



EXPOSÉ

ECONOMIC GROWTH AND DEVELOPMENT

Changing course to ensure a better life for all

Memo drafted by the MISEREOR focus group
'Economic growth and development'

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1 How economic growth went from being a model to a problem

Since the late nineteenth century, the early industrialised countries of the North have experienced unprecedented economic growth of their national economies. During this period, material wealth, the amount and quality of available goods and services have reached levels unseen anywhere else on this earth and never before in the history of humankind. This state of continual growth allowed all social classes to have a share in increasing prosperity: social security systems were created or extended, and technical achievements have made our everyday lives easier, more comfortable, and more varied in many respects. It is not, therefore, surprising that in the countries of the North and elsewhere, this model of continual growth was long considered a guarantee of a kind of progress that was perceived as having no downsides. Even in countries where the level of material security and affluence is much lower, continual growth became the model to which countries aspired, a model that now claims global applicability.

As long as it was possible to make others, especially people in developing countries and future generations, bear the costs of this development, including in particular the reckless exploitation of raw materials and damage to the environment, it was possible to obscure the negative environmental and social side-effects of this success story. However, for several decades now, people have increasingly been questioning this paradigm of endless economic growth. The report entitled *Limits to Growth*, which was published by the Club of Rome in 1972, sent out a clear signal. Since then, the eponymous theory expounded in this report has become the incidental music for a process of 'globalisation' that was and still is based entirely on the growth paradigm. Although the intensity of this incidental music has varied over the years, it has ultimately become louder. Escalations that have reached crisis level—such as forest dieback, the hole in the ozone layer, or catastrophes resulting from even the peaceful use of nuclear power—and scientific findings relating to climate change, the over-exploitation of marine resources, or the dramatic decline in biodiversity, have heightened our awareness of the negative consequences of boundless economic growth. To the extent that such phenomena are front-page news and affect people's everyday lives, the issue is now being debated more widely in society. It is, however, to the same extent also spreading insecurity and a fear of loss. The most important themes in this debate can be roughly divided into three groups.

- A) The key critique of the dogma of growth focuses on the way our economic model systematically **disregards ecological limits**. Of the three production factors work, capital, and nature, the latter is still largely seen as a bottomless reservoir from which we can help ourselves at will. This applies both to natural resources (raw materials and energy), which are required for production processes, and to our planet's capacity to absorb all the waste we no longer need for production and consumption. The market is obviously failing fundamentally in this respect. Market prices for energy, raw materials, and the disposal of waste are obviously too low to ensure that economic activity is both sustainable and socially just. Because neither the demand for an intact environment that will be created by future generations, nor the demand for safe and dignified living conditions created by the people who currently suffer as a result of the extraction of raw materials or the 'disposal' of waste (from our side to their side) play a role on the markets, these prices create a distorted image of supply. Moreover, because market players ignore these kinds of 'demand' in their own interest (heeding them would result

in price increases), other ways of ensuring that these demands become rights have to be found. Legal frameworks must ensure that environmental and social costs, which are currently externalised by the markets, are once again taken into consideration when setting prices.

- B) However, even if we do not consider the needs of future generations or people living in the world's disadvantaged regions, the promises made by continual economic growth start to lose some of their appeal. Even for those who have so far benefited from the status quo, **the 'growth = prosperity' equation** holds true in an ever-decreasing number of cases. Although medical advances have increased life expectancy and improved the quality of life in many respects, our health care systems are groaning under the burden of diseases caused by modern civilisation and the problems associated with aging societies. Mobility and innovation have not only created new freedoms and opportunities, they have also led to an acceleration of everyday life and corresponding stress symptoms. Studies conducted in recent years show that once a certain per capita income threshold is exceeded—a threshold that Germany, for instance, crossed in the 1970s—continued economic growth does not lead to a discernible increase in happiness and satisfaction. For this reason, reconsidering gross domestic product as an indicator of social well-being is an important task that a number of working groups and commissions are currently working on. After all, GDP is not the all-decisive standard for personal and social well-being for which it is generally held in the world of politics and business. GDP only counts the monetary value of all goods and services that were produced for final consumption over the course of a year. Unpaid work in the home, care for others, unpaid voluntary work; the entire informal sector in developing countries; damage to the environment, and the ruthless exploitation of resources; social solidarity, leisure, health ... none of this is included in GDP, although such factors shape our lives considerably.
- C) A third group of questions relating to the model of boundless economic growth addresses **growth imperatives** and the logic of growth. The seemingly endless availability of natural resources has led to the fact that enterprises have in the past sought to increase productivity primarily by reducing the intensity of labour, but not the intensity of resources. The use of technology and energy has continually reduced the level of human labour per production unit, a development that makes work more efficient. The resulting threat of job loss has been and continues to be countered by continual economic growth. In this way, employment policy is inextricably linked to the growth paradigm. As a whole, social security systems are currently very dependent on this paradigm. After all, as populations grow older and expectations continue to rise, it would appear that these systems can only be funded using the surpluses of a growing overall economy. To a great extent, development policy also follows the logic that economic growth is not only a necessary but also a largely sufficient prerequisite for development and poverty alleviation. The negative effects that this model often has on poor people in particular are dismissed as negligible or easily treatable side-effects. Another growth imperative gets right to the core of our capital-based economy: if goods and services are to be provided with the help of credit that is granted in anticipation of future earnings, then this can only work if growth is continual. After all, lenders will only take the risk that is inherent in lending if they can be sure of getting a yield (lending rate) in return. This yield, however, has to be drawn from the surpluses of pre-financed production. As a result of this inbuilt impetus for growth, the producing real economy (and politics) has become more and more dependent on the financial markets. The lenders and their generally high and short-term expected returns exert a huge influence on today's economic and political decisions. The enormous risks of this dependency became visible in the global financial crisis of recent years, which can consequently be

considered another indication of the fact that our economic system, which relies on continual growth, is out of kilter.

2 MISEREOR: Why and how is MISEREOR adopting a stance on the relationship between economic growth and development?

The short-sightedness of politics and the private sector regarding the downsides of the dominant economic model raises urgent questions about both our political system and the way our (social?) market economy works. These questions relate in particular to the opportunities in life for poor people, who already bear a disproportionately high share of the costs of global economic growth and get a disproportionately small share of the benefits. From a Christian social ethics point of view, this incessant disregard for people's dignity and livelihood is untenable. It is an indication of a deep-seated dysfunction in the relationship between human beings, between human beings and Creation (of which they are a part), and between human beings and the Creator and Sustainer of all life on earth. As a Church agency dedicated to development cooperation, MISEREOR must address these questions too. After all, the mandate it was given on its foundation, namely to 'eliminate hunger and leprosy' (Cardinal Frings, 1958), has always been based on a global perspective that focussed not only on the dimension of individual responsibility and lifestyle, but also on the political and economic conditions of poverty.

Today, MISEREOR's development policy work, which seeks to improve these conditions in the interests of the poor, covers a variety of areas: human rights, world trade, debt, tax evasion, climate change, corporate responsibility, food security, and much more. Some working groups are currently focussing on the exploitation of raw materials, fair trade, energy supply, climate change, and the agricultural industry. Most of these themes are closely linked to our economic model, which is geared towards continual growth. This is why it makes sense to address this economic system in a fundamental manner in conjunction with this sector-specific work. In this respect, MISEREOR can pick up where it left off with earlier activities, e.g. with the lifestyle questions addressed in Lenten Campaigns from the mid 1970s onwards (campaigns which ran with the motto 'Living differently so that others may survive') or the far-reaching analyses on a 'Sustainable Germany' in the mid 1990s. Since its inception, MISEREOR's identity as a 'Lenten Campaign' has included the firm belief and conviction that sharing the finite wealth of goods that we have been given or have created is not only a commandment of justice, but also the path to a fulfilled life.

MISEREOR's involvement in the debate about economic growth is rooted in two things: firstly, in the guiding principles of the Christian vision of humankind and Christian social ethics and secondly, in the effort to ensure that the views of project partners and other civil society organisations in developing countries and newly industrialising countries are included in the debate by entering into dialogue with such organisations. The intention is that this double viewpoint should not only be borne out in a critical analysis of the dominant economic model, but should also highlight positive visions, ideas, and starting points for a change of course that will lead to a better life for all. After all, such a change of course can only take place if a large number of people are not only convinced of the necessity of such a change, but also see it as an opportunity and a benefit for themselves despite all insecurities and fears. In order to make a contribution to this change, MISEREOR would like to draft questions, analyses, and positions on the following themes in conjunction with its partners in the South so as to come up with possible courses of action:

- economic growth and holistic human development;
- growth imperatives, their roots and effects;

- opportunities for growth that differ from region to region and sector to sector (e.g. economic growth in the South and in the field of renewable energy sources; foregoing growth or negative growth in the North and in the fossil fuels sector);
- existing and new paths to growth in the South (economic growth in the North as a prerequisite for growth in the South? Economic growth in the North as a model for growth in the South? Principles for sustainable growth and catch-up growth in the South? Differences in newly industrialising countries and low-income countries?);
- economic growth as a model for German governmental development cooperation;
- economic growth and lifestyle.

Although we have yet to begin addressing these themes individually, a number of positions are already emerging:

- In particular, countries where a large proportion of the population lives in poverty will continue to need strong economic growth. Without this kind of growth, neither the public nor the private sector will be able to secure basic needs or combat poverty.
- Nevertheless, this growth must meet two conditions: it must have a broad impact (i.e. it must primarily benefit the poor) and it must focus on environmental and social sustainability as part of an internationally agreed agenda.
- For this reason, integrating developing countries and newly industrialising countries into the current global economic system as quickly and thoroughly as possible without actually fundamentally reforming the system in the spirit of sustainability would not be a desirable solution to the growth problems faced by these countries.
- The problem of the global over-exploitation of natural resources and waste disposal capacities cannot be solved by technical means alone. Even though there is still considerable potential for an increase in resource efficiency and the development of climate-neutral procedures, it is not relative improvements but the observance of absolute limiting values that determine the sustainability bottom-line. In the past, increases in efficiency have regularly been neutralised by the so-called 'rebound effect': for example, an increase in efficiency that leads to an increase in the average performance of cars instead of a reduction in fleet consumption does not benefit the climate at all.
- Escalating scarcities and the continued rise in the world population will lead to conflicts of distribution. In this respect, questions of justice and the consideration of the interests of future generations play a decisive role. The search for ways of solving these conflicts in a non-violent and just manner is becoming an increasingly urgent political task. Instead of clinging primarily to the 'science fiction' of technical solutions, politicians should prepare themselves and citizens for this task.
- Sustainable, global, 'prosperity for all' will not be achievable without a real drop in per capita income and the associated material prosperity in affluent countries. In view of the ecological problems at global level, it is no longer possible to use surplus growth to create more room to manoeuvre in the field of distribution without actually tackling existing vested rights. In other words, distribution means redistribution. The early industrialised countries of the North bear particular responsibility in this respect because through their past economic growth they have caused most of the cumulative damage to the environment and are responsible for most of the cumulative consumption of resources. In fact, their per-capita consumption has reached levels that are several times higher than sustainable global average values. This encumbrance must be taken into consideration when searching for global approaches to and keys for redistribution. Consumption in the countries of the North must be reduced considerably in order to create space for the growth that the South needs without exceeding the overall limits of global environmental impact.
- The countries of the South will also have to get constructively involved in the search for solutions to global sustainability problems because such solutions can only be found

and implemented together. References to the above-mentioned 'encumbrance of the North' must not become an excuse for a short-sighted attitude of refusal. This is why a jointly-held positive vision of the good life is an important prerequisite for solving pending conflicts peacefully and productively, conflicts that will arise not only between industrialised and developing countries, but also in and between newly industrialising and developing countries.

If the global limits of burden are to be acknowledged and if, in the light of this acknowledgement, production and consumption are to be limited to sustainable levels and goods are to be distributed fairly, a fundamental reorientation and reform of our societies and the way our economies operate are essential. Together, creating the common motivation to strive for a better life for all, reaching agreement on the steps that have to be taken, and actually taking these steps is the great political, social, and cultural challenge of the present day. MISEREOR considers its involvement in this task to be an integral part of its work.