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Degrowth and the need to reform social security systems - What scope for Synergies

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Degrowth and social security systems are standing in an ambivalent relationship to each other: On the one hand, current policies of social security are built on the assumption of ongoing and persistent economic growth. On the other hand, empirical data from recent years show that these assumptions are often over-optimistic and far from reality: Decreasing growth rates and demographic change made drastic reforms inevitable that are often associated with steep social cuts. Public discussions on e.g. the lifting of the retirement age or the proceeding economization of health services prove that the current system is far from being socially and economically sustainable. With this paper we want to open the discussion on potential synergies and contradictions between the current debate on the need to reform the social security systems and degrowth. Our objective is the identification of key points for political intervention to free societies from institutional and structural necessities to grow, and to open the way to step-by-step move towards a more sustainable social security system that can even persist in the absence of economic growth.

Shortening working hours, as claimed by many degrowth economists, must sound provocative and naive in the ears of public economists who deal with the financial economics of social security systems. No matter if we consider pay-as-you-go or capital based pension systems, the public and private health insurance sector, or the unemployment insurance: the funding of each of these sectors is built on the expectation of a steadily growing economy, regardless whether we consider private or public insurances.

Private and capital based insurances seek for profit generating investment opportunities on financial markets. This principle might work well as long as there are economically sensible and sustainable fields for investments: Fields of economic growth. But the reality draws another picture: The recent housing and commodity price bubbles might be interpreted as indicators for an over-shoot of capital (at least among the rich) that doesn't find any longer sustainable fields of investment, or these fields are too difficult to identify for investors. Structural and institutional restrictions rather provide incentives to a short-run profit generation than to invest in a socially, ecologically and long-term economically oriented way. One might argue that pension funds usually are subject to stricter legal requirements regarding the longterm stability (and therefore kind of sustainability) of investments, but in times of low interest rates one might doubt if this can really be a pillar where to build on a social security system.

Advocates of green growth argue now that the problem of capital markets doesn't rely on the lack of sustainable investment opportunities but on the lack of their identification and incentives to realize them. According to them, persistent growth is possible, and our common struggle is to make these fields of investments favorable for private and public investors: Claiming for environmental and social standards for investments in the capital based insurance sector could therefore allow the move of financial resources in a very large scale in the sustainability sector and might facilitate the transformation of the economic system to a more sustainable one.

But no matter whether the investments are "green" or not, capital based insurances still depend on economic growth. The logic is simple: No growth, no returns on investment. For degrowth economist the challenge starts with reforming the system towards (1) more sustainable investments and (2) the liberation from the need to grow. The first issue focuses on regulation of financial markets, and in particular the insurance sector to incite investors to invest in long-term oriented, socially and ecologically sustainable projects.

Secondly, the social security system must be reformed in a way that it doesn't depend any longer on persistent economic growth. Still open remains the question whether pay-as-you-go pensions schemes will be less dependent on the persistence of economic growth. The pensions are mostly financed by the working population. The demographic change has steered the discussion towards increasing the retirement age: The decreasing ratio between working and retired persons must be compensated by increasing the retirement age, as argued by the majority of economists and politicians. This is strongly challenged but rarely seen as being avoidable. However, the reality shows another picture: Some of those who were physically working hard reach their physical boundaries when the retirement age is raised. Others don't find sufficiently well paid employment any longer after they have exceeded a certain age. Others who perceive their work as an inner calling don't want to exit their work life. The heterogeneity of individual work biographies can hardly be captured by a discussion limited to the retirement age as a number alone. This is already today getting realized by society and policy makers.

In the degrowth debate heterogeneity in work life plays a central part, but these conceptualizations go even further and demand the separation of commercial and non-commercial work. Expressed in economic terms, non-commercial work is non-compensated work that isn't traded on the market. It could entail recreational and social work like gardening, care for others or do-it-your-self-productive work. Some authors argue for a more flexible allocation of this work time over life that even older people can find employment that fits to their physical abilities. A degrowth-oriented policy has to seek for the possibilities to institutionalize these non-commercial kind of work like by the establishment of time banking systems where people spend their time in working for others, and gain the eligibility to demand this time from others to be helped in the daily life. Commons have to be mentioned as catch phrase: Can this community based form of goods and service provision be employed to the social security sector? The key questions are: Where do these systems work well, and why? What are the potential gains, and how can these systems be applied in a larger scale? Where are the limitations, and is it legitimate to release the government from it duty of care for its citizen?

Additionally, the introduction of an unconditioned basic income might partly replace some so the services that are currently covered by the social security system. However, it doesn't provide an answer on the question, how to finance the system.

Finally, we have also to ask the distributional question: Degrowth economists demand an overall reduction of commercial work time while "traditional" economists claim for its extension. But how legitimate is this claim? Do we need more working people to cover our basic needs? Degrowth economists emphasize the role of non-commercial production like fruits from the garden, repairing instead of buying new, do-it-yourself instead of purchasing. Can these non-commercial goods and services partially replace the necessity for more income generated by an increase in the working population? And can we call such replacement politically legitimate, or do we need other social redistribution mechanisms? The current debate on increasing the retirement age could be used to introduce step-by-step other forms of non-commercial labor and to make work-time over life more flexible. However, is this only a debate on the way how we allocate work time or does this discussion also imply radical distributional changes? The last question refers to the technological change and the question on how to distribute the "machine rents".

Next to the pension system, the health insurance sector plays a crucial part in reforming the social security systems. It is one of the last economic sectors that shows persistently high growth rates. Increasing life expectancy, a higher sensibility with regard to personal health and more expensive technologies let the health sector grow. At the same time, the funding becomes more and more critical and the economization of medical services is getting stretched to its limits. The the principle of efficiency and competitiveness undermines the common understanding equal treatment with regard to the provision of health services, and these markets even today underly institutional regulations. But the current system is neither efficient nor sustainable with regard to an efficient use of the available resources, nor with regard to the provision of (economic) incentives to health-promoting behavior of patients and health-bewaring treatments by the medics. Moreover, payments for medics often are dependent on expensive treatments of the sick, rather than on cost-saving measures like simple advices. Therefore, large efficiency gains seem to be possible in the health sector.

Opponents of degrowth argue that the health sector serves as a good example where we are able to create persistent and environmentally neutral economic growth, and where we still observe an increasing demand and a high potential of efficiency gains. In the same time we observe an increasing demand for labor in the care sector which could contribute to the stabilization of the labor markets. This underlines the importance of the distributional question: Wages in the care sector are low, and often less qualified labor is systematically underprivileged in comparison to work done by machines. Traditional economist refer to the factor productivity of capital which is due to the technological progress far higher than the productivity of labor. This traditional economic perspective on factor productivity and efficiency is limited by moral and practical boundaries: Is it truly desirable and possible to measure every benefit created by medical care service in monetary terms, or is there a need of new ways of how to measure a humanitarian service? Next to this question, equal treatment and affordability for everyone is an important issue. Efficiency in the medical system can be questioned in general: Even if we were able to measure it in a better way, do we want to maximize the overall health in the society, or is it rather a moral duty to help every single patient regardless the incurring costs?

To sum up: Social security systems seem to be a structural and institutional driver of economic growth even if already today the economization of social services is partly (over-)stretched to its limits. Even if there are certain contradictions and hurdles, some of the current problems in reforming the social security systems could pave the way towards a degrowth society. These synergies might be found in particular in the partial and voluntary retrieval of nursing and caring services in the non-commercial sector and in the step-by-step break open of traditional working life patterns. Additionally, these restructuring may entail important implications for the adoption of an unconditional basic income. But up to now, one major question remains open: How does the funding of Social Security System interrelate with public debt? Is there a necessity of radical changes, if yes, how can the maintenance of basic needs be guaranteed in the transition period.

Some suggested literature and links:

Bosbach, G., Butterwegge, C., Birkwald, M.: *Armut im Alter. Probleme und Perspektiven der sozialen Sicherung*

Ganßmann, H.: *Privatized Pensions and Economic Crisis. The German Case,* 2012

Paech, N.: *Befreiung vom Überfluss. Auf dem Weg in die Postwachstumsgesellschaft,* 2012

Seidl, I., Zahrnt, A.: *Postwachstumsgesellschaft – Konzepte für die Zukunft,* 2010

Time banks:

http://www.bbc.co.uk/news/uk-11657006

http://timebank.org.nz/node/97

Pension systems:

http://www.tele-akademie.de/begleit/video_ta120401.php