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The September Museletter is comprised of two pieces related to my book 'The End of Growth'. The first is the op-ed which the mainstream press seems reluctant to publish as they hang desperately on to idea that economic growth will continue. The second is a section from Chapter 6 of my book and looks at one piece of the puzzle in changing our economic model.

Welcome to the Post-Growth Economy

During recent weeks, evidence has piled up that U.S. and European economies, far from recovering, are swirling back into recession. Failure of American politicians to address the federal debt crisis, the U.S. credit rating downgrade, and increasing fragility of European economies have investors running for the hills.

Concern is being voiced that we may be at a fundamental economic turning point. Deutsche Bank's strategist Jim Reid even suggests that the western world's financial system might be "totally unsustainable."

As it happens, I've just published a book, *The End of Growth: Adapting to Our New Economic Reality*, that reaches the same conclusion, and that foresaw the economic relapse that's playing out in headlines. The book's content was finalized in March, when economic data appeared to show the nation in a recovery. I suppose I'm justified in saying "I told you so," but others are as well. Herman Daly, former World Bank economist, has pointed out the absurdity of expecting continual economic growth on a planet with limited resources. Paul Gilding, former head of Greenpeace International, explains in his book *The Great Disruption* why climate change and resource depletion are bringing world economic growth to a close. And Jeremy Grantham, co-founder of GMO (one of the world's largest investment funds), argues that, with ever more humans competing for a finite supply of natural resources, rising prices of metals, oil, and food are decisively choking off GDP growth.

Even if we are being proven right, this is no time for victory laps. Here's the point. Daly, Gilding, Grantham, and I are saying that as humanity has chewed through the low-hanging fruit of our natural resources and has turned to lower-grade and more expensive ores and fuels, managers of the economy have attempted to keep growth going by piling up debt in the mistaken belief that it is money that makes the economy run rather than energy and raw materials. Now we've reached limits to government and consumer debt, and the realization of that fact is sending financial markets into fibrillation. If energy supplies and debt are both stretched tight, that means more economic growth isn't possible. Worse, if policy makers fail to realize this and continue assuming that the current crisis is merely another turning of the business cycle, then we lose whatever opportunity still remains to avert a crash that could bring civilization to its knees.

Admittedly this is still a minority point of view. After all, in the "real" worlds of politics and economics, growth is essential to creating more jobs and increasing returns on investments. Questioning growth is like arguing against gasoline at a NASCAR race.

Liberals believe that stimulus spending by government will boost employment and consumer spending, thus flipping the economy back to its "normal" growth setting. But stimulus packages of the past few years have produced only anemic results, and governments can't afford more of the same.

Conservatives nurture faith that if government spending shrinks, that will liberate private enterprise to grow profits and jobs. Yet countries that implement austerity programs show less economic growth than those whose governments borrow and spend—until the spending spree ends in bond market mayhem.

Neither side wants to acknowledge that its prescription no longer works, because that would imply the other side is correct. But maybe both liberals and conservatives are wrong, and growth is finished.

If Daly, Gilding, Grantham, and I are right, this is scary business. But there will be life after growth, and it doesn't have to play out under conditions of misery. With less energy to fuel globalization and mechanization, there should be increasing need for local production and labor. We can reorganize our financial and production systems so that everyone's basic needs are met. Indeed, if we focus on improving quality of life rather than increasing quantity of consumption, we could all be happier even as our economy downsizes to fit Nature's limits.

But that benign future is unlikely to transpire if we all continue living in a dream world where growth knows no bounds.

The alarm bells are ringing. Wake up to the post-growth economy.

Gross National Happiness

An excerpt from Chapter 6 of The End of Growth: Adapting to our new Economic Reality, published by New Society Publishers.

After World War II, the industrial nations of the world set out to rebuild their economies and needed a yardstick by which to measure their progress. The index soon settled upon was the Gross National Product, or GNP—defined as the market value of all goods and services produced in one year by the labor and property supplied by the residents of a given country. A similar measure, Gross Domestic Product, or GDP (which defines production based on its geographic location rather than its ownership) is more often used today; when considered globally, GDP and GNP are equivalent terms.

GDP made the practical work of economists much simpler: If the number went up, then all was well, whereas a decline meant that something had gone wrong.

Within a couple of decades, however, questions began to be raised about GDP: perhaps it was *too* simple. Four of the main objections:

- Increasing self-reliance means decreasing GDP. If you eat at home more, you are failing to do your part to grow the GDP; if you grow your own food, you're doing so at the expense of GDP. Any *advertising campaign* that aims to curb consumption hurts GDP: for example, vigorous anti-smoking campaigns result in fewer people buying cigarettes, which decreases GDP.
- GDP does not distinguish between waste, luxury, and a satisfaction of fundamental needs.
- GDP does not guarantee the meaningfulness of what is being made, bought, and sold. Therefore GDP does not correlate well with quality of life measures.
- GDP is "*Gross* Domestic Product"; there is no accounting for the distribution of costs and benefits. If 95 percent of people live in abject poverty while 5 percent live in extreme opulence, GDP does not reveal the fact.[1]

In 1972, economists William Nordhaus and James Tobin published a paper with the intriguing title, *Is Growth Obsolete?,* in which they introduced the Measure of Economic Welfare (MEW) as the first alternative index of economic progress.[2]

Herman Daly, John Cobb, and Clifford Cobb refined MEW in their Index of Sustainable Economic Welfare (ISEW), introduced in 1989, which is roughly defined by the following formula:

ISEW = personal consumption
+ public non-defensive expenditures
- private defensive expenditures
+ capital formation
+ services from domestic labor
- costs of environmental degradation
- depreciation of natural capital

In 1995 the San Francisco-based nonprofit think tank Redefining Progress took MEW and ISEW even further with its Genuine Progress Indicator (GPI).[3] This index adjusts not only for environmental damage and depreciation, but also income distribution, housework, volunteering, crime, changes in leisure time, and the life-span of consumer durables and public infrastructures.[4] GPI managed to gain somewhat more traction than either MEW or ISEW, and came to be used by the scientific community and many governmental organizations globally. For example, the state of Maryland is now using GPI for planning and assessment.[5]

During the past few years, criticism of GDP has grown among mainstream economists and government leaders. In 2008, French president Nicholas Sarkozy convened "The Commission on the Measurement of Economic Performance and Social Progress"

(CMEPSP), chaired by acclaimed American economist Joseph Stiglitz. The commission's explicit purpose was "to identify the limits of GDP as an indicator of economic performance and social progress." The commission report noted:

"What we measure affects what we do; and if our measurements are flawed, decisions may be distorted. Choices between promoting GDP and protecting the environment may be false choices, once environmental degradation is appropriately included in our measurement of economic performance. So too, we often draw inferences about what are good policies by looking at what policies have promoted economic growth; but if our metrics of performance are flawed, so too may be the inferences that we draw."[6]

In response to the Stiglitz Commission there have been increasing calls for a Green National Product that would indicate if economic activities benefit or harm the economy and human well-being, addressing both the sustainability and health of the planet and its inhabitants.[7]

One factor that is increasingly being cited as an important economic indicator is *happiness*. After all, what good is increased production and consumption if the result isn't increased human satisfaction? Until fairly recently, the subject of happiness was mostly avoided by economists for lack of good ways to measure it; however, in recent years, "happiness economists" have found ways to combine subjective surveys with objective data (on lifespan, income, and education) to yield data with consistent patterns, making a national happiness index a practical reality.

In *The Politics of Happiness*, former Harvard University president Derek Bok traces the history of the relationship between economic growth and happiness in America.[8] During the past 35 years, per capita income has grown almost 60 percent, the average new home has become 50 percent larger, the number of cars has ballooned by 120 million, and the proportion of families owning personal computers has gone from zero to 80 percent. But the percentage of Americans describing themselves as either "very happy" or "pretty happy" has remained virtually constant, having peaked in the 1950s. The economic treadmill is continually speeding up due to growth and we have to push ourselves ever harder to keep up, yet we're no happier as a result.

Ironically, perhaps, this realization dawned first not in America, but in the tiny Himalayan kingdom of Bhutan. In 1972, shortly after ascending to the throne at the age of 16, Bhutan's King Jigme Singye Wangchuck used the phrase "Gross National Happiness" to signal his commitment to building an economy that would serve his country's Buddhist-influenced culture. Though this was a somewhat offhand remark, it was taken seriously and continues to reverberate. Soon the Centre for Bhutan Studies, under the leadership of Karma Ura, set out to develop a survey instrument to measure the Bhutanese people's general sense of well-being.

Ura collaborated with Canadian health epidemiologist Michael Pennock to develop Gross National Happiness (GNH) measures across nine domains:

- Time use
- Living standards
- Good governance
- Psychological well-being
- Community vitality
- Culture
- Health
- Education
- Ecology

Bhutan's efforts to boost GNH have led to the banning of plastic bags and re-introduction of meditation into schools, as well as a "go-slow" approach toward the standard development path of big loans and costly infrastructure projects.

The country's path-breaking effort to make growth humanly meaningful has drawn considerable attention elsewhere: Harvard Medical School has released a series of happiness studies, while British Prime Minister David Cameron has announced the UK's intention to begin tracking well-being along with GDP.[9] Sustainable Seattle is launching a Happiness Initiative and intends to conduct a city-wide well-being survey.[10] And Thailand, following the military coup of 2006, instituted a happiness index and now releases monthly GNH data.[11]

Michael Pennock now uses what he calls a "de-Bhutanized" version of GNH in his work in Victoria, British Columbia. Meanwhile, Ura and Pennock have collaborated further to develop policy assessment tools to forecast the potential implications of projects or programs for national happiness.[12]

Britain's New Economics Foundation publishes a "Happy Planet Index," which "shows that it is possible for a nation to have high well-being with a low ecological footprint."[13] And a new documentary film called "The Economics of Happiness" argues that GNH is best served by localizing economics, politics, and culture.[14]

No doubt, whatever index is generally settled upon to replace GDP, it will be more complicated. But simplicity isn't always an advantage, and the additional effort required to track factors like collective psychological well-being, quality of governance, and environmental integrity would be well spent even if it succeeded only in shining a spotlight of public awareness and concern in these areas. But at this moment in history, as GDP growth becomes an unachievable goal, it is especially important that societies re-examine their aims and measures. If we aim for what is no longer possible, we will achieve only delusion and frustration. But if we aim for genuinely worthwhile goals that *can* be attained, then even if we have less energy at our command and fewer material goods available, we might nevertheless still increase our satisfaction in life.

Policy makers take note: Governments that choose to measure happiness and that aim to increase it in ways that don't involve increased consumption can still show success, while those that stick to GDP growth as their primary measure of national well-being will be forced to find increasingly inventive ways to explain their failure to very *un*happy voters.

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