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Economic Growth instead of GDP Growth

It may sound like a paradox but it is possible to grow the economy without raising GDP, if we widen the definition of the economy to take account of human wellbeing and nature, says IASS Affiliate Scholar Christian Felber, the founder of the Economy for the Common Good.

A fierce battle is raging around the role of growth in the economy. While critics, such as British economist Tim Jackson, are demanding degrowth or post-growth, neoclassical economists and political leaders seem to be addicted to growing the economy. Without growth, they fear that the capitalistic engine would grind to a halt and the economy die.

Nevertheless, four female prime ministers – of Iceland, Scotland, Finland and New Zealand – are officially seeking a more suitable successor to gross domestic product (GDP) for measuring wellbeing.

One reason why the debate is so entrenched is due to the ambiguity of the core concepts involved. Economics does not offer a clear and universally accepted definition of "welfare", let alone what it means when it refers to the "economy". As a consequence, it remains unclear what exactly is meant when we talk about "economic growth", beyond the equating of GDP growth with economic growth.

Money doesn't grow on trees

But what grows when GDP grows is not necessarily cereals, vegetables, food security, affordable housing, meaningful work, healthy ecosystems, or even love and peace. GDP growth is little more than an aggregation of market transactions measured in monetary terms, such as the production and sale of chocolate, airplanes, facility cleaning, business consultancy, weapons production, regardless of whether or not they contribute to human wellbeing and the health of the planet.

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The reason why mainstream economists focus on GDP and neglect the economy is quite simple: GDP is straightforward to measure. It is mathematically exact. However, it has no direct link to the satisfaction of needs and general welfare, which is supposed to be the goal of the economy.

If we define the aim of the economy as the satisfaction of the basic needs of present and future generations, within the planet's ecological boundaries, while respecting democratic and social values like dignity, solidarity and justice, then countless economic activities are not measured by GDP but contribute to the growth of the – so defined – economy and create value.

Examples include childcare and other unpaid work, clean rivers and forests, growing your own herbs and vegetables, strengthening communities and social security, and much more. All this creates real value for real humans, but it is not considered by market economists nor accounted for by GDP. Theoretically, GDP could be zero and all these needs met.

Values-added economies

This reflects how inadequate GDP is when it comes to measuring human wellbeing. But there are alternatives.

One example is the Economy for the Common Good, a term which I coined over a decade ago. This approach goes back to basics by first asking "What is the economy?". It clarifies the goal of the economy as the satisfaction of human needs without degrading the foundations of life and respecting democratic values. It then adjusts economic indicators to measure these goals using a Common Good Product (CGP), instead of the more common GDP, the composition of which is defined democratically.

This could be done directly by the people through a citizens' assembly or economic convention. People can submit their proposals for the most relevant facets to be measured to gauge quality of life, wellbeing for all and the common good. Of all these proposals, let's say the top 20 are included in the final Common Good Product (CGP) or Index (CGI). The Common Good Index could be measured using neutral points rather than in monetary terms. Its result would be comparable both across time and place.

In the future, all decisions of economic and other policies could be evaluated and taken according to their contribution to the growth of the (common good) economy rather than GDP.

If, for instance, life is better with clean rivers, breathable air, enough bees and fertile soil, growing food using agroecology or permaculture might generate fewer dollars but the sum total of healthier and happier children and adults will boost our gross CGI. In addition, more cohesive communities might take care of each other more effectively than expensive and GDP-boosting personal care services to mitigate loneliness.

In the end, when we use CGI, it simply does not matter if GDP rises, shrinks or stagnates – this measure becomes irrelevant. What matters is the improvement of the economy, in the broad sense of the word, with people thriving, societies flourishing, democracy strengthened, and ecosystems made more resilient – all of which are reflected in a rising GCI.

Adherents of GDP growth as a goal of economic policy erred in three regards. Firstly, they present no precise definition of the economy beyond the value of monetary transactions. Secondly, they have no clearly defined goals for the economy. Thirdly, as consequence of the previous two failings, there is no precise methodology for measuring economic success.

And it gets worse. We know that GDP accounts positively for many destructive and harmful activities, including possibly the most damaging of all, the production of weapons and even wars. Giving positive value to negative activities is methodologically flawed.

A new kind of 'green growth'

This highlights a deeper reason why 'green growth' falls short as a concept. Not only is there no empirical evidence that resource consumption can be decoupled in absolute terms from GDP growth, GDP encompasses many activities that destroy the social fabric and the foundations of life. However, green and internal growth is possible in the context of the Economy for the Common Good, which decouples and liberates human happiness and planetary health from the chains of GDP growth (see the new report 'Towards a wellbeing economy that serves people and nature', produced by the EEB and Oxfam Germany in the context of the Climate of Change project).

A Common Good Index has other benefits too. In addition to conventional financial balance sheets, companies could start keeping a common good balance sheet, in which they report what and how much they contribute to the Common Good Index. Tax levels, freedom to trade and access to public procurement contracts could be linked to the CGI, providing companies with an incentive to bolster the common good.

As a result, the goods and services provided by sustainable and responsible businesses would become cheaper, while the products of irresponsible and polluting firms would become more expensive. This means that companies will no longer be able to gain a competitive advantage by externalising costs and the polluter will truly pay.

So far, almost 1,000 businesses and other organisations – including cities and universities – have conducted their first common good balance sheet. The alternative is spreading to ever more countries.

At the microlevel, banks, funds and stock markets would apply a common good assessment before they finance a project, fund or list a company. This will enable them to set fair terms and conditions: cheaper money for sustainable business activities and more expensive loans or none at all for less responsible actors.

The result of this interplay at the macro and micro levels would be a greener, more sustainable, inclusive, democratic, and resilient economy. As a side effect, everybody, not only economists, would finally know what we mean when we talk about "the economy" and "economic growth". And nobody, except statisticians, would care if GDP grows, shrinks or remains steady.

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