

# Chapter 1 Healthy, wealthy and wise?

*The future of health and social policies after economic growth*

Christine Ax and Friedrich Hinterberger

*aha Berlin ([www.aha-berlin.com](http://www.aha-berlin.com)) and SERI Wien ([www.seri.at/FH](http://www.seri.at/FH)), respectively*

## 1 Abstract

### ..1.1 The Problem

In times of weak economic growth, there are few things which worry citizens and governments more (maybe besides decreasing job opportunities) than the security of the pension and health system. The risks that are currently being discussed regarding these systems are closely linked to future and state of employment as well as growth and distribution of income. If nothing happens, countries like Germany or Austria will be threatened by a "demographic trap". In Germany today, many experts believe that entire cohorts will be in a state of poverty after retirement. If the economy does not continue to grow, stagnates, or even begins shrinking, not only the income of social security funds decreases but also the fiscal possibilities to deal with this development by increasing subsidies from general tax revenue.

The increasing number of older people who want to live a longer and longer period of their pensions as well as the growing portion of the elderly and patients with severe health problems such as dementia simultaneously drives up the costs for the health system and pensions funds to non-fundable amounts. At the same time, the funded pension system with its need to earn the necessary returns on capital, contributes to the problems of today's financial markets.

This paper will show that the crisis of pension and health care systems are two sides of the same medal and need to be solved in an integrated manner.

### ..1.2 Challenges

When GDP does not grow, increasing pensions and funding of health care must decrease other parts of aggregate demand/supply. But at the same time, if GDP would remain constant at a high level and also the number of people remains the same, the average income could remain the same – or redistribution occurs in one or the other directions, from rich to poor, from younger to older people or the other way round.

The following strategies are currently being discussed to solve this problem:

- Immigration - to allow growth (of GDP and tax revenues) through higher labour supply
- Extension of working life - Pensions only starting at age 70 to age 75 – to allow expenditures to shrink
- Lowering the level of pensions and health insurance expenditures.

The attempt to compensate the deliberate and planned cuts in benefit levels through a "second pillar of retirement provision" by saving up for an individual and personal pension is currently failing for many people, and quite possibly also as a system in general due to the effects of the financial crisis.

Therefore, in Germany once again the minimum pensions are being discussed. It is however only slightly above the level of what is considered a minimum income ("Grundsicherung") and thus ultimately leads to poverty as well. For this, in turn, the Government is responsible, which due to the reasons mentioned above cannot be ensured at this level: A level only achieved when constant economic growth automatically brought increasing revenue and "distribution margins" to the state treasury. All this leads once again back to the growth dilemma explained earlier.

On the other hand it is also true that early retirement and long phases of exclusion from social life contributes to health problems, including dementia. For a long time - at least since the work of Ivan Illich - there is a fundamental critique of modern medicine and the consequences which the continuously faster-growing complex of the medical industry has for the society and all of us. There are legitimate doubts about the efficiency and financial viability of this system. The very fact that the focus of today's medical research is always disease and very rarely the question what health and well-being actually means and how it could be strengthened is a clear signal for this development.

Health research shows, however, that by investing in education, a healthier work environment and thus in general living quality we achieve more than through further bloating the current health system. There are merely any sectors where the win-win opportunities coming with a declining sector are closer connected than here.

Educational deficits, loneliness and isolation, poor nutrition, lack of exercise, poor working and living conditions which are the opposite of those children and adolescents should have all have proven to be important causes of disease. Conversely, useful, intrinsically motivated and lifelong activity/work has proven to be a key to lifelong health.

In short: It is exactly this "sick" healthcare and pension system which serves as a perfect example for the type of growth that by continuously becoming more expensive to maintain exacerbates a problem it is supposed to solve.

The question arising in this context is: With which measures and strategies could Western Europe escape this dilemma? How could a strategy look like that gives answers in terms of "better quality of life" or "flourishing"?

### ..1.3 Opportunities and Solutions

In relation to this issue, there are two fields that are relevant and very closely related:

- A better quality of life and an environment in which the populations chance to be healthy and active.
- Rethinking and a change of course in relation to the meaning and distribution of work as well as – like previously mentioned – a "healthy" work environment.
- A paradigm shift regarding the general topic "health".

What we should look for is a life-long system of work-life balance that accepts changing abilities to contribute to society in a much more flexible way than today's pension system that is mainly based on an either-or thinking: either contributing to or profit from the pension system which means nothing less than either contributing to or being subsidized from actual GDP.

## 2 Downsizing or expanding?

In Germany, the labour unions and social democrats are campaigning against raising the retirement age of 67. Working until the age of 75? Such a call is currently facing strong criticism from society. In the USA people would rather sympathize with the idea that everybody can work as long as they want.

Experts assume that children born today will live to be 100 years old. Already the generation of the "baby boomers", i.e. our generation, has an estimated lifespan of more than 80, maybe even 90 years. This forecast is not trivial, and every additional month we - the pensioners of tomorrow - live has far-reaching impacts on the financial feasibility of the pay-as-you-go pension systems.

In order to assess the consequences of demographic change on pension systems it is important to know how many healthy years a retiree can expect after the 65th birthday. Every single healthy year after the age of 65 is a cost factor for the pension fund, while every year of disease is covered by the pension fund and the health fund.

Currently, experts assume that Central Europeans do not only live longer, but also have the possibility to remain healthy for a longer time. This can be blessing or curse for us depending on how we distribute the burdens and the fruits of this development among the generations.

The current distribution is not sustainable. This is especially true for the generation of "baby-boomers", since age groups with a high birth rate form a demographic overhang. After the overhang, there will be an easing of tension, but this does not solve the basic problem (the ratio old/young and economically active/non-working).

Getting out of this impasse is difficult, so it is not surprising that politicians keep calling for economic growth in order to solve the dilemma without really harming their voters. However, this is doomed to failure because these high growth rates, which are needed in order to maintain the status quo, will not exist in the future.

Therefore we have to ask ourselves: How can we distribute the burdens caused by mistakes in the past equally among all generations and the society as a whole? Neither the elder nor the young can solve this dilemma alone. This can only succeed through joint and solidary action.

### 3 The Bermuda triangle

#### ..3.1 Pensions

The social security systems (health funds, pension scheme, long-term care insurance) are built on sand. Their funding is linked to labour, hence they eventually make labour more expensive (excluding civil servants and the self-employed in Germany). Due to the debt limit, stabilizing the social security systems through state aids is no longer possible. Factoring in financial risks caused by the euro crisis, the situation becomes totally unclear. In contrast, a financial crash could also be a chance to make the whole system sustainable.

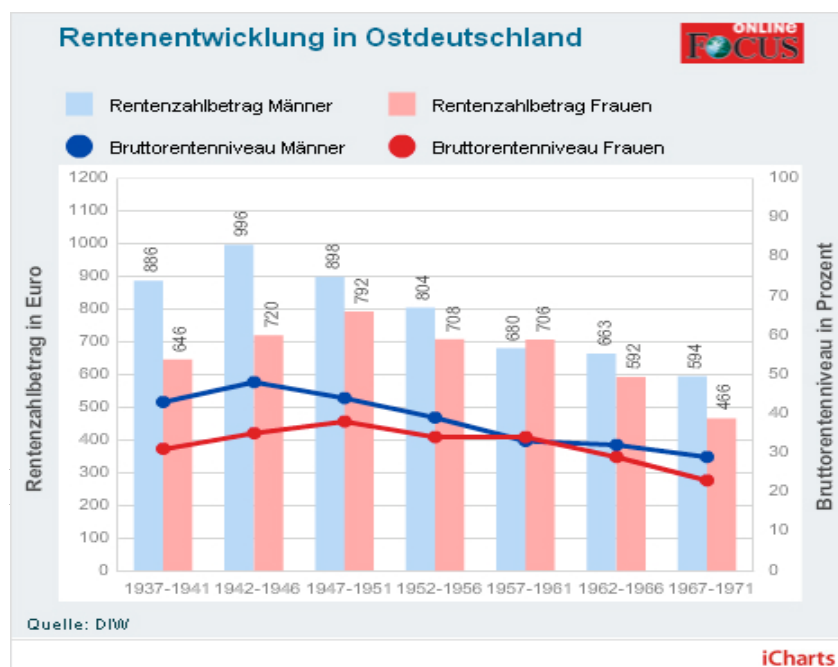
The pension forecast for Germany is pessimistic. Old-age poverty is becoming more common, especially for women. It is already predicted that the tax payers will have to cover the additional costs through basic security or the new German flexible pension (“Kombi-Rente”).

The casualisation (employment shifting from permanent and full-time to more casual positions) of a quarter of the German employees causes additional debt to be accumulated by the current generation, which is then passed on to the following generations: Rising casualization usually means less contributions to the social security system and – at the same time – a rising number of people in need for social benefits.

When the above-mentioned casual workers apply for basic security or are in need for nurturing care, our current social system will become expensive.

More and more Germans – again, primarily women – receive such a small pension that they cannot afford care. At the same time, the number of single households and pensioners without children is rising. If the number of dementia patients increases as well, the burden for the working section of society will be too high – especially regarding the fact that the percentage of economically active people is constantly declining.

#### ..3.2 Pension forecast



shop, 1 May, 2012,

- Amounts actually paid for the pension system (percentage of the wage used for the pension system - men
- Amounts actually paid for the pension system - women
- Gross pension level - men
- Gross pension level - women

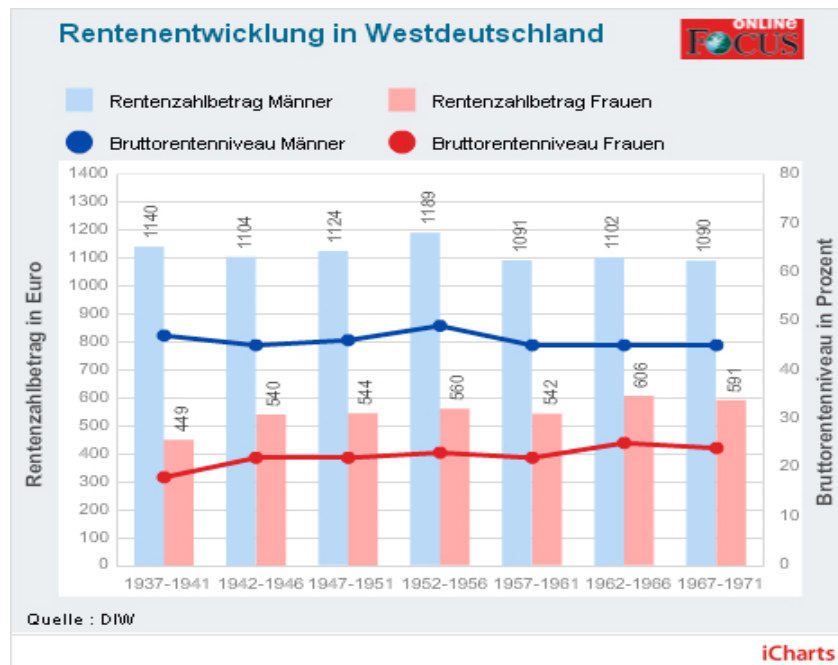


Figure 2: Development of pensions in Western Germany

With that said, following facts might be interesting: A place in a nursing home currently costs between 2,800 and 4,000 Euro – depending on level of care and the nursing home. The maximum amount pensioners in care have to pay is approximately 2,000 Euro. The rest is covered by the long-term care insurance/funds. For most of the people living in nursing homes, this retained amount is paid by the social welfare office though.

### ..3.3 Health care

According to Statistisches Bundesamt, the health care expenditures totalled 245 billion Euro in 2006. This corresponds with 10.6 per cent of the GDP (1996: 10.4 per cent) respectively 2,976 Euro per capita (1996: 2,376 Euro).

Between 1996 and 2006, the health care expenditures rose by 25.7 per cent in total. In the years 2005-2006 alone the expenditures increased by 5.7 billion Euro respectively 2.4 per cent.

According to forecasts, health care tax (employees' contribution to the health care system) will increase from 16 % (today) to at least 20 % of the income. This is not traced back to the demographic factor, but to medical-technical progress.

With increasing age, the health care costs per capita rise disproportionately: In 2006, people below the age of 15 (1,260 Euro) and those between 15 and 29 (1,190 Euro) had the least costs per capita. Until the age of 44, the costs per capita were still below the average of

the total population (2,870 Euro). Among the 65-84 year-olds, the costs were already twice as high (6,090 Euro), among those older than 84 even five times as high (14,370 Euro per capita).

All in all, 47 per cent of the total health care costs were caused by people above the age of 65.

Drivers of these cost increases will be the rising expenditures for care, above all the care for dementia patients. According to forecasts, the total expenditures for dementia patients will rise to 85-143 billion Euros by 2050. Today's system of care insurance is not sustainable according to experts and politicians; moreover it is unclear how we can deal with these cost increases.<sup>1</sup>

#### 4 Do we need growth in order to make our health system's development possible?

In their study "Health care expenditures in Germany: A macroeconomic analysis of their long-term financial feasibility", Michael Schlender, Oliver Schwarz and Christian Tielscher address the issue of the health care system's financial feasibility in relation to economic growth. According to the authors, limits of the health care system's growth have been reached when the whole annual growth of GDP is used to compensate the rising costs of the health care system.

Tab.3 Szenarioanalyse: unterschiedliche Annahmen zum Wirtschaftswachstum: Auswirkungen des optimistischen (1,7–1,8% reales BIP-Wachstum pro Kopf und Jahr) und des pessimistischen Szenarios (0,4–0,9%) sowie des Szenarios „Fortschreibung“ (1,2%) auf die Wachstumsrate der nicht gesundheitsbezogenen Ausgaben und den von den Gesundheitsausgaben absorbierten Wachstumsanteil. BIP = Bruttoinlandsprodukt; NGA = nicht gesundheitsbezogene Ausgaben; GA = Gesundheitsausgaben; alle Angaben in Preisen von 1995 und pro Einwohner

Jahr	optimistisches Szenario		pessimistisches Szenario		Szenario „Fortschreibung“	
	Wachstumsrate NGA	Anstieg GA/Anstieg BIP	Wachstumsrate NGA	Anstieg GA/Anstieg BIP	Wachstumsrate NGA	Anstieg GA/Anstieg BIP
2002	1,51 %	22,63 %	0,61 %	34,53 %	0,91 %	28,58 %
2010	1,45 %	26,44 %	0,55 %	40,41 %	0,85 %	33,42 %
2020	1,36 %	32,11 %	0,46 %	49,17 %	0,76 %	40,65 %
2030	1,14 %	40,23 %	0,09 %	75,73 %	0,64 %	49,44 %
2040	0,98 %	48,88 %	-0,08 %	92,20 %	0,48 %	60,12 %
2050	0,75 %	59,38 %	-0,56 %	165,27 %	0,25 %	73,12 %
2060	0,42 %	72,15 %	-0,90 %	201,31 %	-0,09 %	88,92 %
2070	-0,10 %	87,66 %	-1,45 %	245,21 %	-0,62 %	108,15 %

Source: Schlender, M. Schwarz, O. Finanzierbarkeit steigender Gesundheitsausgaben, *Geund ökon Qual manag* 2005; 10: 178-178

As shown by the table above, our current health care system's financial feasibility is highly dependent on growth. If the real growth rate lies below 1 %, our health care system cannot grow the way providers of health care services imagine.

<sup>1</sup> G. Doblhammer, A. Schulz, J. Steinberg, U. Ziegler, *Demografie der Demenz*, Verlag Hand Huber 2012

When studying these data, it is extremely important to keep in mind that the current demographic development does not cause the increase in health care expenditures. The predicted costs are a function of the predicted medical-technical progress which influences what kinds of income contribute to the pension fund.

In the study quoted above, neither distribution issues of revenues and expenditures are taken into account.

## **5 Labour market and demographic transition**

The growth needed in order to enable us – as a society – to pay the health care expenditures mentioned above is mainly dependent on following factors:

- Labour productivity
- Number of working hours
- Qualification/employability

The current demographic development has a substantial influence on the quantity as well as the quality of labour supply. The proportion between the working section of the population and those living from the GDP is developing negatively. More and more people have (and want?) to live at the expense of the people who work and pay social security contributions.

Currently, there are already five non-workers per four workers. In 2035, two working people will have to be productive enough to finance three other – non-working – persons' life.

In 2005, Germany's citizens worked 16.5 hours per week on average. The number of weekly hours will decrease by 8 % by 2025 due to demographic transition. This development is also happening in other European countries: Italy's, France's and the Netherlands' economies will shrink by 10 % due to demographic factors. Therefore there is no doubt that the number of working hours as well as the quality of labour supply will be two of the main factors limiting economic growth.

At this point, though, it is impossible to say whether this is a blessing or a curse, as the working world itself actually creates most of its own constraints.

Before moving on, a closer look to labour supply would be interesting. The current life expectancy is 77 years for men and 83 for women. By 2050, these figures are expected to have increased to 88 (men) respectively 89.9 (women) years. Demographers like J. W. Vaupel, PhD, from Max-Planck-Institut für demographische Forschung (Max Planck Institute for Demographic Research) and his team are assuming that working lifetime grows linearly and will soon increase up to 94+/- 2 years for women.

The number of healthy years after the 65<sup>th</sup> birthday is 17 on European average; however, in Germany it is significantly lower: around 13 years. Already today we have five additional healthy years and if we do it right, our children and children's children will be able to live and work in good health even longer.

This is another important reason for reconsidering the whole topic “pensions/health” as well as examining and evaluating it from the “beyond growth” point of view.

## **6 Working world: Chicken and/or egg?**

As already implied above, the organisation of the working world itself causes these problems in a large part, even in several respects:

1. More and more often, gainful work makes unhealthy and unhappy

There is a growing number of surveys proving that working world itself – lacking access to employment, work intensification for those who are employed, lacking financial as well as social recognition and security – makes people ill and forces many of them to premature pension. Beside the factors “social status” and “education”, the world of gainful work is one of the most important causes why people cannot live and work in good health up until old age.

2. Businesses discriminate women and elderly employees

Until now, it has not been possible to raise the percentage of working elderly people. Businesses still react reservedly to elderly people’s job applications and do not “invest” in further education of their elderly employees. Women still earn almost a third less than their male colleagues and are threatened by old-age poverty if they temporarily stay at home or work part-time because of children. Children remain the main poverty risk factor for single parents and families with more than three children.

3. Economy obstructs family foundation and family well-being

The way working world is organised, it obstructs family formation in several respects: Long periods of education and the general casualization of labour (“internship generation”, fixed-term employment contracts, temporary work) do not represent good preconditions for family foundation. As mentioned previously, children represent the main career barrier and poverty risk factor for women. Working hours and work intensification have a family-unfriendly impact.

4. Economy and society are failing regarding the maintenance and promotion of work ability

It starts with the educational system and is visible throughout all sectors and workplaces: In too many economic sectors, social inequalities are sustained and those who have already been disadvantaged at school are also discriminated, exploited and exposed to higher health risks later. The best precaution against poverty, disease and early death is a high level of education – and this is relatively unlikely for those whose parents do not have a high educational qualification. The higher the educational or the professional qualification, the more is invested in maintaining work ability and further education. This issue is being intensified by



the casualisation of the working world and the growing percentage of temporary work.

## **7 What do we need in order to be healthy?**

Our “health care system” is, structurally, a “nursing system”. Not health maintenance is being financed, but medical treatment. This applies particularly to the enormous financial resources spent on research and development. Important indications on the causes of disease and the conditions needed to maintain or restore our health are provided by sociological surveys, social psychology and even philosophy. In his book “Was es bedeutet gesund zu sein” (What it means to be healthy), Klaus Michael Meyer-Abich levels interesting criticism at our understanding of health and disease. Moreover, he supports his thesis about health having become a mostly non-medical task with numerous sociomedical surveys.

According to him, a too large part of our economic resources is used for medical care (which is only reactive). He promotes making the opportunity cost of medical services the basis of health policy decisions. Furthermore, he underlines that educational or social policy measures for re-integrating our fragmented society make a larger contribution to health than further investments in the medical-technical sector. Meyer-Abich also identifies unhealthy lifestyles as well as bad working conditions and social inequalities as the main sources of disease. He speaks for “Health through satisfied needs” (Gesundheit durch erfüllte Bedürfnisse). “If health means wholeness – which implies that there has to be a shortage when we are ill – diseases are more strongly related to our lives than most of the people think and want to hear. Not identifying oneself with our body, but only entrusting our body to a physician every now and then in order to have it maintained or to have him remedy malfunctions, is an apparently comfortable attitude to life<sup>2</sup>.” (p. 443). Meyer-Abich moreover identifies the basic needs as existence, relatedness and self-realization:

- Existence: the need for food and warmth (mind and matter), and beyond that, the need for income and social security
- Relatedness: Every human being is only viable in (friendly or hostile) relations to others – i.e. members of the own family, partners as well as friends and enemies.
- Self-realization (growth): the need for changing one’s environment creatively by applying or developing one’s own skills.

Meyer-Abich regards the fact that a growing number of people does not have the possibility to meet these basic needs as the major cause for many diseases. Conversely, societal reforms would be the most effective medicine if we want to improve the health preconditions for everybody. Education, a good job with good working conditions as well as “work-life balance” and less social inequality would be more important than the enormous investments in the medical-technical sector.

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<sup>2</sup> "Wenn Gesundheit eigentlich Ganzheit ist, so dass es immer an Ganzheit fehlt, wenn einem in einer Krankheit etwas fehlt, haben Krankheiten mehr mit dem eigenen Leben zu tun, als die meisten Menschen meinen und hören mögen. Denn es ist eine scheinbar bequeme Lebenseinstellung, sich nicht mit dem eigenen Leibsein zu identifizieren, sondern nur den Körper von Zeit zu Zeit einem Mediziner anzuvertrauen, um ihn warten oder Betriebsstörungen beheben zu lassen."

## 8 Conclusions

The demographic development is questioning the existing pension system, as neither increasing pension claims nor higher health expenditures can be financed with the current working hours. At the same time, demographic transition causes the working hours to continuously shrink and obstructs the economic growth theoretically needed.

Moreover, the issues pensions/health/work ability and the financing of these systems are the main reason why politics and labour unions hold on to economic growth as “there is no alternative”. If economy did not have to grow, inconvenient decisions would have to be made: cuts in pensions, rationalisation in the health system, tax increases, involving civil servants and self-employed people in financing the social security systems etc.

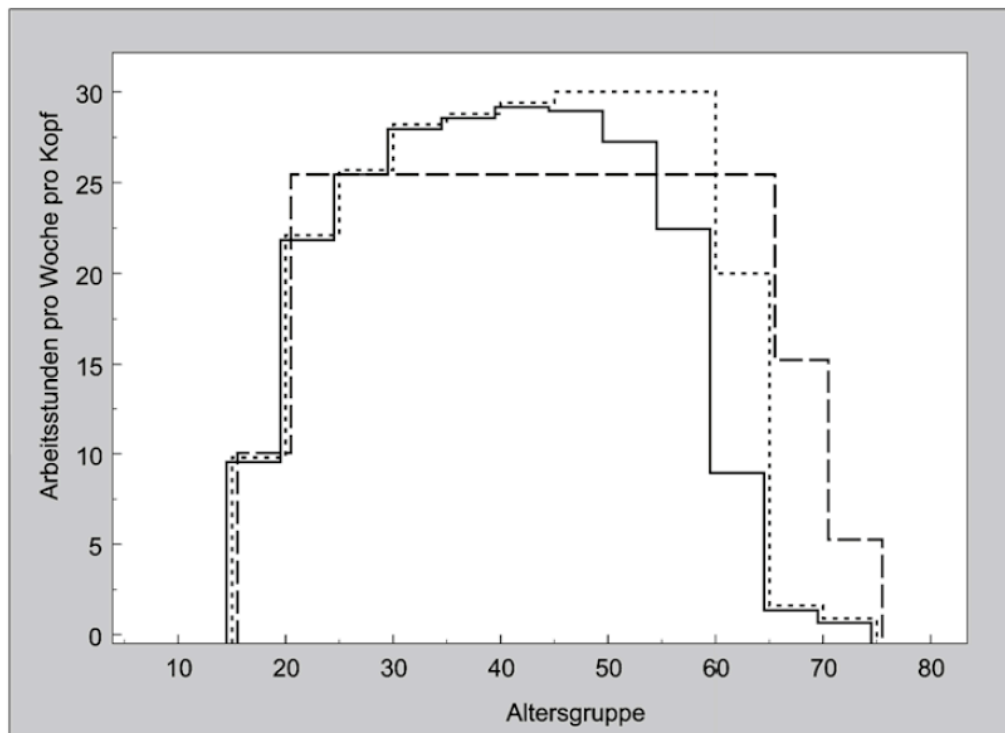
On the other hand – due to the reasons mentioned above – we have only ourselves to blame for this crisis. It is not true at all that growth is the only way out of this dilemma. Furthermore, we also need alternative scenarios because it is very likely that economy does not – or only minimally – continue growing, as the main drivers of economic growth are weakening. Resources are getting scarce, the labour force in early industrialized economies is shrinking, human and social capital is diminishing due reduced investments both in public and private arenas. At the same time demand factors are accompanying these supply factors: households are consuming less, governments are spending less, companies reduce their investments and many countries to which Germany/Austria is exporting are facing similar challenges so that also their demand is shrinking.

## 9 What do we have to do?

### ..9.1 Labour has to be distributed equitably throughout all generations as soon as possible

This is a requirement of intergenerational justice and a substantial precondition for a young society (instead of an aging one) – independently from working hours (which on their part influence the GDP). Considering a linearly increasing life expectancy, this is not only no problem but also a chance for all generations. This is also J. W. Vaupel’s desire which he describes in the paper “Redistributing work in aging Europe”. He speaks for distributing the necessary societal work throughout the entire lifetime in a more equitable manner – where we define justice, in accordance with the sustainability definition, as intergenerational justice.

The following figure shows how the labour currently accomplished on average (16 hours per week) could remain constant if we distributed it among the aging population in a more equitable manner.



Source: J. W. Vaupel, Loichinger, 2006

The advantages of such a just distribution of labour throughout all generations are obvious. Not only the financial feasibility of the pension system would be secured, but also the social security contributions could presumably decrease – which would give new scope for allocation.

- Such an allocation would be family-friendly and would be an important incentive for the number of new-born children to rise again.
- Through a new work-life balance, the chance to age healthily increases – which raises the number of healthy years at old age (lower expenses for health care and nursing)
- Current surveys prove that those who retire at an early age also die younger. On the contrary, the longer human beings are active and challenge themselves, the longer they remain mentally capable and the later they develop dementia – if at all.
- A redistribution of labour throughout the entire lifetime also creates the preconditions for life-long learning as well as changes in the working world which make it less “pathogenic”.

In the course of this, one of Vaupel’s main arguments is that it is not understandable why the highest work intensity as well as the highest stress occur precisely in those years when

men and women have to decide for or against family and those years, when those who decide to have children need time to be parents for their children. According to Vaupel, the only way out of the demographic crisis is reforming and redesigning the working world: “The 20<sup>th</sup> century was the one of redistributing wealth. The 21<sup>st</sup> will be the one of redistributing labour<sup>3</sup>.”

#### ..9.2 This transition has to be linked to considerable reforms of the distribution of income:

Family period, further education sabbaticals as well as caring for relatives should be recorded and secured regarding income and social insurance. Models currently being discussed:

- Lifetime accounts
- Unconditional basic income / solidary citizen’s income / care economy

#### ..9.3 Moreover, we need an age-appropriate world of work:

This means that it should be appropriate for our aging society. It should allow us to remain healthy and to maintain our skills respectively to develop them in an age-appropriate way. If this cannot be provided by businesses, we need labour-policy measures or other solutions from civil society.

#### ..9.4 Last but not least, education and less social inequalities are a key to the success of such a change.

And both factors are strongly interdependent. Education has – beyond the aspect of social status – a large influence on lifestyles and increases the chance of health in old age.

## 10 Beyond Growth

The growth issue deserves a second glance. As shown above, we assume that a return to high growth rates is currently not expectable. If we are right with this estimation, the predicted increases in health care expenditures – which are mostly caused by medical-technical progress – are not financially feasible. Furthermore, we do not regard this medical-technical progress important since we are convinced that we need a completely different kind of medicine in order to have a good future: A just redistribution of labour and income throughout all generations. A new intergenerational contract which takes into account the desires of the young as well as the desires of the old. The solution lies in redistributing/sharing labour, income, education and social status.

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<sup>3</sup> „Das 20. Jahrhundert war das der Umverteilung von Wohlstand. Das 21. Wird das der Umverteilung von Arbeit“.

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