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#### **The Social Investment Welfare State in Europe, 1990s and 2000s: Economic Ideas and Social Policies**

**欧洲 1990 年代及 2000 年以来的社会投资福利国家：经济思想和社会  
政策**

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**Abstract:**

Since the late 1990s, new ideas and strategies concerning the role and shape of the Welfare State have been formulated. All these analyses and policy developments point towards a similar policy logic based on 'social investment'. The aim of this paper is to map out the contours of this new perspective, both at the ideational level and in terms of the policies implemented throughout Europe. It also aims at assessing the achievements, as well as the shortcomings, of this strategy. In doing so it provides a critical analysis of the content and coherence of the social investment ideas and policies and opens up for a discussion of whether the social investment perspective can provide adequate responses to challenges such as population ageing, the impact of the economic crisis and environmental issues.

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Since the late 1990s, new ideas and strategies concerning the role of social policy for societal development have been formulated. Around the world, many of these analyses and policy agendas point towards a similar policy logic based on “social investment”. The purpose of this paper is to provide a critical analysis of this social investment perspective both at the ideational level and in terms of the policies implemented in some of the most affluent countries in the world. By assessing the achievements, as well as the shortcomings, of social investment-oriented policies, we aim to provide the ground for a normative discussion of what is missing in the social investment approach. The question is whether the social investment perspective can provide adequate responses to the challenges of changes in the population structure, rising inequalities, unemployment, the impact of the financial crisis and environmental issues. We argue that this is contingent not only on the specific design of the policies where the quest for quality is a key element, but also on a successful combination with other policies that can reduce inequalities, notably social protection policies and policies aimed at promoting gender equality. Moreover, the social investment policies need a new macroeconomic framework and a political framing able to mobilize a majority of citizens.

### **The early origins of social investment**

The early origins of the social investment perspective can be traced back to the early years of the social-democratic Swedish welfare state. Against the background of the Great Depression and a severe fertility crisis, Alva and Gunnar Myrdal developed a new conception of social policy oriented towards the efficient organisation of production and reproduction, and which viewed social policy as an investment rather than a cost. They developed their ideas in a number of reports and books, and most famously in their 1934 book *Krisi befolkningsfrågan* (‘Crisis in the population question’). Here they used the demographic argument to overcome the Conservatives’ resistance towards the development of a more ambitious social policy.

Turning around the Conservatives’ concern with both the quantity and quality of the population, they put forward the argument that the decline in fertility was due to socio-economic hardship brought about by industrialisation and fast urbanisation: children were no longer seen as extra labour on the farm, but as an extra cost for households and an extra burden in overcrowded housing. Policies were therefore needed to provide economic support to families – both through cash transfers and through policies supporting a family in which both parents were working - and to improve housing standards in order to promote fertility. Increasing fertility was not an aim in itself, however. More important than the ‘quantity’ of the population was its ‘quality’. Here the Myrdals addressed the Conservatives’ eugenic preoccupations with the quality of the Swedish population by arguing that the ‘quality of children’ was not biologically determined, but linked to socio-economic factors and to education (Appelqvist 2007).

While the Myrdals addressed the demographic concerns of the time, their argument was also, in a period of deep economic crisis, very much linked to a concern with economic growth and productivity: without a healthy and educated population that also reproduced itself, the productivity of the economy could not be sustained. Social policy was presented not simply as a means for the provision of individual security and redistribution, but also for the efficient organisation of production. This new understanding of the role of social policy was encapsulated under the term ‘productive social policy’ which Gunnar Myrdal coined (Andersson 2005). ‘Productive social policy’ can be interpreted as an economic discursive defence of solidarity and individual security, advocating social rights with reference to their effects on economic efficiency (Andersson 2005, 3-4). This is in some respects similar to the Keynesian understanding of economic growth and social policy but the Keynesian countercyclical demand-side macroeconomics was less oriented towards human capital development and investments in the future.

### **Social investment, Keynesianism and Neo-liberalism**

Keynesianism rose to prominence in the wake of the Great Depression and came to dominate macro-economic policies across the OECD countries until the late 1970s (Hemerijck 2012). Keynesian economic theory offered a new understanding of the causes of slow growth and unemployment, linking them to problems of insufficient demand and of the natural tendency towards cyclical fluctuations of unfettered capitalism. Keynes saw government intervention in the economy in the form of monetary and fiscal policy as necessary for the stability of the economy. Public spending in particular could function as an important regulator which could be used to stimulate the economy at a time of a slump or to dampen growth if it happened too quickly. In this respect, spending on welfare policy was seen as a particularly useful economic tool, helping to balance the economy in periods of recession.

While Keynesianism shared with the Myrdals’ productive social policy approach a belief in the mutually reinforcing qualities of social policy and economic growth, the two approaches also differ on a number of points. For one thing, the Keynesian welfare state development was based on a sort of class compromise but had a conservative blend. Unlike the Myrdal’s emphasis on supporting female labour market participation and gender equality, and on promoting children’s wellbeing and social rights, Keynesian employment and social policies very much supported the traditional family and the male breadwinner model (a model of family within which the man is taking paid work and the woman remains a housewife and is in charge with unpaid domestic and care work). Keynesian policies were primarily preoccupied with men’s employment opportunities, along with men’s social rights. While women and children also benefited from social benefits, this was through their link to a male breadwinner (Jenson 2012).

Keynesianism is also founded on a different notion of time than that associated with the productive social policy approach. In the latter approach, social policy was more explicitly conceptualised as an investment, which would yield returns not just in the present (propping up demand) but also in the future (notably through investment in the education and health of young children, and through investment in human capital more generally). The social policies developed under the Keynesian epoch in OECD countries were thus mainly ‘passive’ social policies to promote and sustain demand, notably through the development of cash-transfer programmes in the form of social insurances.

Following the economic crisis of 1974 and Keynesian economic theory’s incapacity to explain and respond to the simultaneous rise in unemployment and inflation, Keynesian economic policies came under severe attack from proponents of neoliberal macroeconomic theory, ultimately leading to a paradigmatic shift from Keynesianism to monetarism which became the dominant economic ideas within international organisation and were progressively adopted by governments in the US and in Europe in the 1980s (Hall 1993). The new neo-liberal paradigm placed the emphasis on budgetary rigour, wage restraint, monetarism and corporate competitiveness (Jobert 1994). In this macro-economic thinking, social expenditures no longer played a central role in ensuring economic growth. In fact, social policies became portrayed as a cost rather than a stimulator of economic growth or a promoter of political and social stability. For neoliberals, inequalities were inherent in markets and in fact necessary to motivate economic actors.

For neoliberals, unemployment was thus a microeconomic problem of market distortions linked to strong job protection, high minimum wages and generous unemployment insurance, rather than as a macroeconomic problem of insufficient demand (OECD 1997). Generous social policy was held responsible for poor job-search motivation and for creating a culture of dependency (Hemerijck 2012). The understanding of the causes of unemployment and slow growth, and thus the remedies put forward, therefore shifted from a demand-side to a supply-side approach. Such a view was accompanied by a growing demand for the role of the State to be rolled back, since it was perceived as too costly and inefficient, and for a reallocation of social responsibilities towards other social actors, such as the market, the family or community associations (Jenson 2012). The neoliberal perspective was oriented towards the future: the argument against public spending and public deficits was made in the name of future generations whose wellbeing should not be mortgaged.

### **Social investment on the agenda**

Starting in the late 1990s, new ideas concerning the role and shape of social policy and its role in relation to the economy began to emerge, first in South and

Central America, some South-Eastern Asian countries, soon after taken up by international organisation like UNICEF or the OECD, and then spread within Europe (Jenson and Saint Martin 2003, Perkins, Nelms and Smyth 2004). While there is no unified theory and no single intellectual source behind these new ideas, and while different labels have been used, these different conceptions have in common the fact that they stress the productive potential of social policy and thus provide a new economic rationale for social policy provision. These ideas developed partly as a critique of neoliberalism but in some ways they also build on the neoliberal critique of the traditional post-war welfare state. Above all, the ideas put forward are based on an understanding that social policies need to respond to a changed economic and social order.

The increasing polarization and poverty rates, including of in-work poverty, which appeared - especially in those countries that had gone furthest in implementing neoliberal policies - and the growing problem and cost of social exclusion, gave rise to a critique of neoliberal social prescriptions. At the same time, in Europe, the traditional post-war male-breadwinner welfare state came under increasing criticism, not least from social policy analysts who argued that the 'old' welfare state was ill-equipped to deal with the transition to post-industrialism, the social and demographic transformations of families and society, and the resulting emergence of new social risks. Likewise, the financial sustainability of not least the Continental European welfare states, and their capacity not to mortgage the wellbeing of future generations, has been severely questioned (Esping-Andersen et al. 2002).

Traditional forms of 'passive' social policy intervention of the post-war welfare state have moreover come to be presented as out of kilter with the needs of the new economy, often described as the 'knowledge economy'. It is argued that to succeed in this 'knowledge economy' it is necessary to have a highly skilled and educated workforce, who can quickly adapt to the constantly changing needs of the economy, and who is also the motor of this change thanks to its creative and innovative potential. In this thinking, unemployment is linked to a lack of adequate skills to fill today's jobs, and this lack of adequate skills and education is also expected to stymie future economic growth and employment creation, unless the necessary investments are made to foster human capital development (OECD 1997, EU 2009). These different criticisms have led to calls for a modernisation of welfare systems.

While the social investment perspective maintains a belief in the efficacy of the market system (Perkins et al. 2004, 2), it qualifies in important respects the neo-liberal belief that unfettered markets are necessarily the most appropriate and efficient organising principle in all circumstances. The social investment perspective acknowledges the importance of market failures and the need for government intervention and direction of market forces in order to improve both economic and social outcomes. Contrary to neoliberalism, the social investment perspective is based on a more positive theory of the State. While the State is still portrayed as a dynamic

entrepreneur, it is expected to have the public interest in mind (Giddens 1998). Furthermore, the State is assigned a key role in fostering the development of human capital and in providing the necessary services and benefits to help make efficient use of human capital and to avoid human capital depletion.

One of the main aims of the social investment approach is to minimise the intergenerational transfer of poverty (Jenson 2012), but also to promote the intergenerational transmission of knowledge. While the policies put forward focus on promoting equal opportunity in the present, this is expected to produce benefits in the future in terms of a reduction in the intergenerational transfer of poverty and inequalities, but also in terms of economic and employment growth.

By emphasising the economic benefits for society of new forms of social policy that invest in human capital, the social investment perspective revives the concept of 'productive social policy'. In fact, the European Commission has been using that concept of 'productive social policy' since 1997 (Hemerijck 2012). The economic arguments in favour of considering social policy as a productive factor have since then been put forward most notably in a report for the Employment and Social Affairs General Directorate of the European Commission entitled 'Costs of non-social policy: towards an economic framework of quality social policies – and the costs of not having them' (Fouarge 2003).

### **The social investment perspective as an 'emerging paradigm'**

The social investment perspective is not yet forming a new policy paradigm on par with the previous ones, although there is certainly a shared new set of ideas that have spread across the international community at the level of international organisations such as the OECD, UNICEF, EU, and the World Bank (Mahon 2008, Jenson 2010). These ideas have also been circulated through an international epistemic community and integrated in the discourses and practices of most European governments. While there seems to be a certain convergence on the understanding of the nature of the problems, it is not yet entirely clear that there is a shared belief in the failure of neoliberalism as an economic paradigm to address the economic and social challenges of the early 21st century. In order to be able to assess the 'paradigmatic status' of the social investment perspective, it is warranted to do some further explorations of the ideas, policies and implementation of the social investment perspective.

From the point of view of economic and policy ideas, the clear message is that a new and coherent set of ideas is emerging, even if there is some degree of ambiguity around some of the ideas. The social investment perspective was developed with the dual ambition to modernise the welfare state so as to better address the new social

risks and needs structure of contemporary societies and ensure the financial and political sustainability of the welfare state, and to sustain a knowledge-based economy. Central to the social investment perspective is the attempt to reconcile social and economic goals.

The focus is on public policies that ‘prepare’ individuals, families, and societies to adapt to various transformations, such as changing career patterns and working conditions, the development of new social risks, population ageing and climate change, instead of simply generating responses to ‘repair’ damages after markets fail or existing policies prove inadequate. By addressing problems in their infancy, the social investment paradigm stands to reduce human suffering, environmental degradation and government debt. With regards to the modernising of the welfare state, the contention of the social investment perspective is that the sustainability of the welfare state hinges on the number and productivity of future taxpayers (Esping-Andersen et al. 2002, Lindh and Palme 2006). This perception of the problems calls for policies that broaden the tax-base by raising employment levels and which also increase the productivity and quality of work. A clear element of the social investment perspective is that investing in human capital should enable the creation of more and better jobs. With respect to the economic goals, social investments are expected to generate returns in the form of economic growth.

### **The Social investment policies**

What kind of policies can be said to underpin the social investment perspective? A first policy domain relates to investment in human capital. The policy recommendation to invest heavily in human capital is also based on the observation of a causal structure where education has been shown to be the central driving variable for GDP growth in Europe (Lindh and Palme 2006). In light of the demonstrated benefits to high employment levels (Nelson and Stephens 2012), it is clear that policies that invest in human capital are of crucial importance. Education and training policies constitute the most obvious method of improving 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. Other types of public policies, though, such as sick pay or generous unemployment benefits, along with adequate rehabilitation programmes and active labour 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 labour market by working as search subsidies (Sjöberg et al. 2010).



A second policy domain relates to the relation between the productive and the reproductive spheres, and hinges on policies that help parents combine work and family life. Here the aim is both to increase labour 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. An underlying aim is also to enable families to realize their desired fertility. Policies put forward typically include childcare services and parental leave schemes. Of crucial importance here is the quality of the childcare 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 to promote gender equality (Morgan 2012).

A third policy domain focuses on employment relations, and seeks to address the issue of the increasingly differentiated employment patterns over the life course in order to reduce the probability of being trapped into inactivity and welfare dependency. The policy imperative is for 'making transitions pay' over the life cycle through the provision of 'active securities' or 'social bridges', ensuring that non-standardized employment relations become stepping stones to sustainable careers' (Hemerijck 2012).

The focus on investing in human capital is perhaps the policy domain which gathers the greatest consensus amongst social investment proponents, the idea receiving support from neo-classical as well as heterodox economists, while policies to address work-family life balance appear to be more contested. 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 amongst 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 labour market.

### **The still partial and weak implementation of social investment policies in Europe**

Any attempt to assess the outcomes of social investment policies has to face the fact that only a few countries can be said to have implemented such policies in a comprehensive fashion. A second issue is that there has been no general increase in public expenditure on social investment type policies. Another complication is that some countries have implemented social investment programs with a restricted focus on human capital but without maintaining adequate compensatory policies.

Drawing a distinction between compensatory and social investment-related expenditure helps us to broadly characterize the different welfare state configurations

as they appear in the early 21st century (Nikolai 2012). Contrary to the idea of a shift from passive to active social expenditure, the first main evidence is that while there has been, in OECD countries, and mostly in Europe, an increase in public social expenditure as a percentage of GDP, this increase has not translated into an increase in expenditure on social investment type policies (see also Hudson and Kühner 2009). On the contrary, the typical social investment expenditure, education, has decreased in most European 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 social expenditure increased.

Beyond these common trends, ‘four worlds’ of spending profiles can be identified on the basis of size of the compensatory expenditures, on the one hand, and of social investment-related expenditures, on the other (Nikolai 2012). Countries on the European continent typically spend much on compensatory policies but not on social investment. The Nordic version of the social investment approach spends much on investment-related social policies as well as on old-age and passive labour market policies, while the UK shows a re-orientation of public social expenditure away from compensatory social policies towards more social investment-oriented policy domains. The US spends little on both (See figure one)

Figure one: four worlds of social expenditure

		Social investment-related expenditure	
		-	+
Compensatory expenditure	+	Traditional compensatory welfare systems  Southern and Continental Europe	Social investment with double liability: protection and promotion  Nordic countries
	-	Hidden welfare state  US	Investing in human capital and low protection  UK

These findings, based on the analysis of expenditure data, are confirmed by detailed and qualitative analysis of recent policy developments (De la Porte and Jacobsson 2012). In terms of employment policies, what has been implemented among the EU Member States is mostly policies primarily aimed at pushing people back to the labour market, to take any jobs, without paying enough attention to qualification, training and the quality of the jobs offered. 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 counselling rather than comprehensive training.

However, the experience of the Nordic countries 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 amongst the most competitive economies in the world), more flexibility on the labour market, good economic growth including the creation of more and better jobs. These countries also show higher female employment rates, lower poverty rates, including lower transmission of intergenerational poverty and have been dealing successfully with demographic issues, both in terms of providing care for the elderly and in maintaining fertility levels. These countries 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 re-orientation strategy with their welfare systems towards more activation but have instead combined strong protection with heavy social investment, with the aim to promote social as well as gender equality.

Despite these examples of ‘good practice’, the general picture is that only a few countries have really embraced a social investment approach for the welfare states. If the social investment paradigm is to emerge as a fully-fledged paradigm, then a number of issues obviously need to be addressed.

### **The social investment perspective and its critics**

A first set of critiques relates to the socio-economic consequences of the social investment strategy’s focus on the future. Briefly stated, the argument is that the focus on investing for future returns has too often meant rechanneling expenditure from ‘passive’ social security benefits (ie social benefits aimed at income support) to activation and spending in the fields of family-oriented services and education. This has meant that today’s poor have been left aside. Such a rechanneling may have contributed to increase poverty in many countries as social spending has become less adequate in relieving poverty and as it is merely focused at supporting families whose members are working (Cantillon 2010).

A second, and related, critique has to do with the strong emphasis on activation that characterizes the social investment perspective and which has both offered a justification for cutting back on benefits that previously allowed certain groups to remain outside the labour market (such as lone parents or people on long-term

sickness leave) and also meant that the issue of the quality of work has been sidelined in favour of 'any jobs'. In many countries such as the UK, the US and Eastern European countries, active labour market policies have represented more of a continuation of neoliberal 'workfare' policies than a shift towards upskilling and the development of 'more and better jobs' (Bonoli 2012).

A third critique concerns the way the social inclusion or social cohesion aspect seems to have been paid lip-service in the actual implementation of the strategy, not least at the EU level. Indeed, the policy instruments appear to have been underdeveloped in strategic terms, as well as in terms of resource allocation (Lundvall and Lorenz 2012b).

A fourth critique has been put forward by feminists and gender theorists who have highlighted the kind of biased utilisation of gender equality policies, and especially policies for reconciling work and family life, that the social investment strategy has given rise to. Indeed, several commentators have noted how the focus on increasing women's employment levels has been motivated by economic objectives rather than by a real concern with women's aspirations (Stratigaki 2004). Jenson (2009) has also highlighted some of the ambiguities linked to this strategy's focus on the future: while it addresses the needs of children, including girls, the focus on the future means that the situation of women today is not really addressed, other than in their reproductive capacity.

Fifthly, the gender critique feeds into an even broader concern with the way social goals and the social citizenship rights perspective that underpins the social investment approach have sometimes been harnessed to an economic agenda. Also children have become merely perceived as 'citizen-workers' of the future rather than as 'citizen-children' of the present, i.e. as 'becomings' rather than as 'beings' with social rights in their own right, as (non-productive) children (Lister 2003). The social or humanitarian rationale for social policy has too often been replaced by an economic rationale (Midgley and Tang 2001).

### **Core features of a successful social investment approach**

If one wants to successfully implement a social investment perspectives and reach its explicit goals (a sustainable economic growth combined with social cohesion), one has to underline four crucial points. To begin with, it is necessary to clearly distinguish the social investment perspective from neo-liberalism. Secondly, equality is a crucial element of a successful social investment approach. Thirdly, the lesson to be drawn is also that there is a need to focus on quality (and especially quality of jobs), when it comes to both policy design and implementation. Fourthly, equally important is the understanding that protection must remain an important

function of the welfare state that works as a necessary complement to activation and cannot be substituted by activation.

For neoliberals, unemployment is understood as a problem of supply and incentives and of too much labour market protection hampering the needed flexibility in the new economy. As such it is no surprise that the neoliberal reform agenda has been aimed at deregulating the labour market, lowering pay-roll taxes, reducing labour costs and increasing incentives to accept jobs by reducing the level of unemployment and assistance benefits to 'make work pay'. Yet, these reforms have not created 'more and better jobs' but rather jobs that are giving rise to the 'working poor' phenomenon, and which do not generate the tax revenues needed to sustain and improve the social protection model of ageing European societies. Such a strategy fails to recognise the problem of lack of adequate qualifications.

The fact that the unemployed are predominantly unskilled and that vacant jobs require high skills suggests that, in these times of 'aftershock', we need to complement demand-oriented Keynesian measures with supply side-oriented instruments that go beyond the neo-liberal deregulation of labour markets, lowering of labour costs and provision of incentives for the unemployed to take poorly paid jobs. We need instead to upskill the unemployed by providing them with the necessary learning capacities. We need here to emphasise again the importance of education, training, skill formation, maintenance and updating of skills as policies preparing individuals for the current and future economy. In this context, the fact that there is a large variation among countries, particularly when it comes to the skill-levels of the 'low-skilled' opens up for policy learning (Nelson and Stephens 2012).

While there is evidence showing the positive effects of increasing education and skill levels on employment (Nelson and Stephens 2012, Lundvall and Lorenz 2012a) – both in terms of increasing employment levels and in terms of creating 'good jobs' – it is evident that in most European countries this strategy has not been followed yet (Bonoli 2012).

If we want to not only reduce unemployment but also promote employment growth (especially in 'good jobs'), while also promoting social cohesion rather than polarisation, it is important to go beyond neoliberal labour market policies and consider seriously the need to invest in skills that enhance the capacity to learn (Lundvall and Lorenz 2012a). This is best done through policies that are broad-based, egalitarian and of high quality, and that follow the whole life-course, starting with early childhood education and care (Nelson and Stephens 2012). The social investment approach is a 'package-deal', implying that partial implementation may at best deliver a partial success. The life course perspective suggests that policies can be effective only if the whole chain is maintained, and if it is aimed at the whole population and not reserved for the select few.

### *Social investment and equality*

The relationship between social investment and equality appears vital to address on several accounts. Indeed, it is a desirable outcome of social policy if one takes seriously the wish expressed by social investment proponents to address the new social risks structure of contemporary societies, to reduce intergenerational poverty and provide individuals and families with more equal capacities to invest in their own human capital and that of their children so that they can maintain responsibility for their wellbeing via market income. It also appears to be a necessary precondition for promoting growth and employment, especially in good quality jobs.

At stake here is both equality of access (to quality childcare, to education, to life-long training, to quality health and care services) and income equality. Egalitarian societies appear more successful in implementing social investment policies and in achieving many of the desired outcomes linked to this strategy, including in terms of climate change mitigation policies (Somestad 2012). Thus it is not just equality of opportunity but also equality of outcomes that matters. The fact that equality appears to be a precondition for a successful social investment strategy urges us to remember the merits of traditional social protection and anti-poverty programs, and suggests that reduction of income inequality should remain high on the social investment agenda.

Another element that needs to be made more central on the social investment agenda is that of gender equality. While gender awareness is at the very heart of the social investment perspective, focusing as it is on women's economic contributions and reproductive role and care work, Jenson has forcefully demonstrated the extent to which equality of condition or even equal opportunities for women and men have been side-tracked as policy goals in their own right within this perspective (Jenson 2009). Thus, while many countries have successfully managed to achieve high female employment rates, and some have even managed to combine these high employment rates with moderate to high fertility rates, none have thus far managed to – or sought to – effectively address certain persistent gender inequalities such as the division of unpaid care and household labour, the gender wage gap, labour market segregation and the 'glass ceiling effect' for women. Addressing this issue means that special attention must be paid to the specific design of policies that seek to promote women's employment and to reconciling work and family life (Morgan 2012).

Likewise, more attention needs to be devoted to the structural and political factors that contribute to the kind of ethnic inequalities that characterize European societies today and which are likely to be of increasing importance in the future if not properly addressed (Emmeneger and Cajera 2011). This is in fact an area where the Nordic countries do not perform very well. While they do better than other European countries in terms of fostering equality in the educational system (Diamond and Liddle 2012), integration of immigrants and ethnic minorities on the labour market is quite poor, and unemployment rates for these groups are consequently high. This

means that integration efforts in these countries must be even greater and focused upon upgrading the skills, including the communication skills of immigrants. However, if the skill gap is too big, as suggested by Bonoli (2012), there may be good reasons for also developing subsidized jobs for the least skilled – although such subsidies should be made conditional on the quality of the jobs thus subsidized, i.e. such subsidies should not simply allow employers to take advantage of ‘cheap labour’.

### **Social investment and quality**

Quality should be another crucial component of a true social investment strategy. This relates both to the quality of jobs but also to the quality of services. Only high quality childcare can foster good cognitive skill acquisition amongst all children and help reduce social inequalities (Morgan 2012). Participation in a course of education does not directly translate into high achievement, what matters is the quality of education more than simple participation for skill accumulation, particularly at the low end of the capability distribution (Nelson and Stephens 2012).

When it comes to active labour market policies, Bonoli (2012) shows how policies directed only towards activation, in the sense of pushing people back onto the labour market to take up ‘any job’ - as in the neo-liberal strategy, have not produced good results. While employment rates have generally increased over the 2000s in Europe, the quality of the jobs created has very often been of low quality (Guillen and Dahl 2009), taking the shape of atypical jobs, short term contracts, interim work, short part-time, etc., which has resulted in increased in-work poverty (Eichhorst and Marx 2011). Thus active labour market policy can be considered as part of a social investment strategy only if conceived of as an instrument of social promotion, and not only as a way to increase employment rates at any cost. Amongst the various active labour market measures, only the upskilling ones seem to fit the social investment approach. Activation is not enough.

This is all the more important since if the quality of jobs is forgotten, activation only leads to shifting people from inactivity into in-work poverty, which does not reach the economic goal of increasing employment rates in order to increase the tax base and support future pensions and health care costs. Furthermore, given the challenges of economic globalisation, one way to remain competitive on the world market is through innovation, and the production of goods and services of high quality (Lundvall and Lorenz 2012a).

Investing in quality means that substantial investments must be made to improve education, training and up-skilling schemes, as well as to improve working conditions. This in turn means that more, rather than less, social spending or, rather, investment is

needed. The fact that an effective social investment strategy in the short run entails increasing social expenditure cannot be ignored, all the more so as it appears clear that it cannot be enough to re-orient social expenditure towards only ‘activation’ programmes (programmes conditioning social benefits to the search of work), it is equally important that the welfare state also retains its traditional protection functions.

### **Promotion and protection**

In this respect, it is important to recognize that compensation and activation may affect social inclusion in different directions. By providing adequate compensation, social benefits protect persons from poverty and the negative effects that low income has on social inclusion. On the other hand, in the absence of measures aimed at fostering employability, social protection may have unintended effects and increase benefit dependency and thus social exclusion in the sphere of employment. There is therefore a fine balance to be held between protection and activation programmes in the form of retraining and/or rehabilitation in order to promote employment, without increasing poverty and social exclusion (Palme et al. 2009).

Social policy and labour market reforms which combine security for the workers and flexibility of the labour market (policies often termed: “flexicurity”), as it has developed in the Nordic countries and in the Netherlands, appears as a useful way to reconcile protection and activation (Lorenz and Lundvall 2012a), although that depends on the precise design of flexicurity schemes (de la Porte and Jacobsson 2012). As is now widely acknowledged, ‘high unemployment benefits of short duration, coupled to strong activation incentives and obligations, supported by active labour market servicing policy are most successful in lowering unemployment and raising labour productivity’ (Hemerijck, 2012). This means that the recasting of the welfare state should not be reduced to ‘transform[ing] the safety net of entitlements into a springboard to personal responsibility’ (Blair and Schröder 2000) but rather about forming social policies so that they act as a ‘bridge of change’, resting on several pillars: investment in human capital and social protection and activation.

Such a strategy requires that more rather than fewer resources be devoted to social policy. This may well appear problematic in Europe in the aftermath of the 2008 financial crisis and in a time viewed as a period of financial austerity. Yet there are good reasons for changing the way such expenditure is considered, and to take seriously the idea that these social expenditures are in fact investments, from which productive and economic benefits can be derived. This therefore calls for a new economic thinking to underpin the social investment perspective. In fact, the absence so far of such new economic thinking can be said to be one reason why the social investment perspective has not yet developed into a fully-fledged paradigm like Keynesianism and neo-liberalism.



## **A paradigm in search of a new economic model**

The social investment approach is in need for a new economic turn and thinking, including both a theoretical and a collective action dimension, which also warrants an analysis of its own political economy. Past social policy approaches have been integrated with economic theories of different kinds. This suggests that we need to go beyond Keynesian and neo-classical economic theories and anchor the social investment approach in a new economic model. Here it is obvious that the social investment approach is so far not on par with either Keynesianism or neo-liberalism, which suggests that the most evident need is to fill the macroeconomic gap. It also means that the success of a new social investment agenda depends on it being broad enough not only to match but also to supersede past approaches.

Where are the elements for the ‘new’ economic thinking? One important element is to be found in our accounting methods. If we take seriously the idea that social outlays can yield long-run dividends for both individuals and society as a whole, then there is a good case to be made for counting such outlays as productive investments rather than as consumption. This in turn means that we need to develop a new National Accounts System (Lindh 2012). There are also new forms of economic activity that urge us to rethink our ways of measuring productivity. This applies to personal services and to Information and Communication Technology (ICT) related production, as well as to green technologies.

Likewise, the rationale behind the ‘Beyond GDP’ agenda as formulated in the Stiglitz-Sen-Fitoussi Report (2009) is that current developmental challenges demand new and improved socio-economic indicators to guide policy makers. As the authors remind us, what we measure affects our view of the world and in the end what we do. If our measurements are flawed, decisions may be distorted. Thus, for instance, conflict regarding choices between promoting growth and protecting the environment may be dissolved once environmental degradation is appropriately included in our measurement of economic performance. Among other things the report points out that it is often unclear how current indicators relate to each other and that social dimensions tend to be missing. The concept of sustainable development is useful in this context with its future oriented and intergenerational focus: ‘development that meets the needs of the present without compromising the ability of future generations to meet their own needs’ (The Brundtland Commission 1987).

Models including human capital accumulation (such as endogenous growth) could be seen as one source of inspiration for a new economic model, as could the concept of sustainable growth (Sommestad 2012). But a new economic model also demands a deeper understanding of the transformation of capitalism, an improved vision of what the ‘new’ economy is, that goes beyond the concept of just being ‘post-industrial’. The reformulation of the ‘knowledge based economy’ as the

'learning economy' is one fruitful conceptual contribution (Lundvall and Lorenz 2012a). The 'green economy' is another potentially useful metaphor.

### **Policies in search for a political majority**

The lack of a fully-fledged economic theory or model is only one reason why the social investment approach has not gained more ground in Europe despite the widespread ideas. Another reason seems to be the lack of clear political coalitions and entrepreneurship to back it up. The fact that since the social investment ideas have been elaborated and promoted, few countries have known either left governments or encompassing party coalitions working hand in hand with encompassing unions may partly explain the lack of implementation of social investment policies beyond traditionally social-democratic countries. Another reason is that the social investment approach is naturally targeting children, youth, women, migrants and the unemployed, which do not constitute any clear or coherent political constituency, making it difficult to see which political coalitions would support it.

This is not to suggest that there is only one political path to social investment. Quite the contrary, the ambiguities of the perspective open up for a broader set of political actors, and in so far as there are achievements of the social investment approach that are attractive, why should it not be possible to learn from 'best practice'? In fact, it seems that the political triggers for the promotion of social investment-type programmes have often been of a substantive rather than ideological nature. In this respect, demographic arguments seem to have mattered a lot (Lindh 2012). If Morgan (2012) is right about the changing electoral base for political parties and the growing competition for the female votes, this may bring social investment related issues on the agenda, particularly around the care and education of young children. Here the ambiguity that characterizes the social investment perspective also carries some potential by offering an opportunity to build policy-coalitions between partners who have very different world-views. It might not be necessary for everyone to recognize the failure of neoliberalism as a paradigm in order to support policies or programmes that are clearly outside the neoliberal box. The problem is that such an approach risks remaining partial and lacking in the kind of synergies suggested by our 'package' argument.

### **What future for the social investment welfare state?**

Based on the relatively modest advancement of implementation of genuine social investment policies, it is tempting to draw the conclusion that it has no future. While this may be the end of the story, one should, for the time being, not deny that there are different and alternative 'change scenarios' that can be identified. The first big challenge for the social investment perspective is to become a coherent and

convincing economic and social policy paradigm for the years to come and be adopted by most governments in Europe.

According to Hall's (1993) approach to changes in policy paradigms, adopting a new paradigm is the last of a three phases process of a shift from an old to a new policy paradigm. We have not reached the third phase yet, since there is still no general agreement that the neo-liberal solutions are the wrong ones to face the challenges of our current times. The bad news is that we may therefore be facing an even deeper economic crisis since neo-liberal solutions cannot solve our current problems but will, on the contrary, lead to more difficulties. This in turn may trigger a deep political crisis, leading to a paradigmatic 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 towards a social investment paradigm, it might alternatively trigger a turn to protectionism and nationalist xenophobic policies. Wide public unrest and riots are other possible scenarios.

In the past few years, Germany has also provided an alternative socio-economic model to social investment, in which increasing competitiveness by reducing the cost and social protection of labour, and fiscal discipline are core components. Germany's success in considerably reducing unemployment levels, and the country's position as the main engine of growth in the Eurozone, makes the German model a credible competitor to the social investment perspective. Yet this economic success hides growing inequalities and a dualisation process between protected insiders in 'good jobs' and an increasing mass of outsiders in atypical jobs with low incomes and poor social protection (Palier and Thelen 2010). This strategy will in the long-run, with too many negative externalities involved in terms of increased in-work poverty, social and economic dualisms, and an orientation towards low-skilled, low-quality jobs which cannot remain competitive in the long-run in the global economy.

An alternative and more optimistic view on the likelihood of the social investment paradigm 'winning the day' as a new socio-economic paradigm, is based on the contention that important changes take place incrementally rather than through a policy revolution. Against the idea that paradigmatic change is inevitably a result of a rupture in the past equilibrium, there is now ample evidence that paradigmatic shifts more often come about through an accumulation of incremental but cumulatively transformative reforms (Streeck and Thelen 2005, Palier 2010). Eventually we also need reforms to circumvent piecemeal engineering and move beyond institutional and political obstacles. We not only need to make available elements of a new social and economic policy paradigm but also to suggest how they can be fitted together. Moreover, for actually achieving policy change, we not only need a renewed political coalition involving new and old social risks bearers but also political entrepreneurs at different political levels to act as agents of change. Here the association with climate change mitigation policies provides an interesting opening with the focus on

sustainable growth. It might be that in this context we can find a new political coalition to carry the social investment agenda.

Even if we take the social investment approach seriously and engage in the kind of massive implementation of investment policies such a strategy calls for, a number of policy dilemmas might still appear in front of us. If not properly designed and packaged, social investment policies might threaten to crowd out redistributive anti-poverty policies of different kinds, might withdraw vital demand for consumption in the post-crisis, and might threaten the restoration of a balance in the public finances. Here it is important to emphasise that the notion of social investment warrants us to think beyond the traditional human capital framework when it comes to both policy instruments and goals. This also requires us to rethink the usual time horizon for policy-making as this is a precondition for sustainable development. At the same time, the role of the state as social investor is confronted with the process of globalisation, both in terms of its capacity to raise resources and in terms of opening up its welfare system to immigrants. At any rate, properly designed social investment policies have the potential to promote social inclusion and social capital as well as social cohesion. These are assets modern societies have good reasons to nurture in order to promote societal progress that is sustainable, recognizing the interdependencies of the economic, environmental, political and social aspects of it.

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