

The growth-independent welfare state

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Introduction

Though welfare is more than the economy, the welfare state appears to tie its faith to economic growth. The biophysical processes and things that make up the ‘economy’ cannot expand forever within planetary boundaries, and economic growth competes directly with environmental targets such as emission reduction pledges. The end of economic growth may mean the end of welfare states as we know them.

The currently dominant ‘green growth’¹ policy doctrine explains this problem away by assuming enormous improvements in the material and energy efficiency of the economy. At first glance this may seem plausible, since we are used to thinking of the economy abstractly. The most typical way to define the ‘size’ of the economy is as a sum of all exchange (gross domestic product, GDP). However, all exchange is in practice associated with energy use, materials use and waste or pollution. This is intuitive if you think of any concrete case of consumption or production. It is also an empirical association across many types of environmental harms ([Haberl et al, 2020](#); [Wiedenhofer et al, 2020](#)). Green growth faces a burden of proof regarding sufficient efficiency improvements that are immense in scale, so far unmet and probably impossible to meet in target time ([Vadén et al, 2020](#); [Vogel and Hickel, 2023](#)). Growth-independent visions of the future are needed.

Other chapters of this book argue that welfare policy should be reoriented towards new normative goals, and that this may lead to a new class of welfare state. In this chapter, we introduce additional requirements for welfare states that stem from the growth dependence of capitalist and welfare state institutions. Growth-dependent institutions are in the ‘eco-social nexus’ because under biophysical limits they generate unemployment, constrained welfare state financing and lower and more costly pensions. Some of the reforms discussed here are similar to those discussed in other chapters, but growth dependence also steers our thinking in some unique directions. As

long as growth dependence is not even recognised as a problem, it raises an enormous political barrier to implementing eco-social programmes that might reduce production, consumption and investment.

As things stand, many of our societal institutions appear to need economic growth to function normally. Growth ‘stabilises’ the economy, creates and protects employment, reduces distributional conflicts and allows welfare systems to function (Ferguson, 2018). Growth dependence as a concept acknowledges this problem but considers it an outcome of specific institutions that can be reformed. Petschow et al (2018) give us a working definition of growth dependencies as ‘areas of society, structures, institutions, etc. (1) that fulfil a socially desirable function, or that contribute to a widely socially accepted objective and (2) whose functional capacity or contribution under the present framework conditions depends on the economy growing continually’ (p 91). Dedicated research into welfare state growth dependencies has been uncommon, and analysis has mostly been limited to identifying possible problem areas (for an overview, see Walker et al, 2021).

In this chapter, we first recount how economic growth has always been central to how the welfare state and its policy options are justified. We then discuss three economic issues that facilitate welfare state functions and that are arguably growth-dependent: employment, welfare state finances and pension fund performance. Being specific about problem areas helps us articulate possible reforms. Since these new welfare state institutions cannot be justified with productivity and growth, new underlying principles of welfare are needed. Growth-independent welfare is possible to achieve, but it requires adopting new policy doctrines or paradigms.

Changing narratives of growth and welfare states

Chapter 3 of this book provided a history of the welfare state in terms of how it interacts with ecological crises. Here, we recount this history more briefly, highlighting the connections between welfare states and economic growth in particular.

Democratic legitimisation has always been an important function of the welfare state. Governments had to act in the interests of a common good that transcends economic interests to achieve support from its electorate (Offe, 1984; Hausknost, 2020). Nonetheless, the welfare state was only possible insofar as it was made compatible with the imperative of capital accumulation. Overall, it facilitated the reproduction of the labour force (Gough, 1979; O’Connor, 2002) while satisfying the demands of the labour movement ‘to cushion the working class against the dislocations of capitalism’ (Dryzek et al, 2002, p 662). The welfare state continues to function as a conflict resolution mechanism between different interest groups.

To serve this conflict resolution function, the welfare state has always been justified and assessed in relation to economic growth and employment. Varieties of welfare regimes place different importance on employment in access to welfare systems (Esping-Andersen, 1990). In the case of conservative welfare states, with large shares of social insurance, the welfare state was constructed around the risk of inability of gainful employment. The first social insurance systems covered the risks of not being able to gain income due to a lack of available jobs (unemployment insurance), age (pension insurance), sickness (health insurance) and long-term disability (accident insurance) (Clegg, 2018). Next to employment-related systems, social assistance from state, churches or communities always co-existed (Kuhlmann, 2018). These benefits, which covered social risk unrelated to employment (for example, financial child support), were provided on a voluntary basis, not as entitlements. Many researchers still associate growth dependence with reliance on employment, highlighting the enduring link between the establishment of welfare systems and employment within capitalist industries (Richters and Siemoneit, 2019).

The narrative where economic growth and welfare state expansion are thought to reinforce one another may be labelled the Keynesian expansion and is associated with the ‘golden age’ of Western welfare states. Starting around the 1970s, a contrasting narrative – neoliberal retrenchment – emerged, claiming that dismantling the welfare state would promote economic growth. The absence of economic growth became associated with shaky welfare states.

The narrative around economic growth and the welfare state shifted again around the 1990s as social expenditures started being seen as investments in ‘human capital’. We can call this the *social investment paradigm* (Morel and Palme, 2018). Welfare expenditure started protecting against ‘new’ social risks concerning, for instance, childcare and education (Armingeon and Bonoli, 2006). The coverage of ‘new’ social risks was, and continues to be, mainly tax funded. As more of welfare was tax funded, the growth–welfare relationships expanded from social insurance systems to the general financial situation of the state. Welfare competes directly with all other public expenditure, like military spending or industry subsidies.

With ecological crises worsening and economic growth becoming increasingly viewed as incompatible with planetary boundaries, the relationship between economic growth and welfare states might change again. For one, welfare systems need to be able to survive long-term economic stagnation and even quite steep contractions (Bailey, 2015; Walker et al, 2021). Additionally, growth-fuelled ecological crises lead to new eco-social risks (see Chapter 18 of this volume). Meeting modern social risks without dependence on growth could lead to a new narrative of growth-independent welfare states, as part of a broader sustainable welfare paradigm. Table 4.1 summarises this lineage of welfare state developments.

Table 4.1: Phases of Western welfare state development

	1950s–60s	1970s–80s	1990s–2020s	Since 2020s?
Narrative/phase	Keynesian expansion	Neoliberal retrenchment	Investive recalibration	Growth independence
Relationship between economic growth and welfare provisioning	Economic growth and welfare provisioning reinforce one another	Economic growth is prioritised over welfare provisioning	Welfare expansion aims at economic growth	Welfare provisioning is independent of economic growth

Note: The time periods are illustrative and vary between countries.

Aspects of growth dependence

In the first section of this chapter, we saw that the welfare state has always been justified in economic terms and that growth facilitates its democratic legitimisation. In this section, we discuss specific economic sources of welfare services and benefits that are considered to come under strain without economic growth: employment, welfare state revenues and pension fund performance. Employment enables social contributions and helps keep social service costs to the welfare state down, state finances in general enable state provisioning, and pension funds channel financial market returns to pensioners.

Employment

Welfare states rely on employment in multiple ways. First, losing employment may mean reliance on safety nets and welfare services. This adds to state costs and puts strain on public willingness to maintain tax-funded welfare systems. Second, social insurance systems are to a large extent funded by social contributions from labour incomes. Failure to gain contributory entitlements means falling back on tax-funded schemes. Third, labour incomes are an important source of tax revenue. Fourth, employment leads to taxable economic activity more broadly by enabling consumption and positive economic outlooks.

In both economic science and economic policy discussions, economic growth is widely viewed as necessary to prevent an increase in unemployment or to create additional employment. The statistical relationship between growth and employment goes by the name Okun's Law, as [Okun \(1962\)](#) was the first to empirically indicate their positive correlation. Many contemporary studies also confirm this correlation ([Knotek, 2007](#); [Ball et al, 2013](#)). However, the strength of the relationship varies between countries ([IMF, 2010](#)), so conditions across time and regions seem to make a difference.

A common explanation for rising unemployment in no-growth conditions is rising labour productivity. A constant level of employment under increasing labour productivity requires expanding the quantity produced and sold. Another relevant dynamic is that profit-seeking investment is an ‘engine’ of capitalism: it drives growth and employment, which justifies further investment. If the economy is not expected to grow, investment may retract. At worst, self-reinforcing poor expectations generate a crisis spiral that keeps unemployment high (Tótic, 2012).

However, we can also think of future prospects that support employment. Economic transformation towards a sustainable economy could entail a different orientation of efficiency improvements and challenge Okun’s Law. When there are limits to using natural resources like fossil fuels, biodiversity services, soil and so on, these production inputs become more expensive. Thus, the price of using energy and material resources relative to labour may rise (Petschow et al, 2018). Directing technological change at increasing resource productivity rather than labour productivity could reduce the growth dependence of employment (Lange, 2022). Furthermore, the share of working-age people out of the whole population is declining in many countries (Rouzet et al, 2019). Declining labour supply can counteract other reductions in labour demand without growth.

In summary, employment has been growth-dependent over the past decades in high-income countries, and poor economic expectations is a valid concern without growth. However, labour-intensive sustainability transformations and demographic ageing can also push unemployment down.

Welfare state finances

The functionality and stability of welfare states depends on their ability to finance their provisioning systems (Offe, 1984). Since taxes and social contributions from employment constitute a major share of welfare state revenues (Obinger, 2021), employment, as already discussed, is a key underlying issue in the fiscal growth dependence of the welfare state. However, the totality of state revenues also entails other taxes and debt financing. Therefore, the composition of welfare state revenues from different tax bases is an important determinant of welfare states’ growth dependence (Kaufmann, 2022). Increasing the diversity of funding sources can improve the stability of welfare financing in a non-growing economy.

If so, Bismarckian welfare states which emphasise labour-based social contributions appear ‘more growth-dependent’ than Beveridgean welfare states that primarily finance welfare through tax revenues and can adjust tax policy relatively flexibly (Bonoli, 1997; Morel and Palme, 2018; Kaufmann, 2022). We can also apply this perspective at the level of welfare programmes. Addressing traditional social risks such as unemployment and old age, which

rely heavily on contributory systems, may exhibit greater dependence on economic growth compared to provisioning for ‘new’ social risks.

A focus on tax bases also offers insights regarding the risk of welfare state retrenchment in the absence of economic growth. From the perspective of retrenchment, Bismarckian welfare states and programmes covering ‘old’ social risks are actually more resilient to non-growing economic conditions, because provisioning is institutionalised fairly independently of governments and their discretionary fiscal policies (Kaufmann, 2022).

Regarding public debt, a common concern is that without growth the cost of government debt rises because investors become unsure that the state will keep its promise to pay back. Thus, this important source of financing is arguably growth-dependent. The common counterargument in post-growth discourse is that states that take on debt in their own currency cannot go bankrupt (Olk et al, 2023), so the cost of state borrowing should not skyrocket due to any default risk. In fact, if there are fewer high-yielding opportunities in low-growth conditions, demand for safe government debt could rise, lowering the cost of borrowing. A limitation of this point is that a large group of states in the Eurozone do not nationally issue their own currency (Ehnts and Höfgen, 2019). On the other hand, the European Central Bank has committed to protecting states from debt crises under certain conditions.² Whatever the real limits of deficit financing are, if states are believed to face a bankruptcy risk, this is enough to constrain welfare spending.

We can summarise that the absence of economic growth can lead to declining tax revenues and lower the ability or willingness to take debt. The strength of the link is mediated by the makeup of the tax base and the institutions and conventions governing public debt.

Pension fund performance

Welfare states have tied themselves to financial markets through their funded pension systems that take contributions from working members and invest them for interest. The idea is that under ‘regular’ growth-economy interest rates, each contribution becomes worth more over time, enabling a lower cost of pensions. Funded pensions are key instruments of welfare states because membership is often mandatory by law or collective agreement. Pension funds also help raise pensioners out of poverty (Kuitto et al, 2023) and, therefore, can reduce their reliance on tax-funded welfare systems. From a growth dependence perspective, there is a common intuition that low growth could lead to low interest rates and pension fund underperformance (for example, Hickel et al, 2022).

The connection between the end of economic growth and interest rates is not direct, but mediated by a wide range of societal factors that also vary

by asset type. Fund returns are also not the only variable that steers funded pension outcomes, as low inflation or improved career earnings can to an extent counteract low interest. Furthermore, because pension funds are allocated internationally, we cannot automatically reason that low growth in one region puts funds in that region under strain. Many types of pension fund scenarios without growth are possible, deserving further analysis (Wiman, 2023). However, since investment risk is a valid concern, we can understand growth dependence by looking at how the three main types of funded plan share risk differently.

Individual defined contribution plans are essentially personal savings accounts with no benefit promise. Savers carry risk individually, and retiring soon after an asset crash leads to losing much of one's savings. *Collective defined contribution* plans share risk across the membership by pooling assets, which is a good shield against momentary crises (Otsuka, 2023) but may not help as much if interest remains low for a long time. If these two fund types underperform, their benefits and replacement rates decline. Raising one's contribution could counteract the effect if long-term rates are positive.

The third type, *defined benefit funds*, are collective funds that promise some amount of pension for each contribution. They usually have a liable sponsor, like the employer, who carries the investment risk. If the fund balance reduces to a deficit after interest rate assumptions are revised downwards, the sponsor must raise their contribution to bring the fund back into balance.³ Already promised benefits cannot be cut, so in this sense, according to plan rules, benefits and replacement rates are safe. However, the accrual rate of new benefit rights could be revised downwards to shield the sponsor.

Overall, pension funding creates possible growth dependence of pensioners' benefit sizes, replacement rates and costs. Absolute potential losses are greater for higher earners since a larger portion of their pension is expected to come from earnings-related funded plans. However, the lower-income end of plan members is more easily pushed into poverty if funds underperform, and in that sense have more at stake.

Reforms towards growth independence

The end of economic growth could result in higher unemployment, lower state revenues and lower pension fund returns. These effects would jeopardise the functionality of welfare states and thus undermine states' democratic legitimacy. In this section, we discuss strategies of controlling these effects through economic and social policies and other societal changes. We also underline how the reform options depart from historical welfare state narratives.

Employment

Securing employment without growth

Policies should promote employment in low-growth, low-investment conditions. One approach is job guarantees and public works programmes that provide jobs for anyone willing to engage in employment (Unti, 2015). Thus, the state would act as a major ‘employer of last resort’ to maintain macroeconomic stability. Such active state involvement goes against mainstream policy doctrines in which employment is expected to be primarily generated by labour markets and private investment. Yet this principle may need to be loosened in a non-growing economy where profit-seeking private investment and employment may retract.

The state could also encourage reforming the administration and distribution of work. Working time reduction and work-sharing practices are a common suggestion to prevent rising unemployment if labour productivity were to increase without economic growth (Jackson and Victor, 2011; Zwickl et al, 2016). Social enterprises that aim at social goals instead of only profits might retain staff better during economic crises. Worker cooperatives, since workers own and manage the company, can have a similar effect. One legislative path to reforming the ‘purpose’ of business would be to reform corporate law, which currently requires that corporations prioritise profits (Hinton, 2020). All these options challenge the idea, historically paired with welfare states, that firms and individual workers should aim at maximal production and incomes.

Tax reforms can also help maintain employment in a non-growing economy. A common proposal is to shift the emphasis of taxation away from labour towards resource- and energy-intensive capital. If labour becomes a less costly factor of production compared to capital, labour-saving technologies are discouraged, which mitigates the growth dependence of employment. This supports lowering labour taxes and social contributions and increasing environmental taxes (Lange, 2018; Petschow et al, 2018). Such reforms arguably discourage investment against mainstream policy doctrine. However, the tax system of a growth-independent welfare state should not seek to maximise investment, because investment and economic growth are tightly connected⁴ and private investment can be a driver of excessive accumulation and inequality.

Securing basic needs without employment

Though securing employment is a central policy goal, full employment might not always be reached. The growth-independent welfare state should aim to decouple basic needs satisfaction from employment. To these ends, welfare state provisioning can shift emphasis from earnings-related entitlements

towards universal social policy programmes (Bohnenberger and Fritz, 2020). In particular, social policy proposals such as a Universal Basic Income, Universal Basic Services, and Universal Basic Vouchers (Bohnenberger, 2020) can promote needs-based welfare provisioning.

Universal welfare provisioning is not in principle radical or novel. All welfare states of wealthy economies have at least some universal safety nets in place, and particularly social-democratic welfare states have traditionally had many universalist functions. In any case, welfare states have historically been justified as facilitating production, employment and capital accumulation. The growth-independent welfare state would depart from this by viewing well-being as an end in itself (Pinto, 2020).

Welfare state finances

If the state manages to maintain high levels of employment, for instance following the reforms described earlier, this already contributes to a more stable tax base. Furthermore, higher taxes on capital incomes, wealth, inheritances and land coupled with financial transaction taxes and a progressive taxation of corporate revenues (Bailey, 2015; Büchs, 2021; Kubon-Gilke, 2021) can decrease the welfare states' fiscal growth dependence. These options diversify the state's revenues and provide a more stable revenue stream during economic downturns compared to employment (Kaufmann, 2022). Land, for instance, constitutes a particularly suitable funding source since it is essentially fixed in supply (Gaffney, 1994; Ryan-Collins et al, 2017), meaning that as a tax base it is strictly growth-independent (Kaufmann, 2022). These options can depart from the mainstream by challenging the primacy of investment and private accumulation.

If tax and social contribution revenues nonetheless fall short of welfare state needs, taking public debt remains a valid option. Private financial institutions might desire low-risk and low-yield bonds in a stagnating economy, which helps keep the cost of borrowing low.⁵ If these institutions are pension funds, they would be funding the welfare state while also protecting pension savers from financial risk. Still, we might expect public debt to play a lesser role without economic growth, since debt is currently justified with future growth and high government debt could generate a political growth imperative (Stratford, 2020).

An alternative to taxes and debt is monetary financing (Olk et al, 2023), which effectively means that the central bank provides the money that the state needs. The economic limit to this is demand, as monetary financing with insufficient corresponding demand would lead to inflation. There can also be ideological or rules-based barriers. In any case, using debt or monetary financing without economic growth requires a narrative shift where central banks are viewed as guarantors of public finances.

Finally, policies can focus on prevention, meaning that they tackle the circumstances that give rise to social risks and welfare costs in the first place rather than treating their ramifications ex-post (Gough, 2015; Berghman et al, 2018; Bohnenberger and Fritz, 2020). This can include prevention of sickness, more equal distribution and better access to public goods, or investment in the employability of citizens, which would simultaneously help delink employment from economic growth.

Securing pensions without growth

If pension funds are vulnerable without economic growth, their direct alternatives are unfunded pensions, or pay-as-you-go pensions. These include both tax-funded minimum pensions and contributory, earnings-related pensions. Unfunded pension systems can work as long as employment remains high and government revenues are secured, for instance following the policies already discussed.

The spirit of funded pensions is that people save for their own retirement, though the financial logistics vary by plan type. In contrast, since unfunded plans directly redistribute between generations, they are easily perceived as ‘paying for someone else’, even if each member eventually becomes a beneficiary (Booth et al, 2005, p 632). The amount of pension one can receive through unfunded plans is also more directly constrained by the productivity of other members or the working-age population broadly. If there were to be a shift in emphasis away from funded plans towards unfunded plans, citizens and policy makers would need to adopt a less individualistic attitude to pensions.

A cross-cutting issue: reducing inequality without growth

To wrap up, we can note that lower inequality means less need for welfare spending to begin with (see, for example, Wilkinson and Pickett, 2010) and therefore lower conflict around many of the redistributive reforms already discussed. Post-growth researchers often discuss raising minimum incomes and setting income and wealth caps (Buch-Hansen and Koch, 2019). While these could be achieved with redistribution, reforms should also create institutions that already result in relatively equal economic outcomes before corrective policies (O’Neill, 2020). High unionisation may promote this aim, along with the prior-mentioned cooperative and work-sharing practices. Different kinds of shared property models that distribute profits among employees are already common in the technology sector (Cao et al, 2022). Regulation of compound interest or debt forgiveness (Hartley and Kallis, 2021), and regulation of rent extraction and monopolies (Stratford, 2020) can be additional safeguards against runaway economic inequality in a non-growing economy.

Conclusion

Current evidence on the decoupling of economic growth from environmental harms calls green growth visions into question. When the biophysical throughput of the economy is reduced to sustainable levels, the ‘size of the economy’ is likely to stop growing. In high-income economies, low growth is already putting pressure on welfare states.

Growth dependence as a concept accepts that we ‘need’ economic growth under existing institutions, but also that these institutions can be reformed. We discussed three distinct yet interlinked adverse phenomena: rising unemployment, pressures on welfare state finances and pension fund underperformance. These economic effects undermine the provisioning functions of the welfare state and thus erode its capacity to provide democratic legitimacy.

Many of the potential reforms towards growth independence clash against current and historical growth- and productivity-oriented welfare state narratives. Reforms may therefore need to be presented as comprehensive policy packages along with new narrative justifications. Some principles for a growth-independent welfare state include: valuing well-being outcomes for their own sake; moderating individual enrichment and steering investment towards social purposes within limits; and allowing the state to take a larger economic role if this is required to prevent social harms. The multiple, novel and synergistic institutions that are required for growth independence may amount to a new welfare policy ‘paradigm’.

The degree to which growth dependencies manifest is conditional to institutional qualities and economic scenarios. What is judged as an adverse effect to be avoided is also a value judgement. Further research on this novel topic is needed to better understand growth dependence and to evaluate reform options critically. Achieving growth independence is necessary for the eco-social welfare state to maintain and enhance its democratic legitimization function and thus enable well-being for all within biophysical limits.

Notes

- ¹ Perhaps the most prominent example of green growth thinking is the European Commission’s growth strategy ‘The European Green Deal’ ([European Commission, 2019](#)).
- ² The state is otherwise fiscally careful, and the risk of debt crisis is ‘not warranted by country-specific fundamentals’ ([Arnold, 2022](#)).
- ³ Notice that changing assumptions about the future, or even the way future projections are accounted, can be enough to raise the contribution rate of a defined benefit plan.
- ⁴ In theory, for the size of the economy to be stable, there should only be as much investment as there is ‘wear-down’ of prior assets, or capital depreciation ([Lange, 2018](#), pp 510–515).
- ⁵ Such a dynamic has kept Japanese public debt cheap despite low economic growth ([Yoshino and Taghizadeh-Hesary, 2014](#)).

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