Introduction

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In a period of deep crisis and with classical neo-liberal solutions for both the economy and the welfare state having seemingly run their course, the question arises as to what kind of new strategies should be implemented to recover stronger growth, more and better jobs and more equality and social cohesion. Thinking has to go beyond immediate responses to the current crisis to discuss the kind of strategy that should be implemented in the medium to long term in order not to reproduce the failures of the recent past.

Ageing populations, the shift to a knowledge-based and service economy, deregulated financial markets, mobile global capital, environmental concerns and the threats of climate change are all part of a new context that calls into question past policy paradigms, whether they be neo-Keynesian or neo-liberal. The current global economic crisis is increasing uncertainties and pressures on governments as well as ordinary people. The consequences are difficult to overestimate, urgent to address the social agenda. The difficulties to raise new resources for long term spending purposes are obvious. We can be sure that it will become more difficult, not only because the tax bases will be eroded, but also because social protection expenditures, notably unemployment insurance, will automatically and massively increase. In the absence of adequate social insurance programmes some governments have found themselves forced to launch additional spending programmes.

It is obvious that the threat of a continued and aggravated downturn is forcing governments to rethink past policy paradigms. An interesting aspect of the global crisis in the financial system is that it is changing our views on what is possible. In our recent history we find other examples of how big changes may suddenly appear possible, or even inevitable. The unification of Germany is one example; the enlargement of the EU is another. How can we rethink the European future, beyond the Lisbon Agenda, beyond the big spending on the Common Agricultural Policy and with the prolongation of the time horizon with regard to the issue of climate change? Whereas investment in physical capital, such as infrastructure, has figured quite prominently as a policy instrument, human capital investments have perhaps been getting less attention in the debate. There are good reasons to change that.

Since the mid 1990s, a new 'social investment' paradigm has begun to emerge. As Jane Jenson reminds us in this report, 'the announced goals of the social investment perspective are to increase social inclusion and minimise the intergenerational transfer of poverty as well as to ensure that the population is well prepared for the likely employment conditions (demand for higher educational qualifications; less job security; more precarious forms of employment) of contemporary economies. Doing so will allow individuals and families to maintain responsibility for their wellbeing via market incomes and intra-family exchanges, as well as lessening the threats to social protection regimes coming from ageing societies and high dependency ratios. The state's role is to define its interventions and social protection practices so that these conditions will be met. In policy terms this implies increased attention to and investment in children, human capital and making work pay'.

In 2000, during the Lisbon Summit, the EU adopted part of this strategy when it expressed its intention of making Europe become 'the most dynamic and competitive knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion, and respect for the environment by 2010'.

With just one year left until the deadline, it seems that the goals of the Lisbon Strategy will be hard to meet, even more so with the new global crisis. Some countries have been more active than others in pursuing a social investment strategy, and the very content and impact of this strategy has differed considerably from one country to another.

In the Nordic countries this strategy has a longer history than elsewhere and has translated into an investment in high quality, universal childcare provision and generous and progressive family policies; massive investment in education and training for all; life-long learning; promoting job opportunity and equality for men and women; income maintenance programmes and high levels of minimum income, along with a relatively high degree of labour market flexibility to facilitate a more lively economic development (where non-profitable economic activities leave room for new, innovative and profitable ones). The Nordic countries have experienced high levels of growth during the last decade and are recognised to be amongst the most competitive economies, displaying high employment rates and low levels of unemployment, while still maintaining the lowest levels of inequalities. How sustainable are such policies in the current period?

Other countries have also adopted economic and social strategies aimed at 'modernising' (rather than dismantling) their welfare states with the aim of reconciling them with renewed economic growth. The UK (through its Third Way strategy) or the Netherlands (through flexicurity) are other examples of countries which have implemented reforms that are akin to a social investment strategy, i.e. reforming the welfare state to adapt it to the new economic context by reorienting its spending towards 'preparing' rather than 'repairing'.

Despite some important reforms or projects (such as the modernising of family policy and development of childcare facilities in Germany or attempts at introducing more flexibility along with new social protection measures in France), some countries seem a long way from adopting this new strategy. In most continental European countries, governments are still more preoccupied with balancing their old age and health care budgets than with restructuring their welfare system towards social investment policies. Looking at their activation strategies, it would seem that the policies pursued have led to a dualisation of the labour market and of social protection rather than to better and more equal job opportunities and social protection. In continental Europe, economic growth has been slower than in the Nordic countries and still partly organised around traditional industrial activities.

Since all countries are now confronted with a deep financial and systemic crisis, can the social investment strategy provide governments and the EU with some guidelines for the macro-economic and social policies to be implemented? What are the effects of climate change in the context of policy making? How can the discourse on sustainable policies for the climate inform policies that are aimed at social and economic sustainability? The time has come to reflect on how the various components of the 'social investment' strategy fit the new social, economic and ecological context. What have been the successes and failures of the social investment strategy in Europe? Where are the most important policy gaps to be found and how can they be filled?

The fact that investment today means fewer resources for consumption cannot be avoided. It may be that we the systems of social investment are affordable if the various programmes are adequately designed. The desirability of this is partly a question of value judgements and whether or not it is possible to extract the necessary taxes now and in the future will depend on what people want and probably on international co-operation. This makes the modernisation of our social and economic policies a democratic problem with national as well as international dimensions. Each and every step in the expansion of social policies in Europe has been subject to political conflicts and controversies. Over the past decade or so, to mention increased taxes has been somewhat of a 'third rail' in European politics. Recent trends and events suggest that there is room for change. That it is possible to think the unthinkable. What is at stake here is the political and social sustainability of the European Social Model. What is needed is the capacity to formulate and deliver credible policies to ensure not only the sustainability but also the improvement of the European social model. Can 'social investment strategy' achieve this? This is the core question of this report.

The chapters presented in this report aim at assessing the diversity, the feasibility and the relevance of the social investment strategy in Europe. Which policies have been implemented in the different countries, with how much success? Can we identify examples of good practice? What have been the key drivers of change or impeding factors in pursuing a social investment strategy? Are the goals defined in 2000 still relevant, and can they help face not only traditional European problems but also new issues created by the current crisis? Or do the current times require new, alternative strategies?

The first part of this report – *Content and Diversity of the Social Investment Strategies* – presents the underlying rationale and conceptual background to the social investment strategy before taking stock of the various social investment strategies implemented in different countries. Behind the notion of 'social investment', diverse programmes and policies have been developed. The chapters in this first section address the different facets of the social investment strategy and the different ways in which such social investment policies – seen in a broad sense – have been implemented in Europe. In doing so, they look at the political conditions that facilitate or hinder the adoption of social investment policies. Through the analysis of these various national examples, and through the comparison of these different approaches, the contributions address the adequacy of the chosen policy instruments and open for a discussion of the implications of the different strategies for the advancement of the Lisbon agenda.

Jane Jenson's contribution ('Redesigning Citizenship Regimes after Neoliberalism. Moving Towards Social Investment') examines the 'social investment' paradigm, defining its content in different settings to uncover its general policy logic. Stated briefly, the social investment strategy implies that spending should be made in the form of investments, such as in human capital, to support labour market participation in the future as well as the present or to confront new social risks (such as family breakdown, low wage work or unstable work, the challenge of balancing earning with social care, ageing) and poverty. The author also maps out the changes in social citizenship that result from this new social investment approach. Three dimensions of social citizenship are examined – rights and duties; access and governance; and the responsibility mix between the market, the family, the community and the state – in order to document the characteristics of the social investment perspective in comparison to two other policy paradigms, those of Keynesianism and neo-liberalism.

Kimberly J. Morgan's chapter ('Child Care and the Social Investment Model: Political Conditions for Reform') examines the political conditions for reforms that further one dimension of the social investment model, the development of publicly funded early childhood care and education programmes. Such services express the goals of this model in two ways: they invest in the human capital of mothers by helping them remain in paid work; and they invest in the human capital of children by providing them educational stimulation at an early age. Based on a cross-national analysis, this chapter shows that the political conditions for the full achievement of this model include widespread societal consensus on the acceptability of mothers' employment; the political domination of left-leaning political parties; powerful public sector unions, all of which are rarely obtained outside of Scandinavia. Instead, labour market concerns, demographic anxieties, and short-term political expediency are more likely to drive governmental policies to reconcile work and family. One result is that many of the policies currently being adopted do not necessarily further the aims of the social investment ideal. Long parental leaves, vouchers for the purchase of private services and inadequately-funded public programmes may offer some immediate support to parents but may not produce the kinds of social investments that advocates might hope for.

Giuliano Bonoli's contribution ('Varieties of Social Investment in Labour Market Policy') examines different types and approaches to active labour market policy from the perspective of social investment. Intuitively, active labour market policy can be seen as the locus of investment oriented social policy par excellence. Helping non-working individuals to find a job is a new approach to labour market policy that differs from both traditional left and right wing solutions. Yet active labour market polices in the real world display such high degree of variation that it is difficult to formulate encompassing judgments with regard to their social investment orientation. The author thus develops a conceptual distinction between different types of active labour market policy, making reference to different principles that can inform labour market policy: protection, investment and recommodification.

Moira Nelson and John D. Stephens' chapter on 'Human Capital Policies and the Social Investment Perspective: Explaining the Past and Anticipating the Future', shows how the social investment perspective provides pride of place to human capital policies that improve participation in education throughout the life-course. These policies are crucial not only because of the increased dependence on employment for wellbeing but also because skill needs within advanced industrialised societies have changed quite dramatically in the past three decades. In particular, demand has increased for both higher levels of skills as well as cognitive and social skills. Viewed from a historical perspective, investment in vocational education can be shown to follow an economic logic whereby firms in European economies rely on specialised vocational skills. The new skill needs brought on by the development of the knowledge-based post-industrial economy, however, outline an economic logic for the expansion of public education policies. Policy agendas aimed at advancing human capital policies as part of their social investment strategy need to address the growing economic benefits to educational investment.

Bengt-Åke Lundvall and Edward Lorenz ('On the Role of Social Investment in the Learning Economy: A European Perspective') suggest going beyond the idea of a knowledge based economy as put forward in the Lisbon agenda and propose a slightly different perspective – the learning economy – where the focus is upon the rate of change and the consequential requirements of constantly renewing capabilities in firms and competences for workers. They show, firstly, that innovation thrives in societies where workers are engaged in organisational learning and do creative work and secondly, that creative work is most widely diffused in egalitarian societies with a broad based and democratic education system and with labour market institutions that combine flexibility with active labour market policies and income maintenance for the unemployed. The analysis points to the need for combining such social policies with policies that promote organisational change. Starting from the learning economy perspective the authors argue that the major bottleneck for the realisation of the Lisbon Agenda has less to do with insufficient investments in research and development and more with big gaps between good and current practise in terms of organisational forms at the level of the firm and institutional frameworks at the national level.

Rita Nikolai's contribution, entitled 'Towards Social Investment? Patterns of Public Policy in the OECD World', seeks to identify empirically which countries can be said to have moved towards a social investment strategy and to what extent. Transforming social protection systems in a way that favours investment rather than compensation entails a shift of expenditures towards such areas as family policy, active labour market policies and education and training. This contribution traces the development of welfare state change in the more mature OECD member states. By using disaggregated programme expenditure and relating expenditure for investment measures and compensation expenditures, the author identifies diverse spending priorities across countries. Three groups of countries are thus identified. Northern European countries form the first group. Denmark, Finland and Sweden are characterised by high spending for both investment-related and compensatory social policies. Scandinavian welfare states provide a high level of security against risks such as old-age or unemployment, but without neglecting the investment-related policies. The Anglo-Saxon countries, Switzerland and Norway form the second group. These countries are characterised by low spending both for age and unemployment and for investment-related social policies. With the exception of Switzerland and the United States, all countries in this group spend more on investment-related compared to spending on compensatory social policies. The third group is composed of the continental European countries, Japan and Southern Europe. These countries spend higher levels on compensatory social policies while neglecting investment-related social polices. For instance, Germany, Greece, Japan, Spain and Italy exhibit far lower levels of education spending than one might expect on the basis of their levels of social spending.

The second part of the report – *'The Future of the Social Investment Strategy. Challenges for Europe in the Context of the Current Crisis'* – looks beyond the Lisbon Agenda and questions the relevance of the social investment strategy for tomorrow's world. Since all countries are now confronted with a deep financial and systemic crisis, can the social investment strategy provide governments and the EU with some guidelines for the macroeconomic and social policies to be implemented? Europe is having some difficulties becoming 'the most dynamic and competitive knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion, and respect for the environment by 2010'. What have been the successes and failures of the social investment strategy in Europe? Where are the most important policy gaps to be found and how can they be filled? The different contributions warn against short-sighted policies that may result from the current crisis and emphasise the importance of taking, instead, a long-term perspective and investing in well informed productive social policy.

Kerstin Jacobsson analyses the 'Achievements and Non-achievements of the European Employment Strategy', with a particular focus on active labour market policy and 'social investment'. She also discusses some ambiguities inherent in the European Employment Strategy and Open Method of Coordination as regards aim as well as methodology and policy content and the implications of these ambiguities for policy-making. Particular attention is given to the challenges connected to the enlargement of the EU. The apparent problems of implementing the European Employment Strategy are of crucial importance for any discussion of a future for the social investment strategy. A general problem here is the weak development of industrial relations. Another challenge is to improve local government and other stakeholders in the implementation process. Jacobsson argues that the increased emphasis (in the re-launched Lisbon strategy) on the differences in national contexts for the target settings might be one way to make advancements.

Thomas Lindh looks at 'The Future Needs for Social Investment in Ageing Populations', using Sweden as a pilot case. Ageing populations all over Europe have raised concerns about the sustainability of current welfare systems. The Swedish case provides both warnings and examples to learn from for the many fast-ageing European countries. The current crisis may very well lead to short-sighted decisions that undermine the opportunities to safeguard the welfare systems by a well-informed productive social policy. In the Great Depression Sweden faced a fertility crisis that profoundly affected social policy reform. The early baby boom in the 1940s that peaked with the return of peace in 1945 has provided both further motivation for social policy reforms as well as the means to do so. As the baby boomers of the 1940s now retire in the midst of the financial crisis, they are also causing a first crisis for the construction of the pension reform in the 1990s by releasing the 'brake' and lowering pensions to preserve long-run financial sustainability. The situation is complicated as the boomers from the 1990s are starting to fill the higher education system. Gloomy labour market prospects due to the crisis threaten to extend further the already excessively drawn-out period it takes for young people to become established as adults. A new baby boom fills the day-care centres and will soon require further expansion of the school system. Further on the horizon, the now-retiring boomers will increase the need for elderly care and health care and thus strain the intergenerational transfer systems. It is of paramount importance for the future welfare state in Sweden as well as in Europe that the social investment in the generation, both natives and immigrants, who will be taxed to finance it in the 2020s does not fall victim to depressed labour markets, failing education systems and pointless salvage packets pouring tax money into failing industries. Lindh argues that tight-fisted policy may well undermine the future welfare for the elderly. In an ageing Europe with high youth unemployment this may easily turn into a general trend. National differences in demographics and institutions need to met by appropriate priorities and timing for social policy reform.

Erik Westholm's chapter ('A Territorial Approach to Politics of Climate Change') addresses the issue of climate change and raises some questions about the future role of politics at the national level in Europe. What future do nation states have if (when) politics of climate change becomes the dominating project? Westholm looks at spatial politics within the welfare model. The analysis is based on: 1) an anticipated deepening of the economic and political globalisation; and 2) an increasingly urgent need to address issues related to land use/climate change. The two processes are already transforming the agenda for the EU and the Member States. In this chapter it is argued that territorial control will be increasingly important and that the nation states are likely to continue to be the key institutions also in an era marked by increased needs for cross-border collaboration in order to dramatically reduce the greenhouse gas emissions. In these efforts the states will have to strengthen international institutions and collaborations while at the same time using the specific capabilities of the regions and the local communities.

Bernard Gazier's contribution ('The European Employment Strategy in the Tempest: Restoring a Long-Term Perspective') critically examines the policies of 'flexicurity', situating the flexicurity prescriptions within a wider set of policy agendas currently explored or implemented regarding the dynamic adaptation of labour markets to the globalised world. It then uses this framework for understanding the present and possible position of 'flexicurity' in our world in coping with the crisis. Finally, it sketches out what could be a renewed agenda for the European Employment Strategy and a new component of the wider Lisbon Strategy. Gazier proposes a collective and structured version of the 'social investment' paradigm, connected to the 'Transitional Labour Market' approach, which aims at developing a 're-embedded' version of the European labour markets.

Roger Liddle's contribution ('Social Investment after the Crisis: Political Choices for Britain and their Implications for the European Union') begins by discussing the UK's claim to see itself as a successful exemplar of the social investment model in the past decade. The second section of the chapter considers the impact of the global financial crisis and recession on the UK and argues that we are at a critical juncture for social investment strategies. The long-term consequences of the global financial crisis are such that they will impose severe constraints on both the scope and volume of public expenditure over the next decade. In an environment of 'tough choices' and spending discipline, the future of the third way social investment model depends not only on whether and how public investment is targeted and maximised within the overall resources available, but also on the success of more activist policies to promote a return to sustainable economic growth. The final section of the chapter reviews the implications for the EU and the future of the Lisbon strategy or whatever replaces it.

Joakim Palme ('The Quest for Sustainable Policies in the EU: The Crisis and Beyond') concludes by reminding us that the emergence of a 'social investment strategy' a decade ago can partly be seen as response to the pressure for more redistribution by the European welfare states as a result of ageing populations. Moreover, the need to establish a new gender balance and a flexible working life was seen as critical for sustaining the welfare states in the context of deregulated financial markets and mobile global capital. In the European Union the need to promote social cohesion in countries with open economies has not been diminished by the 'enlargement'. The setting has also changed in other ways as the global financial crisis has turned into a crisis of the 'real' economy, resulting in rapidly falling growth rates and increasing unemployment. The chapter reflects on how the various components of the 'social investment' strategy fit this new setting. Where are the most important policy gaps to be found and how can they be filled? Palme argues that the political and social sustainability of the European Social Model is dependent on how credible policies can be formulated and delivered. The future economic sustainability of the model hinges, of course, on the number of taxpayers that can be mobilised and how productive they are. The author discusses principles and gives examples of good policies for further reflection.

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We hope that reading these contributions will stimulate both the scholarly and political debate on the future of the social investment approach. In academia, discourses on social policy, education and the labour markets have led separate lives for a long time. With the broader approaches and concepts such as production regimes new ground appears to have opened up, which have provided opportunities for cross-fertilisation of perspectives. In politics, discussions about ecological, economic, political and social sustainability have been pursued within different circles. It is time to change all this, without losing the academic rigour and without losing sight of the practical instruments needed to be successful policy wise. The economic crisis will, in many ways, impose constraints. Yet it also provides a chance to innovate and to prolong the time horizons for policy making. In Europe, with the Lisbon agenda coming to its close in 2010, the time is ripe to invent a new future.