Work and Pensions Committee: Inquiry into Intergenerational Fairness

Evidence from Green House think tank.

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1. Green House is a think tank established in 2011. It aims to lead the development of green thinking in the UK. Green House is a think-tank principally concerned with exploring ways of securing the full inclusion of ecological and long-termist issues in political and economic debate and policy-making. Our publications are available at: http://www.greenhousethinktank.org/page.php?pageid=recentpublications .

2. This note is from Rupert Read, Green House Chair, and Brian Heatley, a Green House core member.

3. The basic aim of this submission is to argue that the issue of intergenerational fairness cannot be properly explored except in the context of the end of economic growth.

4. Our main project to date has been what we call the post-growth project [http://www.greenhousethinktank.org/page.php?pageid=postgrowth]: we argue that further economic growth at this time in history is neither desirable nor necessary [http://www.greenhousethinktank.org/files/greenhouse/home/1Post_growth_inside.pdf], and that it is only possible at all by making other things worse. (Growth now is, in other words, unecological, anti-social and, as the leading ecological economist Herman Daly has argued, strictly uneconomic: http://steadystaterevolution.org/uneconomic-growth/ .) We note that even 'green' growth, if it is pursuant to net GDP growth, is incompatible with remaining within ecological limits (See http://degrowth.org/wp-content/uploads/2011/05/Victor_Growth-Degrowth-and-Climate-Change.pdf & http://kevinanderson.info/blog/avoiding-dangerous-climate-change-demands-de-growth-strategies-from-wealthier-nations/)

5. Those unconvinced by this line of reasoning should in any case note that continued *reliance* on a hypothesis of exponential economic growth is increasingly widely understood to be reckless and unwarranted. See this new study http://arxiv.org/abs/1601.04028 , which shows that "In contrast to the prominent view of exponential economic growth, a constant [i.e. non-exponential, i.e. declining in percentage terms and relative to the size of the economy] growth might be closer to the truth of what has happened in some mature economies within the last 40-50 years."

Current pensions-provision is literally unsustainable, as it depends on rash and dangerous assumptions about long-term economic growth

6. The current model of pension-financing that the UK government relies on is unsound. It is our view that, while questions of inter-generational fairness between are important to consider, answers to these questions *must be informed by the fact that the current model of pension-financing is in itself unsustainable*. This unsustainability is unfair to both young and old, as the inevitable rebalancing that will need to happen will hit both groups hard if it is not mitigated by government initiatives now. Therefore, instead of asking whether the current pension expenditure is fair, we urge you to first consider whether our current situation is sustainable. If it is not then it we hope that the Intergenerational Fairness Inquiry will flag this up in their report and urge radical action in pension reform and in reform of associated government economic and financial planning.

7. Firstly, the Government's own DWP figures for 2015 long term projections report that pension expenditure is expected to rise from 5.5% of GDP in 2014/15 to 7.3% in 2065/66. These figures

themselves rely on a number of questionable premises, and so pension expenditure (at least as a percentage of GDP) may in reality rise much more rapidly if one of the contingent premises fails to materialise. *Primarily, these figures assume that economic growth will, in the longer term, remain steady at 2.3%.* This is problematic for a number of reasons. For a start, as we have recently seen, the global economy is not particularly amenable to UK government forecasts. And so it may be imprudent to base pensions on a long term economic forecast that assumes a steadily increasing, relatively high, rate of economic growth.

8. More importantly, even if this growth rate does materialise, then it will be at the expense of the degradation of the shared environment and natural resources, which human beings are utterly reliant on. It will in this sense turn out to be *uneconomic* growth. This has been highlighted by green and ecological economists, such as Tim Jackson (see Jackson, *Prosperity without Growth,* Earthscan, London 2009) who have shown that no effective *absolute* (not just relative) 'decoupling' of economic growth and carbon emissions and other environmental impacts has thus far materialised, or seems likely to materialise in the near future. The assumption that such decoupling would be possible is another contingency that the current pensions policy rests upon. We urge the committee to consider this information, as without this – as yet to materialise – phenomenon of absolute decoupling it would be ecologically unviable and socially disastrous to base government pension spending on unrealisable economic growth.

9. Our position on pensions recognises that there is too much at stake to base them on the contingencies of continual 'growth': both for economically prudential reasons and for ecologically sustainable ones. Instead, we urge the committee to consider how pensions can be provided in a way *that does not rely on overall spending continuing to rise*. [See our report "Mutual security in a sustainable economy" for indications as to how this could be done: http://www.greenhousethinktank.org/uploads/4/8/3/2/48324387/welfare_inside.pdf] Or, failing that, keeping such rises as minimal as possible, seeking to emulate a steady-state economy insofar as possible to risk-proof us against the uncertainties of the twenty-first century.

10. One particular consequence of the prevailing assumption of never ending growth is the triple lock. If state pensions are to rise by the greater of CPI and 2.5% each year, then they must rise or at least stay level each year in real terms, by more than 2.5% if CPI goes down, and by 2.5%-CPI if CPI is positive and less than 2.5%, and 0% otherwise. If there is no real growth in the rest of the economy, then pensions will inevitably grow as a proportion of real GDP. Surely the generations should share the effects of the inevitability of postgrowth, and the triple lock should be abandoned.

11. To sum up:

- Funding pensions on the basis of assuming continuous exponential economic growth is imprudent and moreover frankly dangerous, at this moment in history, for the reasons sketched above.

- If the government's growth forecasts for the next couple of generations *are* realised, then the next generation(s) will suffer a *gross* intergenerational unfairness… for they will be forced to live in a declining world: a world being stripped of nature, and increasingly unable to support human well-being [http://www.theguardian.com/commentisfree/2014/sep/02/limits-to-growth-was-right-new-research-shows-were-nearing-collapse].

- Economists typically assume a *discount rate*: they assume that a pound today that is unspent will be worth less in every succeeding year. They are assuming the viability of an economy that charges *interest* on most of its money. And they are assuming that economic growth will enable these interest-payments to be made, in perpetuity, and that it will be exponential (as interest-payments are).

- Pensions are then premised on literally unsustainable growth. That is: the ability to pay a rising pensions bill is premised on a gamble that, if it comes off, will come off at the cost of quality of life.
- This is unacceptable.
- Instead, pensions ought to be funded as a frank exchange between those of working age and those of retirement age. Those who are working support those who have retired. This would be sustainable.
- In particular, the triple lock should be abandoned.