Kluwer Mediation Blog

Is more enough?

Charlie Woods (Core Solutions Group / Scottish Universities Insight Institute) · Saturday, April 8th, 2023

"Neither politics or the economy will function without a substantial degree of honesty, trustworthiness, self-restraint, truthfulness and loyalty to shared political, legal and other institutions. In the absence of these virtues, a cycle of mistrust will corrode social political and economic relations."

In his new book 'The Crisis of Democratic Capitalism', Martin Wolf argues that some of this corrosion has set in and runs a very real risk of undermining the systems we have taken for granted in many western societies.

The virtues Wolf identifies could also be thought of as assets or part of a society's stock of capital from which benefits will flow. The distinction between flows and stocks is an important one. Wealth and income are often used interchangeably and are sometimes confused – income is a flow, whereas wealth is a stock that can be added to or depleted. In business and in other contexts you may be able to survive in the short run by consuming your stock of assets, but it is not a recipe for sustainable future.

The Wealth Project of The Bennet Institute for Public Policy at the University of Cambridge has developed a model which identifies six main stocks of capital, alongside financial capital, on which the modern economy depends and should be included in an economy's balance sheet:

- Physical – infrastructure and equipment
- Human – skills, education and health
- Knowledge – accumulated experience and lessons learned
- Social – trust, norms and community cohesiveness
- Institutional – quality and reliability of governance
- Natural – environmental stocks and systems

It is a much wider definition than might conventional be considered as economic wealth. Traditionally most attention tends to be focused on the top half of the list.

Natural capital has been given a much higher profile recently with the Dasgupta Review for the UK government, which had some clear messages regarding our balance sheet. *"Our economies, livelihoods and well-being all depend on our most precious asset: Nature. We are part of Nature, not separate from it. … We have collectively failed to engage with Nature sustainably, to the extent that our demands far exceed its capacity to supply us with the goods and services we all rely on."*

A conclusion echoed by Peter Frankopan in his new global history 'The Earth Transformed': *"It may well be that we are now on the verge of finally becoming victims of our own success as a species and that the stresses and strains that our behaviour has put on ecosystems has pushed us close to or even beyond a tipping point that has catastrophic consequences."*

Different stocks of capital are closely interrelated, for example, natural capital can impact on health and human capacity, while the quality of institutional capital can have an impact on the levels of trust that underpin social capital. The relationship can be both positive or negative and there will be synergies and trade-offs to be made. In a positive context both of these examples can feed through to greater productivity as less time is spent on double checking contracts and less productive time is lost through illness – the opposite is also a risk.

Productivity growth is the key factor in increasing economic output, which is most commonly measured by growth of Gross Domestic Product (GDP). GDP is a measure of the economy developed in large part to assess the affordability of the UK's war effort in the 1940s. It is a flow – which can either be measured in terms of output, income or expenditure – and is dependent on investment in capital stocks.

GDP captures what can be measured and on which a monetary value can be placed. It includes things that make a positive contribution to wellbeing, but it also things that are less benign such as the cost of dealing with accidents or pollution. It doesn't includes goods and services produced in the home – estimated by ONS to be the equivalent of over 60% of GDP as conventionally measured. It is also harder to measure more intangible outputs from today's digital world compared to the more physical production of the past. Keeping up with quality improvements relative to price is also a challenge.

Despite its limitations and criticism of the misuse of GDP, which go back many years – one of the earliest and most pointed of which remains Robert Kennedy's from 1968: *"it measures everything … except that which makes life worthwhile"*– it has survived as the key economic measurement. Most discussion of economic progress usually focusses on the growth of GDP. Indeed many political parties now just talk about 'growth' as their main objective – assuming there is a general understanding of what this refers to. This begs the question is bigger necessary better?

The relationship between GDP growth and reported wellbeing seems to be fairly strong at lower levels of income, but past a certain point it appears to weakens as basic needs are met. In some respects reflecting the concept of diminishing marginal returns – usually exemplified by the consumption of chocolate bars!

In terms that mediators would use, GDP growth would seem to have become a position that has been adopted because it is considered as a good proxy for promoting our interests – and indeed in certain contexts it does. However as the context evolves we might need to dig a bit deeper to understand better what some of those interests actually are and how they now relate to the growth position.

Some of these interests might well be framed in terms of 'more' – employment, equality, biodiversity, investment, income for example. But there may well be others which involve 'less' – poverty, hunger, pollution, waste, inflation etc. An increasing number can probably be framed in terms of 'better' – food and water quality, housing, education, relationships, community cohesion, infrastructure, communications to name but a few.

There are a growing number of attempts to move beyond GDP to look at what a wider wellbeing economy might measure, for example, the UN's Sustainable Development Goals, the Scottish Government's National Performance Framework and Oxfam's Humankind Index. The problem is none of them can be easily boiled down to a convincing number which might replace GDP growth in the headlines.

Societal wellbeing is a complex picture, whatever methodology and set of measures are used to assess progress and there will be many different perspectives that require to be accommodated in an effective democracy. Ongoing investment in stimulating and facilitating a respectful dialogue between these viewpoints will be essential to maintain and strengthen our stock of social capital and avoid the corrosive cycle of mistrust of which Martin Wolf warns.

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