Lorenzo Fioramonti

THE WORLD AFTER GDP

'What governments don't track today is often far more important than what they do because what we measure changes how we behave - and how we think. And changing what we think is essential if we are to build a more sustainable economic system. Read this fascinating and well-written book - and change the way you think!'

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'An original, comprehensive and compelling analysis of the problems with GDP and how to make the world better without it.'

Robert Costanza, Australian National University and editor-in-chief of *Solutions*

'A well-written and persuasive analysis of how to change the world by moving beyond the current narrow focus on GDP.'

Herman Daly, founder of *Ecological Economics* and Emeritus Professor, University of Maryland

GDP IS MUCH MORE THAN A SIMPLE STATISTIC. It has become the overarching benchmark of success and a powerful ordering principle at the heart of the global economy. But the convergence of major economic, social and environmental crises has exposed the flaws of our economic system which values GDP above all else as a measure of prosperity and growth.

In this provocative and inspiring new book, political economist Lorenzo Fioramonti sets out his vision of a world after GDP. Focusing on pioneering research on alternative metrics of progress, governance innovation and institutional change, he makes a compelling case for the profound and positive transformations that could be achieved through a post-GDP system of development. From a new role for small businesses, households and civil society to a radical evolution of democracy and international relations, Fioramonti sets out a combination of top-down reforms and bottom-up pressures whose impact, he argues, would be unprecedented, making it possible to build a more equitable, sustainable and happy society.

Lorenzo Fioramonti is Professor of Political Economy & Director of the Centre for the Study of Governance Innovation at the University of Pretoria, South Africa.

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Economics, Politics and International Relations in the Post-Growth Era

Lorenzo Fioramonti

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The World After GDP

To Damiano and Lukas, wishing them all the best as they grow up in a post-GDP world

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Most books are, directly or indirectly, the outcome of collective efforts that take many different forms. This book is no exception. My theoretical framework connects different strands of scholarly literature in the natural and social sciences, from institutional, ecological and evolutionary economics to complexity science and sociobiology. It also deals with governance, innovation and technological progress. Such an eclectic approach is the result of many collaborations, discussions and debates that I have had with a long list of colleagues and friends. They are too many to be mentioned here. Accept my apologies if, because of brevity, your name is not included below.

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While writing this book, I met with governments, organizations, companies and groups of citizens advocating for a shift to a post-GDP system of accounting. My journey was accompanied by many friends who share the same concerns about this number and the power it has acquired in contemporary societies. These individuals are Katherine Trebeck, Martin Whitlock, Alfred Tolle, Yannick Beaudoin, Otto Scharmer, Julia Kim, Lew Daly and Cylvia Hayes, as well as all participants in the Global Wellbeing Lab. My role on the task force coordinated by the Initiative for Policy Dialogue at Columbia University was also essential to introducing some of the concepts of this book into the policy debate. Thus I would like to thank Joseph Stiglitz, Akbar Noman and Ravi Kanbur for inviting me to join their initiative.

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Introduction

Nauru is a tiny island in Micronesia, the smallest nation in the Pacific. With 21 square kilometres of surface, it is the third-tiniest state in the world, behind only the Vatican and Monaco. It is completely surrounded by coral reefs, which emerge out of the ocean to seamlessly erect steep cliffs reaching over 70 metres above sea level. The island is immersed in a humid and hot climate, due to its proximity to the equator. Its name derives from the Nauruan word *anáoero*, which means 'Let's go to the beach'.[1] When Captain John Fearn of the British whaling ship *Hunter* reported the presence of Nauru to the outside world in 1798, the place was so pretty that he called it 'Pleasant Island'.

Until the mid-twentieth century, Nauru was a remote outpost of colonial empires, first German and then British, with a short period of Japanese control during the Second World War, and later it became a protectorate of Australia and New Zealand. Unknown till then, what eventually catapulted Nauru onto the global scene was its unparalleled development trajectory. Why? Because this island nation boasted the highest gross domestic product per capita in the world between the 1970s and the mid-1980s, overtaking financial paradises like Luxembourg and Liechtenstein and oil-rich Arab states.[2] Its economic 'boom' was due to the exploitation of one of the world's purest and most extensive reserves of phosphate, a key ingredient for the industrial production of fertilizers. When the country acquired independence in 1968, the New Nauru Phosphate Corporation intensified extraction and introduced innovative chemical treatments, with the support of foreign experts. With an unprecedented 91 per cent of purity, Nauru's phosphate exports travelled beyond the conventional Australian and New Zealand markets to reach several Asian economies, from Indonesia, to Japan, the Philippines, South Korea and Taiwan. As of the early 1980s, the peak of extraction was around two million tonnes a year, at a market price of about US$60 per tonne. Unable to construct a deep-water harbour because of its coral reef surroundings, the government built gigantic cantilevers sticking out of the mines, transporting the brown powder for hundreds of metres through conveyer belts connected to ships stationed offshore. Out of the overall proceeds, less than US$3 per tonne would go the landowners' fund, with another US$12 destined for long-term investments, including purchasing a fleet of Boeing aeroplanes and commercial ships, a chain of international hotels and a 52-storey skyscraper in central Melbourne, the tallest building in that city. After some spending on a host of social programmes, the remaining profits would stay with the local government council, which controlled the phosphate industry. Landowners shared in about U$1.4 million every three months, with the sums paid to each individual owner reaching as much as US$360,000. This meant an astonishingly high income by the standards of the Pacific atolls 'where most people exist on subsistence agriculture and fishing, seldom seeing more than a few hundred dollars in cash in a year's time'.[3]

Then things began to fall apart. In its rush to 'development', the Nauruan government over-exploited the phosphate mines, destroying the natural habitat supporting indigenous flora and fauna. Revenues plummeted in the late 1980s when most mines became unusable, and the government defaulted repeatedly on international payments.[4] In a scramble to keep generating revenues, Nauru turned into a tax haven in the 1990s and was included in the list of 'non-cooperative' nations by the Financial Action Task Force on Money Laundering. For some time, the government adopted a number of questionable policies, including issuing passports to foreign nationals in exchange for a fee. With no arable land left and no other source of income, the country eventually accepted aid from Australia in 2001 in exchange for hosting the Nauru Regional Processing Centre, a de facto detention camp for asylum seekers, widely deplored for harsh conditions and ill-treatment of residents.[5]

As reported by Nauru's former president Hammer DeRoburt, the strategy of digging into debt to fund the extractive infrastructure was 'advised by economists', despite some locals raising objections about the extravagant expenditures.[6] When the president reached out to the Asian Development Bank in the 1980s to seek support for his industrial project, the request was turned down, 'declaring that Nauru's high per capita income made the government ineligible for assistance'.[7] In a report to the United Nations (UN), Nauru's leaders recognized that phosphate mining resulted in 'drastic land degradation', 'removal of natural vegetation' and 'the almost total modification of the landscape of the topside' of the island. The report concluded: 'This is by far the most widespread and visible environmental concern in the country – an impact that has had a direct and/or indirect influence on all other environmental impacts and cultural change over the past 90 or so years.'[8]

Even the weather pattern has drastically deteriorated, so much so that present-day Nauru suffers from continuous heat rising from the mined-out plateau, which drives away rain clouds and leaves the sun-baked island plagued by constant drought. Water is so scarce that the island runs dry for most of the day, with households relying on a desalinization plant to satisfy their needs. When, in the late 1980s, the government won a case before the International Court of Justice against Australia's mining operations, it invested the US$75 million of the settlement to restore some of the lost ecosystems 'in hopes of coaxing pandanus, mango and breadfruit trees to grow again'.[9] But to no avail.

With no viable economic opportunities, broken infrastructure, ecological mayhem and a dishevelled education system, mass emigration is the only long-term option for Nauruans, most of whom have sought better economic opportunities in New Zealand and Australia. As a traditional culture of fishing and garden plots was replaced by imports of western-processed foodstuffs, the dietary profile of Nauruans has also worsened to unparalleled levels worldwide, leading to a widespread health-care crisis. According to body mass index statistics published by the World Health Organization, Nauruans are the most overweight people in the world, with 97 per cent of men and 93 per cent of women being obese as of mid-2000 data.[10] From 'Pleasant Island', Nauru has become one of the world's capitals of cardiovascular diseases, kidney failure and type-2 diabetes, a diet-related chronic illness that has affected 40 per cent of inhabitants since the 1990s and has also claimed the life of former President DeRoburt.[11]

A 1995 report about the island published in the *New York Times* reads: 'While Nauruans may be among the world's most affluent people, they are also among the most sickly, racked by diabetes, high blood pressure and obesity brought on by a diet of fatty, imported food. Few Nauruans live much past the age of 60.'[12] Nauru's vicissitude is arguably an extreme case, yet it is coherent with the rules underlying contemporary approaches to economic prosperity as a function of the gross domestic product (GDP). I will provide a more thorough explanation of 'what is wrong' with GDP in chapter 2, but a few pointers are in order here. First of all, GDP only measures material output, without considering the value of natural and human inputs that are 'depleted' in the process. It conceptualizes progress as a continuously growing set of market transactions, regardless of whether these are beneficial to society or not. Undesirable conditions like diseases, traffic jams, disasters, pollution and crime do trigger economic transactions, for instance, by requiring more medical treatment, anti-smog devices, higher insurance premiums and larger jails. Thus they count positively towards GDP, but are certainly not evidence of prosperity. In many ways, the massive exploitation of phosphates in Nauru was consistent with its GDP trajectory, as none of the associated costs on the environment and society mattered to economic advisers and government officials, let alone foreign investors. A country that depletes its energy sources and destroys the environment to prop industrial output is seen as productive by GDP. By contrast, a country that preserves nature by curbing exploitation and consumption may very well be classified as 'underdeveloped' and in need of drastic reform. Moreover, GDP only counts transactions that occur within the formal economy, hence disregarding all economic activities that are informal, voluntary in nature and are performed within the household, thus driving societies to commercialize social life, reduce leisure and free time and support large corporate-driven industrialization. As remarked on the website of the Organization for Economic Cooperation and Development, 'If ever there was a controversial icon from the statistics world, GDP is it. It measures income, but not equality, it measures growth, but not destruction, and it ignores values like social cohesion and the environment. Yet governments, businesses and probably most people swear by it.'[13]

As a limited geospatial entity, with no capacity to externalize damage to the rest of the world, Nauru's dramatic parable was an accelerated version of what is happening to our planet due to the convergence of social, economic and environmental crises. After a century of accelerated growth, the global economy has now become a closed-loop system, in which the externalities of GDP are stifling development itself, endangering not only prosperity in the long term but also the very survival of the human species. The financial crisis, rising inequality, the depletion of non-renewable energy and climate change deeply question the current model of economic globalization, demanding an urgent reorganization of our societies. As economic, political and ecological instabilities affect populations around the world, we see new waves of migration spanning the globe: desperate people who flee their homelands like Nauruans abandoned their sinking island. No matter how many fortresses some may try to build, it is becoming painfully clear that nothing can stop men, women and children running away from oppression and ecological disasters. At the same time, deprivation sits side by side with conspicuous consumption. As migrants desperately make their way across deserts, seas and armed border posts, millions of tourists leisurely criss-cross the sky and invade hitherto pristine natural ecosystems. As beggars scavenge through trash on the streets of the new shiny megacities, the super-rich have hardly any time to enjoy their sumptuous penthouses, busy as they are jetting across continents to follow their money. Never before has humanity enjoyed so much connectedness, technological advancements and longevity. Yet this has come with a huge cost not only in terms of ecological impacts, but also in terms of social cohesion and equitable development. Through a misleading set of development policies and incentives, we have built a system of social organization replete with contradictions, now threatening to push our civilization to the brink of collapse.

This book's main argument is that changing the economic 'rules of the game' can lead to profound political and social transformation. While this may sound like a nightmare to the staunch defenders of