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End of previous Forum article

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Social Investment as a Perspective on Welfare State Transformation in Europe

Fiscal consolidation, low-growth scenarios and large social imbalances present a formidable challenge for contemporary social policy in Europe. Social and economic transformations exerted strong pressure on mature welfare states well before the onset of the financial crisis in 2008.[1] The Great Recession and its aftershocks magnified this pressure and acted as an exogenous shock, causing a deterioration in socio-economic fundamentals and in the policy environment for welfare state reform. Unresolved tensions within the EMU and the resulting fiscal constraints add another layer of complexity to this issue.

The intense debate on welfare state transformation concerns as much the interpretation of past developments as it does the direction in which European welfare states should evolve in the future. Within this debate, the idea of "social investment" (SI) as a framework to understand and design welfare state change has gained particular prominence.[2] The SI perspective stresses that social expenditure, far from being purely a cost factor and thus a burden on economic competitiveness, can increase economic efficiency while at the same time fostering equality and social inclusion. To achieve this goal, social policy must devote particular attention to the prevention of social risks. Policies that support human capital formation and labour market activation can prevent negative outcomes such as educational drop-out, (long-term) unemployment and early labour market exit. These policies can represent investments, which in the medium and long run generate returns by enhancing welfare and avoiding benefit dependency. To identify and prioritise programmes

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1 A discussion of possible definitions of the term "welfare state" would go beyond the scope of this contribution. Suffice it to say that here the term is used in a broad meaning, encompassing all policies and institutions devoted to the protection and promotion of economic and social well-being.

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2 See for instance G. Esping-Andersen, D. Gallie, A. Hemerijck, J. Myles (eds.): Why We Need a New Welfare State, Oxford 2002, University Press; and A. Hemerijck: Changing Welfare States, Oxford 2013, University Press.

and policies, it is important to acknowledge the crucial role of early interventions and the fact that risks along the life course are interdependent.

The SI perspective is not free from controversy. Critics highlight ambiguities in the notion of SI and worry about possibly flawed policy prescriptions that can be inferred from it.[3] They also question the form and extent to which EU member states and EU institutions are actually supporting its implementation. It is therefore worthwhile to attempt to define the SI perspective more precisely, to discuss its merits and to take stock of current developments.

Ageing, new social risks and beyond: challenges for social policy

Starting in the 1970s, a number of social and economic changes, subsumable under the concept "post-industrialisation", altered the social risk structures as well as the constraints for welfare state activity in Europe. European welfare states came under pressure both in quantitative and qualitative terms. The most direct impact resulted from demographic trends (i.e. increased life expectancy and declining birth rates), a reduction in economic growth rates, and increased economic and financial internationalisation. Rapid ageing, low growth rates and shrinking tax bases generated strong fiscal pressure on social security systems (quantitative dimension). At the same time, changes in gender roles and female labour force participation, the break-up of traditional household structures, and structural changes in labour markets raised questions about the objectives and priorities of consolidated welfare states, i.e. their qualitative dimension.

Countries differ widely in terms of their initial conditions, the timing and extent of their post-industrial transformations, and their current welfare state settings. In spite of this heterogeneity, we can single out common dimensions of change that are of particular relevance for the discussion of welfare state developments and for an evaluation of the SI perspective.

The first is that over time social risks have become more heterogeneous and diffuse, and therefore fundamentally less predictable and more difficult to insure. European societies are more diverse, familial structures more fragile and individual biographies more varied than in the past. The number of transitions that individuals have to master in the course of their lives has increased. This concerns both the number of jobs held by workers throughout their careers as well as transitions between work, education, familial care and other leave periods. Overall, individuals need a higher degree of flexibility and adaptability than they did in the past.

A second salient trait concerns the increasing importance of human capital (i.e. knowledge and skills) as a determinant of economic independence. The 20th century has been defined as the "human capital century", characterised by a "race between education and technology".[4] There is no indication that this race is going to end any time soon. On the contrary: the emergence of Industry 4.0, rapid progress in artificial intelligence technology and recent projections on job automation suggest that the pace at which knowledge and human capital become obsolescent may even be increasing. It is impossible to say today whether new technologies will help to create sufficient new jobs to replace those that they are destroying. However, as technological progress will continue to drive the skill composition of labour demand, it is clear that individuals who do not possess the right skills or are unable to update those that they have risk falling behind.[5]

A third and pervasive fact concerns the broad increase in economic inequality that we have been witnessing throughout the industrialised world.[6] The outcomes of the Brexit referendum and of recent elections in several EU member states suggest that the cleavages between different segments of society have increased beyond what indicators on economic inequality are able to capture. The low-growth scenario that we face today has serious implications for the future level and structure of inequality. Low economic growth will make it more difficult to reduce inactivity and long-term unemployment. This could reinforce the divide between work-poor and work-rich

3 For details see B. Cantillon: The paradox of the social investment state: growth, employment and poverty in the Lisbon Era, in: Journal of European Social Policy, Vol. 21, No. 5, 2011, pp. 432-449; J.C. Barbier: Social Investment, a Problematic Concept with an Ambiguous Past: A Comment on Anton Hemerijck, in: Sociologica: Italian Journal of Sociology, Vol. 1, 2012, pp. 1-11; N. Morel, B. Palier, J. Palme: Beyond the welfare state as we knew it?, in: N. Morel, B. Palier, J. Palme (eds.): Towards a Social Investment Welfare State? Ideas, policies and challenges, Chicago 2012, Policy Press, pp. 1-30; B. Nolan: What use is 'social investment'?, in: Journal of European Social Policy, Vol. 23, No. 5, 2013, pp. 459-468.

4 C.D. Goldin, L.F. Katz: The race between education and technology, Cambridge MA 2009, Harvard University Press.

5 As Mokyr writes, "Modern technology often leads to winner-take-all outcomes, and the inequality implications in terms of income – though not in terms of access to the good itself – are worrisome. What we gain as consumers, citizens, viewers and patients we may lose as workers." See J. Mokyr: Secular Stagnation? Not in your life, in: C. Teulings, R. Baldwin (eds.): Secular Stagnation: Facts, Causes and Cures, Centre for Economic Policy Research Press, 2014, p. 88.

6 See OECD: Growing Unequal? Income Distribution and Poverty in OECD Countries, Paris 2009, OECD Publishing; and OECD: In It Together: Why Less Inequality Benefits All, Paris 2015, OECD Publishing.

households. Adversity in early life stages has long-term consequences on later-life trajectories. If not properly addressed, the crisis will have long-lasting effects on today's children and youth, who are already less economically advantanged than the generations that preceded them. Low growth rates might also lead to a further increase in capital-to-income ratios and in the concentration of wealth.[7]

A fourth dimension of change concerns the impact of the crisis on macroeconomic stability within the EU and particularly the EMU. Until the outbreak of the crisis, a convergence process was taking place in the EU in terms of welfare state activity.[8] In contrast to some theoretical expectations, this convergence was not driven by a "race to the bottom" in welfare state provisions. The Great Recession introduced a striking moment of discontinuity, with asymmetric effects on European welfare systems. Whereas the Anglo-Saxon and – much more so – the Southern European countries underwent a significant amount of welfare state retrenchment, Continental European and Scandinavian countries safeguarded their welfare programmes.[9] In light of the ongoing fiscal problems faced by a number of countries, it seems likely that divergence among European welfare states is on the rise. This is problematic, because asymmetric social developments and austerity can be mutually reinforcing and form a vicious circle that puts additional pressure on the EMU.

Strengths of the SI perspective

In many ways the SI perspective, which emerged gradually in the late 1990s from a family of similar concepts,[10] provides an appropriate response to the aforementioned transformations and challenges. The idea of SI is partly a reaction to the neoliberal prescriptions that dominated the social policy debate in the 1980s and 1990s. The neoliberal consensus interpreted social policy primarily as a cost factor, focusing on the trade-off between equality and efficiency and advocating strong limits to state intervention. The SI perspective emphasises the dual role of the welfare state to advance both equality and efficiency. This emphasis is not per se a novel element – it has long been acknowledged that, in a "second best" world, welfare state institutions address market failures (such as externalities, asymmetric information and incomplete markets) and thus contribute to economic efficiency.[11]

The novelty of the SI perspective consists in providing a conceptual framework that translates these welfare state objectives to a deeply changed socio-economic environment, helping to identify new channels to improve efficiency as well as to combine equality with efficiency. Focusing on human capital and the labour market as anchors for individual well-being, SI acknowledges that the capacity to acquire and update skills is of central importance to secure employment opportunities, and that employment is in turn the best prevention against social risks, which have become more difficult to insure against. To support human capital formation and employment, a broad range of programmes and policies need to be in place, such as active labour market policies, measures to facilitate the combination of family and work, programmes to support the employment of disabled persons, and adequate income protection schemes.

To identify appropriate sets of policies, welfare outcomes have to be analysed using the life course as an analytical grid (i.e. applying a longitudinal perspective that combines different phases of life, rather than a cross-sectional perspective that treats welfare outcomes separately from earlier and later moments in life). The life course framework is conducive to identifying links between well-being at different stages of the life cycle and to discerning momentary from lasting hardship.[12] It also gives particular weight to the manifold transitions that individuals face over the course of their lives. Most importantly, it enlarges the policy horizon to the long term and helps to address resilient problems such as structural unemployment and cumulative disadvantage.

In an SI perspective, policy interventions are accordingly clustered around life course phases: childhood and youth (e.g. quality childcare and education, family support), family formation and prime working age (e.g. training, measures to reconcile family and work), and old age (rehabilitation and care). Because of their potential for high long-term returns, the SI approach implicitly favours policies that intervene early on in the life course. Early interventions can make a significant impact in addressing socio-economic inequalities and thus increase equality

7 T. Piketty: Capital in the Twenty-First Century, Cambridge MA 2013, Harvard University Press.

8 See C. Schmitt, P. Starke: Explaining convergence of OECD welfare states: A conditional approach, in: Journal of European Social Policy, Vol. 21, No. 2, 2011, pp. 120-135.

9 G. Bonoli, D. Natali: The Politics of the 'New' Welfare State. Analysing Reforms, in: G. Bonoli, D. Natali (eds.): The Politics of the New Welfare State, Oxford 2012, University Press, pp. 287-306.

10 N. Morel et al., op. cit.

11 Numerous welfare state institutions, such as social insurance, education and health care, serve both equity and efficiency objectives. The same is true of adequate income support schemes, such as unemployment benefits, which allow those out of work to invest in job search and training, increasing their chances to employment that matches their skills. See N. Barr: Economics of the Welfare State, Oxford 2012, University Press.

12 G. Esping-Andersen et al., op. cit.

of opportunity. There is a growing consensus that high inequality is harmful because it hinders people in disadvantaged households to access quality education and it lowers social mobility.[13] Inequality and human capital formation are thus deeply intertwined.

Last but not least, the SI perspective, with its focus on investment and its long-term policy horizon, provides a platform to design fiscal arrangements that favour growth and social inclusion. Effective prevention is important to relieve the pressure on the welfare state and to secure its long-term sustainability. SI thus provides an adequate basis for confronting narrow policy narratives and for escaping the vicious circle of austerity, welfare state retrenchment and poor outcomes in terms of human capital development and welfare.

Some caveats

Critics have spotted a number of weaknesses and potential problems associated with the SI perspective.[14] A fundamental critique concerns the very notion of social "investment", which contains the implicit message that some types of social spending do not generate a return. The SI perspective thus potentially undermines forms of social spending which – implicitly if not explicitly – are seen as lacking the "dividend" associated with social investment. As a consequence, for example, the SI strategy might give too little weight to today's poor, rechanneling spending at the expense of social policies that mitigate poverty and promote inclusion. On top of that, over-reliance on activation, particularly in its "workfarist" version, narrows the policy focus to incentives and quantitative employment indicators, with less attention to the quality of employment and its actual impact on welfare. The decade preceding the crisis, when poverty reduction was very moderate in spite of a great expansion of employment and the incorporation of the activation principle in labour market policies, is seen as a telling negative example in this respect.[15] A related critique argues that the social investment agenda is associated with potentially regressive distributive effects, because some of its archetypical interventions (such as the provision of institutionalised childcare) benefit primarily those who are already participating in the labour market.

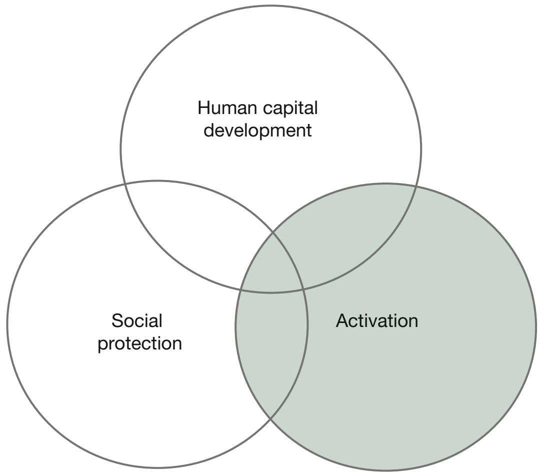
13 Clearly, high inequality levels can also have detrimental effects on social cohesion and political stability, as well as running against normative concepts of equity and social justice.

14 In addition to the points that are addressed in this section, SI attracted strong criticism also from a feminist standpoint, because it is seen as addressing women only in their function as potential workers.

15 B. Cantillon, op. cit.

Figure 1

Pillars of the social investment welfare state



Source: Author's illustration.

Parts of this criticism are well motivated. Consumption and investment cannot be understood as dichotomous in the social policy realm. No form of social spending is purely an investment, without an element of current consumption. The opposite is probably also true. It would therefore be both methodologically unfeasible and normatively problematic to calculate rates of return for different welfare state activities and to rank them on this basis. This raises methodological questions with respect to the measurement of social investment and the policy implications derived from such measurement. It also calls into question the extent to which policies that aim at human capital formation and activation, such as active labour market policies, can substitute compensating and protective policies, such as unemployment benefits. In light of the high and persistent unemployment levels that prevail in many European countries today, activation is at any rate bound to have limited powers to integrate individuals successfully into the labour market.

In fact, proponents of SI have repeatedly stated that activation cannot fully substitute for conventional income maintenance guarantees and that a welfare state strategy is only productive if a virtuous circle can be created whereby social protection and social investment are mutually reinforcing.[16] We can therefore envisage the SI perspective as resting on three connected and mutually reinforcing pillars (Figure 1). The first pillar is education

16 G. Esping-Andersen et al., op. cit.; F. Vandenbroucke, K. Vleminckx: Disappointing poverty trends: is the social investment state to blame?, in: Journal of European Social Policy, Vol. 21, No. 5, 2011, pp. 450-471.

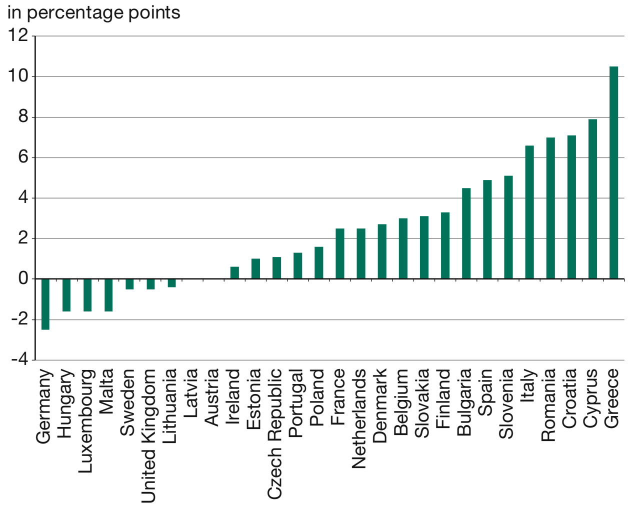
and human capital formation as a prerequisite for success in the economic sphere and the basis for well-being. The second is support of employment and labour market integration, with paid employment as a cardinal point of economic independence. The third pillar corresponds to the "traditional" dimension of welfare state activity dedicated to social protection and redistribution. A conceptualisation proposed by Hemerijck differentiates between "flows" (activation and labour market transitions), "stocks" (human capital) and "buffers" (safety nets for social protection).[17]

Concerns about the distributive impact of SI have to be taken just as seriously. However, it seems unjustified to infer that SI will necessarily have negative distributional effects. Activation policies, such as childcare and measures to support the combination of work and family life, might initially benefit primarily those who are already employed. In the medium and long term, however, they can be expected to reach other segments of the population, so that work-related spending increasingly benefits poor and work-poor households. Ultimately, the redistributive impact of social policies will depend on their design and remain an empirical issue.

Taking stock of SI in Europe

Part of the criticism that concerns SI reflects dissatisfaction with the actual social policy developments in (parts of) the EU and the role played in these developments by the EU institutions.[18] The available data and studies indicate that, on average, European welfare states are moving in a direction which is consistent with the prescriptions of SI. However, they also show that this shift in the direction of SI is partial and asymmetric across countries.[19] A recent report drafted by the European Social Policy Network for the European Commission analysed country policies in the areas of early childhood education and care, reconciliation of family and work, and activation and support for those experiencing social and labour market exclusions.[20] Although the report finds that most EU countries have some elements of a SI approach, it indicates the existence of three country clusters. An "SI turn" in social policy took place and gained momentum in the Nordic countries and in some Continental European countries such as the Netherlands, Germany and Austria. A second group of countries is beginning to apply an SI perspective in a few specific policy areas but lacks an overall SI approach. The Anglo-Saxon countries are part of this cluster, together with parts of Eastern and Southern Europe. The last group contains those countries where the SI perspective has not made any significant appearance in the policy making process. The Baltic States, together with Romania, Bulgaria, the Czech Republic, Slovakia, Greece and Italy belong to this group.

Figure 2
Change in the share of NEETs, 2008 to 2015



Source: Eurostat.

Not all policy fields which are associated with SI experienced an equal increase in attention and resources over time. Empirically, the clearest shift took place in the realm of childcare service and policies for the reconciliation of family and work. In other areas, progress was much more modest. This concerns key areas of SI, such as policies that favour the youngest and the (long-term) unemployed. The share of NEETs (not in education, employment or training) increased in a large majority of member states between 2008 and 2015 (Figure 2). Particularly those countries that were most severely affected by the crisis were unable to offset the increase in youth unemploy-

17 A. Hemerijck: The quiet paradigm revolution of social investment, in: Social Politics, Vol. 22, No. 2, 2015, pp. 242-256.

18 See for instance J. Leaman, M. Debruyne: The annual growth survey 2016: opening the door for social policy?, Re-InVEST Policy Brief Issue 02/2016.

19 See R. Nikolai: Towards social investment? Patterns of public policy in the OECD world, in: N. Morel et al., op. cit., pp. 91-115; K. Kuitto: Trends of social investment and compensating welfare policies in Europe: A life course perspective, Greifswald Comparative Politics Working Papers No. 8/2014; J. Kvist: The post-crisis European social model: developing or dismantling social investments?, in: Journal of International and Comparative Social Policy, Vol. 29, No. 1, 2013, pp. 91-107.

20 D. Bouget, H. Frazer, E. Marlier, S. Sabato, B. Vanhercke: Social Investment in Europe. A study of national policies, European Commission, Brussels 2015.

ment with policies to keep young people in education or training. In ten EU countries, spending on education decreased in real terms in the aftermath of the crisis.[21] With respect to long-term unemployment, another report drafted by the European Social Policy Network reaches discomforting conclusions, indicating that many long-term unemployed individuals do not receive effective social services or activation support once their unemployment benefit ends, and that in many countries the policy response is not adequate to the scale of the problem.[22] Although SI has gained momentum since the crisis, the gaps between countries and country groups seem to be increasing.

Part of the reason that the SI perspective has a prominent position in the academic and policy debate is the support it has received within the institutions of the EU. The Lisbon Strategy and the European Employment Strategy already contained elements of the SI idea, although they were biased in favour of labour market flexibility and a narrow ("workfarist") understanding of activation, with little redirection of spending on SI.[23] The EU2020 Strategy for "Smart, Sustainable and Inclusive Growth" can be viewed as a more balanced continuation of the Lisbon Strategy. Further steps to advocate SI and also to strengthen the social dimension of the EU were taken by the European Parliament with a resolution on SI in 2012 and by the Commission with the launch of the Social Investment Package (SIP) in 2013. The SIP can be seen as an attempt by the Commission to change the social policy agenda in Europe and shift the balance from short-term measures of fiscal consolidation to long-term and forward-looking objectives.[24] In the SIP, the European Commission explicitly states that welfare systems have to fulfil three functions: social investment, social protection and stabilisation of the economy. It is stressed that these three functions can be mutually reinforcing and that the protection function represents a precondition to the preservation and further development of human capital.

Although the SI concept has lost some of the prominence that it had achieved in the DG Employment and Social Affairs under Commissioner László Andor, there is abundant evidence for its presence in recent documents and policy recommendations produced by the Commission. The best example is the 2016 Annual Growth Survey, which emphasises the importance of "smart investments in Europe's human capital" and the fact that "investment priorities must go beyond traditional infrastructure and extend to human capital and related social investment". More importantly, this document does not restrict SI to expenditure on education and human capital formation in a strict sense, but calls for member states to "promote social investment more broadly, including in healthcare, childcare, housing support and rehabilitation services".

There remains a gap, however, between the objectives stated by the EU, with its ambitious goals in terms of improving human capital accumulation and reducing social exclusion, and the current policies and macroeconomic governance focused on consolidation rather than on mobilising resources for SI. The economic governance structure is built upon the Euro Plus Pact, the Stability and Growth Pact, and the European Semester, whereas the social dimension continues to rely on voluntary instruments such as the Open Method of Coordination. This institutional imbalance is mirrored in the strong bias towards austerity and short-term goals emanating from European policy in recent years, to the detriment of social inclusion and long-term objectives.

In a Communication from October 2013, the Commission explicitly addressed these deficits, proposing initiatives to strengthen the social dimension of EMU with "reinforced surveillance of employment and social challenges and policy coordination".[25] The European Council agreed to integrate the social dimension of the EMU into the European Semester, and as a result, in 2014 a new scoreboard to follow key employment and social developments was introduced by the Commission. While this development can be seen as a step on the way to introduce the SI strategy into the European Semester, substantial contradictions with respect to the role of social policy objectives remain at the EU level. The ECOFIN Council recently underlined that "social and labour market indicators are not relevant for identifying macro-financial risks and developments in these indicators cannot trigger steps in the [Macroeconomic Imbalance Procedure] process".[26]

Concluding remarks

In spite of some weaknesses, SI remains the most appropriate approach that is currently available to frame

21 F. Vandenbroucke, D. Rinaldi: Social inequalities in Europe – The challenge of convergence and cohesion, in: K. Barié, E. Thode, S. Bartels (eds.): Redesigning European welfare states, Vision Europe Summit, 2015, pp. 38-77.

22 D. Bouget, H. Frazer, E. Marlier: Integrated support for the long-term unemployed. A study of national policies, European Commission, Brussels 2015.

23 C. de la Porte, K. Jacobson: Social investment or recommodification? Assessing the employment policies of the EU Member States, in: N. Morel et al., op. cit., pp. 117-149.

24 J. Kvist, op. cit.

25 European Commission: Strengthening the Social Dimension of the Economic and Monetary Union, Commission Communication 690, 2 October 2013.

26 European Council: Council Conclusions on Alert Mechanism Report, Press releases and statements, 15 January 2016.

the objectives of modern welfare states and to devise consistent sets of policies. The focus on human capital and activation addresses key factors to secure high living standards and sustainable development in post-industrialised and rapidly ageing societies. The life course perspective provides a useful analytical grid to identify policies that support individual and familial biographies, which are characterised by more transitions and higher flexibility requirements than in the past. It is also conducive to tackle vicious circles of cumulative disadvantage within the life course and between generations. With its emphasis on long-term outcomes and multidimensional objectives, the SI perspective is consistent with the broader EU strategy aimed at managing the socio-ecological transition.

The objections which have been raised about the SI perspective have to be taken seriously, though. Policies to promote human capital and employment cannot fully substitute social protection and more traditional income support measures. The welfare state of the 21st century needs to rest on three pillars: human capital formation, activation and social protection. Complementarity among these pillars, and particularly between activation and social inclusion, cannot be taken for granted, but can be achieved through adequate policy design. The SI perspective represents a broad and flexible framework that has to be adapted to national circumstances.

Unfortunately, the current outlook for the implementation of SI in Europe is gloomy. There is a striking imbalance between the need for welfare state adjustment and the means and policy environment to achieve it. Reforms that enhance skill formation, support activation and reduce disadvantage pay off in the long run but can be costly at the beginning. Low growth perspectives and severe constraints on government budgets due to high debt levels and austerity have made welfare state adaptation more difficult. At the same time, the urgency of an SI turn has further increased, particularly in EU countries that were already lagging behind before the crisis. Growing asymmetries are a particular concern within the EMU, as diverging social developments add further pressure to the stability of the monetary union.

The EU institutions show a clear inclination towards using SI as a building block for an overarching European social policy paradigm. To become an effective policy paradigm and achieve its long-term objectives, the SI perspective ultimately needs a stronger anchoring within the EU architecture and more coordinated commitment from member states.