

Sustainable welfare: Independence between growth and welfare has to go both ways

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journals.sagepub.com/home/gsp**Milena Büchs**

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One of the main challenges of sustainable welfare is to design welfare systems that are “growth resilient” or independent of economic growth. When the sustainable welfare literature discusses the relationship between welfare states and economic growth, it mostly focuses on the growth dependency of welfare states. This is undoubtedly an important component. However, I argue in this contribution that the relationship between welfare states and growth is bidirectional. Hence, it is equally important to understand the various roles that welfare states can play *for* economic growth, as some of the earlier welfare state literature has argued. Welfare states and growth can influence each other in both negative and positive ways depending on the context and on the time horizon that one focuses on. Designing sustainable welfare systems will only be possible if we acknowledge the mutual and complex dependencies between welfare states and economic growth and if we seek to reduce the mutual dependencies between them.

Why is a decoupling of welfare and growth so important for sustainable welfare? Sustainable welfare can be defined as welfare systems that support the satisfaction of human needs within planetary boundaries (Büchs and Koch, 2017). Sustainable welfare systems prioritise needs satisfaction and adherence to planetary boundaries over economic growth. They also provide a fair distribution of resources and opportunities, and are democratically governed.

A deprioritisation of economic growth in the Global North is necessary because available evidence suggests it is unlikely that global climate targets can be achieved in a context of economic growth. Very few countries have managed to decouple economic growth from greenhouse gas emissions in absolute terms, and even where it has been achieved, the rates of emission decline are far too slow to match climate targets (Haberl et al., 2020). Globally, the carbon intensity per dollar of gross domestic product (GDP) has decreased by an average of 1.1% per year between 1960 and 2016, while economic

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Table 1. Welfare spending – growth relationships.

	Growth affects welfare spending	Welfare spending affects growth
Negative	Short term: welfare spending is counter-cyclical; it rises during economic crises	Welfare spending dampens incentives for employment and investment and reduces market flexibility/adaptation
Positive	Long term: welfare spending rises with economic growth	Welfare spending supports economic growth through human capital formation, social peace/stability and higher consumer demand

growth, population and emissions increased by 1.9%, 1.6% and 2.4% each year, respectively. To remain within the carbon budget of 420 GTCO₂ that the Intergovernmental Panel on Climate Change recommended for a 66% chance of limiting global warming to 1.5 degrees (IPCC, 2018), the carbon intensity of global GDP would need to decrease by an unprecedented 8.7% *per year* between 2018 and 2050 if economic growth remains the same and the population stabilises at 9.7 billion by 2050 at a lower growth rate of 0.8%.¹ Growth resilience is also desirable because the future of growth in the Global North is uncertain for a range of reasons, including a deceleration of technological innovation, labour force participation rates and global population growth (Gordon, 2016; Vollset et al., 2020).

The sustainable welfare literature usually highlights that welfare states depend on growth to keep spending and public deficits in check. Especially in the short term, welfare spending is often counter-cyclical – expenditure on cash benefits and other support programmes tends to rise during times of economic crisis, just when tax revenues and social insurance contributions that finance welfare expenditures are contracting (Table 1, Q1). While this can be addressed by increasing public deficits, governments then rely on future economic growth to serve their debts (Bailey, 2015). Furthermore, high employment rates are important for keeping welfare spending in check, but if productivity rises, economic growth is required to keep employment levels stable.

Welfare states also require continuous growth to deal with ageing populations and associated rising costs for pensions, health care and care of the elderly. These systems tend to be paid for by the current generation of employees – without economic growth these welfare sectors will not be able to expand to keep up with rising demand unless governments increase taxation or the proportion of public spending allocated to welfare (Bailey, 2015).

If we reverse the perspective and examine how the welfare state may influence growth, neoliberals often highlight a ‘negative’ relationship here, too (Table 1, Q2). According to this discourse, welfare states reduce growth because taxes and social insurance contributions dampen incentives to invest and work, which in turn reduces output. From this perspective, welfare state regulations and industrial relations interfere with market forces, making markets less flexible and adaptable to change (Arjona et al., 2002).

However, things are more complex as these accounts of ‘negative’ relationships between growth and welfare have ‘positive’ counterparts. If we first consider the relationship between growth and welfare state spending in the long run (Table 1, Q3), it is

evident that both have risen in conjunction across Organisation for Economic Co-operation and Development (OECD) countries: based on OECD social spending data, GDP per capita increased from US\$17.4K in 1970 to US\$43.0K in 2019 (constant prices, constant purchasing power parities [PPPs]), and social expenditure increased from 10.4% to 20.0% of GDP in the same period.

One possible explanation is that economic growth itself has created a range of new social risks and hence new demands for welfare spending, while it has also generated the required resources for additional spending (Gough, 1979; Myles and Quadagno, 2002). The new social risks created by growth are multiple: economic growth and globalisation have accelerated structural economic change with shrinking agricultural and industrial sectors in the Global North and outsourcing of production to low-wage countries, accelerating job losses and associated social problems. The promotion of greater geographical mobility of workers and increasing labour market participation has reduced the capacity of families and communities to provide care and support, generating new needs for welfare spending. Economic growth has also gone hand in hand with rising longevity, and poverty and inequality have risen in OECD countries over the last 40 years, all of which has increased demand for social security, health care and care for the elderly.

Finally, if we consider again the ways in which welfare states might influence growth (Table 1, Q4), several scholars have, as early as in the 1970s, stressed the paradox that while welfare states regulate growth-based capitalism and potentially limit growth rates, welfare states also stabilise and support growth-based capitalism (Gough, 1979; O'Connor, 1973; Offe, 1984). Some of the main mechanisms through which welfare states support growth are the formation of high-quality human capital, which increases output and productivity through education and health systems; the expansion and stabilisation of consumer demand, especially among groups that are excluded from labour market participation due to unemployment, old age or illness; the provision of social peace based on industrial relations; and more generally, the legitimisation of growth-based capitalist systems by keeping the rise of inequality, poverty and social exclusion in check.

Furthermore, several counter-arguments have been formulated in response to the pessimistic neoliberal expectations regarding the impacts of welfare spending on growth (Table 1, Q2) (Arjona et al., 2002; Korpi, 1985). Welfare state spending can indeed reduce profits and hence growth. But whether or not welfare state spending does indeed reduce profits and growth depends on whether employers are able to indirectly pass tax and social insurance burdens on to employees and consumers through higher prices and/or lower wages and salaries. If correctly designed, cash benefits can also encourage the uptake of new jobs or training, rather than dampen incentives for economic activity, as they provide a security blanket for risk-taking. Finally, strong industrial relations could provide capacity for greater market adaptability and structural change as they facilitate peaceful negotiation and compromise.

These considerations have several implications for sustainable welfare in a postgrowth context. 'Independence from economic growth' of sustainable welfare systems not only requires switching of funding sources to those that are less affected by economic fluctuations, such as taxes on property, land, financial wealth, or inheritance, but also a radical reorientation of the role and goals of social policy within socio-economic systems.

Sustainable steady-state economies that prioritise social and environmental goals could prevent rising demands for ‘welfare’ that are currently generated by growth-based capitalist economies through a more even distribution of work, resources and opportunities; greater economic security; and improved community and family capacity for social support, care and social participation. Instead of aiming to promote growth, sustainable welfare policies would focus on guaranteeing needs satisfaction for everyone at minimal environmental impacts. The maximisation of work incentives would be replaced by a more even distribution of work and income; education could aim at facilitating critical participation in society (instead of maximising human capital and productivity); and health policy would seek to prevent rather than treat disease and to maximise the chances for everyone to lead a healthy and fulfilled life (instead of productivity and profits for healthcare industries). Decoupling welfare from growth equates to a fundamental reorientation of welfare policies and the economic systems they are embedded in.

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Note

1. Calculations by the author based on IPAT analysis (Impact = Population*Affluence*Technology, e.g. York et al., 2003) and data from the World Bank for World gross domestic product (GDP) in constant 2010 US dollars, World population and CO₂ emissions from 1960 to 2016.

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Milena Büchs is Associate Professor in Sustainability, Economics and Low Carbon Transitions at the University of Leeds, UK. Milena's current research focuses on sustainable welfare, especially the question of how can we design welfare systems and climate policies that simultaneously fulfil social and environmental goals. Recent publications include the following: Fanning AL, O'Neill DW and Büchs M (2020) Provisioning systems for a good life within planetary boundaries. *Global Environmental Change* 64: 102–135; Büchs M and Koch M (2019) Challenges for the degrowth transition: The debate about wellbeing. *Futures* 105: 155–165.