

The path to a doughnut shaped recovery

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The “Doughnut” of social and planetary boundaries is a framework for guiding and evaluating policy, where the goal is to meet the needs of all within the means of the planet. This policy brief considers what it would take to use the “Doughnut” instead of GDP growth to guide our Covid-19 recovery.

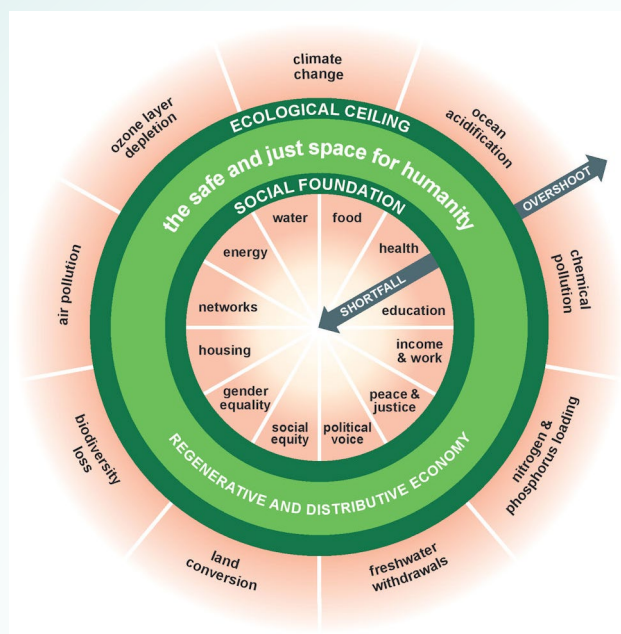
Overview

- **Policymakers fear slowing GDP because our economy is currently dependent on GDP growth to maintain economic and political stability in the short term**
- **This growth dependence makes it difficult to respond effectively to public health emergencies, such as pandemics, and to introduce environmental protections in line with planetary boundaries.**
- **This policy brief explains the causes of our growth dependency and outlines four key strategies to alleviate it: (1) safeguard basic needs; (2) empower and protect workers; (3) reduce our exposure to debt crises; and (4) reduce rent extraction.**

There has been a lot of debate about whether the economic recovery from Covid-19 will be V-shaped, U-shaped, W-shaped or L-shaped, with the letters referring to the size of the economy over time. But there are other dimensions to a post-pandemic recovery that matter more for societal well-being than the market value of our output.

Is this a recovery that will put us in a stronger position to prevent and withstand future crises? Will it create opportunities for everyone in our society to live fulfilling lives? And will it do these things without jeopardising the ability of future generations, and people elsewhere in the world, to meet their basic needs?

These are the kinds of questions being asked now in cities like Amsterdam, where, instead of focussing narrowly on the rate of economic growth, policymakers have chosen a more holistic framework to guide and evaluate their response to Covid-19: the “Doughnut” of social and planetary boundaries.



The Doughnut of social and planetary boundaries, developed by Kate Raworth. Source: <https://doughnuteconomics.org>

The Doughnut's outer boundary represents the ecological ceiling: nine planetary boundaries that correspond to Earth's critical life-support systems, as understood by Earth-system scientists. Humanity must live within these ecological boundaries if we are to preserve a benign climate, fertile soils, a protective ozone layer, sufficient fresh water, and biodiversity on Earth.

The Doughnut's inner boundary represents the social foundation, the minimum quality of life to which every human being has a claim. The twelve dimensions of the social foundation are derived from internationally agreed minimum social standards, as identified by world governments during the development of the Sustainable Development Goals. Between the social foundation and the ecological ceiling lies a doughnut-shaped space in which it is possible to meet the needs of all people within the means of the living planet — an ecologically safe and socially just space in which humanity can thrive.

GDP: a measure of welfare?

Gross Domestic Product (GDP), is the total market value of goods and services produced in a country. Simon Kuznets, the economist who developed the system of national income accounts that underpin GDP famously warned "The welfare of a nation can scarcely be inferred from a measurement of national income". Among wealthy nations, per capita GDP is a poor predictor of health, well-being, and other social outcomes, but it does, unfortunately, remain a reasonably good proxy for carbon emissions and environmental impact. If we treat GDP growth as an end in itself then we risk what ecological economist Herman Daly refers to as uneconomic growth — growth that does more harm than good.

Can we live within the Doughnut and still grow GDP?

To live within planetary boundaries whilst maintaining and improving quality of life we undoubtedly need to grow certain things, such as renewable energy capacity, public transport infrastructure, ecological restoration projects, and insulation programmes. But scaling up the good stuff is not enough. To live within planetary boundaries, we also need to scale down the damaging sectors of our economy.

A key reason that governments have failed to impose the regulations and taxes necessary to scale down damaging forms of economic activity is because doing so would make it difficult to maintain growth as usual at an aggregate level.

Pursuing what might sound like a modest target of 2% GDP growth per year implies doubling the scale of our output and consumption every 35 years. To get to net zero global carbon emissions by 2050 whilst achieving this exponential growth would require us to roll out currently unproven negative emissions technologies at a scale and rate that many experts do not think is feasible ([Anderson & Peters 2016](#)), expand renewables at a rate that many experts do not think is physically possible ([Davidsson et al 2014](#)), and achieve a net energy payback from that renewable infrastructure that many experts do not think is plausible ([King & van den Bergh 2018](#)). A recent comprehensive review of the science ([Haberl et al 2020](#)), concludes that it would be virtually impossible to get back within planetary boundaries with historical rates of consumption growth.

This does not mean we should give up pursuing critical improvements in technology and efficiency. But it is irresponsible to rely on infrastructural change to do all the work for us. The argument is not that we should foreclose the possibility of greener growth by attempting to limit GDP. Rather wealthy countries like the UK should do two things: 1) impose limits directly on our own resource use, pollution, and habitat destruction, tough enough to ensure there is enough ecological space for poor countries to meet their basic needs; 2) prepare for the strong possibility that these ecological protections will constrain our output and consumption. Denying that possibility, and putting all of our eggs in the basket of "green growth" is profoundly reckless and unjust.

That's why this document, and the accompanying [full length report](#), moves beyond the traditional terrain of environmental policy briefs. Instead, we focus on one of the biggest obstacles that stands in the way of achieving essential environmental policies: the fear of slowing GDP.

Why do policymakers fear slowing GDP?

The spectre of shrinking or stagnating GDP has repeatedly been invoked to block environmental policies, and recently to justify the lifting of Covid-19 restrictions in workplaces, in spite of the risks to public health. According to the [Reset Inquiry](#), two thirds of the British public want government to prioritise health and well-being over GDP. So why are policymakers so preoccupied with this one economic metric? Part of the answer is that our economy is currently dependent on growth to maintain economic and political stability. Our growth dependence expresses itself in at least four ways:

The threat of unemployment

All else being equal, automation and other innovations reduce the need for labour. Conventional economic wisdom says we must stimulate consumption growth to soak up the surplus labour. But there is an alternative and more environmentally sustainable way to maintain employment: share out the remaining work. Instead of using productivity improvements to drive down prices and sell more goods, workers could be offered a shorter working week at a higher hourly pay rate. This is not a solution that profit-oriented companies are likely to deliver of their own accord. It will require coordination, and a shift in the balance of power in work places.

The risk of private debt crises

We are dependent on growth to maintain financial stability because our economy is heavily burdened with debt. Debts are promises to pay, often based on expectations about the future — usually of revenue growth or asset price growth. If those expectations don't come to pass, debt obligations can become dangerously destructive. Unlike equity investments that shrink or grow with the fortunes of the firm, debts are fixed in nominal terms, and if the interest cannot be paid, they grow exponentially. High levels of indebtedness can transform a modest fall in expected growth rates into a full-blown crisis. To make our economy resilient in the face of slowing growth, we must look for ways to reduce indebtedness, both for households and firms.

The inequity of rent extraction

Growth is required to protect the privileges of landlords, financiers, monopoly interests, and other “rentiers”. Rentiers do not create wealth; they extract the wealth that other people create through their control of monopolised and scarce assets. As long as the economic growth rate remains higher than the rate of rent extraction, this situation can continue. But when wealth creation stalls — while landlords, financiers, monopoly interests, and other rentiers continue to extract wealth and accumulate assets — the result is rising inequality. To prevent inequality rising as growth slows, we must diffuse the power of rentiers.

The failure to safeguard basic needs

High levels of unemployment, indebtedness, and rent extraction are all-the-more dangerous in an economy like the UK, where essential goods and services like social care, energy, and transport are rationed by if you can pay. In this context, the ability of the poorest to meet their basic needs is threatened by a fall in income, or a rise in prices. This is also why carbon taxes — essential to meet our climate obligations — are so difficult to introduce under the current system.

These four vulnerabilities are a straightjacket on democratic choice. They impede our ability to respond effectively to public health and ecological emergencies, and so undermine our ability to live within the Doughnut of social and planetary boundaries. When certain forms of economic activity become dangerous to our health and well-being, or to the living systems upon which we depend, our governments must have the confidence to scale back those activities — without fear of triggering crises of unpayable debt, unemployment, or rising inequality. This confidence can only be achieved if we tackle the underlying causes of our dependence on growth.

Recommendations

The Covid-19 crisis is exacerbating many of the economic injustices that underpin our growth dependence. But by exposing the vulnerabilities in our current system, the crisis also presents opportunities to tackle these problems head on. It offers a chance to redesign aspects of our economy to be distributive by design and resilient to economic shocks. In our report *The UK's Path to a Doughnut-Shaped Recovery*, we propose four policy strategies to reduce growth dependence:

1. Safeguard basic needs

Due to Covid-19, millions of people now have first-hand experience of the inadequacies of our social security system, and the tragic consequences of under-resourcing our health service and care system. And yet we have also seen that where there is political will, substantial public funds can be found to safeguard basic needs. There is now an opportunity to strengthen our social safety net and expand the provision of Universal Basic Services:

- Introduce a Minimum Income Guarantee and better Statutory Sick Pay
- Provide comprehensive adult social care
- Create a free minimum energy entitlement
- Invest in free and affordable alternatives to private cars

2. Empower and protect workers

The pandemic has drawn attention to the low pay and precarious conditions many workers face, and the morally bankrupt corporate governance model which allows billions in public bailout money to be funnelled to shareholders while jobs are cut. To address these injustices, we must:

- Provide support to firms to cut hours, not jobs
- Create well-paid secure jobs through a Green New Deal
- Use equity-based bailouts to increase worker rights over the long term
- Raise the minimum wage and end insecure work
- Strengthen sectoral bargaining and democratise workplaces

3. Reduce exposure to debt crises

The unfolding crisis in household and business debt reinforces the need for structural changes that will reduce our exposure to debt crises over the long term. Unfortunately, there is a risk that public debts in the aftermath of Covid-19 could be weaponised for a new campaign of austerity, forcing more households into debt. To tackle these issues, we must:

- Make more use of central bank financing of government deficits, to reduce the burden of public and private debt
- Facilitate interest holidays and debt write-downs for households
- Reduce the cost of borrowing for small and medium sized enterprises
- Shift from debt to equity financing, and prevent the use of debt for tax avoidance
- Use macro-prudential tools to discourage inflationary lending and reduce asset price booms and busts

4. Tackle rent extraction

Urgent measures are required to prevent a harmful consolidation of rentier power in the wake of Covid-19. The dramatic fall in tax revenues from employment and consumption creates an added incentive to improve the taxation of unearned incomes like capital gains, dividends, and monopoly profits. Mounting rent arrears reinforce the need to overhaul the governance and ownership of our land and housing systems. To stop rent extraction from driving up inequality post-crisis, we must:

- Prevent public bailout money being captured by rentiers
- Tax capital gains and property wealth more fairly
- Protect tenants and reduce rent extraction in the housing market
- Protect small and medium sized enterprises, while taxing monopolies

As well as directly reducing the precarity and exploitation experienced by millions in our society, these four structural shifts would make our society much more resilient in the face of slowing growth and economic shocks. By reducing our growth dependence, we do not foreclose the possibility of greener economic growth, but we open up more room for society to manoeuvre. We give policymakers the freedom and confidence to pursue a well-being economy, to respond decisively to public health emergencies, and to introduce tough environmental protections in line with planetary boundaries. Shedding the

blinkers of GDP maximisation, and adopting the Doughnut as a new compass to guide public policy, would allow us to focus on the foremost challenge of the 21st century: achieving a good life for all within planetary boundaries.

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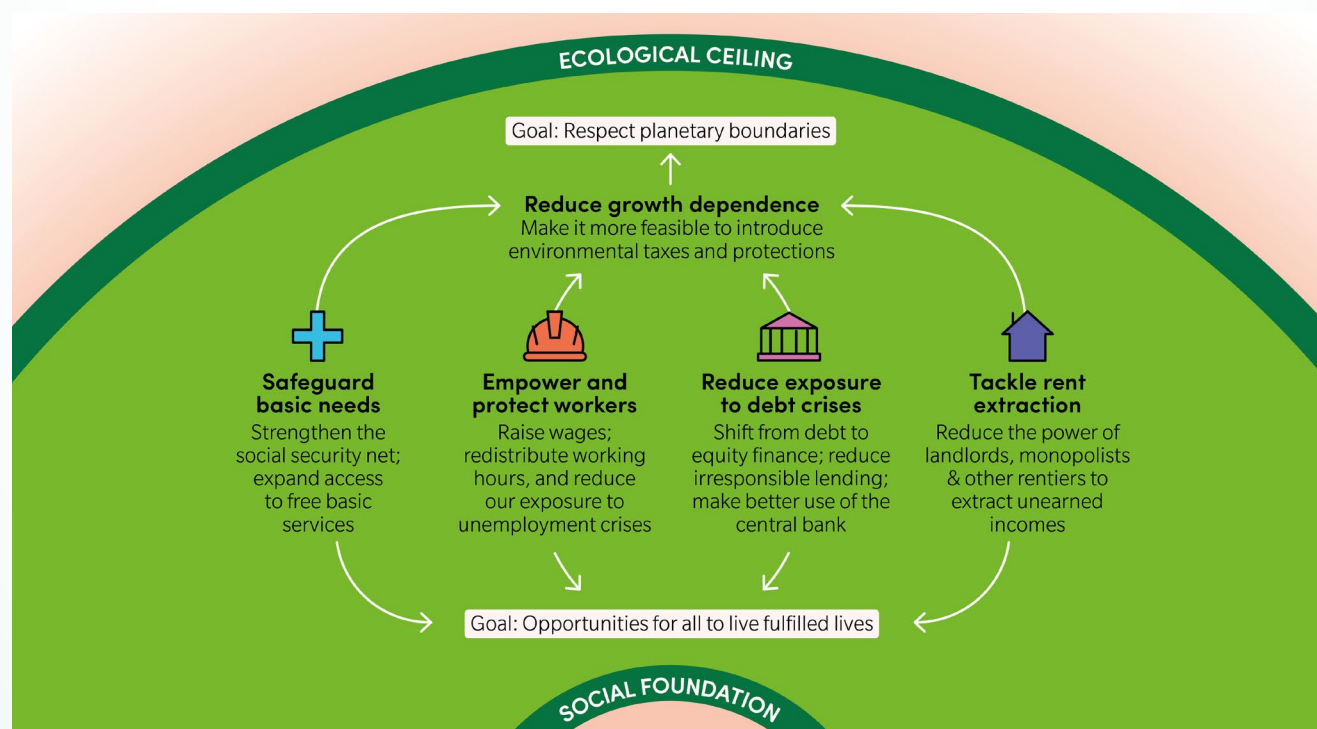
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Further information

The full report that accompanies this briefing can be found at: <https://goodlife.leeds.ac.uk/doughnut-shaped-recovery>

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Four parallel strategies for a doughnut-shaped recovery