The Steady State Economy Conference

Working Towards an Alternative to Economic Growth

Policy Proposal

Workshop 10: Global Issues

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Questions: With increasing globalisation in recent decades, what measures would an individual country need to take if it wished to move to a steady state economy? What are the implications of a steady state economy for developing countries?

Background

The economies of high-income countries have grown to a point where they should abandon their never-ending pursuit for material expansion. Among other reasons, they should start making room for poorer nations to expand their economies, since these are the ones that still need to reap the benefits derived from quantitative growth (Victor, 2007). However, the world would continue to be divided in developed-developing, rich-poor, North-South. The difference in this case is that countries would be grouped into two separate and very distinct types of economies: those that have achieved a steady state and those that will continue to expand. One of the major challenges would thus be not to further exacerbate the existing divides, but to reduce the gap in the long-term.

For the most part of the last two hundred years, only a small group of countries experienced high and continuous rates of economic growth — only suspended during certain periods — mostly at the expense of the rest of the world, which remained almost stagnant in economic terms (Maddison, 2003). It has only been in the last sixty to seventy years that the rest began to follow suit, emulating the development paths followed by their industrialised counterparts, at different rhythms and with different outcomes.

This explains, in some part, the enormous disparities that affect the planet. Only 15% of the world's population live in the so called developed nations, yet these account for approximately 85% of global consumption expenditure (Assadourian, 2010). Meanwhile, almost half of the world population struggle to survive with less than 2 dollars a day (UNDP, 2007).

This indicates that the problem of alleviating inequality on a global scale — not only in intra, but also in inter-generational terms — lies at the heart of discussion. This issue has been debated throughout the years, and several possible solutions have been proposed. For instance, mainstream economics claims that an increase in income per capita leads to a reduction in inequality levels (the original Kuznets Curve). And, simultaneously, higher incomes would result in less environmental degradation (the Environmental Kuznets Curve). In a few words, becoming rich would be the best remedy to environmental, economic and social problems we face. However, this is practically impossible to achieve in a planet constrained by rigid biophysical limits (i.e. a finite planet). If all the people in the world consumed as much as the richest 15%, then more than three planets would be required to support everyone (NEF, 2009).

In the case of steady state economics, it is argued that wealthy nations would free enough material resources to allow the rest of the world to grow and develop. But little has been said about how development could actually be attained, and how both types of economies (steady state and traditional) could coexist. Until now, more attention has been given to what countries should do once they achieve a certain scale and a certain level of development. Nevertheless, if we want to make steady state economics a robust model that will dictate the future of the world economy, these issues have to be addressed.

A proper development discourse has been absent in the global policy agenda for the last couple of decades. Development has come to be understood more as poverty reduction or provision of basic needs, as is expressed by the Millennium Development Goals (Chang, 2010). Since these were defined in 2000, all discussions have centred on their attainment. However, during this time very little has been discussed about alternative strategies that developing nations should adopt in order to transform their productive structures and thus improve their social and technological capabilities. The 8th goal (develop a global partnership for development) just revolves once again around the same mainstream idea: Development can be achieved by means of increasing international trade, which in turn would bring a rise in income per capita. But the drawback about this scheme is that it has not been delivering the results that were expected (Zhu and Trefler, 2005). Neither have a range of other models in the past, such as import substitution or Marxist related theories. Overall, we do not have a development theory that takes into account the great challenges of this era. That is, the way in which developing nations can achieve sustainable development through low carbon and less material-intensive economies.

Free trade has been described as non feasible for steady state economies, mainly due to the fact that environmental and social externalities would be internalised in production costs (Daly, 2008). Hence, prices in steady state economies would be higher than in growth based ones. Moreover, the dematerialisation of wealthy economies would also imply a decrease in consumption of certain goods, as well as a decline in imports from the developing world. All this generates a complex set of challenges. Consequently, if the transition to a steady state economy is not handled adequately, the net-effects could turn out to be negative.

In this era of globalisation, both rich and poor countries are closely interdependent through international trade. Developing countries are currently heavily dependent on the North not only to obtain the financial resources they need via exports and foreign direct investment, but also to acquire manufactured and capital goods. On the other hand, wealthy nations depend on South to get hold of raw materials and other basic commodities, as well as on the huge markets they provide.

Although it has been argued that a steady state economy is nothing like a depressed economy, a number of issues have to be taken into account. Without free trade and a decrease in consumption in the North, the need of designing a new global economic order becomes evident. Otherwise, the outcomes could prove to be disastrous. The 2009 financial crisis can be a good example of the risks that irresponsibility in the North, as well as lower consumption and import rates could entail for the rest of the world. The first effects of the crisis were felt by those emerging economies that were closely linked to the global financial markets. But international trade then fell sharply and commodity prices declined rapidly, hitting the rest of the poor nations (Karshenas, 2009). According to the UN (2009), almost 100 million more people were drawn into extreme poverty.

Proposals

The transition from a growth-based to a steady state economy is not something that can be accomplished overnight. A change in the world economic structure implies a process that may take decades to become a reality. However, the transition can begin immediately by implementing some of the many sensible policy proposals available. Here are just a few:

- First of all, we should stop considering the world as a collection of individual countries and more as an integrated whole composed of heterogeneous societies and cultures whose fates are intertwined. Thus, the adoption of a steady state economy should not be implemented just as a unilateral action that may create even more profound divisions. Wealthy non-growing economies and developing, expanding countries should agree in the specific mechanisms that will allow them to coexist and co-develop in a sustainable, flourishing and fair manner.

- The world cannot wait until all developing economies achieve a certain scale and a certain level of development in order to shift to a steady state. It is vital to incorporate the development discourse in the global policy agenda. We have to design true alternative development paths that will allow developing nations to increase the well-being of their populations, be sustainable and adopt low carbon and less material-intensive economies.

- Rich countries should promote technology transfers to developing nations under conditions that are advantageous to both, so as to eliminate the harmful dependency of the South from the North.

- It is increasingly common that products are manufactured with a range of raw materials brought from diverse countries, then assembled in some other nation(s), and subsequently redistributed to yet other regions of the planet for consumption. Sometimes this also generates nonsensical trade, as the same types of products are traded back and forth. Hence, this kind of international transactions should be disapproved in current international trade agreements (e.g. EU, NAFTA, etc.) and, instead, production should tend to be more localised.

- Rich nations should start internalising environmental and social costs in their production processes so as to discourage environmental degradation and resource depletion. In order to protect local industries from cheaper goods and services coming from external markets, compensating tariffs could be put into place. The revenue derived from these instruments could then be destined to international aid and as a payment of the ecological debt owed by wealthy nations.

- It is vital to promote the democratisation of international organisations, such as the United Nations, the World Bank, the International Monetary Fund, and World Trade Organisation, among others. They should start representing the interests of the large majority of the people in the planet, and not only those of a few nations.

Information Resources

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