The Steady State Economy: Limits to Economic Growth?

A Steady State Economy (SSE) is an economy that is stable and at 'equilibrium'. That means that factors like demand, supply, and production are relatively constant and sustainable. Further, there is stable population size. Economic activity in a steady state economy is sufficient to support the population but does not exceed resource limits.

Thus, a Steady State Economy is a model of human activity in which we can live sustainably within the limits of the earth's biosphere. In theory, a national economy will reach this 'steady state' after experiencing a period of growth or de-growth (Jhinghan, 2016).

Thereafter, managing growth leads to greater social cohesion and economic stability. As a result, there is more efficient use of natural resources, minimisation of waste, and a more even distribution of wealth overall.

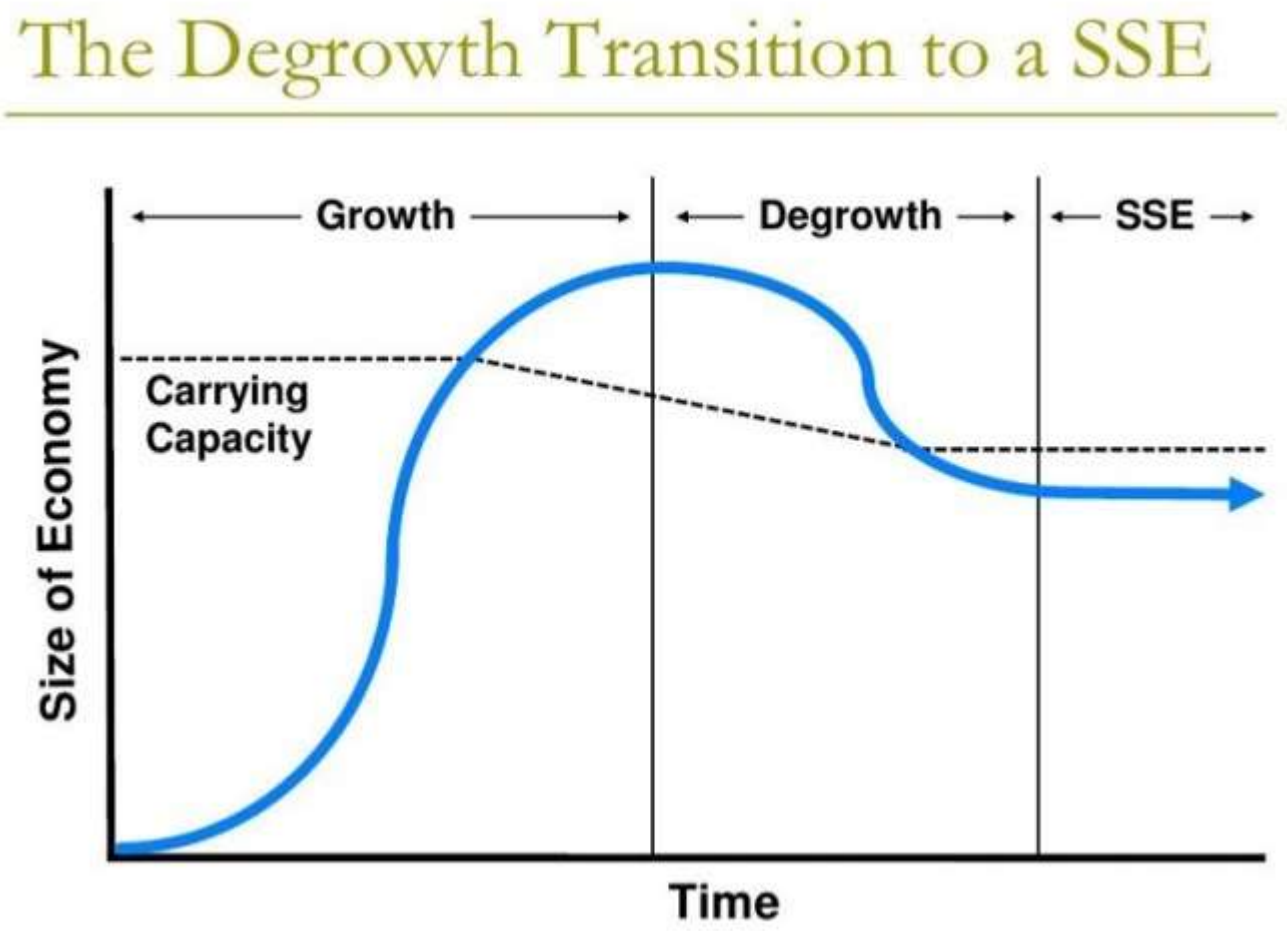
> *"…the economy, must at some point cease growing and adapt itself to the dynamic equilibrium – the steady state – of the planet."*
>
> – *(Herman Daly)*

Can we successfully manage economic activity within sustainable limits? Photo by ELEVATE.

Growth and the Steady State Economy

Economic growth is the increase in the actual output of a country over time. Real Gross Domestic Product (GDP) measures the total production of goods and services within a country over a given period (Lianos, T. P. 2018). GDP has two tendencies: growth and recession. In the growth stage, the economy performs well in most sectors and produces more goods and services to meet increased demand. A recession means reduced production and negative, or sharply declining, economic performance. However, neither excessive growth (overconsumption) nor recession is sustainable. Currently, most economies in the world tend to lurch between one or the other.

Therefore, the Steady State Economy would even out economic activity. This means putting limits on growth by making sure it is sustainable. Initially, a period of 'degrowth' may be required (Kerschner, 2010) to transition to a SSE. This is shown in the graph below:



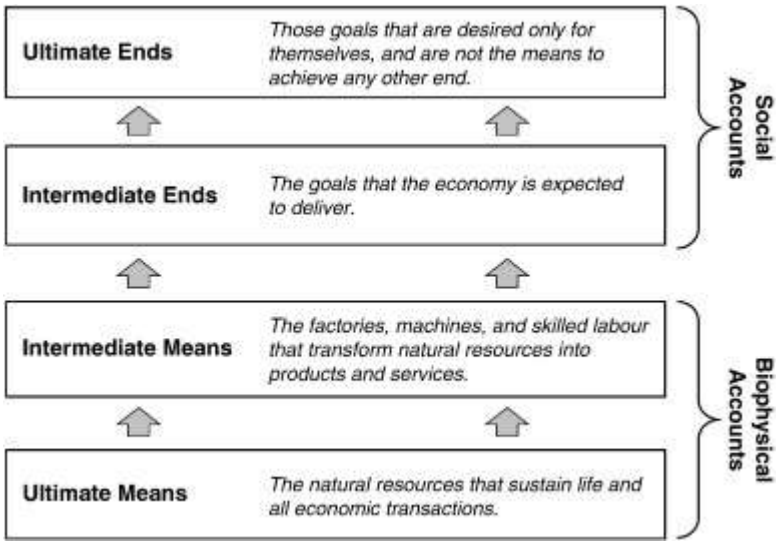
According to the graph, the country starts with the most significant growth. At this level, the GDP is high, which means the country is performing. All factors of production are most utilised. The de-growth stage involves recession. The Gross Domestic Product of the government falls. That means reduced utilisation of aspects of production. The steady-state level is where the economy is balanced and at equilibrium.

Degrowth

De-growth (*décroissance*) is a theory based on the work of Nicolas Georgescu-Roegen. By definition, it is 'an equitable downscaling of economic production and consumption that increases human well-being'. Consequently, the goal is to 'downscale'. Material and energy use is then brought within ecological limits (Schneider et al., 2010, Kallis, 2011). In turn, this enhances human well-being and environmental sustainability.

Degrowth takes place at both a local and global level – over the short and longer term. However, measuring degrowth is not easy. It requires an assessment of equity in many social and environmental dimensions. **Social** and **biophysical**

accounts are two significant dimensions, illustrated in the diagram below.



We define degrowth as a voluntary transition towards a just, participatory, and ecologically sustainable society. The objectives of degrowth are the meeting of basic human needs and high quality of life whilst reducing the ecological impact to a sustainable level. Once right-sizing has been achieved through the process of degrowth, the aim should be to maintain a 'Steady State Economy' with a relatively stable, mildly fluctuating level of consumption. (Research and Degrowth, 2010).

Manufacturing plant. Photo by Life Of Pix.

Beyond GDP

Currently, there is debate over the efficacy of economic growth. Too much encroachment on the biosphere leads to the loss of 'natural capital' (animals, plants, minerals and fossil fuels) over the manmade capital (roads, factories, appliances) added by growth.

The climate crisis and ecological damage caused by pollution simply make unlimited growth unsustainable. In addition, disparities in growth still prevail all over the world. A lack of equity in the global economy exacerbates the problems of reducing emissions and protecting ecosystems.

In the last century, the size of the global economy (as measured by real GDP) increased by a factor of twenty-four (Maddison, 2010). GDP per capita has tripled in countries like the US and UK since 1950. Yet, reports show that "subjective indicators of well-being have flatlined".

Alternatively, a holistic approach to growth encompasses human justice and the preservation of the planet's natural resources. These pave the way for new metrics which incorporate well-being into the equation. Examples are the 'Better Life Index' and the 'Social Progress Index'. In addition, new ways of viewing the economy, like the Beyond GDP measurement agenda, include environmental and human agendas.

Thus, many countries are aiming to be more efficient in transforming natural resources into human well-being. The challenge is creating policy that maintains the 'health'; of the economy whilst improving quality of life. The risk is that 'downscaling' causes further harm to well being.

Policy Implications for the Steady State Economy

Environmental protection in the Steady State Economy involves the efficient and effective use and re-use of natural resources (Lianos, T. P. 2018). In practice, that means minimising waste and preserving resources.

Moreover, the extraction of natural resources must maintain natural ecosystems

and biodiversity. In turn, environmental policies and sustainability goals become factored into value creation.

Blunt policies like a green tax or carbon emission limits will quickly reduce air, land and water contamination. However, an economy geared towards sustainability still needs mechanisms for wealth creation. Thus, the Steady State Economy uses traditional levers to balance supply and demand. Effectively, it is one that engineers a stable state of economic activity whilst ensuring a highly efficient use of resources.

By contrast, traditional theories of economic growth assume no limits to population or consumption and an unlimited availability of resources.

Neoclassical economics places economic growth at the centre of economic policy. Growth, it argues, creates wealth by rewarding efficiency (Cesaratto, 1999). However, 'efficiency' by this measure, does not take into account social and environmental well being. One can make the argument that the pursuit of growth for its own sake has not always been benign.

For environmental economics, resource sustainability and justice are part of its core objectives. Thus, the Steady State Economy is a normative, multidisciplinary endeavour. However, it applies the same traditional monetary and fiscal policy instruments like taxation and spending.

Economic activity must sustain quality of life over the long term. Photo by Scott Webb.

A Sustainable Future

Economic growth leads to greater availability of money within the economy and, ultimately, improved living standards and quality of life. However, economic activity also needs to guarantee living standards and quality of life into the future (UN, 2018)

Currently, economic growth is uneven and unsustainable within the finite resources of our planet. So, change is inevitable. We must choose a future that is not only flourishing, but sustainable.

The THRIVE Project is a not-for-profit, for-impact research and information resource dedicated to the goal of 'Thrivability' – a state 'beyond sustainability'.

The THRIVE Framework incorporates the latest data modelling and forecasting tools to better inform organisations about the impact of adopting sustainable practices in their activities. To find out more about THRIVE, Sustainable Business Models and the Steady State Economy, visit our website. You can also subscribe to our newsletter and learn about THRIVE's regular, informative podcasts, live webinar presentations, and sustainability research blog.

REFERENCES

Cesaratto, S. (1999). Critical survey. Savings and economic growth in neoclassical theory. *Cambridge Journal of Economics*, 23(6), pp.771–793. doi:10.1093/cje/23.6.771.

Department for International Development (2008). *Economic growth: the impact on poverty reduction, inequality, human development and jobs*. [online] Available at: https://www.oecd.org/derec/unitedkingdom/40700982.pdf.

Jhinghan, M. L. 2016. Microeconomic Theory, New Delhi: Vrinda Publications.

Johnston, M. (2019). *Is Infinite Economic Growth on a Finite Planet Possible?* [online] Investopedia. Available at: https://www.investopedia.com/articles/investing/120515/infinite-economic-growth-

finite-planet-possible.asp.

Kerschner, C. 2010. Economic de-growth vs. steady-state economy. *Journal of cleaner production*, *18*(6), 544-551.

Lianos, T. P. 2018. Steady state economy and population. *South-Eastern Europe Journal of Economics*, *16*(1), 66-78

Research & Degrowth (R&D) – An academic association dedicated to research, training, awareness raising and events organization around degrowth. (2017). Research & Degrowth (R&D). https://degrowth.org/

Schneider, F., Kallis, G., & Martinez-Alier, J. (2010). Crisis or opportunity? Economic degrowth for social equity and ecological sustainability. Introduction to this special issue. *Journal of Cleaner Production*, *18*(6), 511–518. https://doi.org/10.1016/j.jclepro.2010.01.014

United Nations (2018). *The Sustainable Development Agenda*. [online] United Nations Sustainable Development. Available at: https://www.un.org/sustainabledevelopment/development-agenda/.

GOT A QUESTION ON THIS TOPIC?

Ask Our Experts

Contact us