaks for a redefinition of growth to include quality factors, fostering natural, human and social capital and thus focusing on the overall improvement of quality of life. This coincides with the objectives of the EU Sustainable Development Strategy, which, in terms of real politics, would then gain more weight as compared to the Lisbon Strategy.

In order to dodge potential economic shrinkage (also in term of quality), sustainable alternatives to uncontrolled economic growth should be discussed, which, at least in part, should be based not only on technological change and efficiency measures but also on changes in our consumption behaviour. How our use of resources will change in the future depends largely on how we satisfy our need for food, housing, clothing, mobility and recreational activities. These needs can be satisfied in an environmentally friendly way without having to compromise on one's high quality of life. While many people have already woken up to this fact, a large part of our society has yet to be motivated to adopt an environmentally friendly and resource-conserving lifestyle. Therefore, good communication is key to changing people's consumption behaviour.

According to the German Federal Environment Agency (2002), it is necessary to use people's current lifestyles as a point of departure when promoting environmentally friendly behaviour. Condemning (mass) consumerism *per se* has proven not only to prevent successful environmental communication but also to jeopardise progress in the environmental dialogue. This means that changes in every day life for the sake of the environment do not perforce entail a reduced standard of living, but could increase the level of self-determination and enhance quality of life instead (German Federal Environment Agency, 2002).

Technological innovation and the associated improvement in resource efficiency cannot by themselves achieve an absolute reduction in resource consumption. Much rather, farther-reaching measures are needed to truly reflect nature's worth. As long as the full cost of the negative consequences of resource usage is not foisted onto the causers, there is no sufficient economic incentive to use our natural resources sparingly. Introducing taxes on the use of natural resources could internalise external costs and, combined with a reduction in the tax burden on the labour factor, halt or even reverse the current trend of rising unemployment and resource consumption. The use of resources could also be controlled by instituting a trading system for certificates. Similar to the emissions trading scheme, so-called "material input certificates" denoting ownership rights to natural resources could be traded and a cap could be agreed on the total number of certificates in the system.

Any such system, however, would have to be accompanied by effective social measures aimed at enhancing quality of life, wellbeing and happiness in order to make the reduction in the use of resources socially compatible and hence acceptable to society. This paper is our attempt to support this by furnishing solid arguments.

On the basis of our analysis, some of the arguments for economic growth set forth in the beginning now appear in a different light. Below, we offer a somewhat pointed summary to encourage debate:

- *Economic growth enhances prosperity (disposable income)*  
If quality of life continues to decouple from monetary income, neither more nor less growth would make the population any worse off (on condition that people are still able to satisfy

their (basic) needs).

- *Economic growth translates into job growth, curbing unemployment*  
Since economic growth has not curbed the unemployment rate in highly developed countries such as Austria, and is furthermore not expected to do so in future according to the WIFO forecast (Aiginger, 2006), we should not merely look to strategies to stimulate economic growth as a solution to the problem. One alternative would be the redistribution of work (also toward informal forms of work).
- *Economic growth defuses distribution conflicts*  
This would also be possible if the wealthier sections of the population were to forgo their added income as a result of the increasing de-coupling of income and quality of life (which would not be much of a sacrifice given the above).
- *Economic growth enables development aid payments*  
This point was not explicitly addressed in this paper; there is no evidence of any link between the two, in Austria that is; however, what was said about taxation and social welfare contributions applies: we need to take a new approach in our fiscal system and introduce an “eco-social fiscal reform”.
- *Economic growth facilitates public debt servicing and helps finance our social welfare systems*  
This can also be achieved by way of rededicating state revenue from taxes or profits.
- *Economic growth ensures a head start in the systems competition*  
In future, competition will shift more markedly towards “soft” factors, i.e. particularly in terms of human and social capital.
- *Economic growth strengthens environmental protection*  
As argued in this paper, this correlation is negative rather than positive: (integrated) environmental protection (which mainly requires a reduction in the use of resources) is impeded by economic growth.

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