Growth finances the welfare state

Economic growth is important in order to increase **state income**, providing financing for **social security systems** and public spending. Additionally, it enables rising **public debt to be repaid**.

A shrinking economy has a devastating effect on public finances: unemployment rises, fewer people contribute to social security systems (pension funds, health insurance funds, unemployment insurance). On top of this, more people claim unemployment benefits. Meanwhile, revenues from income tax fall as fewer people are employed, as do those from VAT as people buy less things. If the government begins to save, this can lead to cuts in **public services** (e.g. education), affecting quality of life. At the same time, the state needs to borrow more money, often at interest rates so high that a significant portion of state spending is consumed by interest repayments alone.

A further difficulty is **demographic change**: as populations age, the ratio of pensioners to active workers rises. As a result, fewer people pay into the system while ever greater numbers must be cared for. To compensate for this imbalance, the economy must grow.

Modern economies are therefore forced into economic growth so as to be able to finance education, health, pensions, unemployment benefits and the welfare state as a whole.

Sources:

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Growth does not deliver on its promise

Although the economy has enjoyed constant growth in spite of the financial crisis, Germany has seen drastic **cuts in social security systems**, education and health. A prime example is "Hartz IV", the German scheme for unemployment and welfare benefits. Meanwhile, **public debt**, rather than falling, has also continued to rise. The equation "growth = higher public revenue = more spending on education, health, welfare and debt reduction" is not quite so straightforward after all. Advocates of growth will at this point simply object that there was not enough growth. However, the times of high growth rates, as in the 50s and 60s, are indisputably over. The **German market is heavily saturated**, and from 1993 to 2013 the economy grew by an average of just 1.2% per year.

Nonetheless, politicians across the political spectrum cling to the idea of growth. This is because when the economy is booming, governments have more room for negotiation, and are able to at least partially follow through on promises made during election campaigns.

Of course they neglect to mention that GDP growth must be paid for using a significant portion of the resulting income. Such costs include the **damage caused by growth**, such as pollution or adverse health effects, and additional **costs of promoting growth** such as scrapping premiums or subsidies. These costs are estimated at well over 20% of the growth achieved.

The assumption that growth is indispensable for the stabilisation of state finances and for the financing of social expenditure is therefore highly dubious. It would appear that a much more sensible approach – not least in light of the de facto decline of growth rates – would be to look for alternatives to ever-growing public debt, and meaningful ways of spending public resources.