



Unintended Consequences of Reduced Consumption

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The views expressed are those of the author and do not necessarily reflect those of Beca or any other organisation or agency.

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Introduction

- This paper explores potential changes to the way government and citizens may be required to shift expectations of government responsibility if sizeable portions of society shift to methods of daily consumption and behaviour not captured by traditional Gross Domestic Production (GDP) calculations.
- The GDP measure depends on consumption, government spending, investment, imports versus exports – all reliant on transparent and traceable monetary system.

Consumption as Component of GDP

- In the westernised countries, consumption has become the largest component of the Gross Domestic Product.
- New Zealand individual consumption made up 70.%, Australia at 65%,
- USA at 77%,
- Organization for Economic Co-Operation and Development (OECD) average at 73% of the overall GDP in 2008.
- In developing countries, India leads Asia with 57% of GDP being comprised of individual consumption.

$$\mathbf{GDP = C + I + G + (Exports - Imports)}$$

Negatives of Consumption

- Social Needs
- Enough is Enough
- Decreasing marginal returns of utility
- Kuznets Curve: not for GHG, energy, and landfill waste

Shifting consumption

- An underlying premise of many of the sustainability movements (New American Dream, Transition Towns, etc.) is that the current rate and extent of consumption has led to the environmental and societal corrosion of today.
- By changing the type of consumption to consider other elements in the utility function aside simply cost, additional benefits may accrue to the environment and local economy.
- These can include value to local residents, environmental impact, and other ways to internalise some of the former externalities of consumption.

Buy Local



BUY NEW ZEALAND MADE
Hokana Aotearoa Ake

- The appreciation of community, environment, and social capital has led to an increase in local consumption initiatives, from Local Currencies to local economic development programmes.
- By facilitating the flow of money within a community, there is perception of activity, growth, and increased consumption utility.
- The changes have since encouraged the general public to reconsider expenditures in general and to enhance self-sufficiency as well as general local resiliency. A clear emphasis is to **reduce extraneous expenditures** and better understand a life cycle, full cost of the consumption.



Source: Parnell's Weekly Farmers Market.
<http://www.parnell.org.nz/Parnell-Trust-Farmers-Market-Auckland.htm>

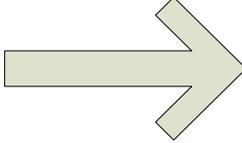
Tender wars



- Exchange will be cash oriented as well as increasingly based on time and barter type exchanges.
- A net effect of changing consumption patterns based on local cash, markets, or time exchanges is that it may reduce consumption in the terms of cash flows, or at least formalised, traceable cash expenditures.
- Although the potential and propensity would be to obtain cash (or time), and spend cash (or time) without fully accounting it, most legal systems indicate that barter and cash exchanges are still subject to taxes, as mentioned in the 'fair use value' for the good exchanged.



- After reduced consumption becomes a standard household practice it may be possible for a family, household or individual to change their level of income or gain increased flexibility in the income they receive.
- Diversifying the income sources could generate cash or barter based trade.
- By reducing the net requirements for cash based outlays to provide for a particular level of consumption, the net income requirements may be able to be reduced accordingly.

Spend Less  Earn Less

There are two simple direct macroeconomic outcomes from changing the consumption pattern as described:

- Less consumption can lead to more savings or investment
- Less consumption and income will reduce government tax revenues

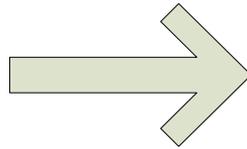
Less Consumption More Saving

Less overall consumption should lead to more savings or investment

■ Assuming revenue is equal before and after the shifts in consumption. This could provide significant benefits in a number of different areas:

- Increased personal savings and investment;
- Increase GDP;
- Increase in FDI; and
- Time shift from consuming to saving.

Less Consumption

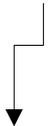


Less Revenue

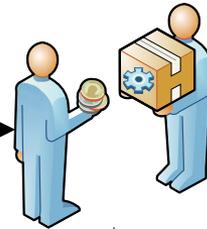
Simplified & Environmentally Sustainable Lifestyle



Spend Less Cash
(tender sales)



Allows One to Earn Less



Less GST Collected

Less Income Tax Collected

Reductions in property Tax collections

Reduced Government Revenue Collections

Reprioritise Government Spending

Innovative Service Delivery

Diminishing middle class

- Income tax is generated by the richest brackets in a society, a vastly skewed distribution.
- In the United States, the top 0.01% of wage earners (141 returns) generate 12% of the income tax collected. Top 1% (1,411 returns) paid 40.4% of total Federal income tax.
- The change in overall consumption, most likely by the middle class will further divide the rich versus the poor.
- The GINI coefficient indicator could become increasingly skewed for many of the economies.
- There are social and political issues associated with inequality that must be viewed in this context.

Changes in Gov't Revenues

- General Sales Taxes: reduced consumption (tender based), increases in alternative currencies, increased use of barter and exchanges not easily tracked.
note: developing countries example
- Property Market: potentially large impact on municipalities (significant source of local revenue). One of two likely trends. Increase in popularity of larger plots of land or increase in demand for less expensive, shared housing in urban community environments.
- Property Taxes: as the market for different housing structures are affected, some countries index tax rates or tax fees to the income of the resident.

Changes in government expectations

As participants in a government system, all residents must appreciate that the goods and services that the government provides come at a cost.

The individual income and sales tax revenues that are sent to the local, regional, and central government contribute in a meaningful and significant way to the funding of government obligations.

Challenges to Community Innovation

- A challenge to communities with reducing incomes or with revenues in local monies (local currencies), is that many of the government expenditures will remain in the national currency.
- Local governments rely on many goods and services bought from outside the community. Thus, even as a community may internalise more production and consumption, if the community doesn't bring in net revenues to the government there are few funds to go external of the community with.
- Medical care, medicines, and other specialised services are particular examples that are very rare to have within ones own geographic area and must be obtained from other areas.
- This may include accepting different levels of school funding, lower quality of transport, no fire protection, etc. The selection and type of reductions become a difficult political choice and one which will require communities to come together and take up the challenge.

City Planning and Infrastructure

- Substantial previous investments in plant capital (buildings, machines, etc.) are being depreciated in anticipation of future re-capitalisation.
- water, sewer, transportation, and electricity Infrastructure all are assets that require constant upkeep and maintenance. Services such as emergency management, medicine, and schooling would all remain.
- When a government realises reduced revenue, decisions need to be made on changes in infrastructure. In the United States, recent examples include Detroit, Michigan and Youngstown, Ohio.
- In addition, nearly half of the US states cannot maintain their existing critical infrastructure

Moving Forward

- Governments (local, regional, and national) will have to review their revenues and understand their risk for changes.
- The public community will again become the cornerstone of local governments.
- Other ways of delivering services will have to emerge. There will be opportunities for new government structures, new public-private partnerships, and more opportunity for civic engagement.
- These efforts can not only deliver necessary services, but it can strengthen and build community and social capital.
- Examples:
 - Tulsa, Oklahoma. Community Graffiti removal
 - New Orleans. Charter School programme
 - Community Policing efforts

Conclusion

- Steps can be taken now to discuss the role of government in our communities and how as residents we can support our institutions and maintain their resilience as much as our own.