

What would sufficiency look like?

Tom McDonnell
18th June 2022
SMA Summer School

Twitter: @NERI_research

WEBSITE: www.nerinstitute.net

Why should we look at economics?

- One answer is it can help us evaluate the merits of various strategies for sustainably improving living standards and quality-of-life.
- Remarkably, the standard of material wellbeing for most people living in developed economies today is superior in almost every respect to the living standards of even the wealthiest people just one hundred years ago.
 - Consider developments in health, nutrition, education, communication, transport and entertainment.
 - But with significant environmental costs....
 - Why did this happen and can it be sustained?
- The enormous variation in cross-country living standards reflects long-term differences in economic growth and development.
- One of the fundamental assumptions of mainstream economic analysis is that growth is central to improving living standards.
- Of course, there are some pretty major caveats to this claim....

Is growth the goal?

- Take an economic system that generates highly unequal growth.
- Such a system won't necessarily benefit much of society. It will also be inefficient at reducing poverty, will gradually erode social capital and trust, and is likely to prove politically unstable over the long-run.
- Other forms of economic growth are also undesirable. Growth that comes from environmentally damaging practices entails costs for current and future generations.
- These costs are rarely if ever captured in growth statistics and they may well outweigh the economic benefits. This is particularly so when we factor in long-term consequences.
- There are many additional examples of undesirable growth such as using tax cuts or monetary policy to temporarily and procyclically accelerate growth at a time when the economy is already performing strongly.
 - E.g. the Irish property boom of the mid-2000s.
- So, what should be our primary economic goal?

So what should be our primary economic goal?

- Countries should strive for ‘sustainable’ and ‘inclusive’ improvements in living standards for everybody.
 - This does not imply using more resources (particularly at the upper end)
- If this is considered reasonable we next must consider the policies that might achieve this goal.
- What might a playbook look like?
- Let’s break down that playbook into three parts, namely,
 1. **Growth in the economy’s productive capacity**
 - The need to decouple productive capacity from GHG emissions
 - Can we do it and if so can we do it fast enough?
 2. **Progress in income adequacy, well-being and closer economic equality (income, wealth and access to services), and**
 3. **Long-run sustainability and resilience (across all dimensions e.g. environmental, fiscal, political).**

A Segue: Extensive growth vs Intensive growth

- Growth in productive capacity can come from a number of different sources.
- The raw accumulation and deployment of inputs such as people, land, materials, infrastructure, machinery, and other capital goods.
 - Demographic and other resource limitations mean that this type of 'extensive' growth is constrained in the long-run.
- Growth can also come from productivity gains. This is known as 'intensive' growth and is the only form of growth compatible with environmental sustainability.
 - Productivity gains could arise from new knowledge embodied as technological change and innovation, from scale economies, or simply from more efficient use of resources.
 - Crucially, productivity-based growth allows us to obtain higher levels of output from the same volume of inputs or the same level of output using less inputs.
 - In other words, productivity-based growth does not have to rely on an ever-increasing use of resources and is potentially unconstrained in the long-run.
- Ultimately we need to move on from the word growth. Growth is not the goal – sustainable well-being improvements

Education: The long-game of flourishing and development

- Human capital development (as economists call it), which is a life-long process, not only enhances labour productivity but is also a necessary input for and complement to innovation
- Spending on education generates positive externalities and strong education systems are empirically associated with faster long-run growth
 - The OECD contends that half of the growth achieved by OECD countries in the 2nd half of the 20th century, was driven by progress in education
- **Skill levels for the population as a whole**, as well as for the top of the achievement distribution, exert positive and independent effects on growth
- Population-wide improvements in education enable more inclusive growth. Crucially, **the earlier the investment** in human capital **the larger the returns**
- The early years are the most important for development
 - Poverty can have extremely damaging and lasting effects
 - Increasing the skills and learning ability of disadvantaged children may provide the largest potential dividend to society

Inequality – fiscal policy

- Lower levels of inequality are associated with a range of quality of life and well-being benefits across the economy and society
 - Excessive inequality can lead to slower and more fragile growth (IMF)
- Fiscal policy is important as a corrective to market inequality (tax, welfare benefits, social insurance, provision of universal basic services – a ‘social’ wage)
 - Are there trade-offs between efficiency and equity?
 - Not necessarily (easy wins - taxes on wealth/land, eliminating tax expenditures)
 - We have to balance efficiency costs of taxation vs. the benefits from the resulting public spending (e.g. education)
- What about more radical proposals?
 - Universal public services
 - Universal basic income
 - Guaranteed minimum income
 - Insurance and just transition considerations
- **We need a sufficient social wage!**

Inequality – labour share

- Policies that increase the labour share of income will generally improve distributional equity – this is due to the fact that wealth (and capital income) is more concentrated than earned income (and labour income)
 - Wage floors
 - Enhance bargaining power of labour – collective bargaining and agreements, strong labour market institutions (international decline in trade union density is correlated with declining labour shares)
- But there can still be significant market inequality even within the labour share
 - Valuing care work
 - Reducing gender pay gaps
 - Sectoral wage compression (role of trade unions and sectoral bargaining)

Growth is of mere temporary value if it is unsustainable

- Unsustainability has many dimensions – e.g. inappropriate fiscal policy or a property boom
- The current environmentally damaging economic model is manifestly unsustainable on a finite and fragile planet
- Future industrial strategy and growth policy will therefore need to focus on the just transition to a decarbonised economy
- Entire sectors ranging from agriculture to transport will be affected by this transition
- But a new growth model will be politically unsustainable if it leaves behind certain groups and regions
- A need for investment in clean and renewable energy production, in retrofitting buildings, in affordable and available public transport, in sustainable food production, in re-wilding, and in broadband and remote working
- Managing the demographic and climate challenges and making sufficient investments requires a consideration of the sufficiency of our revenue base

Conclusion

- 21st century high-level economic policy should take a multi-pronged approach three main dimensions
 - Enhance innovative and sustainable productive capacity and remove employment barriers (capacity)
 - Ensure income adequacy and universal provision of services and pursue greater economic equality (equality and ethics)
 - Engage in foresight to identify sustainability shocks and make strategic adjustments to policy to respond to those shocks in good time (sustainability)
- Its the overall system that matters
 - A particular policy might fail on some dimension, but this does not mean it should inherently be excluded from consideration (e.g. carbon tax is regressive but that should not preclude its increase)
- Important decisions ahead on fiscal sustainability (ageing demographics, paying for the zero carbon transition, just transition, ensuring economic adequacy,
 - Collegiality with people in other countries
 - Moral responsibility to pay for a just transition in the Global South