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Tackling Growth Dependency

The case of adult social care

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An Economy That Works

Briefing Paper No.4

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Summary

Modern economies have become dependent on economic growth in order to deliver social welfare. Recent work has highlighted the need to identify such 'growth dependencies' explicitly and to analyse strategies for mitigating them. In the light of the 'secular stagnation' witnessed in advanced economies and the potential threats to economic growth from climate change, biodiversity loss and ongoing uncertainties in relation to the post-pandemic recovery, such strategies would be fully consistent with economic prudence.

The UK's adult social care sector represents a microcosm of the growth dependencies observed in the wider economy. Growing demand, resulting from an ageing population, can create a dependency on ever-increasing production of health and social care services. Rising costs, resulting from the time-intensive nature of social care, require increasing revenues in order for care companies to stay afloat. The use of predatory and rent-seeking financial practices by investment firms places unmanageable financial and human costs on large parts of the sector.

These growth dependencies can be attenuated or aggravated by physical, financial, legislative, and social factors. The privatised structure of adult social care, combined with an absence of effective financial legislation, creates the conditions that expose care companies to overleveraging, falling standards and even collapse. Addressing the underlying structures would not only reduce the growth dependency of the adult social care sector but would also generate social and environmental co-benefits, such as reducing inequality and improving quality of care.

Drawing on the above analysis, this paper provides a framework for tackling the growth dependency of the welfare state. Applying this framework systematically would improve the resilience of the welfare system and enhance the wellbeing of UK citizens. Specifically, this briefing paper calls on HM Government:

- to establish a formal inquiry into growth dependencies across the welfare state and to develop a precautionary strategy for mitigating the risks that arise from them.

In relation to the adult social care sector, the paper recommends that HM Government should:

- accelerate proposed reforms to adult social care and expand their remit urgently to address the pressures created by rising demand, rising costs and rent-seeking behaviours;
- enact legislation to protect the wages of care sector workers and the quality of social care against predatory financial practices;
- develop and support innovative ownership models that break the link between property speculation and the financial stability of the adult care system.

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The challenge of growth dependency

In the years since the Second World War, advanced economies such as the UK have developed strong public sector social welfare systems. Typically, such systems have been supported by taxation on incomes, profits and consumption spending. The fiscal viability of social welfare has, as a result, come to depend on the pursuit of growth in the gross domestic product (GDP), which in its turn has become a default policy goal of governments across the world. In short, and in spite of the many acknowledged limitations of the GDP as a measure of welfare,[1] modern economies have become 'growth dependent' in the sense that certain core aspects of human wellbeing become compromised when, for whatever reason, growth in the GDP is hard to come by.

As productivity growth rates in advanced economies have declined, for instance, reliance on the fiscal position has placed aspects of welfare such as the provision of adult social care under increasing financial pressure. Acute economic and fiscal conditions such as those experienced following the 2008 financial crisis and during the Covid-19 pandemic have exacerbated this situation further. Attempts to 'rescue' the adult social care sector through privatisation have failed to prevent what many have now acknowledged as a deep 'crisis of care'.[2]

The crisis in adult social care is a particular case of what has become known as the 'growth dependency' of the modern economy. The need to address this phenomenon is now widely acknowledged. For instance, an opinion paper from the European Economic and Social Committee published in 2020 argues that the transition to a wellbeing economy must start by adopting a 'precautionary approach' in which social stability does not depend on GDP growth.[3] A group of 238 academics across Europe recently penned an open letter calling on governments to 'end the growth dependency' of the European economy.[4] A petition on the same theme has so far received more than 90,000 signatures.[5] The European Parliament held its first Post-Growth Conference in September 2018 and will hold a second later this year.[6] Calls to reduce growth dependency have also drawn support from a recent report to the German government which advocated a precautionary 'post-growth' approach to achieving social wellbeing within planetary boundaries.[7] The report called for policies which are 'future-proofed' against the possibility that economic growth might not be achievable in the same way that it has been historically, particularly if key environmental and social goals are to be met.

In recent policy briefings, the APPG on the Limits to Growth has already highlighted some of the causes and consequences of growth dependency. We have explored the long-run stagnation in productivity,[8] addressed the social consequences of this trend[9] and worked to establish the foundations for a wellbeing economy. We have also identified the need to unravel the powerful forces that lock us into the pursuit of growth in the GDP and to devise ways to address it.[10] The aim of this briefing paper is to provide policy makers with a systematic framework for tackling growth dependency in the welfare system, illustrated through—and with specific recommendations for—adult social care.

Identifying the causes

The starting point for any attempt to tackle growth dependency is to establish precisely the mechanisms through which this dependency arises. It is possible to identify three core processes that drive growth dependency in the adult social care sector (Figure 1). These are: a) rising demand for care as a result of demographic changes; b) rising relative costs for labour in the care sector; and c) the rent-seeking behaviours that arise from financialisation. We discuss each of these in turn below.

Rising demand

Between 2015 and 2035, the number of older adults with complex, high dependency needs is projected to almost double,[11] generating more demand on care services. By contrast, since 1997, labour productivity in the sector has declined by more than 10%,[12] reducing the output per hour worked. With growth in demand for care services outpacing growth in labour productivity, the sector relies on growing labour inputs in order to meet the rising demand.

At the same time, fiscal austerity in the years since the financial crisis has curtailed the public sector resources available. Combined with declining labour productivity, this retrenchment has served to deepen the crisis of care. For instance, the number of residential home beds per older adult declined by 15% between 2012 and 2020,[13] and 1.5 million adults in the UK over the age of 65 now have some level of unmet care needs.[14]

These dynamics are not unique to adult social care. More broadly, as society progresses and changes, demand for welfare services changes with it. Where demand is rising as a result of long-run socio-economic trends such as aging, declining fertility, or increasing material intensity of production, this can create a dependency on growth in the production of goods and services to meet these new demands. In particular, if growth in aggregate welfare demand outstrips growth in labour productivity and material efficiency, then we will need to increase labour and material inputs respectively in order to meet the growing demand.

Understanding both the demand and supply side dynamics of growth dependency can help to identify a number of potentially effective options for mitigation. On the demand side, for example, policy can look to reduce need for adult social care facilities by taking a more preventative approach to social health.[15] On the supply side, the government might consider strategies aimed at developing alternative modes of delivery that are localised, light in terms of resource-intensity, and relational.[16] This could also involve retraining workers from high-carbon industries for roles in the green and caring economy.

Rising relative costs

Adult social care companies tend to be faced with rising relative labour costs, creating a dependency on rising revenues across the sector. The structure of this dynamic is critical to a proper understanding of growth dependency. Typically, wage rates in the care sector tend to follow the increase in average wages across the economy. But the time-intensive nature of care work means that there are limited opportunities for achieving cost efficiencies through labour-saving technologies, without compromising quality of care. There are also only modest opportunities for economies of scale in the sector.[17] In this context, constraints on revenue (e.g. if government budget restrictions lead to an effective cap on prices) can leave firms with few options to meet these rising labour costs.[18] For example, writing at the time of the introduction of the National Living Wage, The Resolution Foundation could already report employers' claims that there were "few choices other than to absorb the cost because of the inability of the sector to improve productivity without worsening the care provided to service users".[19] As the profit margins of providers become progressively 'squeezed', this dynamic brings working conditions, non-labour costs and profits into competition with one another.

The dynamic of rising relative costs—sometimes called Baumol's cost disease—is critical to an understanding of growth dependency more generally.[20] Across the economy, productivity grows more quickly in some sectors (e.g. in the manufacturing industries) than in others. As a result of the rapid growth in productivity in some sectors, average wages in the economy rise. This pushes up the relative cost of labour in those sectors with lower rates of productivity growth (e.g. the arts, public services), as firms struggle to increase wages in line with the national average, to avoid a migration of employees towards sectors where they could find better pay. Evidence of these dynamics have been found across public services in many countries, with the UK's Office for Budget Responsibility noting that it has led costs in many public services to "rise relative to other sectors".[21]

Improving workers' rights and regulating service quality can both help to guard against the negative impacts of this growth dependency, protecting workers and service users. Further, moving away from for-profit models of social care can mitigate this dependency by removing the conflict between profit, wages, and non-labour costs. Beyond these mitigation options, it is also prudent to consider policy actions that redistribute the gains from productivity growth through taxation or reduced working hours, seeking to reduce the wage differential between sectors that drives the underlying dynamic.

> Growth dependencies… do not emerge in a vacuum. They are created, supported and driven by a series of underlying structures.

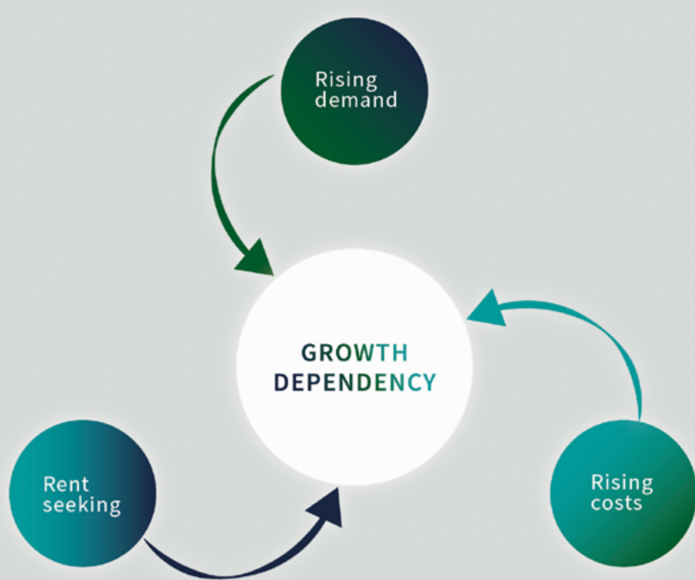

Figure 1
Illustrative overview of the processes driving growth dependencies in adult social care

> Attempts to 'rescue' the adult social care sector through privatisation have failed to prevent what many have now acknowledged as a deep 'crisis of care'.

Rent-seeking behaviours

Since the privatisation of adult social care in the 1990s, there has been a shift towards increased 'financialisation' in the sector, driven by private equity ownership. Critical to the success of this strategy is the availability of rates of return comparable with market rates of returns in the private equity sector. Protecting these rates of return has created additional forms of growth dependency that arise from the financial strategies of private owners.

For example, debt-leveraged buyouts are a common tool used by investors to engineer a higher rate of return on their investment. In short, under such a buyout, an investment firm might buy a target social care company using a large proportion of debt, and only a small proportion of their own capital. This means that the capital structure of the target company just after acquisition is skewed heavily towards a high proportion of debt and low proportion of equity. Over the course of the investment horizon, the target company's cash flow can be used to service and repay the debt. As this happens, the equity portion of the company's capital structure gradually increases. Through this process, investors can earn a greater rate of return on their investment than if they had bought the company using equity alone.[22]

Three of the five largest care home chains in the UK have been subject to a debt-leveraged buyout in the last 10 years, managing a combined 30,000 beds between them.[23] Where large quantities of debt have been taken on by a care firm, interest payments can absorb a significant portion of revenues, coming into direct competition with shareholder profits, wages, and non-labour costs. In 2019, a forensic accounting analysis found that, in the five largest private equity owned care home chains, "16% of the weighted average weekly fee" for a residential care home bed went towards interest payments.[24] Further, recent research suggests that debt-leveraged buyouts increase risk of bankruptcy for the target firm by approximately 18%.[25] In this context, growth is not a choice but a necessity to ensure sufficient cashflow to continue to cover the extraordinary ongoing costs associated with these financial practices and others (e.g. asset stripping, onerous rental costs, use of tax havens, etc).[26]

In more general terms, rent seeking of this kind can be understood as the use of time and resources to secure monetary compensation in excess of, or disproportionate to, the labour invested by the recipient.[27] This can be achieved through various means—lengthy intellectual property patents, lobbying for favourable policy, high rental charges, the use of tax havens, etc—and can affect many parts of the welfare system. Several of these rent seeking strategies leave firms dependent on growing revenues to mitigate distributional conflicts between returns to investors and other costs, and/ or to avoid adverse impacts such as bankruptcy.

Broadly speaking, overcoming the growth dependencies created by rent seeking requires finding ways to "diffuse rentier power, discourage rent-seeking and redistribute rents".[28] This can be achieved by targeting the specific sector of concern (e.g. legislation prohibiting debt-leveraged buyouts in adult social care), or by improving the wider financial environment (e.g. clamping down on the use of tax havens). Beyond regulatory or legislative initiatives, changes in ownership structure (e.g moves towards community, employee or public-sector ownership) would also reduce the dynamics of rent-seeking and alleviate growth dependency.

Analysing the drivers

The processes described above explain how adult social care depends on growth. Growth dependencies, however, do not emerge in a vacuum. They are created, supported and driven by a series of underlying structures. We therefore turn our attention to the question of why these dependencies arise. Which underlying drivers give rise to them? What perpetuates growth dependency?

To illustrate our approach to this task, we follow the specific example of loading adult social care companies with onerous quantities of debt, explored in the previous section. As discussed above, three of the five largest care home chains in the UK have been subject to debt-leveraged buyouts, placing them at increased risk of insolvency. This risk has significant social ramifications. Aside from the loss of jobs associated with insolvency of such large companies, the physical and psychological impacts on service users can be devastating.[29] A decade after the collapse of Southern Cross in 2011, with the loss of 31,000 beds, residents in adult care homes remain vulnerable to the financial instability of service providers.[30]

Understanding how to address these vulnerabilities requires us to look beyond proximate causes—such as the over-indebtedness of key players—and analyse the forces that give rise to them. This requires attention both to 'hard' drivers such as physical infrastructure and to 'soft' drivers such as societal norms. More specifically, in addressing financial vulnerability within the adult social care sector, we can identify five thematic areas that require attention: 1) finances; 2) infrastructure; 3) policy; 4) power; and 5) norms.

Finance: It is already clear that the privatisation of care creates the opportunity for investment firms to enter the social care sector, and bring with them financial techniques targeted at achieving a rapid return on investment (e.g. debt-leveraged buyouts). A significant portion of the social care market is vulnerable to this form of rent seeking; more than eight out of ten residential and nursing home beds are managed by private companies[31] and 12% are already owned by investment firms.[32]

Infrastructure: The potential for growth dependency through onerous debt is exacerbated by the physical structure of the care sector, which facilitates the use of large property-backed loans, designed to achieve rapid returns on investment and secured against the care home companies' physical assets.

Policy: A notable absence of legislation or guidance in terms of what constitutes appropriate and responsible levels of debt for the sector aggravates these dynamics. It leaves care home companies exposed to over-leveraging and facilitates the excessive prioritisation of financial over social goals within the sector.

Power: Asymmetries in power between the owners of care homes and those delivering and receiving care are vital. The significant physical, emotional and financial costs associated with moving from one care home to another mean that residents cannot easily express their preferences between different care providers. The existence of this 'immobile consumer' enhances the ability of private equity owners to pursue profit—even where this might be at the expense of quality of care—without being heavily penalised by falling occupancy rates. The much-vaunted 'benefits' of the free market no longer hold.

Norms: A historical devaluing of care work and a lack of political prioritisation of the care sector has reinforced the conditions for profiteering, even where this has come at the expense of carers' wages and working conditions.[33]

Transforming the conditions

The point of this deeper analysis is to put policymakers in a stronger position to identify effective levers, able to transform the conditions under which social care operates. Looking specifically to the drivers of growth dependency discussed above, several potential policy levers emerge:

1. Innovative ownership models that break the link between the property structure of the care homes sector and the use of predatory financial practices such as property-backed loans and asset stripping.
2. Legislation that limits the ability of care home companies to pursue unsustainable financial structures. For example, legislation that stipulates responsible debt standards for the sector, and/ or minimum provider liquidity and capital adequacy requirements.[34]
3. A transition to a completely non-profit social care sector, made up of social enterprise, voluntary and public sector providers. This would remove opportunities for rent seeking through financial engineering altogether.

Each of these potential policy responses—which are presented here as illustrative rather than exhaustive—would need to be examined carefully to avoid

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problematic path dependencies (factors that might impact or hinder the implementation of the proposed policy) and likely spill-over effects (unintended positive or negative impacts on other sectors). Considering again the growth dependency created through over-leveraging, the first and arguably most difficult path dependence is the size of existing debt burdens for some social care companies.[35] Since loan covenants for certain types of debt prohibit—or come with a large fee for—early repayment, any proposals aimed at reducing the role of debt in the sector would need to be paired with suitable debt-forgiveness and/ or structured repayment processes.

Further, any proposals to tighten debt regulations in adult social care may reduce private investment in these sectors, as investors see a narrowing opportunity for rapid returns. Possible impacts on public finances—tax rates, allocation of funding between different public services, etc—would therefore need to be carefully evaluated, and complementary programmes supporting responsible, low-cost lending to small and medium sized care homes companies considered.[36] On the flip side, the implementation of effective financial regulation would also have positive spill-overs, impacting all sectors of the welfare state where onerous debt is a problem (e.g. children's services[37]). These positive spill-overs could include improved public accountability, cost-efficiencies, better working conditions and reductions in inequality. This highlights the potentially far-reaching co-benefits of reducing growth dependencies in adult social care.

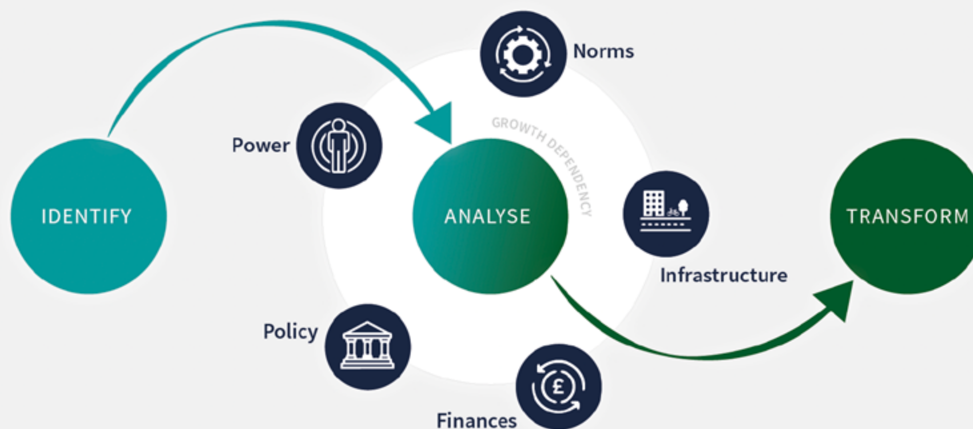
Conclusions

The growth dependency of modern economies creates fragilities in the provision of societal wellbeing under any conditions in which economic growth is either infeasible or undesirable. Under these circumstances, it is prudent for policy makers to adopt a systematic process to understand and mitigate social risk and to create more resilience in the welfare functions for which government is responsible. Building on the insights gained from an analysis of adult social care, this briefing paper proposes a systematic framework that can be used to analyse and transform growth dependencies across the welfare state. Specifically, we have argued that tackling growth dependency has the following three vital steps (Figure 2):

- identify the causes
- analyse the drivers
- transform the conditions

For any selected sector of the welfare state, we can apply a similar approach.

Figure 2
Growth dependency framework overview



Social norms and values that underpin the sector (e.g. the undervaluing of care work)

Physical structures, people and processes that define the sector

Economic and financial characteristics of the sector (e.g. marketisation, privatisation, financialisation)

Legislative, policy and regulatory environment in which the sector operates

Power of lobbyists, unions, rentiers, and service users

The aim of this would be to identify how processes such as rising demand, rising costs and rent-seeking behaviours create growth dependencies within the sector; to analyse the factors that drive these growth dependencies; and to develop policy levers that transform the conditions under which growth dependencies arise and, as a result, increase the resilience of the welfare state. In doing so, we put ourselves in the position of taking a prudent, precautionary, position in which social welfare becomes more resilient to both short-term fluctuations and long-term trends in the GDP.

Exploring and articulating these strategies clearly requires a degree of political will and an openness to the idea that building a precautionary 'post-growth' position is a meaningful, pragmatic and achievable task. But in the light of the long-term slowdown in the growth rate already witnessed in advanced economies and the potential threats to economic growth from climate change, biodiversity loss and social disruption, such a strategy is fully consistent with economic prudence. Knowing how best to ensure continued social wellbeing in a post-growth environment is essential, particularly when growth itself can no longer be taken for granted.

Recommendations

Growth dependency is not something that can be ignored. But it is something that can be tackled. This briefing has explored how growth dependency already impacts on the adult social care sector today, with pernicious consequences. And it has shown how a systematic approach to identifying and analysing growth dependency can enable us to find effective levers for transformation. Specifically, and in relation to the adult social care sector, this APPG briefing paper recommends:

- accelerating proposed reforms to adult social care and expand their remit urgently to address the pressures created by rising demand, rising costs and rent-seeking behaviours;
- enacting legislation to protect the wages of care sector workers and the quality of social care by limiting the potential for predatory financial practices;
- exploring the potential for innovative ownership models that break the link between the property structure of residential care homes and the financial stability of the adult care system.

Beyond these specific sectoral reforms in relation to adult social care, this paper calls on HM Government:

- to establish a formal inquiry into growth dependencies across the welfare state and to develop a precautionary strategy for mitigating the risks that arise from them.

Download

This Briefing Paper can be accessed on our website: **limits2growth.org.uk/publications**.

Notes

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An Economy That Works

Ten years after the financial crisis, sluggish growth, faltering labour productivity and persistent inequalities are creating huge uncertainties for the future of advanced economies such as the UK. Under these conditions, it is challenging to meet the investment needs associated with improving people's health and wellbeing or to honour our obligations under the Paris Agreement on climate change. The implications for social and political instability are profound. Is a return to high levels of GDP growth the only way to meet these combined challenges? Is such a return even possible? A series of briefing papers from the All-Party Parliamentary Group on the Limits to Growth aims to explore these questions and to create the space for a vital conversation aimed at building *An Economy That Works*—for everyone.

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