Council *for*
European
Studies

Perspectives
on Europe

A European social investment strategy?

Nathalie Morel, Centre d'études européennes, Sciences Po
Bruno Palier, Centre d'études européennes, Sciences Po
Joakim Palme, Uppsala University*

Autumn 2011
Volume 41
Issue 2

Europe seems currently to be torn between two evils: reflation plans that sustain economic activity but increase deficits and debt, and austerity packages that are asphyxiating economic growth. Yet in the early 2000s, Europe had endorsed an alternative strategy, based on social investment, in an attempt to stimulate a new type of growth, with more and better jobs. This article tries to assess whether this strategy has been successfully implemented, where it got lost, and whether it could be a solution for the aftermath of the crisis.

Since the late 1990s, new ideas and strategies concerning the role and shape of the Welfare State have been formulated, with the focus being placed on developing policies that aim to 'prepare' rather than 'repair'. These ideas were developed and promoted most notably by the OECD (1996), Giddens (1998), Esping-Andersen et al. (2002) and Rodrigues (2003). The same ways of reasoning also underpinned the Lisbon Agenda, which the European Union adopted in 2000 in order to meet the future challenges of aging populations and the shift toward a knowledge-based and service economy. While different terms and labels have been used, all these analyses and policy developments point toward a similar policy logic based on 'social investment' (Jenson and Saint Martin 2003; Jenson, 2012).

*Authors may be contacted at nathalie.morel@sciences-po.fr, bruno.palier@sciences-po.fr, and joakim.palme@statsvet.uu.se.

The social investment perspective is intended to sustain a different economy than that after 1945 – the knowledge-based economy. In this new economy, knowledge is considered as the driver of productivity and economic growth. The knowledge-based economy thus rests on a skilled and flexible labor force, which can easily adapt to the constantly changing needs of the economy but also be the motor of these changes. The social investment perspective also aims at modernizing the postwar welfare state so as to better address the new social risks and needs of contemporary societies, such as single parenthood, the need to reconcile work and family life, lack of continuous careers, more precarious forms of contracts, and possessing low or obsolete skills (Bonoli 2005).

Consequently, the social investment approach rests on policies that both invest in human capital development (early childhood education and care, education and lifelong training) and that help to make efficient use of human capital (through policies supporting women's and lone parents' employment, through active labor market policies, but also through specific forms of labor market regulation and social protection institutions that promote flexible security), while fostering greater social inclusion (notably by facilitating access to the labor market for groups that have traditionally been excluded).

Not only do the countries in Northern Europe have more generous social protection systems, but they have also been able to maintain investment in education during times of crisis.

In this new perspective, social policies are viewed as a productive factor, essential to economic development and to employment growth. At the EU level, as part of the Lisbon Agenda, such productive social policies were expected to make Europe "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." How far has the social investment perspective actually shaped policymaking at the European and national level and what have been the achievements and failures of this strategy?

If we want to assess the relevance of the social investment strategy, we also have to ask if there is any future for it in the post-crisis context. The economic crisis requires policy reactions that are matching the challenges ahead. But the reactions of the EU Commission and a number of European leaders, as well as from many Republicans on Capitol Hill, do not give much hope. In some ways, the 'austerity paradigm' that these actors share is understandable in light of the systematic failure of the Southern European countries to control their public finances throughout the business cycle. However, what is striking is that the main problem of these countries is not that they have high public social expenditures, but rather that they have modest and apparently insufficient revenues. In contrast not only do the countries in Northern Europe have more generous social protection systems, but they have also been able to maintain investment in education during times of crisis (Palme et al. 2003). This indicates that it is possible to choose between different functional alternative strategies of crisis management.

What policies for a social investment strategy?

Three areas of public policy stand out as particularly central to the social investment strategy: human capital improvement, the relation between the productive sphere of the economy and the reproductive sphere of the family, and employment relations. In all these areas, *capacitating* public services stand out as crucial components of a strategy that aims at preparing the population to the particular social risks caused by life course contingencies (Hemerijck 2012).

Education and training policies constitute the most obvious method of improving human capital and skills – particularly cognitive and social skills – relevant to the service-based knowledge economy. Skill acquisition in formal institutions begins in early childhood education and care, and continues in the primary, secondary and tertiary stages of education. Skill acquisition during these stages of education is realized through policies that promote high enrolment and quality instruction. Skill maintenance and improvement is typically realized through lifelong training opportunities. Other types of public policies, though, such as sick pay or generous unemployment benefits, along with adequate rehabilitation programs and active labor market policies, can also protect the value of individuals' skills. Human capital policies that foster the expansion of high-quality jobs therefore include those that aid in both the acquisition of skills and the protection of the value of the skills already acquired. Well-designed unemployment insurance benefits carry the potential of also improving matching process on the labor market by working as search subsidies.

The focus on the relation between the productive and the reproductive spheres hinges on policies that help parents combine work and family life. Here the aim is both to increase labor supply by supporting mothers' employment in order to foster economic growth and ensure the long-term fiscal sustainability of welfare systems, but also to make families less exposed to the risk of poverty, and children less exposed to the intergenerational transmission of poverty and inequalities. An underlying aim is also to enable families to realize their desired fertility. Policies put forward typically include child-care services and parental leave schemes. Of crucial importance here is the quality of the child-care services and the design and generosity of the parental leave schemes, both for providing children with equal opportunities at the earliest age and for their cognitive development, and for promoting gender equality.

The third area of focus, employment relations, seeks to address the issue of the increasingly differentiated employment patterns throughout the life course in order to reduce the probability of being trapped into inactivity and welfare dependency. The issue is not maximum labor market flexibility or the neo-liberal mantra of 'making work pay' by restricting benefits in order to avoid the development of a 'culture of dependency'. Instead, the idea is that social policy should help to 'make work pay' through positive economic incentives, that it should assist in promoting the creation of 'quality jobs', and that it should provide 'active securities' or 'social bridges', in order to lessen the individual cost of non-standardized employment relations.

While a fairly broad consensus prevails concerning the policies needed to promote the development of human capital, this is less true with respect to policies to address work-family life balance, or policies to accompany life-course transitions. If there is general agreement across Europe that the state should provide publicly funded primary and secondary education, there is less advancement in terms of reaching consensus even among social investment proponents regarding the desirability, type and extent of public support to enable families to reconcile work and family life. Likewise, while there is strong agreement on the necessity to raise employment levels, there is some ambiguity regarding the means for 'activating' people and for promoting more flexibility on the labor market. This comes out clearly when one assesses the policies that have effectively been implemented across Europe.

How far have social investment strategies shaped European social policy?

Despite the widespread discourse on the necessity to reorient welfare state spending toward more proactive forms of expenditures, the analysis of the spending profiles of welfare states shows that while there has been an increase in public social expenditure as a percentage of GDP across countries since the 1990s, this increase has not translated into an increase in expenditure on social investment-type policies. On the contrary, compensatory forms of expenditure, particularly on old age, have increased everywhere, while the typical social investment expenditure – education – has decreased in most countries. This decrease is partly explainable by the diminishing size of student cohorts due to demographic changes, but it does show that there has been no emphasis on increasing investments in education, not least when one considers that the number of years in education has tended to increase. Only in the field of family policy has investment-oriented social expenditure increased.

Based on expenditure data, it appears that only the English-speaking and the Nordic countries can be said to have developed more social investment types of policies, but represent remarkably different examples of social investment in action. The Nordic version of the social investment approach spends much on investment-related social policies as well as on old-age and passive labor market policies, while the British case shows a reorientation of public social expenditure away from compensatory social policies toward more social investment-oriented policy domains (education and family policy, but not active labor market policy) (Nikolai 2012).

When looking at individual public policy areas, the picture becomes more complex. In terms of investing in human capital through education, the Nordic countries, along with Belgium and France, top the charts. However, Belgium and France do poorly if one looks at participation rates in education and training for those 18 to 64 years old. Here, Denmark and Sweden are clear leaders (38.1 percent and 29.5 percent in 2010, respectively), followed by the Netherlands and the UK (23.3 percent and 22.2 percent, respectively), while other countries lie around 12 percent only.

Spending on family policy has increased virtually everywhere and policies that help parents to combine work and family life and thus contribute to supporting the employment of mothers and lone parents (while also helping parents reach their desired fertility) have been developed in all countries, but along very different lines. Here, too, the Nordic countries stand out for the generosity of their parental leave schemes, their attempts to promote gender equality and the wide coverage of quality child-care services they provide, but other countries in which such policies were traditionally underdeveloped have recently invested quite substantially in this area. This is particularly true of Germany, which has reformed its parental leave scheme along lines similar to the Nordic model and has started to invest in the development of child-care services, as well as of the UK, which has been investing in early childhood education and care according to an explicit social investment strategy. However, while the UK strategy focuses on providing children, especially in deprived areas, with better opportunities from a young age, it has not sought to address the gender inequalities that prevail on the labor market, and women's career patterns continue to be affected very negatively by motherhood. In other countries, while women's employment has been encouraged in different ways, this has not been done along lines consistent with a strategy that seeks to promote quality care and education for all children, or gender equality (Morgan 2012).

Finally, as far as employment policies are concerned, it is difficult to distinguish a turn toward social investment-oriented labor market policies. Conditionality in unemployment insurance has been increased in most member states, replacement rates have been retrenched, and the duration of benefit periods shortened. Activation schemes are far from comprehensive, workfarist rather than individualized, and come in the form of counseling rather than comprehensive training. The quality of activation services does not live up to the social investment ideal that was supposed to be inherent in the European Employment Strategy. The reform of education, activation and training institutions has in most member states not been deep enough to be labeled social investment (De la Porte and Jacobsson 2012). In fact, in a historical perspective it appears that there was a greater social investment orientation in labor market policies during the 1950s and 1960s than there is today (Bonoli 2012).

While the social investment strategy seems to have had only a partial impact on recent reform trends in most European welfare states, there are nonetheless good reasons for not discarding it as a strategy for the future. Indeed, one also sees some successes for the social investment approach. The experience of the Nordic countries, where a social investment strategy has been pursued for a

> *The global financial crisis does not yet seem to have been interpreted as a crisis of neo-liberalism, and the austerity cures that are being imposed on countries across Europe are likely to trigger an even deeper crisis...*

long time, suggests that social investment policies can be used to successfully combine social and economic goals. These countries display high and broad-based education levels, which appear to translate into high levels of social capital and social cohesion, greater learning and innovation capacity at work (making these countries among the most competitive economies in the world), more flexibility on the labor market linked to a system of 'flexicurity' and generous unemployment benefits to ease transitions, and good economic growth that includes the creation of more and better jobs (Lundvall and Lorenz 2012; Nelson and Stephens, 2012). These countries also display higher female employment rates, lower poverty rates, including lower transmission of intergenerational poverty. They have been dealing successfully with demographic issues, both in terms of providing care for the elderly and in maintaining fertility levels, and are also the most successful when it comes to implementing climate mitigation policies (Sommestad 2012).

The key to this success seems to be the fact that the Nordic countries have not pursued a simple reorientation strategy with their welfare systems toward more activation, but have instead combined strong protection with heavy social investment, with the aim to promote social equality as well as gender equality. They also pursue a very comprehensive strategy that invests in capacitating quality services to support people throughout the life course, starting from early childhood education and care through primary to college education, to lifelong training and active labor market policies, and which seeks to promote equality of access as well as equality of outcomes. A key finding here is that not only do "more equal societies almost always do better" (Wilkinson and Pickett 2009), but egalitarian systems are also the ones that appear to be the most innovative and competitive in the world economy.

What future for social investment in a post-crisis context?

At the EU level, even though the Lisbon Strategy has been associated with the social investment approach, the EU has often played against the development of proper social investment policies due to the tensions embedded in the Lisbon strategy, which was a compromise between neo-liberal and social investment ideas. And while the new EU2020 Agenda emphasizes the importance of research and higher education as well as of combating school dropout and reducing poverty, the macroeconomic focus is on controlling public expenditures rather than on increasing the revenue for investing in the future, and this has been exacerbated by the global financial crisis of 2008. Thus the role of the state as a necessary social investor is confronted with the overriding public finance constraint, anchored in the Maastricht criteria and the Stability and Growth Pact. Since 2010, the EU is merely promoting austerity packages, without giving space to social investment anymore.

This global financial crisis does not yet seem to have been interpreted as a crisis of neo-liberalism, and the austerity cures that are being imposed on countries across Europe are likely to trigger an even deeper crisis by suffocating any possibility of economic growth and thus of fiscal receipts. This, in turn, may trigger a deep political crisis, leading to a shift away from neo-liberalism. The outcome of a political crisis cannot, however, be predicted with any certainty. While such a crisis could pave the way toward a social investment strategy, it might alternatively trigger a turn to protectionism and nationalist xenophobic policies. Wide public unrest and riots are other possible scenarios (Diamond and Liddle 2012).

In this context, it appears relevant to reflect on the achievements and shortcomings in the management of economic crises in the past. The Nordic experience in the early 1990s provides some important lessons (Palme et al. 2003). Finland was hit first, partly because of the economic integration with the dissolving Soviet empire. The falling employment triggered a rapid deterioration of public finances and the policy reaction was quick and harsh. However, the austerity measures were so drastic that they fueled the downward employment spiral, resulting in unemployment levels approaching 20 percent. The crisis in Sweden came a little later and the government tried to avoid repeating Finnish history by instead phasing in the benefit cuts and tax increases gradually. Yet, in retrospect, the Ministry of Finance concluded that it had been forced to pursue monetary and financial policies that were too tough, resulting in a prolonged employment crisis. Still, in the midst of the crisis, both countries gave priority to human capital investment, in Sweden, for example, by giving unemployed persons the opportunity to complete a secondary education while receiving unemployment benefits.

In the past few years, Germany has also provided an alternative socio-economic model to social investment, in which increasing competitiveness in the traditional manufacturing industry by reducing the cost and social protection of labor, as well as fiscal discipline, are core components. Such a strategy also finds its expression in the Pact for the Euro and now the Euro Plus Pact (formerly Competitiveness Pact). Germany's success in considerably reducing unemployment levels and its position as the main engine of growth in the eurozone make the German model a credible competitor to the social investment perspective. Yet this economic success hides growing inequalities and a 'dualization' process between protected and productive insiders in 'good jobs', and an increasing mass of outsiders in atypical jobs with low incomes and poor social protection (Emmeneger et al. 2012). This strategy cannot be sustainable in the long-run, with too many negative externalities involved in terms of increased in-work poverty, social and economic dualisms, and an orientation toward low-skilled, low-quality jobs that cannot remain competitive in the global economy.

Thus the greatest challenge for the social investment perspective is to become a coherent and convincing economic and social policy alternative for the years to come. Much depends on our ability to rethink and reformulate the prevailing economic 'doxa'. An important element to put forward in this respect is the notion of 'productive social policy', which recognizes the macro- and micro-dynamics of social policy that carries the potential of delivering economic benefits to both individuals and society. This, in turn, urges us to take seriously the idea that social outlays can yield long-run dividends for both individuals and society as a whole, meaning that there is a good case to be made for counting such outlays as productive investments rather than as consumption, and thus for rethinking the way national accounting systems are held (cf. Esping-Andersen 2005). This also requires us to rethink the usual time horizon for policymaking, as this is a precondition for sustainable development (Lindh 2012).

References

Bonoli, Giuliano. 2012. "Active labour market policy and social investment: a changing relationship." in N. Morel, B. Palier and J. Palme (op. cit.).

Bonoli, Giuliano. 2005. "The Politics of the New Social Policies: Providing Coverage against New Social Risks in Mature Welfare States." *Policy and Politics* 33(3): 431–49.

De la Porte, Caroline, and Kerstin Jacobsson. 2012. "Social Investment or Re-commodification?: Assessing the

Employment Policies of the EU Member States." In N. Morel, B. Palier, and J. Palme (op. cit.).

Diamond, Patrick, and Liddle, Roger. 2012. "Aftershock: The Post-crisis Social Investment Welfare State in Europe." In N. Morel, B. Palier, and J. Palme (op. cit.).

Emmeneger, Patrick, et al., eds. 2012. *The Age of Dualization: Structures, Policies, Politics.* Oxford: Oxford University Press. Forthcoming.

Esping-Andersen, Gøsta, et al. 2002. *Why we Need a New Welfare State*. Oxford: Oxford University Press.

Esping-Andersen, Gøsta. 2005. "Indicators and Social Accounting for 21st Century Social Policy." In *Statistics, Knowledge and Policy: Key Indicators to Inform Decision Making*. Paris: Organisation for Economic Co-operation and Development, 176–85.

Giddens, Anthony. 1998. *The Third Way: The Renewal of Social Democracy*. Cambridge: Polity Press.

Hemerijck, Anton. 2012. "Two or Three Waves of Welfare State Transformation?" In N. Morel, B. Palier, and J. Palme (op cit.).

Jenson, Jane, and Denis Saint Martin. 2003 "New Routes to Social Cohesion? Citizenship and the Social Investment State." *Canadian Journal of Sociology* 28(1) 77–99.

Jenson, Jane. 2010 "Redesigning citizenship regimes after neoliberalism. Moving towards social investment." in N. Morel, B. Palier and J. Palme (op.cit.).

Lindh, Thomas. 2012. "Social Investment in the Ageing Populations of Europe", in N. Morel, B. Palier, and J. Palme (op. cit.)

Lundvall, Bengt-Åke, and Lorenz, Edward. 2012. "Social Investment in the Globalising Learning Economy – A European Perspective." In N. Morel, B. Palier, and J. Palme (op. cit.).

Morel, Nathalie, Bruno Palier, and Joakin Palme, eds. 2012. *Towards a social investment welfare state? Ideas, policies and challenges.* Bristol: Policy Press.

Morgan, Kimberly. 2012. "Promoting Social Investment through Work-Family Policies: Which Nations do it and why?" In N. Morel, B. Palier, and J. Palme (op. cit.).

Nelson, Moira, and John Stephens. 2011. "Do Social Investment Policies Produce More and Better Jobs?" In N. Morel, B. Palier, and J. Palme (op. cit.).

Nikolai, Rita. 2012. "Towards Social Investment? Patterns of Public Policy in the OECD World." In N. Morel, B. Palier, and J. Palme (op. cit.).

Organisation for Economic Co-operation and Development. 1996. *Beyond 2000: The New Social Policy Agenda*. Paris: OECD.

Palme, Joakim, et al. 2003. "A Welfare Balance Sheet for the 1990s." *Scandinavian Journal of Public Health* Supplement 60, August.

Rodrigues, Maria João, ed. 2003. *The New Knowledge Economy in Europe: A Strategy for International Competitiveness and Social Cohesion.* Northampton: Edward Elgar.

Sommestad, Lena. 2012. "Climate Policy and the Social Investment Approach: Towards a European Model for Sustainable Development." In N. Morel, B. Palier, and J. Palme (op. cit.).

Wilkinson, Richard G., and Kate Pickett. 2009. *The Spirit Level: Why More Equal Societies Almost Always Do Better*. London: Allen Lane.