

Redefining Paradigms: Conference on Heterodox Economics, Politics, and Global Relations

Redefining 'Economic Growth': Charting a Just and Equitable Path for Our Planet

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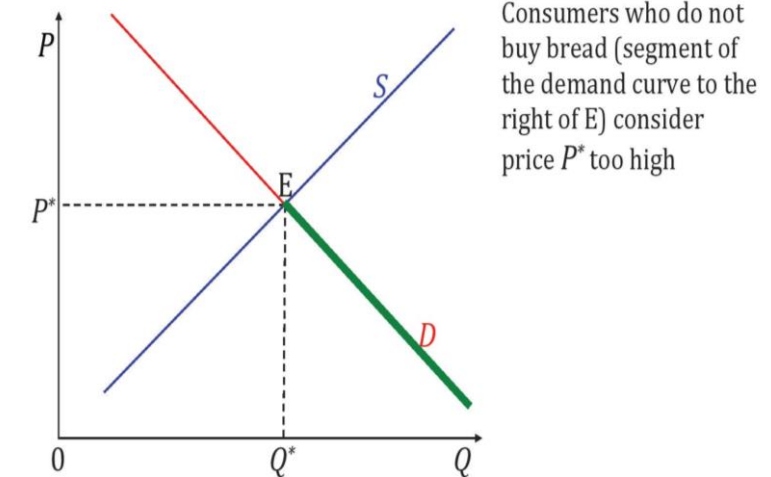
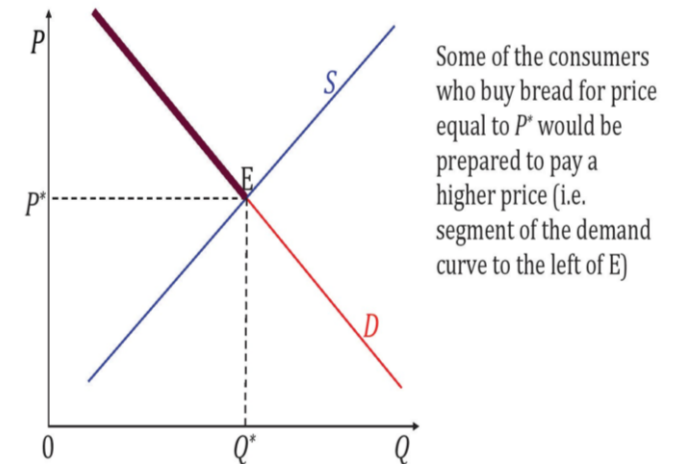
- The post-war era saw the emergence of Gross Domestic Product (GDP) as the primary measure of economic progress.
- This crude tool/yardstick designed for restricted purposes, time periods and circumstances became a hegemonic and normatively forceful tool applied to address too many questions across diverse time periods and cultures.
- Arguably, GDP has contributed to a biased and narrow view of the origins and trajectory of global economic and social betterment
- This narrow focus overlooks critical dimensions of wellbeing, such as social justice and environmental sustainability.
- The booms and busts (e.g. great depression, financial crisis) starkly revealed the fragility of the global economy relying on such oversimplified traditional economic models ([Shaikh, 2016](#))
- We witnessed how unchecked growth, headless pursuits of profits, deregulated markets and speculative bubbles led to catastrophic economic collapses ([Stiglitz, 2010](#))
- Today, the growing concerns about climate change, biodiversity loss, widening inequalities suggest that *the urgent need for a paradigm shift*:
 - Economic growth should be redefined to encompass broader measures of wellbeing, justice, and ecological stability and environmental sustainability ([Jackson, 2017](#)).

The Limits of the Market



- The market economy produces great material prosperity ‘economic growth’
- However, this comes at the expense of the planet and the vast majority of its inhabitants
- [Paul De Grauwe \(2017\)](#) argues that markets are prone to inefficiency and are not self-correcting.
 - e.g efficient market hypothesis- the absence of market failures
- [Harvey Cox \(2016\)](#) critiques the modern economy’s deification of the market, where profit becomes the overriding concern at the expense of ethical and social considerations.
- [Boulding \(2013\)](#) considered economics a moral science, arguing that the discipline must prioritize human welfare and the preservation of ecosystems over profit maximization.

De Grauwe’s criticism





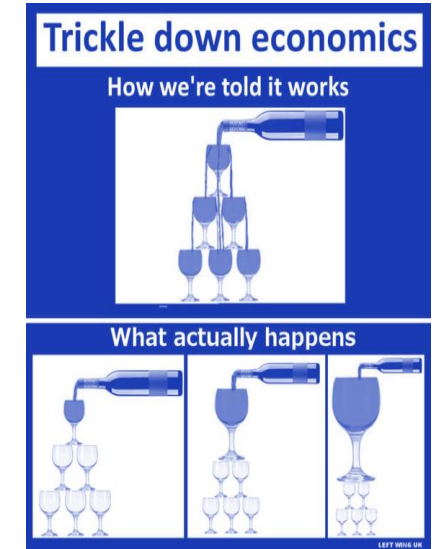
Critiques of Neoclassical Economic Doctrine

- Neoclassical economics is a broad theory that focuses on supply and demand as the driving forces productive economic activities that emerged in around 1900.
- Neoclassical economics asserts that free movement of goods (free trade), services, and capital unimpeded by government regulation will lead to rapid economic growth.
- [Stiglitz & Squire \(2002\)](#) argued that unregulated, borderless markets and transnational “free” trade had produced big winners, mainly the MNCS, while leaving behind many losers, foremost those in the LDCs.
- Globalization negatively impacts on the middle- and working-classes throughout the world, in advanced and underdeveloped countries alike.
- The lion share of the so called ‘economic growth’ stemming from globalisation went mainly one way – into the bank accounts of the MNCs
- [Yanis Varoufakis \(2015\)](#) argues that since the 1970s the US-based Wall street banks have played the role of a Global Minotaur, consuming surplus capital from the rest of the globe
- Financialization, ineffectual regulation of banks, greed and globalisation were the root causes of the global economic crisis.



Economic Growth – Growing income inequality

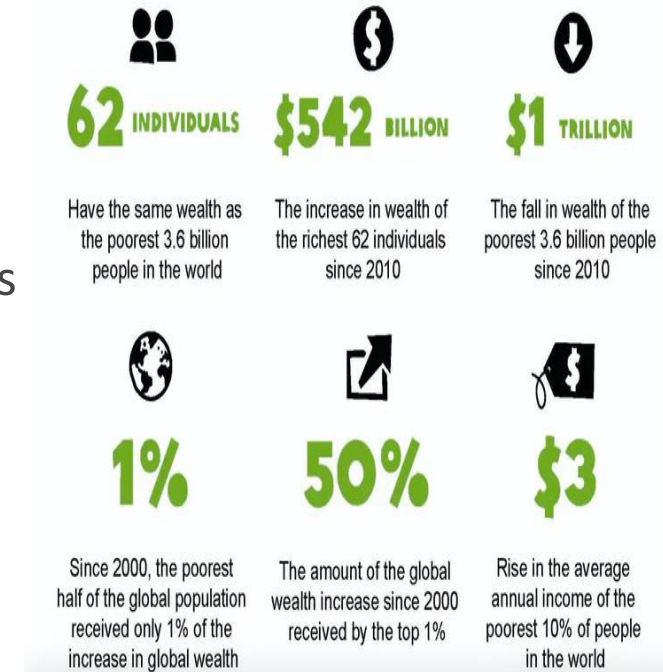
- The sad reality of global economic growth Since the 1970s: sharp surge income inequality and divergence rather the converges of incomes ('Trickle down' economics)
- Policies designed to foster growth have disproportionately benefited elites while increasing poverty and precarity among lower-income populations (Rodrik, 2006).
- Since 1970s, the neoliberal policies aimed at promoting deregulation and privatization contributed to both economic growth and deepening inequality.
- **Thomas Piketty (2013)** argues that the global economy since the 1970s has been characterized by growing inequality, driven by slower growth in wages compared to capital returns.
 - when the rate of return on capital (r) is greater than the rate of economic growth (g), the result is concentration of wealth (causes social and economic instability)
- The wealth of the richest 62 people continues to grow, while that of the poorest half (50%) of the world stagnates.
- The question to ask: where is the trickle down?





The “Washington Consensus” and Growing Inequality

- The Washington Consensus, with its emphasis on free market ideals (deregulation, privatization, liberalization and austerity), has exacerbated global inequality
- The theoretical foundations underlying the Washington consensus were nothing else but neoclassical economics espousing a firm belief in the market’s “invisible hand,” the rationality of economic actors’ choice, and a minimalistic vision of the states’ regulation of economies.
- Policies designed to foster growth have disproportionately benefited elites while increasing poverty and precarity among lower-income populations ([Rodrik, 2006](#)).
- Rent-seeking behavior, in which economic actors seek to increase their share of wealth without creating new value, has contributed to growing inequality and inefficiencies in the global economy ([Stiglitz, 2015](#)).

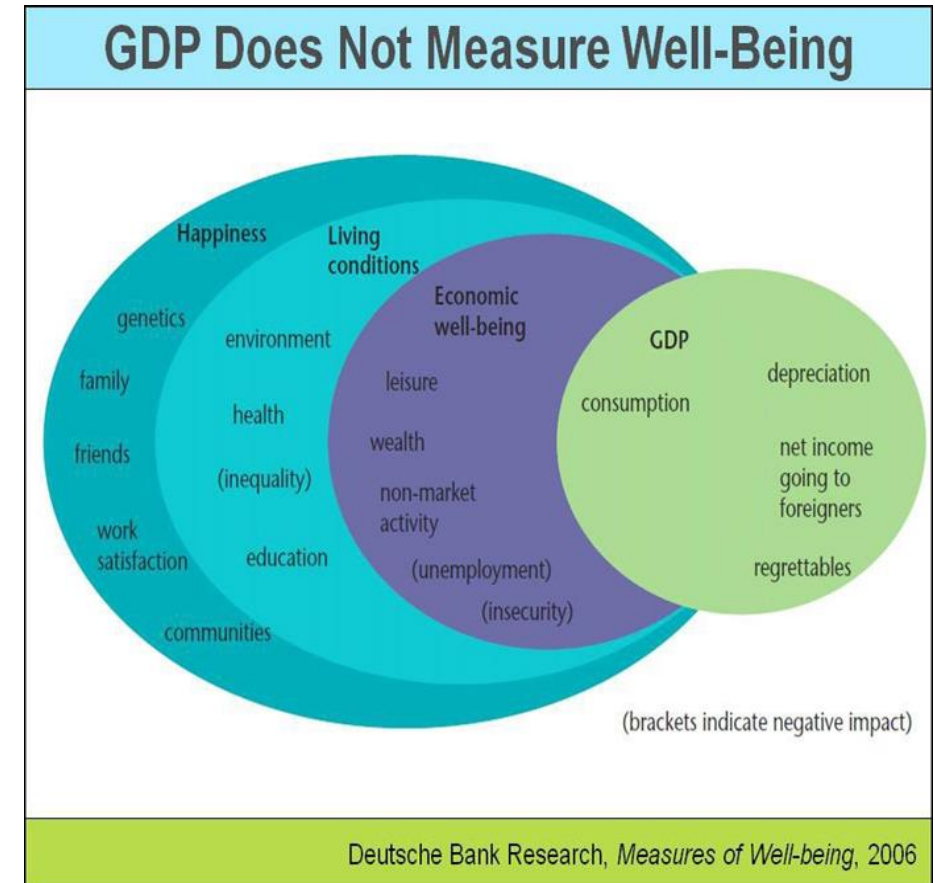


An Economy for the 1%: facts and figures (Oxfam International Report, 2016)



Limitations of GDP as a Measure of Economic Wellbeing

- **Environmental degradation:** GDP growth comes at the expense of natural ecosystems. The environmental costs of production, such as deforestation, pollution, and greenhouse gas emissions, are not reflected in GDP calculations ([Costanza et al., 2014](#)).
- **Income inequality:** GDP aggregates economic activity but does not account for how wealth is distributed.
- **Quality of life:** Factors like healthcare, education, and social cohesion are crucial to wellbeing, but are not measured by GDP.
- **Unpaid work and the informal economy:** Activities like caregiving, volunteer work, and informal labour—key components of societal wellbeing—are overlooked.
- “At present, we are stealing the future, selling it in the present, and calling it GDP” ([Paul Hawken, 2014](#))
- When we achieve economic growth (mere increase in GDP), DOES NOT necessarily translate into improvement in overall well-being



GDP Vs Happiness,

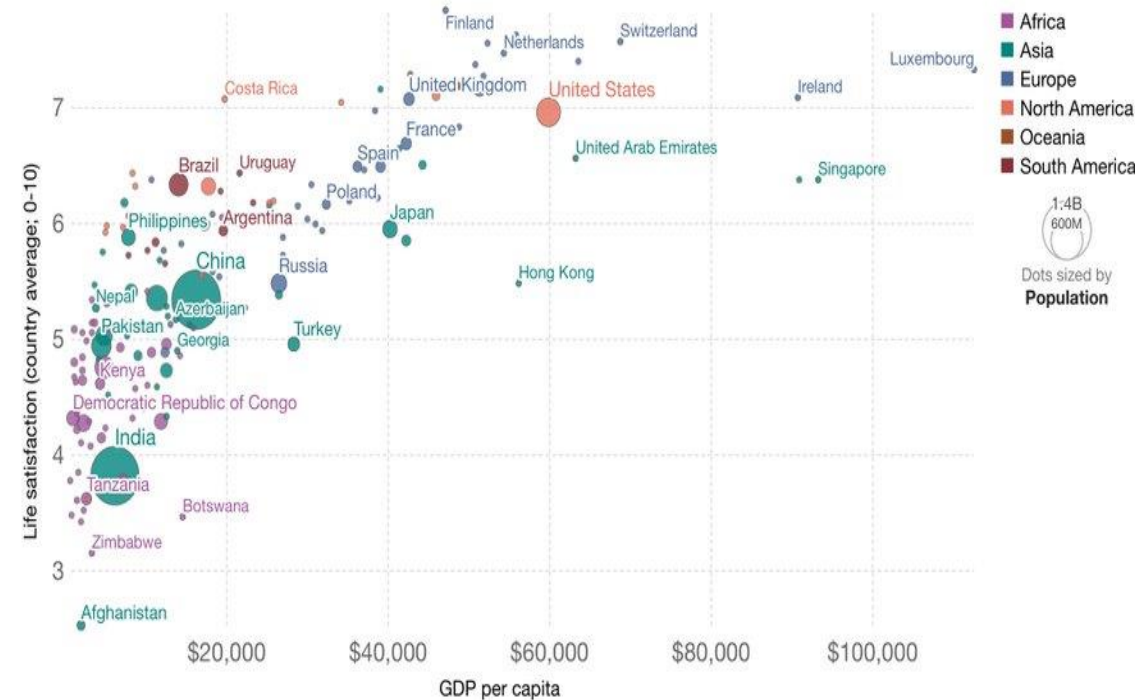
- What matters the most to people is **their happiness** not a misleading single bunch of numbers called **GDP**.
- Although empirical evidence have confirmed that high income level matters in making people happier,
- beyond certain threshold happiness does not increase significantly with increase in income



Our World in Data

Self-reported life satisfaction vs GDP per capita, 2020

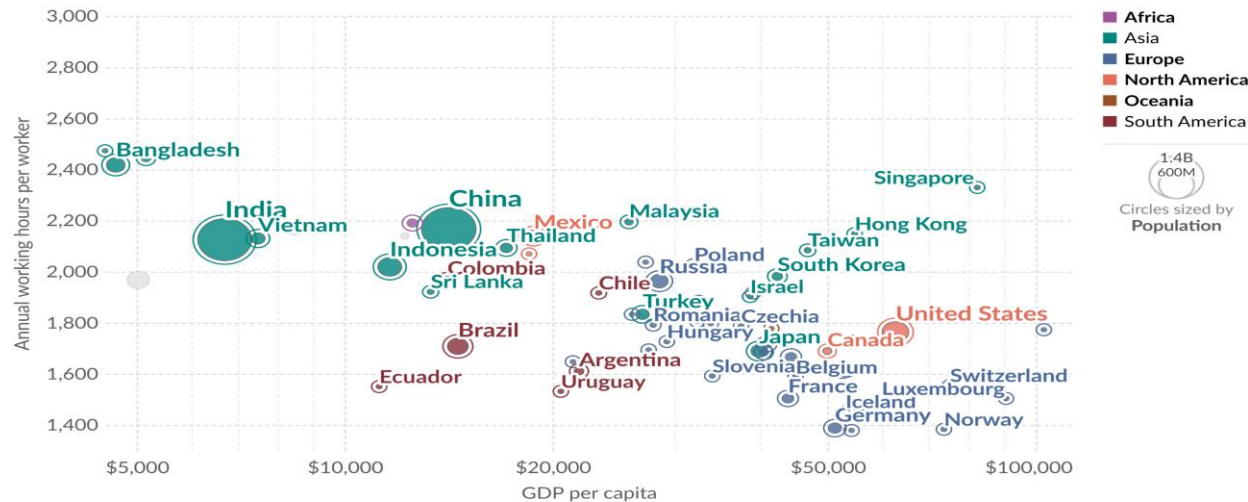
The vertical axis shows the national average of the self-reported life satisfaction on a scale ranging from 0-10, where 10 is the highest possible life satisfaction. The horizontal axis shows GDP per capita adjusted for inflation and cross-country price differences.



Source: World Happiness Report (2023); Data compiled from multiple sources by World Bank
OurWorldInData.org/happiness-and-life-satisfaction/ • CC BY

Annual working hours vs. GDP per capita

Working hours are the annual average per worker. GDP per capita is adjusted for inflation and differences in the cost of living between countries.

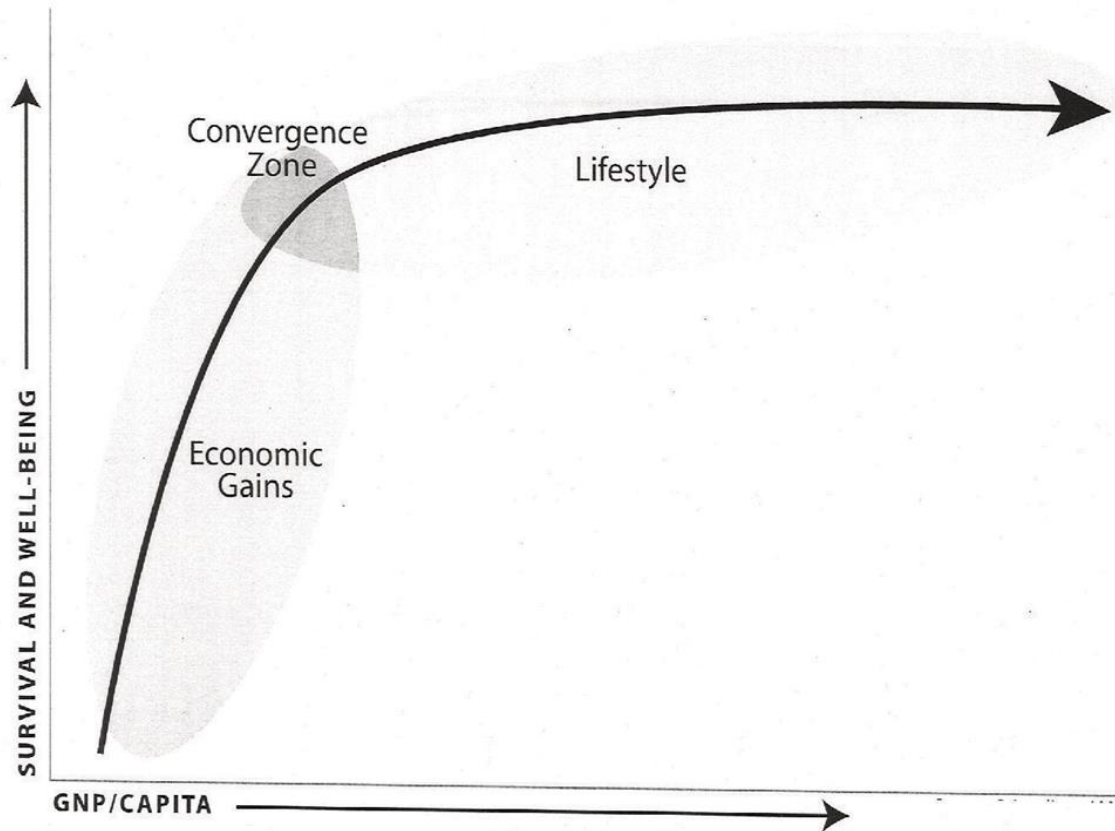


Data source: Feenstra et al. (2015), Penn World Table (2021)

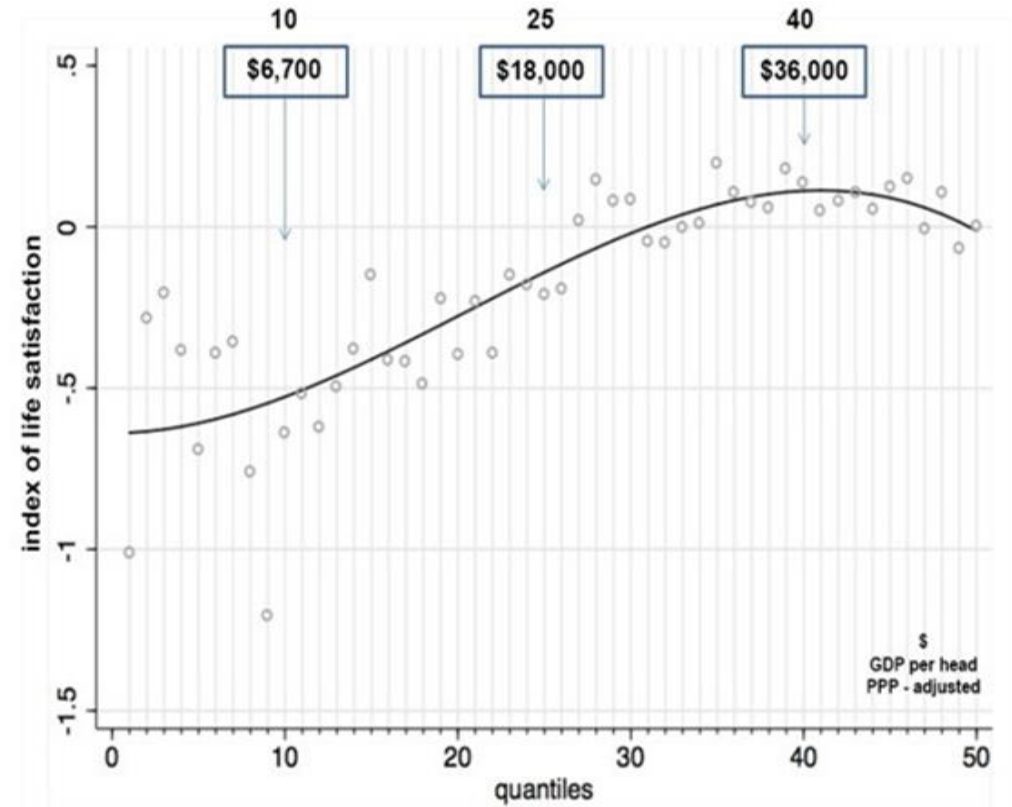
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Note: This data is expressed in international-\$¹ at 2017 prices, using multiple benchmark years to adjust for differences in the cost of living between countries over time

Emotional well-being vs GDP



The Easterlin Paradox: This highlights the disconnection between GDP and happiness. Beyond a certain point, further increases in income do not lead to proportional increases in subjective wellbeing (Easterlin, 1974). This calls into question the emphasis on perpetual economic growth as a policy goal.

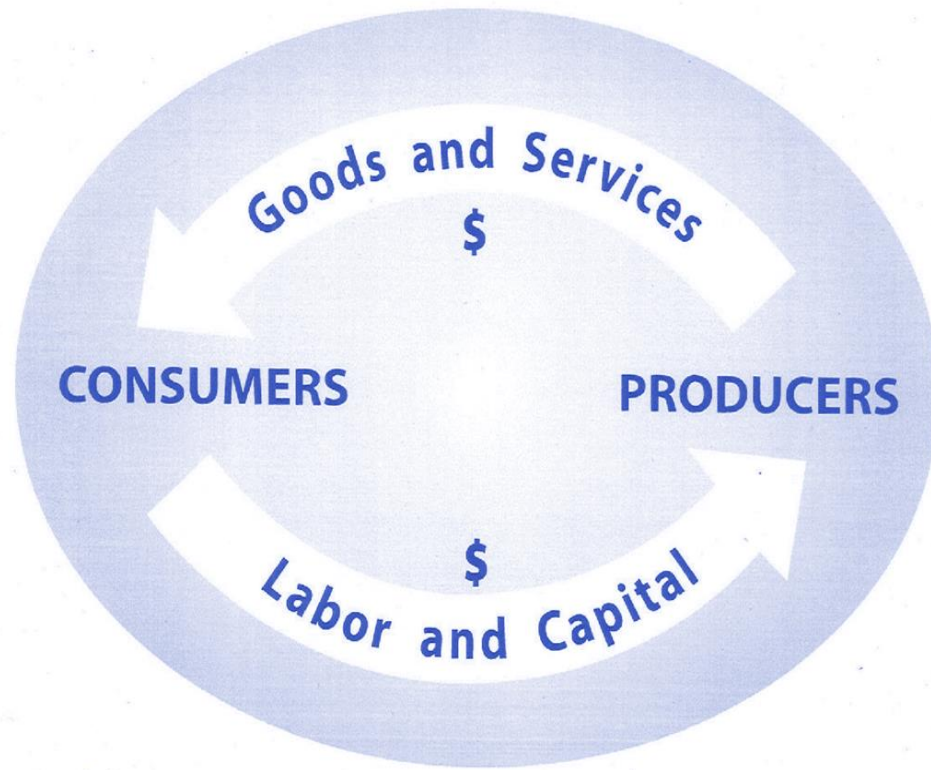


Proto (Warwick) and Rustichini (University of Minnesota), they have found that the relation between GDP and happiness is hump-shaped across countries and there is a clear, positive relation in the poorer nations and regions, but it flattens out at around **\$30,000–\$35,000**, and then turns negative



Misconceptions about the traditional circular flow of income

Traditional view of economic activity
(circular flow of income)



View of economy as part of a larger system





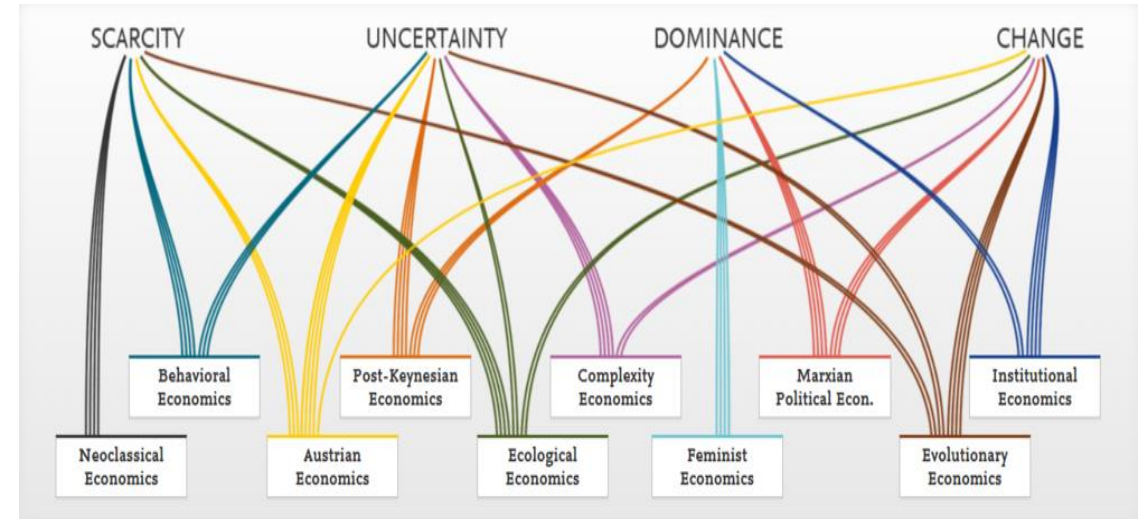
Redefining 'Economic Growth': A Pluralist Framework for Sustainability, Equity, and Well-being

Ecological Economics: Ecological economics emphasizes the economy's dependence on the environment and promotes sustainability as a core principle (Costanza, 2016).

Feminist Economics: Feminist economics critiques the exclusion of unpaid labor, particularly caregiving, from traditional economic analysis (Ferber & Nelson, 2020).

Post-Keynesian Economics: Post-Keynesian economists focus on issues like uncertainty, inequality, and financial instability, offering alternatives to neoclassical models (Lavoie, 2022).

Complexity Economics: Complexity economics recognizes that economies are dynamic and interconnected systems, where emergent behavior cannot always be predicted by linear models (Arthur, 2021).



Moving beyond the single-dimensional focus on GDP and material accumulation to incorporate broader societal goals such as **social equity, environmental sustainability, resilience, and well-being**. Each school of thought offers unique tools for understanding and addressing these broader dimensions, charting a just and equitable path to our planet.



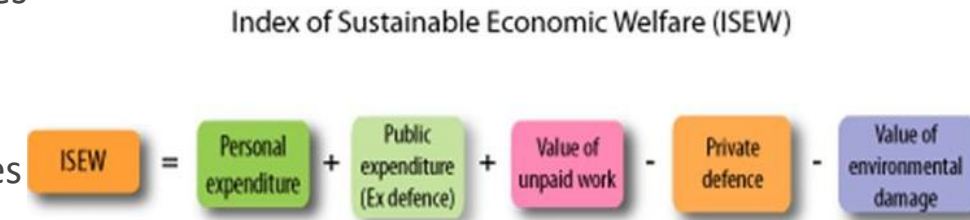
Towards a New Paradigm Shift

- GDP is a flawed measure of economic welfare. Leisure, inequality, mortality, morbidity, crime, and the natural environment are just some of the major factors affecting living standards within a country that are incorporated imperfectly, if at all, in GDP.
- Though there are significant conceptual and empirical hurdles to including some of these factors in a welfare measure, standard economic analysis is arguably well-equipped to deal with several of them.
 - **Sustainable Development Goals (SDGs):** The SDGs provide a comprehensive framework for addressing global challenges like poverty, inequality, and climate change, emphasizing the need for sustainable development ([UN, 2015](#)).
 - **Doughnut Economics Model:** Kate Raworth's Doughnut Economics visualizes an economy that operates within planetary boundaries while ensuring that all people have access to life's essentials ([Raworth, 2017](#)).
 - **Wellbeing Economies:** Wellbeing economies prioritize human and environmental wellbeing over GDP growth. This model emphasizes health, social cohesion, and sustainability as key indicators of progress ([Trebeck & Williams, 2019](#)).
 - **Green New Deal Proposals:** Green New Deals advocate for large-scale public investment in renewable energy, green jobs, and infrastructure to mitigate climate change and promote social equity ([Mazzucato, 2021](#)).

Alternative Measures of Well-being/Quality of Life



- **Measure of Economic Welfare:** Introduced by Yale economists William Nordhaus James Tobin in 1972, MEW adjusts national output by considering factors such as leisure, unpaid work and environmental damages
- **Index of Sustainable Economic Welfare (ISEW):** Similar to MEW, ISEW incorporates environmental costs and income inequality into its assessment of economic performance (Daly & Cobb, 1989).
- **Better Life (OECD):** The **Better Life Index** by the OECD, launched in 2011, measures well-being across 11 key priorities like housing, income, and health, education...
- **Gross National Happiness (Bhutan):** Bhutan's Gross National Happiness (GNH) framework prioritizes spiritual, social, and environmental wellbeing over purely economic metrics (Ura et al, 2012).
- **Genuine Progress Indicator (GPI):** The GPI adjusts economic activity for environmental degradation, inequality, and other social factors, offering a more comprehensive view of wellbeing (Kubiszewski et al., 2013).
- **Human Development Index (HDI):** The HDI emphasizes health, education, and income, offering a broader measure of national wellbeing than GDP (UNDP, 2020).
- **Happy Planet Index:** The Happy Planet Index focuses on sustainable wellbeing by considering ecological footprints, life expectancy, and happiness (NEF, 2021).



Do the Alternative Measures Outperform the GDP?



- Across the globe there is growing scepticism about the usefulness of GDP as a measure of national well-being.
- Consequently, several alternative quality-of-life (QoL) measures were developed which either aim at healing the GDP, complementing it, or replacing it.
- Alternative measures like **HDI**, **GPI**, **BLI**, and **GNH** outperform GDP in capturing **non-economic** dimensions of well-being, such as **health**, **education**, **environmental sustainability**, and **happiness**.
- However, they may lack the simplicity, comparability, and direct link to **economic output** that makes GDP useful for certain economic policies and decisions.

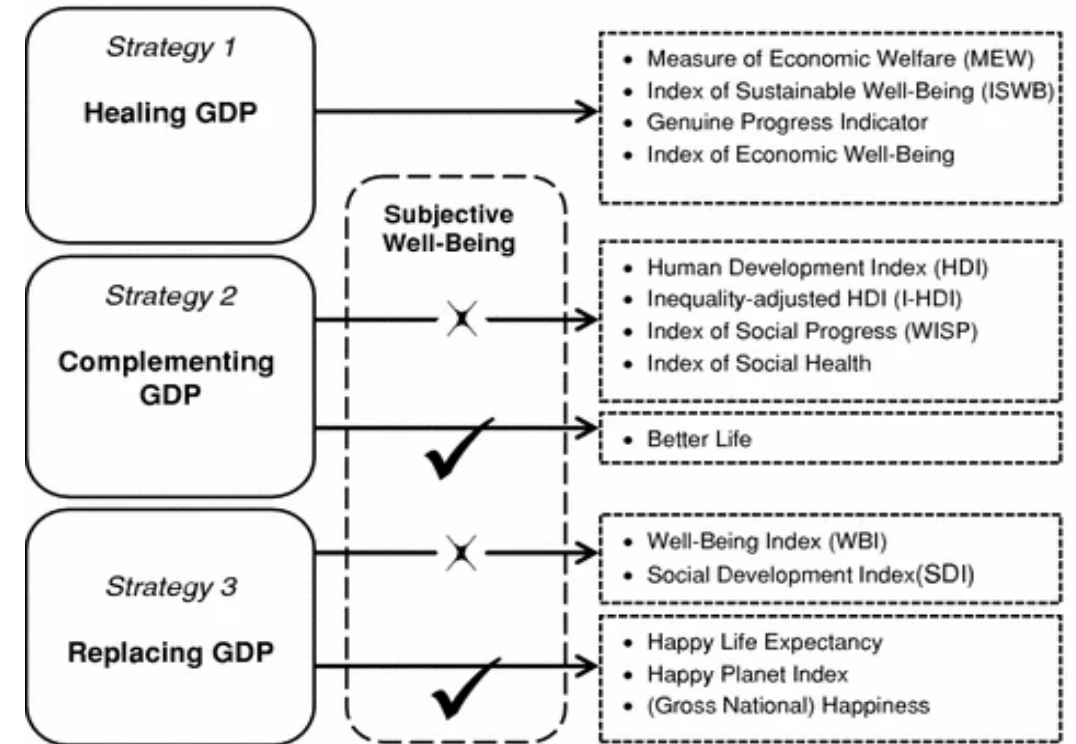
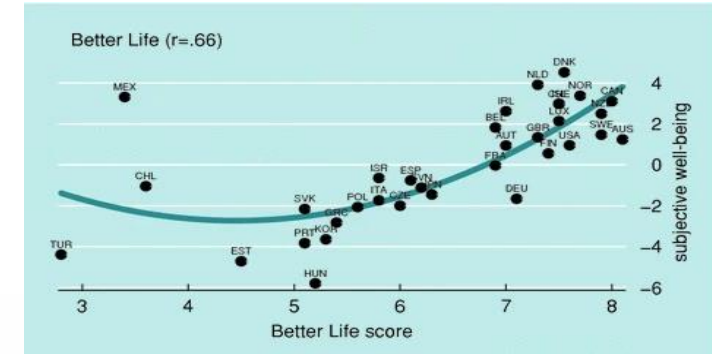


Fig. 14.1 (Delhey & Koll, 2013) Strategies for moving “beyond GDP” and examples.
 Note X = without subjective well-being measures; ✓ = with subjective well-being measures



Conclusion: Policy Recommendations

- **Implementing Alternative Measures:** Governments should adopt metrics like the GPI or HDI to better capture social and environmental wellbeing.
- **Reforming Financial Systems:** Financial markets must be aligned with sustainability goals by discouraging short-term speculation and promoting long-term investments in green technologies ([Stiglitz, 2019](#)).
- **Addressing Wealth and Income Inequality:** Progressive taxation and wealth redistribution can reduce inequality and foster a fairer society ([Piketty & Cantante, 2018](#)).
- **Investing in Green Technologies:** Public and private investment in renewable energy, electric transportation, and sustainable agriculture is critical for the transition to a low-carbon economy ([Mazzucato, 2021](#)).
- **Promoting Inclusive Economic Decision-Making:** Governments should encourage participatory processes that involve citizens in economic planning, ensuring that policies reflect the interests of all stakeholders ([Stiglitz, 2019](#)).