How Democracies Transform Their Welfare States: The Reform Trajectories and Political Coalitions of Inclusive, Stratified, and Targeted Social Investment Strategies in Capitalist Democracies

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THE REFORM TRAJECTORIES AND POLITICAL COALITIONS OF INCLUSIVE, STRATIFIED, AND TARGETED SOCIAL INVESTMENT STRATEGIES IN CAPITALIST DEMOCRACIES

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We are now at the end of our journey exploring the politics of social investment around the democratic world as part of the World Politics of Social Investment (WOPSI) project. As a global wrap-up, this concluding chapter maps the development of welfare state reforms, with specific attention to their social investment component, in the various regions studied in this second WOPSI volume: Western and Northern America, Southern Europe, Central and Eastern Europe, North East Asia, and Latin America. As shown in the introduction to our first volume (Garritzmann et al., 2022), the starting point for the whole WOPSI project is the general upswing of social investment policies in the context of welfare state transformation. In that introduction, we argue that what remains to be explained are the scope and diversity of this upswing of social investment reforms. This final chapter aims at providing, by region, a comprehensive answer to our research question: Which political factors support or inhibit the development of social investment policies across different world regions?

Bruno Palier, Julian L. Garritzmann, Silja Häusermann, and Francesco Fioritto, *How Democracies Transform Their Welfare States* In: *The World Politics of Social Investment (Volume II)*. Edited by: Julian L. Garritzmann, Silja Häusermann, and Bruno Palier, Oxford University Press.
DOI: 10.1093/oso/9780197601457.003.0017

As a general synthesis of the WOPSI project, this chapter maps and describes the various welfare state reforms implemented in different regions of the world and, more particularly, the social investment reforms. It also analyzes the political processes through which these reforms have been adopted in order to understand the political conditions leading to their adoption and to explain the differences in the policies and strategies implemented. We analytically divide this question into two, aiming to explain, on the one hand, the main goals and functions social investment reforms pursue (whether they are concerned primarily with creation, mobilization, or preservation of human skills and capabilities) and, on the other hand, the distributive profile of these reforms (whether they are inclusive, stratified, or targeted) (on this typology of social investment policies and reforms, see Chapter 1 in Volume I, section 1.4 [Garritzmann et al., 2022]).

Table 17.1 summarizes which type of social investment strategy (in terms of functions and distributive profile) is prevalent in which parts of the world. It also indicates when specific social investment policies appear to deviate from the general strategy of a group of countries or a region.

Table 17.1 The types of social investment strategies prevalent in different regions of capitalist democracies

Function	Distributive profile		
	Inclusive social investment	**Stratified social investment**	**Targeted social investment**
Creation of human capital, skills and capabilities	**Prevalent in Nordic countries** Specific policies in North East Asia and Baltic countries: ECEC, primary and secondary school	**Prevalent in Continental Europe, North East Asia** Specific policies in English-speaking liberal countries: Publicly subsidized private education	**Prevalent in Latin America (especially the most advanced countries), English-speaking countries** Specific policies: ALMP in Baltic countries
Mobilization of human capital, skills and capabilities	**Prevalent in Nordic countries**	**Prevalent in Continental Europe, Visegrád countries, North East Asia**	**Prevalent in Latin America** Specific policies: Workfarist activation policies targeted at long-term unemployed in English-speaking countries, Continental Europe, and Baltic countries
Preservation of human capital, skills and capabilities	**Prevalent in Nordic countries**	**Prevalent in Continental Europe**	Specific policies: Healthcare and training for “excluded” outsiders in English-speaking countries, Continental Europe, and some Latin American countries

Our regional accounts show that inclusive social investment pursuing all three types of function (creating, mobilizing, and preserving human skills and capabilities) is still dominant in Nordic countries, despite a tendency to sometimes exclude some part of the (migrant) population. Stratified social investment is dominant in Continental Europe, where some countries have added a targeted (workfarist) component for those most excluded from the labor market. Stratified social investment also dominates welfare state reforms in North East Asia, even though there has been some movement toward more inclusive reforms in early childhood education and care (ECEC) and primary and secondary education. Liberal, English-speaking countries have mainly developed targeted social investment policies. Eastern Europe is an interesting case where we see relatively few, mostly stratified social investment policies but with a strong, inclusive focus on ECEC and education in the Baltic countries (almost universal services), while the Visegrád countries remained focused on a few stratified active labor market policies (ALMPs). Latin America, where targeted social investment dominates (especially with the development of conditional cash transfers [CCTs]), needs to be divided into two groups: those developing social investment services in parallel to CCTs and those that have been less able to attach efficient services to their transfers. Southern European countries, despite some attempts, have proven unable to develop politically sustainable social investment reforms.

How can we explain these differing developments? Why do certain countries choose a certain type of social investment strategy and others not, even though they could economically and socially benefit from social investments? In Chapter 2 of Volume I (Garritzmann et al., 2022) and Chapter 1 in this volume, we theorize that the prevailing goals and functions of social investment reforms are shaped by the politicization processes and depend primarily on the interaction between institutional legacies and structural sociodemographic and economic developments, while the distributive profile of the reforms depends primarily on the political actors and coalitions driving these reform proposals and strategies.

In this chapter, we revisit our theoretical framework and synthesize our main findings. We do it in three different ways. First, we review our theoretical framework, which identifies the main factors involved in the politics of welfare state reforms and, taking these factors one by one in turn, look at how they have played out in the different regional contexts we analyze. Second, we provide an integrated account of the regional development of social investment reforms (or the absence thereof) by showing how these various factors were combined and have interacted in those contexts. Finally, we go beyond the analysis of the politics of social investment to provide a general account of the five main political coalitions behind the various types of welfare state reforms we have identified.

The chapter is thus divided into three parts. The first part revisits our research questions and main explanations of the politics of social investment in light of our regional accounts. It follows the various steps of the theoretical framework we elaborated to analyze the politics of social investment. We identify how the factors likely to explain the dynamics of politicization (ideational context, structural sociodemographic and economic conditions, welfare legacies) and of coalition formation (actors' positions and coalitions within specific political institutions) have played out in the regional cases we study.

The second part analyzes the main traits of the dominant social investment reform strategy in each region (summarized in Table 17.1), pointing to differences within the regions when necessary, and provides a synthesis of the main explanations for the divergent regional developments. We show that the interaction between specific sociodemographic contexts (new social risks and/or aging, level and composition of poverty), economic factors (type and level of demand for skills and type of economic growth strategies), and welfare legacies (earlier development of encompassing compensatory social insurance or not) has an impact on the supply of and demand for skills and the salience of the issues leading (or not) to social investment initiatives. These condition the type of social investment functions that developed in the different regions. However, the specific distributive profile (inclusive, stratified, or targeted) of the social investment strategy adopted in a country or a region depends on political factors such as actor positions and coalitions.

Hence, the third part analyzes the main political coalitions behind the different types of welfare reforms, including but not limited to social investment strategies, observed in our cases. We distinguish five main sociopolitical coalitions behind the various welfare state reforms we identify: two allying the educated middle class and the working classes, either toward inclusive social investment or toward integrative targeted social investment; two in which the alliance is between the educated middle class and employers toward either stratified social investment or liberalization of welfare with targeted social investment; and one mobilizing old middle and old working classes in favor of social protectionism rather than social investment. We claim that these coalitions map the main prevailing political configurations of welfare state reforms in the early 21st century.

17.1. A CROSS-REGIONAL OVERVIEW OF IDEATIONAL, STRUCTURAL, AND INSTITUTIONAL DYNAMICS IN THE POLITICS OF SOCIAL INVESTMENT

In Chapter 2 of Volume I (Garritzmann et al., 2022), we introduce our theoretical framework, the main variables expected to influence the politics of social investment, and our main hypotheses, as depicted in Figure 17.1 (a reproduction of Figure 2.1). To present our key findings, we follow here the logic of this graph and analyze the role played by each variable in the regions we study.

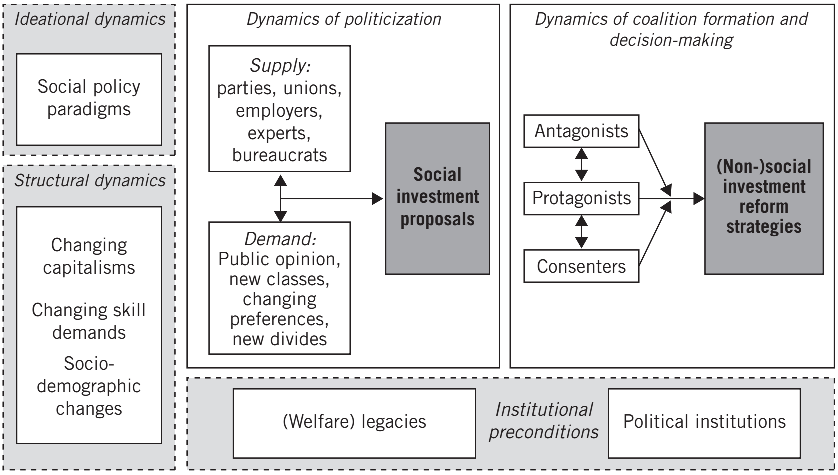

Figure 17.1 The theoretical framework of the World Politics of Social Investment project.

We thus look at the role played by ideational dynamics, various structural dynamics (sociodemographic and economic contexts), institutional preconditions, and welfare legacies across regions. The interactions between these elements help us to understand the dynamics of politicization of social investment programs (i.e., demand for and supply of skills) and the salience of social investment issues. We then review the various positions of different social, bureaucratic, and political actors across world regions and their coalitions in order to explain the dynamics of social investment strategies. In the second part of this chapter, we present this figure again but filled in with the characteristics of the politics of social investment for each of the regions we study (see Figures 17.3–17.11).

We focus first on the politicization process and its different components (sociodemographic and economic conditions, demand for and supply of skills, welfare legacies, and the resulting salience of social investment issues), before looking at actors' positions and coalitions.

17.1.1. Explaining the dynamics of politicization

"Politicization" refers to the rising importance of issue competition around a topic (Green-Pedersen, 2007). Our analysis of the WOPSI project findings confirms our initial assumption that politicization processes are key to determining the function of social investment that prevails in a specific country or region. Further, these processes of politicization are shaped by sociodemographic and economic structural conditions, demand for and supply of skills, societal demand for social investment more generally, and supply of such policies as proposed (or opposed) by various social, economic, bureaucratic, and political actors. Among our cases, we find both demand-driven processes of politicization (when the issues of social investment are very salient and there is a strong societal demand for social investment) and supply-driven processes (when social investment is not very salient and policies come more from either producers' pressure or some politicians or bureaucrats).

As we will show, the choice of functions partly depends on socioeconomic pressures (new social risks in Europe, aging and low fertility in North East Asia, and poverty in Latin America), demand for skills and growth strategies (the nature of the engine of growth partly determines the level and type of skills required), and institutional welfare legacies (whether social compensation is already well developed, whether the existing welfare system is truncated). But it also depends on the positions of various actors and their capacity to shape the social investment reform agenda.

17.1.1.1. Ideational drivers of politicization

In Chapter 3 in Volume I, Jenson and Mahon show that there was a global adoption of the social investment paradigm within international organizations over the course of the 1990s and the first decade of the 2000s, while Delaporte and Palier show that such ideas have been spreading at the EU institution level since the late 1990s (see Chapter 4 in Volume I [Garritzmann et al., 2022]). However, the case studies of the politics of social investment in different countries throughout the world as presented in this volume confirm our general hypothesis about ideational dynamics, that is, that in most cases, ideational dynamics by themselves are neither necessary nor sufficient for the politicization of social investment at the country level.

Indeed, Nordic countries implemented social investment long before international and supranational organizations put it on the agenda (see Chapter 2 in this volume). The emergence of social investment ideas on the European agenda as depicted by de la Porte and Palier (see Chapter 4 in Volume I [Garritzmann et al., 2022]) shows that the dynamic is more one of uploading national ideas and policy instruments (Anglo-Nordic in the 1990s, Anglo-German after the middle of the first decade of the 2000s) than imposing global ideas from the top. Moreover, it underlines the role of national political actors in shaping and orienting the content of the European social investment strategies promoted (or not) at the EU level. It is actually pretty hard to trace the impact of these European ideas at the national level, except in the case of Eastern Europe (because the European Union can use its financial instruments to compel implementation of ALMPs). And when Europe pressed Southern Europe to reform its welfare system in the wake of the financial and Euro crises (in the early 2010s), one could no longer find any social investment ideas. De la Porte and Palier (Chapter 4 in volume I [Garritzmann et al., 2022]) underline that if social investment ideas lack political support, they have no power to get through the EU policy process.

However, ideational dynamics can acquire particular significance in certain domestic political contexts, especially when the dynamics of politicization of social investment is a supply-driven process. This has been the case in South Korea, where the political system allows the president to shape the political agenda and thereafter political decisions (see Chapter 13 in this volume). In many Latin American countries too, bureaucrats or strong political leaders have spearheaded efforts on the way to social investment reforms (see Chapter 15 in this volume).

17.1.1.2. Structural dynamics

17.1.1.2.1. Sociodemographic conditions

In terms of sociodemographic and economic conditions, we see that it was only in Western Europe that new social risks such as working poverty, precarious employment, structural youth unemployment, difficulties of reconciling work and family life, long-term unemployment, and single parenthood played an important role in pushing social investment onto the political agenda. Once on the agenda, the actual choice of which social investment function to prioritize depended on other factors such as the respective growth strategy (see Section 17.1.2.2.2), welfare legacy (Section 17.1.1.3), and actors' positions (Section 17.1.2.3). In other world regions (i.e., Central and Eastern Europe, Latin America, North East Asia, and partly in North America), new social risks have not featured prominently on the political agenda.

In most of the Global South, informal work, poverty, and inequality (as well as economic growth) were identified as the main social problems and featured much more prominently on the political agenda than new social risks (see Chapters 3, 5, and 13 in Volume I [Garritzmann et al., 2022]). In contexts of poverty and inequality, social investments have also become politicized but in a very different way. In these contexts, especially in Latin America, much more focus has been placed on poverty alleviation and inequality-reducing policies to avoid the generational reproduction of inequalities. When a social investment approach was chosen, social investments mostly took the form of skill creation policies such as ECEC, access to healthcare, education policy, and CCTs.

In North East Asia, neither new social risks nor poverty nor inequality featured very prominently on the political agenda. Rather, demographic aging was perceived as the main social problem. Accordingly, to the extent that social investment was politicized—which was comparatively low, as discussed in the chapters on North East Asia (see Chapters 10–13 in this volume)—it happened mostly with regard to demographic aging. As expected, more focus was placed on social investment policies that aimed to facilitate skill mobilization (particularly of women) and that fostered work–life reconciliation.

17.1.1.2.2. Economic conditions

As far as economic development is concerned, we argued in Volume I, especially in Chapter 8 (Garritzmann et al., 2022), that the shift toward a knowledge-based economy is important, but not necessary, to explain the emergence of a social investment policy agenda. This hypothesis is mostly confirmed for Europe and Northern America, where the necessity to create new and more human capital is put forward as one of the main reasons for developing social investment policies. In other contexts, the concern with human capital creation is less important than finding new ways to fight poverty (and its cycle of reproduction), as in Latin America, or than addressing the consequences of aging and low fertility, as in North East Asia. In the latter case, early childcare is perceived less as a means to invest early in human skills than as a way to reconcile family and working lives. The fact that the very selective educational system has not been changed in these countries provides evidence for that point.

What case studies have shown, however, is that national growth regimes and growth strategies (Hassel & Palier 2021a[1]) are also key to understanding the type of skills demanded by employers and the public provision of skills. We see more demand for specific skills in regions relying on exporting high-quality manufacturing goods (Continental Europe, the Visegrád countries, and North East Asia) and for general skills in countries where dynamic services pay a key role (English-speaking countries, Nordic countries, and Baltic ones; see Wren, 2021). But there is low demand for new skills in countries characterized by overqualification and mismatch on the labor market (Southern Europe especially).

In terms of public provision, we have found a strategy of creating skills for all (inclusive social investment) and policies aimed at mobilizing and preserving the skills of all in the balanced growth regimes of the Nordic countries (Baccaro & Pontusson, 2021). The approach is more stratified in terms of skill creation and protection (mostly focused on the productive ones, the "insiders") and geared toward mobilizing the rest of the workforce through ALMPs in the manufacturing export-led growth regimes, characterized by the dualization of welfare and education in Continental Europe (Avlijaš et al., 2021) and North East Asia (see Chapter 12 in this volume).

17.1.1.2.3. Demand for and supply of skills

In Chapter 8 in Volume I (Garritzmann et al., 2022), Garritzmann et al. theorize about how educational and occupational changes have affected the demand for and supply of skills and the politics of social investment. The timing and the way in which social investment becomes politicized indeed depend on the relation between demand for skills (i.e., skill-related labor market changes) and supply of skills (i.e., educational expansion). Skill *creation* policies are much more likely to

1. Hassel and Palier define growth strategies as "a (relatively coherent) series of decisions and reforms, taken by either governments or producers' groups (economic and social actors) in order to boost growth and stimulate job creation in a specific nation, and the rationale for these decisions" (2021b, p. 13).

be politicized when the supply of skills is low and especially when the demand for skills outstrips supply. Skill *mobilization* is more likely to be politicized when a considerable supply of skills exists but still they are not used sufficiently on the labor market. Finally, skill *preservation* policies are more likely to be politicized when the supply of skills exceeds demand so that workers are protected from skill redundancy and skill decay.

In our regional accounts, four constellations are identified. First, in contexts with both strong demand and strong supply, it is the sustainability of social investment that is politicized, especially its inclusive character. This is the case in Nordic Europe, as Horn and van Kersbergen's analysis shows (Chapter 2 in this volume). Second, in contexts with strong demand for skills but weak supply, politicization focuses on skill creation and mobilization functions. This is the case in Continental Europe, as shown by Busemeyer and Garritzmann (Chapter 3 in this volume), and in North East Asia, as shown by Hong et al. (Chapter 11) Miura and Hamada (Chapter 12), and Lee and Kim (Chapter 13, all in this volume). Third, in contexts of weak demand for skills but comparatively high supply, we would expect politicization to focus on skill mobilization and preservation so as to address the mismatch. In theory, this constellation applies to Southern Europe, but interestingly—as Bürgisser (Chapter 4 in this volume) and Ronchi and Vesan (Chapter 5 in this volume) discuss—only in Spain before the financial and Euro crises did policymakers follow this "socioeconomic (functionalistic) logic," whereas Italian, Greek, and Portuguese policymakers have not or have hardly expanded social investments. The fourth constellation of weak demand and weak supply appears mostly in Latin America where social investment is not so salient (at least no more so than welfare compensation) and where poverty alleviation through means other than income assistance alone has prevailed, more because of politicians' and bureaucrats' initiative (supply-driven process of politicization) than as an answer to social or economic demand.

17.1.1.3. Welfare legacy

If economic demand for skills matters a lot, the possibility of developing corresponding social investment policies to address these demands also depends on governments' room for maneuver. Here, the country's policy legacy and especially welfare legacy matter a great deal. To sum up our hypotheses as presented in Chapter 2 of Volume I (Garritzmann et al., 2022, Figure 2.2), the key question is whether already having a large compensatory welfare system hinders the development of social investment policies.

Trade-offs between compensation and investment in terms of both welfare reform direction and fiscal constraints have been identified and theorized explicitly for the most mature welfare states of Western Europe (e.g., Busemeyer & Garritzmann, 2017; Häusermann, 2010; Scharpf, 1991; Stephens et al., 1999). What we see with our broader set of country cases is that this trade-off logic applies not only for mature welfare states but also in very different contexts of developing and emerging economies. Indeed, Barrientos' (Chapter 5 in Volume I [Garritzmann et al., 2022]) analysis shows that welfare legacies, particularly a heavy focus on compensatory social policies in the form of "pure income transfers," can retard the introduction and expansion of social investments. Along these lines, in their examination of (vocational) skill creation policies in Latin America, Bogliaccini and Madariaga (Chapter 7 in Volume I [Garritzmann et al., 2022]) show that preexisting legacies can indeed limit policymakers' room for maneuver and impede social investment reforms, depending on the context and types of coalitions.

Nevertheless, detailed analyses of country cases do not confirm that a trade-off always exists. We now refer back to the main hypotheses regarding policy legacies articulated in Chapter 2 of Volume I (Garritzmann et al., 2022, Section 3.2) and summarized in Chapter 1 in this volume (Section 1.2.1). In Nordic countries that build on a legacy of high expenditure in both compensatory and investive welfare, we can confirm the expectation that all three goals and functions are present on the agenda and in the political debate. As shown by Horn and van Kersbergen (Chapter 2 in this volume), the main challenge is the sustainability of simultaneously maintaining these policies universally, in fiscal terms (e.g., tax rates) as well as in social and political terms in light of political polarization, migration, and international integration. In these countries, the politics of social investment do revolve around the question of for whom such an encompassing social investment strategy can and should be pursued. Even though broad support for social investment goals in this context is the result of strong positive feedback mechanisms of existing (and long-established) policies, the (growing, upwardly mobile) middle class considers opting out of universal coverage by embracing policies that would allow for more choice or lower tax burdens.

In countries that have relied more heavily on compensation policies in the past and have rather effective income protection schemes, the common challenge is a rather weak employment rate, as well as a segmented or dualized labor market. This is the case mostly in Continental European countries (Chapter 3 in this volume), in several economically more advanced Latin American countries (Chapter 13 in Volume I [Garritzmann et al., 2022]), and in North East Asian countries, especially with regard to female employment rates (see Chapters 10 and 11 in this volume). These institutional legacies (and accompanying rigidities) create friction with the increasing demand for (and scarcity of) high-skilled labor, with the increasing demand for personal services, and with changing family and gender patterns. The politicization of social investment in such a context centers on easing transitions into the labor market, increasing labor market participation (especially of women and outsiders), and preserving skills through periods of non- or atypical employment. Human capital mobilization and preservation thus feature prominently in discussions of social investment reform strategies.

In North East Asia, the labor market is much more rigid, at least for those working in large exporting companies where labor is protected, social protection is generously provided within these firms (see Chapter 12 in this volume), and demographic development is very unfavorable (see Chapter 11 in this volume). Here, human capital mobilization becomes a challenge, especially female labor market participation, investment in skill creation becoming also important but only up to tertiary education. Even though South Korea probably started its social investment policies earlier than Japan and Taiwan because the Korean pension system was less developed (see Chapters 11 and 13 in this volume), the three cases of North East Asia eventually show a parallel development in public social consumption and social investment expenditures: The politicization of the issues has clearly led to the need to mobilize the (female) labor force to be able to pay for compensatory social policies.

The situation is very different where the policy legacy is weaker on compensation and relatively stronger on investment, a context found in liberal Anglo-Saxon countries and in the Baltics. As expected, in liberal and Baltic countries, since they exhibit relatively good employment performance and flexible labor markets, mobilizing human capital is not the key challenge. Rather, their relative emphasis on investment in the past and particularly the relative lack of compensation policies tend to bring skill development and education to the center when there is debate on social investment policies (see Chapters 6 and 7 in this volume).

Most Latin American countries generally have had a tradition of highly fragmented labor markets and truncated welfare states (see Chapter 13 in Volume I [Garritzmann et al., 2022]). They tend to be only weakly productivity-oriented, they have hardly any social investment legacy to build on, and actual poverty and poverty risks remain a key challenge when it comes to welfare. Having social policy programs that fail to reach considerable parts of the population, these countries are looking for means to target socioeconomic groups excluded from social protection, especially those working in the informal labor market and their children. Hence, the poverty-alleviating aspect of social investment programs is very important, and social investment debate and proposals are mostly focused on breaking the intergenerational cycle of poverty, especially through CCT programs (this is increasingly also the case in Africa and south east Asia; see Chapter 5 in Volume I [Garritzmann et al., 2022]).

Southern and Visegrád countries are the clearest cases where the preexisting and increasing focus on compensatory social policies, associated with a lack of growth strategies requiring investment in more and higher skills (see Avlijaš et al., 2021), has prevented almost entirely the development of social investment policies.

However, when comparing regional stories, we also confirm that social investment does not appear to be an automatic answer to specific sociodemographic issues or economic structures that create specific demands or the immediate consequence of existing welfare legacies. Processes of politicization are also shaped by political supply (positions and mobilizations of social, economic, bureaucratic, and economic actors). The salience of social investment issues and proposals in the public debate is key to understanding the roles of various actors.

17.1.1.4. What drives the salience of social investment proposals?

When social investment is a salient, "loud" topic on the domestic reform agenda, the electoral arena of mass politics is the most important arena to consider. There we would see a "demand-driven" process of politicization. By contrast, when social investment is not a salient issue, interest groups and/or national and international bureaucrats and experts are likely to be the most important "quiet" actors, depending on the status of the intermediary representative system (Culpepper, 2010). Accordingly, we would then see a "supply-driven" process of politicization.

If mass politics is a decisive arena, it is important to consider not only governments and political parties but also public opinion and attitudes in the respective electoral constituencies, to which parties in particular are sensitive. Busemeyer and Garritzmann (see Chapter 3 in this volume) argue that salience is a necessary, but not sufficient, condition for public opinion to affect policymaking. The second crucial factor they identify is the degree to which the general public agrees on the direction of policymaking. If a large majority agrees on an issue, public opinion is a forceful factor ("loud politics"); but if the public disagrees on the reform direction—for example, half of the population wants more privatization, while the other half wants less—political parties dominate ("loud but noisy politics," in their terms). We rely on the following chapters to help us figure out the dynamics of salience and public opinion influence in different contexts: from Volume I, Chapter 12 by Bremer (Garritzmann et al., 2022) and, in this volume, Chapter 3 on Continental Europe, Chapter 4 on Southern Europe, Chapters 10 and 11 on North East Asia, and Chapter 14 on Latin America.

On the whole, we see that two conditions are key for having social investment issues be prominent in public opinion and salient in public debate. First, the political demand for social investment policies is strongly correlated with the existence and size of a new educated middle class (especially in the post-industrial, public, and semi-public service sectors) (Beramendi et al., 2015; Häusermann & Palier, 2017; see Chapter 12 in Volume I [Garritzmann et al., 2022]). The role of the educated middle class is also key in understanding party politics, in the sense that very often parties support social investment policies in order to attract votes from the educated middle class. Demand coming from the educated middle class, relayed and supported by central political parties, is at the core of "demand-driven" processes of politicization of social investment.

Second, it is in countries facing either new social risks (Nordic and Continental Europe) or aging (Nordic and Continental Europe, North East Asia) that these issues become salient. However, being confronted with both new social risks and aging of the population (as in Southern Europe) is not enough if a country lacks a sizable educated middle class. In Latin America and Southern and Eastern Europe social investment issues have been much less salient than in the other regions we analyze: Either there is no real societal or economic demand for social investment (as in Southern and Eastern Europe) or the demand for social investment equals the demand for social compensation (as in Latin America).

Whether salient or not, the actual configuration of social investment proposals and reforms ultimately depends on the positions and interactions of social, economic, bureaucratic, and political actors.

17.1.2. Explaining the dynamics of coalition formation and decision-making

As outlined in Chapter 16 of Volume I (Garritzmann et al., 2022), the WOPSI project's findings allow us to point to a range of factors and actors that make it more likely that certain types of social investment will become politicized. Figure 17.2 (a reproduction of Figure 16.2 in Volume I [Garritzmann et al., 2022]) summarizes which actors are protagonists of social investment and for which type of function.

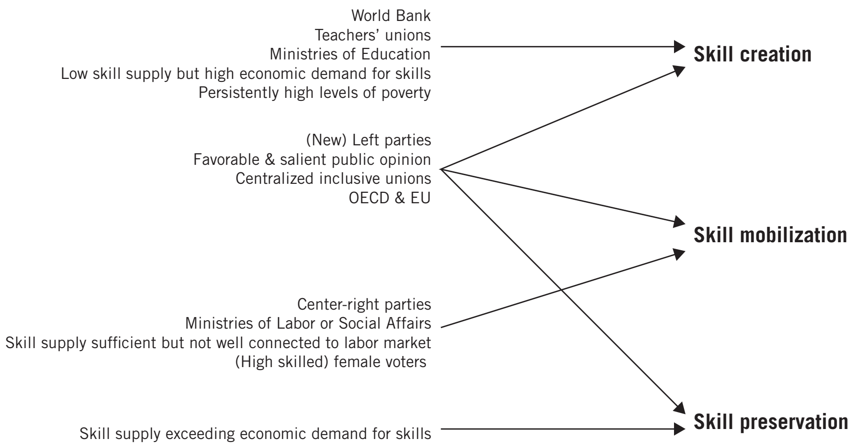

Figure 17.2 Protagonists and factors contributing to the politicization of different functions of social investment.

Having examined the accounts of the various regions, we can see how actors actually behave in specific contexts and in interactions with their counterparts. This leads to an understanding of the coalitions that emerge from their interactions and thus explains the type of redistributive profile of the various social investment reform strategies.

17.1.2.1. Political parties and governments

In the different regions, we find differing actor constellations. Partisanship matters everywhere, albeit in different ways. As hypothesized, we confirm here that left-leaning political parties are more preoccupied with social investment issues (in terms of both class and gender) than right-wing parties and push for more inclusive reforms. We find left parties and governments to be quite consistent protagonists of social investment, as inclusive as possible. This is the case almost everywhere. Social investment policies have historically been associated with social democratic parties (and welfare regimes) in Nordic countries (see Chapter 2 in this volume). In Latin America and in South Korea, the adoption of social investment policies is clearly due to the advent of left governments (see Chapter 13 in Volume I [Garritzmann et al., 2022] and Chapter 13 in this volume).

But not all left parties pursue the same strategy. The ones inspired by the American New Democrats, the British New Labour (see Chapter 6 in this volume), or the German Social Democratic Party (SPD; *Neue Mitte*) under Schröder were the main protagonists in proposing a (targeted or stratified) social investment turn in the 1990s and early 2000s. This was part of their political strategy to gain power after years as the opposition (see Chapter 6 in this volume). In Southern Europe, by contrast, the left has not generally been a protagonist of social investment: The only moment when social investment policies have been discussed in Italy has been under Renzi, a figure of the new center-left parties. In fact, the left is more divided (Manow, 2015) in this region and less able to build a majority where the working class and both old and new middle classes are represented (see Chapter 4 in this volume). Overall, however, the left usually pursues rather universalistic social investment policies and is clearly a protagonist of inclusive social investment. Our case studies confirm findings on voter demand, which show that there is no strong trade-off between a protectionist and an investment-oriented left (Häusermann et al., 2021). Generally speaking, conflict within left parties is less important than having the left in government as a decisive factor for the development of social investment policies. When in opposition but posing a serious electoral threat to the incumbent right-wing government, the left also gives impetus to the right-wing parties to adopt social investment policies, as in Japan, for instance (see Chapter 14 in Volume I [Garritzmann et al., 2022]).

Does this imply that social investment policies fail to develop under right-wing governments? Our analyses show that the answer to that question is complex as it depends on the type of right-wing governments and the respective contexts. In many cases, the right can be the driving force behind social investment proposals and bills (such as in North East Asia, in Germany, and in some Latin American countries).

When they adopt social investment programs, right-wing governments are not choosing inclusive ones. In North East Asia, for example, social investment reforms passed by the right-wing parties were usually tilted toward economic efficiency (as in Japan; see Chapter 12 in this volume) or biased by socially conservative values (ECEC in South Korea; see Chapter 14 in Volume I [Garritzmann et al., 2022]). In Latin America right-wing parties are usually more prone to demand stricter CCT conditionality (see Chapter 16 in this volume) or more stratified social investment in education and healthcare (as in Brazil, Colombia, Chile, and Mexico; see Chapter 13 in Volume I [Garritzmann et al., 2022] and Chapter 14 in this volume). Right-wing parties in Western Europe are more likely to push for social investment proposals which are stratified, as does the Christian Democratic Union (CDU) in Germany, or welfare chauvinistic, as for right-wing populism in Nordic Europe. Hence, we need to distinguish between various types of right-wing positions toward social investment.

Within conservative parties, we can broadly distinguish between a neoliberal right, a corporatist-conservative right, and a new populist radical right. The neoliberal conservative right generally opposes public social investment per se on the grounds of "austerity" policies and within the broad context of the privatization of the welfare state. Such groups including the conservative governments in the United Kingdom; the opposition in Chile, Brazil, and Uruguay during the so-called Pink Tide era marking the wave of left-leaning governments from the early 2000s to the mid-2010s; neoliberal governments in the Baltic countries; and some (small) liberal/pro-privatization parties in the Nordic countries, especially Denmark, also oppose social consumption policies and tend to cut public services (for a paradigmatic case, see the Tories in the United Kingdom).

The corporatist-conservative right-wing parties such as the bloc formed by the CDU and its sister Christian Social Union (CSU) in Germany, the Berlusconi governments in Italy, the conservatives in France, the Liberal Democratic Party (LDP) in Japan, and the Korean conservative party display a more tolerant attitude to public spending in general, rooted in a stronger tradition of market coordination (especially in Europe) and state economic interventionism (especially in North East Asia). They tend to see social investment as a means to economic growth rather than as an instrument of welfare and social inclusion. When in power, this corporatist-conservative right introduces skewed reforms which disproportionately benefit the (insider) middle classes, what we have called "stratified" social investment. These parties have a tendency to hold more socially conservative views, which usually leads to either incomplete or inegalitarian family policy reforms such as ECEC in Korea, paid leaves in Japan (see Chapter 14 in Volume I [Garritzmann et al., 2022]), negative incentives for ECEC utilization in Germany and France (see Chapter 15 in Volume I [Garritzmann et al., 2022]), or even outright opposition to family policy reform as in Italy (see Chapter 5 in this volume). These corporatist-conservative right-wing parties tend to be better connected with and supported by the traditional "core sector" actors including industrial workers in big firms in Germany, Japan, and Korea and "insider" employers' associations and unions (see Chapter 9 and 10 in Volume I [Garritzmann et al., 2022] and Chapter 3 in this volume). Ultimately, they promote policies which lead to the segmentation of the labor market through the liberalization/deregulation of peripheral markets and the preservation of high protection at the core (what Palier and Thelen [2010] called "institutionalizing dualism").

As a third type of conservative party, we see a new populist radical right, which is generally more attentive to the needs of an older, ethnically majoritarian, working- and lower-middle-class constituency. They tend to support more traditional consumption-oriented policies, coupled with a conservative-identitarian stance on family and immigration policies. Examples include the Five Stars Movement (M5S)/League coalition in Italy (see Chapter 5 in this volume) and welfare chauvinism in Nordic countries (see Chapter 2 in this volume).

17.1.2.2. Social and economic actors' position

The attitudes of social and economic actors (unions and employer associations) are highly contingent on a country's socioeconomic and institutional circumstances. Unions, for example, will generally push for social investment when this is consistent with the interests of their members. Hence "core sector" unions and unions whose members stand to lose from a social investment turn or an expansion of the existing systems in a more inclusive way will generally oppose an (inclusive) social investment reform. Examples include IG Metall, representing primarily workers in steel and related industries in Germany, against the vocational education and training (VET) reforms (see Chapter 10 in Volume I [Garritzmann et al., 2022]), conservative teachers' unions in Germany on educational expansion and equalization (see Chapter 3 in this volume), and teachers' unions in Uruguay (see Chapters 11 and 13 in Volume I [Garritzmann et al., 2022]).

Unions might support social investment policies if they benefit their members (a mechanism that might support stratified reforms). When existing social investment policies are well established but only within certain core sectors of the labor market, core unions will defend the existing policies but will push against the expansion of such systems to wider portions of the population in order not to lose their grip on related policy networks. In countries where unions enjoy a high degree of access to certain policy areas but not to others, they will oppose reforms which modify the institutional arena in ways that weaken their control on policies, as did IG Metall in Germany in relation to the VET reforms (see Chapter 10 in Volume I [Garritzmann et al., 2022]).

If the union movement is highly centralized, peripheral unions that have greater incentives to support inclusive social investment (in terms of both membership and power) enjoy a higher degree of visibility and are better placed to pursue their goals. A case in point is Italy's General Labor Confederation, the country's largest trade union confederation, on the matter of VET for interim workers (see Chapter 10 in Volume I [Garritzmann et al., 2022]). When labor market informality is high, unions are more likely to voice the interests of "workers" as a single entity (encompassing both the formal and informal sectors), as in the Latin American cases (see Chapter 11 in Volume I [Garritzmann et al., 2022]). In Latin America, there was not a strong pro-membership, pro-insider logic among unions as Durazzi and Geyer (see Chapter 10 in Volume I [Garritzmann et al., 2022]) observe for Europe, and unions adopted more inclusive stances encompassing informal and formal sector workers.

As for employer associations, the more proximate an economy is to a knowledge-based economy, the more firms are likely to benefit from a high level of social investment and the more strongly they will support especially skill creation and mobilization. However, firm size matters since large firms will be more likely to endorse a higher degree of within-firm social investment such as training or parental leaves or within-industry investment in the cases of coordinated market economies like Germany or Japan (see Chapter 14 in Volume I [Garritzmann et al., 2022]). This support can lead to either private social investment as in the United Kingdom or stratified social investment as in Germany (see Chapter 9 in Volume I [Garritzmann et al., 2022]). Countries with a prevalence of small, high skill–intensive firms endorse more inclusive social investment as long as the state pays for it (see Chapter 9 in Volume I [Garritzmann et al., 2022]). In Nordic countries, firms are key in the social flexicurity contract supporting publicly financed social investment, which also means a relatively high level of wages and taxation in this case.

In instances of implementation of social investment policies despite a low salience of social investment issues, as in Latin America and partly in Eastern Europe, we see a supply-driven process of politicization of social investment reforms, where parties, and even more so bureaucrats, lead the way without really having been pushed by a specific demand. Technocrats and experts have a prominent role in advancing social investment policies in less developed countries, especially in Latin America (see Chapter 15 in this volume). In the Visegrád countries, a lot of input came from EU funding and policies that promoted social investment–oriented ALMPs (see Chapter 8 in this volume and Chapter 4 in Volume I [Garritzmann et al., 2022]).

17.1.2.3. Societal and political coalitions

As stated in our theoretical chapter (see Chapter 2 in Volume I [Garritzmann et al., 2022]) and confirmed by Bremer (see Chapter 12 in Volume I [Garritzmann et al., 2022]), the new educated middle class is the key supporter of social investment in many countries. However, as underlined by Häusermann and Palier (2017), the educated middle class is not large enough to form a majority that is able to push through social investment policies on its own. Hence, there is a need for coalitions, which, depending on the contexts and the various factors we have detailed, will lead to different types of social investment strategies. Since the third part of the chapter focuses in detail on these, here we recall only the main traits of these coalitions.

We find two types of social democratic coalitions based on alliance between representatives of the educated middle class and the working class, with a Nordic version leading to inclusive social investment and a Latin American version leading to targeted social investment. When the middle class is instead allied with business, we find a conservative coalition, leading to stratified social investment favoring human capital mobilization typical of Continental Europe or North East Asia. We also identify a liberal coalition, where the same middle class–business alliance emerges but in the context of liberal welfare regimes leads to social compensation retrenchment substituted by some targeted public social investment (and many private ones publicly supported via fiscal exemption). When the educated middle class is not large enough to constitute an appealing electoral constituency and social protection legacies are strong, as in Southern Europe and the Visegrád countries, we can identify a social protectionist coalition.

17.2. MAPPING AND EXPLAINING THE DEVELOPMENT OF SOCIAL INVESTMENT POLICIES BY REGION

It is now time to bring together all the variables mentioned in the previous sections to provide a comprehensive explanation for the development of social investment reform trajectories in the various regions consisting of capitalist democracies. In what follows, in line with the main objectives of the WOPSI project, we first map and describe the type of social investment strategies followed in the various regions of the world we study, and then, for each region, we draw together the main explanations accounting for the politics of social investment in the said region. We summarize the main findings per region in a single figure that displays for each region the distribution of each of the variables identified in our theoretical framework.

We organize our regional accounts as follows. We first deal with the traditional, occidental "three worlds of welfare capitalism" (Esping-Andersen, 1990): social democratic (Nordic countries), corporatist-conservative (Continental Europe), and liberal welfare regimes (English-speaking countries). Those groupings have already been studied extensively, and we here provide more a comparative analysis of each one's trajectory than a deep analysis. We then turn to Southern Europe as a region that obviously would require social investment in view of the presence of new social risks, aging, lack of sufficient skills, and low labor market participation but could find neither political actors nor factors leading to social investment policies and, moreover, where opposition to social investment was strong. We count Southern Europe (especially Italy) as a negative case. Central and Eastern Europe provides a good case showing that, despite a common legacy and similar contexts, social investments can take different trajectories according to political actors' positions and the country's growth strategy. We then turn to North East Asia, which presents cases where a strong U-turn in social policies is visible. There, many (politically conservative) factors could have led to no social investment (like in Southern Europe), but these countries have actually made a turn to social investment, very explicit in South Korea but also more and more visible in Taiwan and Japan. Finally, we go to Latin America, a too often neglected set of cases, where we see the rise of social investment, accompanied or not by changes in social services provision, depending on level of economic development as well as political factors.

17.2.1. How did the (occidental) three worlds of welfare regime fare in the social investment era? Western Europe and North America

Policies concerning the creation, mobilization, and preservation of human skills and capabilities have appeared in all Western European countries, although in different ways. In some parts of Western Europe, notably the Nordic countries, such policies date back to the early 1930s, whereas in Continental Europe they have been extended starting from the 1990s and increasingly in the early 2000s. The liberal countries also developed some social investment policies early on, especially concerning skill creation, but have not developed an encompassing social investment strategy.

17.2.1.1. The three (occidental) worlds of social investment

We distinguish three clusters: a Nordic European cluster, which includes Denmark, Finland, Iceland, Norway, and Sweden; a Continental (Bismarckian) cluster, which comprises Austria, Belgium, France, Germany, the Netherlands, and Switzerland; an Anglo-Saxon/liberal one, which includes the United Kingdom, Ireland, and the United States. Even though variation exists within clusters (e.g., across specific policy areas), we can generally characterize each cluster as embarking on a distinct path of social investment reforms with regard to the distributive profile of the reforms (i.e., which social groups are more likely to benefit from them and how inclusive they are) and their importance vis-à-vis other welfare strategies.

In the Nordic countries, the well-established tradition of welfare universalism in social compensatory policies also appears in social investment as we mainly see an inclusive pattern of social investments, which are delivered through extensive and high-quality public services (see Chapter 2 in this volume). They tend to be rather egalitarian in terms of both class and gender. More recently, however, there are some discussions about limiting the policies' inclusiveness as radical right populist parties have gained in electoral strength and pushed for more welfare chauvinism. More specifically, these come at the expense of people from migrant backgrounds and linguistic minorities, who are increasingly marginalized by some deliberately exclusionary policies, such as the reform of access to student credit in Denmark, or by legislation, such as cuts in family benefits after the third child, which de facto hurts them (see Chapter 2 in this volume). This is why one can speak of some "de-universalization" of social investment in the Nordic countries.

Somewhat unexpected by many observers who characterized the Continental-Bismarckian welfare states as "frozen landscapes" (Esping-Andersen, 1996), social investment reforms have increased in salience there since the 1990s. Particular attention has been given to activation, especially of women and youth, and to building the skills necessary for the knowledge-based economy (see Chapters 8 and 15 in Volume I [Garritzmann et al., 2022] and Chapter 3 in this volume). Accordingly, particular focus was placed on family policies and ALMPs. In contrast to Nordic Europe's inclusive approach, however, these reforms have often come in the form of stratified social investments such that their benefits are oftentimes captured by those already better-off in society (i.e., the members of the new educated middle classes). These "Matthew effects" are particularly evident in the French and German ECEC reforms, which disproportionately benefit middle-class women and families (see Chapter 15 in Volume I [Garritzmann et al., 2022]) through the uneven geographical distribution of public nurseries, through insufficient public financing and provision of facilities, and through disincentives for working-class women to re-enter the labor market (for example, because of the flat-rate maternity benefits in Germany). These inequalities exacerbate the already wide gulf between labor market insiders and outsiders (Emmenegger et al., 2012).

In English-speaking liberal countries in both Europe and North America, the turn to social investment has been more partial and more inegalitarian, with a stronger tendency to rely on private services in key policy areas such as ECEC, education, and long-term care (LTC). While general skills and capabilities are crucial elements of the liberal market economy (Hall & Soskice, 2001; Heidenheimer, 1973), public financing usually focuses on the provision of school education and to a lesser degree academic higher education, while public engagement in all other social investment areas including ECEC, post-secondary education, family policy, and ALMPs remains very limited. Accordingly, the countries in this cluster are characterized by extremely high private skill investments (Garritzmann, 2016), which perpetuate inequalities. In the United Kingdom, while Blair's New Labour had promised to place emphasis on "education, education, education," the more general trend—especially since the 2010 coalition government between Tories and Liberal Democrats—has been one of retrenchment, austerity, and market liberalism (see Chapter 10 in Volume I [Garritzmann et al., 2022]). The coalition government implemented cuts in the realms of both compensatory (unemployment benefits) and social investment (the Surestart program for ECEC and the apprenticeship system for instance) policies. In Ireland shortcomings are observed especially in the realm of childcare (see Chapter 15 in Volume I [Garritzmann et al., 2022]), where low quality and high fees undermine its effectiveness as a means of human capital creation and of social inclusion. A trend which is especially distinctive of the United Kingdom and (to a lesser extent) Ireland is that of combining cuts with tighter eligibility conditions for benefits or access to services. This is most clearly observed in the area of ECEC but also in LTC (Bouget et al., 2015). Activation policy has most often pursued negative reinforcement methods through increased conditionality and has so far largely neglected the implementation of comprehensive mechanisms of school-to-work transition (with an underdeveloped VET and apprenticeship system).

Similarly, in North America, a "curious disjuncture" (see Chapter 6 in this volume) exists between considerable public investments in primary, secondary, as well as parts of academic higher education and other social investment areas, especially public ECEC programs, which remain underdeveloped. The same is true for parental leave, where the United States remains the only advanced economy without a nationally paid parental leave program, whereas Canada does offer some parental leave benefits. In a nutshell, the United States has only developed some targeted social investment policies, whereas Canada combines targeted and stratified programs (see Chapter 6 in this volume). The clear exception in the region is the province of Québec, which stands out by offering some inclusive social investment.

17.2.1.2. What explains the nature of the social investment strategy in the occidental three worlds of welfare capitalism?

17.2.1.2.1. The role of socioeconomic structural developments

Behind social investment's politicization and the actual social investment reforms in these countries are some important socioeconomic structural developments. On the one hand, the emergence of "new social risks" (Bonoli, 2007; Esping-Andersen et al., 2002) such as precarious employment, working poverty, structural youth unemployment, single parenthood, or difficulties of reconciling work and family life has challenged the traditional, compensation-heavy welfare states that had originated from the period of industrialization and seemed increasingly unfit to address the challenges of the post-industrial society. On the other hand, the emergence of the knowledge economy and the increasing focus on skill-intensive jobs has created new economic and public demands vis-à-vis policymakers.

Demand for skills is key to understanding the politics of social investment in these three worlds of welfare regimes. As shown in Chapter 8 in Volume I (Garritzmann et al., 2022), in all three regions, there has been an immense increase in formal education, especially at the tertiary level. There are differences, however. As shown by Hall and Soskice (2001), general skills have always been important for liberal English-speaking countries, whereas "coordinated" market economies of Europe (either Nordic or Continental) were keener to develop specific skills. Since the early 2000s though, there has been a tendency toward more general skills in the Nordic countries, and this trend has also shaped educational reform in Continental Europe.

As theorized in Chapter 8 in Volume I (Garritzmann et al., 2022), what matters is the relationship between the demand for and supply of skills. In Nordic Europe, where there is a strong demand for skills and a strong supply of education, the sustainability of social investment, especially its inclusive character, is the focus of political debate (see Chapter 2 in this volume). In contexts with strong demand for skills but weak supply, as is the case of Continental Europe due to the incremental adaptation of the educational system, politicization focuses on skill creation and mobilization (see Chapter 3 in this volume). The lack of sufficient skills in the current workforce led to increased demands for female labor participation, which was facilitated and made possible by expanding human capital mobilization policies such as ECEC and ALMPs. Liberal countries, while providing basic public provision of education, let the private market deal with the balancing of demand for and supply of (general) skills. Private provision of education has even become central to its growth strategy (Avlijaš et al., 2021).

Indeed, among structural factors, the existing growth regime and the growth strategy pursued to boost growth and job creation (Hassel & Palier, 2021b) contribute to shaping the different kinds of social investment function and profiles chosen in each of the three worlds of welfare capitalism. The type of social investment, in terms of both function and profile, is institutionally complementary to the chosen growth strategy. In the "balanced" Nordic model, which combines exporting capacity of dynamic services and a high level of domestic consumption capacity (Avlijaš et al., 2021), social investment almost naturally entails skills for all (inclusive skill creation and mobilization [Chevalier, 2016]), work–family reconciliation, and egalitarian policies. Alongside Continental Europe's growth strategy we find dualization of social investment, which means investing in and protecting those who are already productive and relatively harsh activation for those who are not (Palier & Thelen, 2010). Finally, in liberal countries the complementary social investment would involve mostly skill creation, private education, and high general skills (Avlijaš et al., 2021).

17.2.1.2.2. Welfare legacy

Because in Continental Europe and liberal English-speaking countries, social investment policies were installed only after social compensatory policies had already been in place for many years, the introduction or expansion of social investments has often had consequences for those social compensatory policies as both competed for financial resources. Most mature welfare states were thus faced with policy and fiscal trade-offs. Accordingly, social investment has often come in tandem with a retrenchment or recalibration of older compensatory welfare policies. This has increasingly been the case since the global financial crisis. Sometimes the expansion of social investment and the retrenchment of compensatory policies coincide, with some consumptive sides of social policies being abandoned in favor of more human capital–intensive approaches, as is the case for family cash benefits being replaced by ECEC in, for example, Finland, the Netherlands, and Ireland (see Bouget et al., 2015). Even in Nordic Europe, which established both inclusive social compensatory and social investment policies some decades ago, we see increasingly salient discussions about the affordability of these programs and the question of whether the programs' inclusiveness should be maintained (see Chapter 2 in this volume).

17.2.1.2.3. The role of collective actors and coalitions, public opinion, and social partners

Yet, a socioeconomic explanation alone cannot account for the entire variation, especially in the distributive profiles of the social investment policies. For that, politics matter. That is where policy legacies and dominant political coalitions come in. The case studies on Western Europe and liberal countries point to the crucial relevance of political coalitions supporting social investments as the type of coalition that has formed in the different contexts helps explain the timing and type of social investment policies that have been established.

In Nordic Europe, a broad cross-class coalition formed, initially between labor movements, small farmers, and rural laborers and, later, between the labor movement and the middle class. In Chapter 2 in this volume, Horn and van Kersbergen show that the crucial aspect here was that the labor movement was strong but in itself not strong enough to dominate politics. Therefore, the working-class party had to form coalitions and compromise in negotiations. The resulting policies—first compensatory but very early on also social investment policies—were thus designed in a way that not only ensured inclusion of the poorest segments of the working classes but also covered large sections of society, making them very inclusive in terms of class as well as gender. Once established, these inclusive social investment policies created self-reinforcing feedback effects as they created their own constituencies. This "political flywheel" accordingly stabilized the inclusive social investment policies politically and led to their further expansion, thereby creating increasingly strong and path-dependent legacies over time. By creating large public services in the fields of ECEC, education, lifelong learning, LTC, and healthcare, which provide the middle class with good public jobs and disproportionately employ women and on which the population at large (including the middle classes) depends to fulfill their needs, the early reforms have established a cross-class and cross-gender consensus favoring inclusive social investment. Horn and van Kersbergen argue that these legacies are in fact so strong that "the universal welfare state is politically so commanding that it is highly unlikely that the Scandinavian countries will any time soon cease to be the social-investment front-runners (p. 54)." They do, however, point to a current challenge of the inclusive approach: The increasingly strong radical right populist parties have begun to question and challenge the inclusive approach, preferring to restrict access to programs to natives in a "welfare-chauvinistic" approach. Whether Nordic Europe manages to maintain its inclusive social investment strategy in the future will depend on the strength of radical right populist parties and on whether the mainstream political parties are able to maintain a centrist cross-class coalition.

In several ways, the Anglo-Saxon European and North American political story is the opposite of Nordic Europe's. Neither a strong labor movement nor strong left parties have dominated politics. While some (center-)left parties have been in power (for example, the Attlee, Wilson, and Blair cabinets in the United Kingdom or the Roosevelt, Johnson, Clinton, and Obama administrations in the United States), politics have been dominated by liberal-conservative and market-friendly parties and employers, whereas unions have been (increasingly) weak. According to Prentice and White (see Chapter 6 in this volume), this explains why these countries have focused on market liberalism and privatization, while social investments have hardly been developed. While the dominant governments in this cluster have seen it as a public sector task to provide school education (and partly higher education), they have left all other social investment areas, especially ECEC, labor market, and family policy, underdeveloped and encouraged private investment in these areas instead. This resulted in large and persisting educational, wage, and wealth inequalities. The few social investment policies that have been introduced have taken the form of targeted social investments aimed at marginalized groups such as poor children, the disabled, and underprivileged groups, for example, through "affirmative action."

The Continental European welfare states are characterized by strong Bismarckian welfare legacies, focusing particularly on bolstering (male) industrial workers through compensatory social policies. Many observers in the 1990s therefore predicted that—just like Southern Europe—these countries would be unwilling and unable to reform, characterizing them as "frozen landscapes" (Esping-Andersen, 1996; Pierson, 2001; but see the contributions in Palier [2010] for analyses of transformative welfare reforms). Despite these calls of doom, policymakers in Continental Europe have been surprisingly willing to reform their welfare states, although this was often electorally difficult as the danger of being politically punished for reforms in a landscape full of trade-offs was strong. Busemeyer and Garritzmann (Chapter 3 in this volume) as well as Garritzmann et al. (Chapter 8 in Volume I) and Bremer (Chapter 12 in Volume I [Garritzmann et al., 2022]) show why this was possible. An increasingly strong demand for skills and an increasing economic and social demand for higher female labor force participation created a favorable public opinion that was moreover backed both by unions (see Chapter 10 in Volume I) and by employers (see Chapter 9 in Volume I [Garritzmann et al., 2022]). This has provided policymakers with incentives to introduce and expand some social investment policies particularly in the areas of family policy, ECEC, and ALMPs. The Christian democratic and center-right parties (often governing in this group of countries) saw this as an opportunity to appeal to the "female vote" as the Christian democrats' traditional welfare policies seemed increasingly ill-fitted in a time of political realignment. This also explains, moreover, why the social investment policies have taken a stratified form: The predominant Christian democratic and center-right parties aimed for their (potential) electorate in the (new) middle class, while caring less about the redistributive effects of such policies. This explanation is moreover underpinned by the argument of Busemeyer and Garritzmann (Chapter 3 in this volume), who show that the type of reform depends on the degree of political salience and public agreement on an issue. The Continental European welfare states have particularly reformed those social investment areas such as ECEC and parental leaves that were more salient, while reforms in less salient areas such as VET remained much more path-dependent.

We summarize the main findings on the politics of social investment in the three occidental worlds of welfare capitalism in Figures 17.3, 17.4, and 17.5, which fill in the theoretical Figure 17.1 presented earlier with the regional situation of the identified variables.

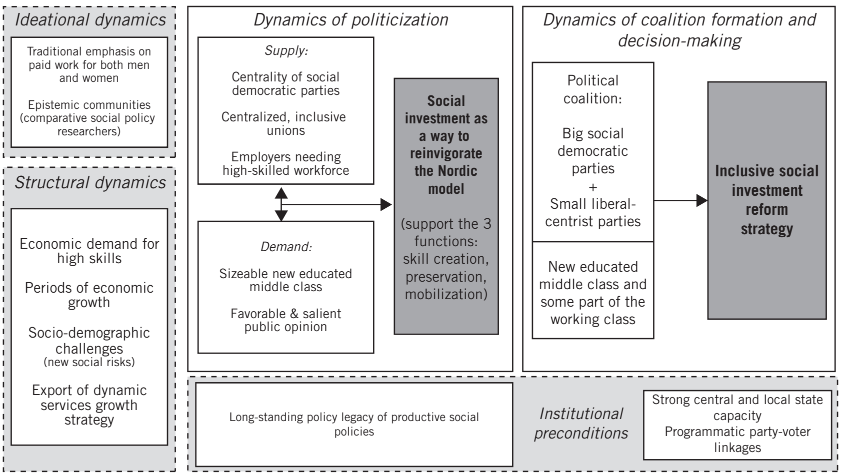

Figure 17.3 The politics of social investment in Nordic countries.

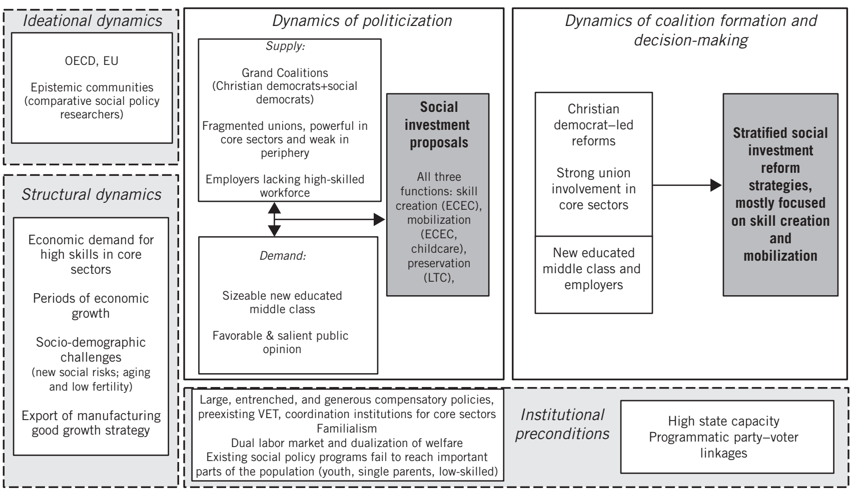

Figure 17.4 The politics of social investment in continental (Bismarckian) European countries.

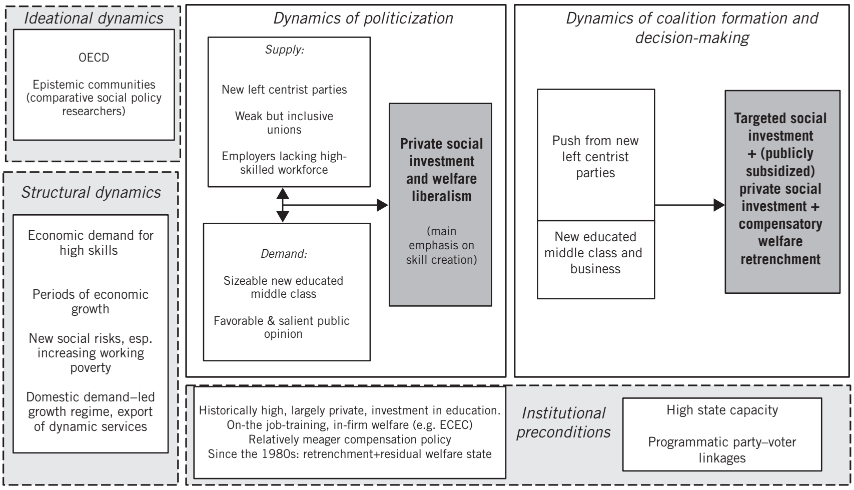

Figure 17.5 The politics of social investment in liberal countries.

17.2.2. Southern Europe

17.2.2.1. Social protectionism rather than social investment

In most of Southern Europe (Italy, Greece, Spain, and Portugal), social investment policies have appeared in a rather eclectic fashion such that we cannot identify a social investment "turn" here. To date, the Mediterranean welfare states remain highly focused on compensatory social policies (especially pensions), protecting particularly male workers, while female labor force participation remains low (see Chapter 4 in this volume). A closer look reveals, however, that we can distinguish two distinct patterns in this area (see Chapter 14 in Volume I [Garritzmann et al., 2022]). In Spain and (to a lesser extent) Portugal, programs which reflected a marked social investment attitude were put in place in the first decade of the 2000s. For example, the "Educa3" program adopted in Spain in 2006 increased ECEC provisions for children under 3 years old. It thus had looked like Spain and, to some extent, Portugal were recalibrating their welfare states toward a mix of social compensatory and social investment policies. This trend came to a halt, however, with the global financial and later Eurozone crises, which led to a wave of fiscal consolidation–led retrenchment, targeting family, ALMP, and education policies. The European Union played a key role in this process with its strict insistence on fiscal prudence, requiring austerity and retrenchment (see Chapter 4 in Volume I [Garritzmann et al., 2022]; Bouget et al., 2015).

While Spain (and Portugal) thus at least saw the expansion of some social investments for a while, Italy has not yet seen any serious attempt to establish social investments (nor has Greece for that matter). As Ronchi and Vesan show (see Chapter 5 in this volume), Italy's lack of social investment far predates the financial crisis, which signals that austerity is not responsible for the country's lack of uptake. Furthermore, even after the crisis, fiscal consolidation pressures have been less severe on Italy than they have been on Spain and Portugal, and even then, Italy has not attempted any significant step in the direction of more social investment (except a failed attempt under Matteo Renzi, see section 17.3.3). Instead, the response to the crisis has involved increasing liberalization of (and corresponding erosion of employment protections within) peripheral and semi-peripheral labor markets coupled with the preservation or even strengthening of certain compensatory measures.

17.2.2.2. Explaining the resilience of social protectionism in Southern Europe

The main explanations for the stalemate in Southern Europe refer to the welfare legacy and the small size of the educated middle class. Bürgisser (Chapter 4 in this volume) and Ronchi and Vesan (Chapter 5 in this volume) characterize Southern Europe's policymaking as strongly constrained by its social compensation-intensive welfare legacies. Particularly expensive pension policies prevent policymakers from recalibrating their welfare states toward a stronger social investment orientation, especially in a time of fiscal and policy trade-offs. Policymakers seem politically unwilling to solve this trade-off in favor of more social investments and instead continue along the traditional, industrial, male-oriented social compensatory welfare state. The main actors defending the industrialist compensatory welfare systems are still powerful, while the potential new political actors remain weak. A main reason for this is the limited size of the educated middle class. In Italy (and most of Southern Europe), the educated middle class is small in comparison to the bulk of the population and has been negatively affected by the stagnation of the economy over the first 20 years of the 21st Century and the post-crisis slowdown. The demand for social investment has thus been ambiguous and rather marginal in comparison to the strong opposition to reductions in compensatory welfare which came from the working classes and indeed from parts of the (impoverished) middle classes.

The failed attempt to develop a social investment strategy in Italy tells us quite a bit about the Southern European situation more generally. After the 2013 legislative elections, the Democratic Party (center-left) and its broader coalition succeeded in forming a government with the support of some members of the former Berlusconian coalition. The social morphology of the resulting majority resembled a social investment coalition, with the middle classes and the business community forming the backbone of a ruling "bloc bourgeois" (see Chapter 5 in this volume). However, even then social investment–oriented policies did not gain significant ground, with the only relevant advancement being made in the realm of education policy with the introduction of the *Buona Scuola* reform in July 2015, which extended work–study programs to non-vocational tracks of secondary education and which was heavily criticized by trade unions and the "leftist" minority within the governmental coalition. Instead of social investment, the Renzi government attempted a strategy of growth-oriented deregulation of the labor market plus social compensation, which was designed with the hope of halting the perceived disaggregation of the governmental majority (especially the loss of the lower-middle classes and the traditional working classes in the "red regions") under the advancement of the M5S, which was already gaining ground in the polls. No loud public opinion constituency emerged in support of a radical social investment reorientation of the welfare state, and Renzi opted not to gamble his political future on the success of risky and highly divisive reforms such as those concerning family policy (see Chapter 5 in this volume). Renzi's coalition was thus reduced to instrumentally pursuing a strategy of market liberalism, in order to consolidate the support of the upper and upper-middle classes, plus social protectionism in order to fight back against the erosion of its support base in the lower-middle and working classes. This strategy proved ultimately unsuccessful and paved the way for the fully fledged rise of the social consumption coalition in the 2018 elections (see Section 17.3.3 on coalitions for an analysis of the subsequent Italian "social protectionist" coalition).

We summarize the main findings on the politics of social investment in Southern Europe in Figure 17.6.

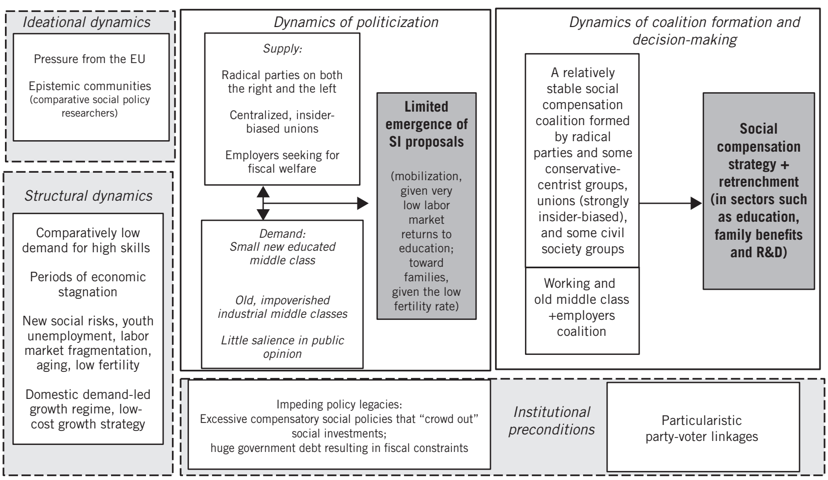

Figure 17.6 The politics of social protectionism in Southern Europe.

Note: SI = social investment; R&D = research and development.

17.2.3. Central and Eastern Europe

Among Central and Eastern European countries, the chapters in our two volumes analyze the Baltics (Estonia, Latvia, and Lithuania) and the Visegrád group (the Czech Republic, Hungary, Poland, and Slovakia) but do not cover the former Yugoslavian countries and Southeastern Europe. Compared to Western Europe, social investment policies in the Central and Eastern European countries are much less developed. Yet, there are important differences across the Central and Eastern European countries and across policy areas. The Baltics have gone much further in developing social investment policies (especially in skill creation) than the Visegrád countries.

17.2.3.1. Social investment laggards

In terms of compensatory social policies, the Baltics provide only residual social benefits (Aidukaite, 2009; Kuitto, 2016). They are more active, however, in developing social investments (see Chapter 7 in this volume). Their social investment strategy largely concentrates on promoting universal and comprehensive public education (from preschools to upper-secondary education); most other social investment policy areas are much less developed and usually stratified. They also have generous parental leave schemes and some limited, mainly targeted ALMPs (see Chapter 7 in this volume). While the three Baltic countries have developed largely similar social investment policies, there are some country differences. Lithuania, for example, has remained more agrarian and moved less toward an education-focused, information and communication technology (ICT)–led economy than Estonia and Latvia.

The Visegrád countries, in contrast, resemble the traditional corporatist-conservative welfare states of Continental Europe. Their social policies are heavily tilted toward social compensation (Cerami, 2006; Inglot, 2008); social investments remain largely absent. That is why Szelewa and Polakowski (see Chapter 8 in this volume) classify the Visegrád countries as "social investment laggards" and characterize social investment here as a political "non-issue." After the breakdown of the Soviet Union, the Visegrád countries engaged in deinvestment and refamilialization in the 1990s. In the early 2000s, they saw some limited expansion of ALMPs as these were largely funded by the European Union's European Social Fund. Since 2004, however, the Visegrád countries have entered a period of "re-politicization" as radical populist right parties gained electoral strength and outspokenly challenged social investment policies and their associated picture of modernity (as has also happened in the Baltic countries since the very late 2010s). This confirms that radical populist right parties (and their voters) are major social investment antagonists. There are some differences within the Visegrád cluster; for example, Hungary has rather far-reaching childcare available, whereas ECEC remains underfunded in Poland.

Overall, social investment was much less politicized domestically and registered very little political salience (except for education in Baltic countries). Moreover, there seems to be a certain trade-off between social investment and social compensation as the Baltics focus on social investments and the Visegrád countries more on social compensation. Yet, while in Western Europe trade-offs are mainly due to budgetary reasons (i.e., a lack of resources due to already high levels of welfare spending, taxation, and public debt), the main reasons in the

Central and Eastern European countries seem to be political (i.e., a consensually perceived need to become a competitive market economy among policymakers in the Baltics and a refamilialization and social compensatory strategy in the Visegrád countries).

17.2.3.2. Explaining the divergence between Baltic and Visegrád countries

In this volume, Toots and Lauri (Chapter 7), Szelewa and Polakowski (Chapter 8), and Avlijaš (Chapter 9) analyze and compare the situations within Central and Eastern Europe.

17.2.3.2.1. The role of legacy

All Central and Eastern European countries share a common—yet, as we will see, not identical—political history in the Soviet or eastern bloc. Most compensatory social policies were introduced and expanded under socialist rule so that core elements of the welfare state are associated with the non-democratic, Soviet past. While social policy development in Western countries is usually traced from a "golden" expansion period to a "silver" or "new politics" period, the same does not hold true for the Central and Eastern European countries. Here, we rather see a cyclical pattern with many subsequent periods of expansion, stasis, and retrenchment (Inglot, 2008). As a consequence, the social policy systems in the Central and Eastern European countries have been created in a much more "layered" and "patchwork" fashion, witnessing several different periods of layering. While many social policies under socialist rule were characterized by a higher degree of universalism than in the West, the benefit levels usually were lower (Kuitto, 2016). An important joint legacy is that socialist welfare states in the eastern bloc were built around the notion of a "right to work," which essentially assumed full employment for both men and women. This had important consequences: Female labor market participation was already much higher than in the West, made possible by some social investment policies, especially work–life reconciliation and childcare policies, and unemployment benefits were largely unknown as by definition unemployment did not exist. Due to the official nonexistence of unemployment in the Soviet bloc, both passive and active labor market policies were underdeveloped (except for public work programs).

Yet, while the legacies are similar among the Central and Eastern European countries, they are not the same, which is important for understanding today's politics of social investment. Most importantly, the degree of influence of the Soviet Union differed remarkably across the regions: While the Baltics were under very close and direct rule as part of the Soviet Union, the Visegrád countries as satellite states had somewhat more autonomy. These preexisting differences also influenced the way the countries re-formed once the Soviet bloc had fallen apart. While the Baltics chose a rapid and clear-cut break with the Soviet past by quickly opening their markets to globalization and retrenching existing compensatory social policies, change was much more gradual and some continuity prevailed in the Visegrád countries (e.g., leading bureaucrats stayed in power). Rates of unionization went down dramatically in the Baltics, while in the Visegrád group the decline in union membership was much slower and more gradual so that union density remained comparatively high and their influence remained much higher in the Visegrád countries than in the Baltics.

The different break with the past also affected the types of emerging capitalism and growth regimes (see Chapter 9 in this volume; Adam et al., 2009; Bohle & Greskovits, 2012; Feldmann, 2006; Nölke & Vliegenhart, 2009). In the Baltics, we see an orientation toward an Anglo-Saxon liberal market economy and a high-skill services, high-tech, ICT-oriented growth regime. In the Visegrád countries, we rather see a continued interest in (re)industrialization with strong connections to manufacturing sectors from Germany, France, or the United Kingdom, resulting in the development of a "dependent market economy" type of capitalism.

17.2.3.2.2. The role of policymakers' economic growth strategies

The domestic politico-economic elites—especially the respective governing parties—played a crucial role in shaping the Central and Eastern European countries' respective welfare reforms. Avlijaš et al. (2021) argue that policymakers in the Baltics and in the Visegrád countries had different growth strategies, resulting in different social policies.

The policymakers in the Baltics wanted to break the Soviet/Russian influence, still dominant in the manufacturing sector, and chose a growth strategy based on skills, technology, and service sector expansion. Accordingly, the Baltic countries saw rapid economic change, quick and far-reaching opening up to international trade, and a focus on ICTs and a skill-intensive service economy. This strategy had to be complemented with appropriate social investment policies. Since the countries' focus on skill-intensive services required human skills and education, policymakers concentrated on investment in and expansion of public education, while other social (investment) policies were much less developed. This focus on education moreover helped the young independent democracies to construct and strengthen their nation-states.

The Visegrád countries, in contrast, took a very different route. Policymakers in the Visegrád countries rather focused on (re)industrialization, especially on advanced and complex manufacturing (see also Bohle & Greskovits, 2012). Accordingly, these countries did not perceive a great need for comprehensive social investment policies but rather focused on compensatory social policies to buy off the losers of these reforms both financially and politically. Thus, the Visegrád countries' welfare reform strategy mainly moved in the direction of social protectionism, while social investment was disregarded. The development toward refamilialization was at least partly also due to the choice of manufacturing as the main engine for growth: Men were prioritized over women in advanced manufacturing, leading to a decline in levels of female labor force participation.

17.2.3.2.3. The role of collective actors, public opinion, and social partners

Toots and Lauri (see Chapter 7 in this volume) argue that public opinion—and thus the respective governing majorities—has generally been liberal-conservative in all three Baltic countries (somewhat more left-leaning in more agrarian Lithuania), preferring a lean compensatory welfare state and residual social compensatory policies, except when it comes to education and skill formation. Supporting this, Bremer's analysis of public opinion (see Chapter 12 in Volume I [Garritzmann et al., 2022]) shows that in the Baltics (and Eastern Europe more generally), it is difficult to make out clear groups of social investment supporters in the first place. After the restoration of independence in 1990 (Lithuania) and 1991 (Estonia and Latvia), the resulting liberal-conservative governments established their preferences (i.e., small compensatory welfare states, open economies, and investments in education but hardly in other typical social investment policies).

According to Toots and Lauri (Chapter 7 in this volume), these developments in the direction of an "Anglo-Saxon plus" model were further reinforced by the social partners: Due to the radical break with the legacy of obligatory union membership, the labor unions in the Baltics were comparatively weak, while employers' associations were rather strong and favored a lean welfare state. A partial exception to this story is the development of ALMPs. The Baltic countries expanded some skill-oriented ALMPs but mainly because the European Union pushed for these via the Open Method of Coordination (see also Chapter 4 in Volume I [Garritzmann et al., 2022]) and offered funding via its European Social Fund. This development of ALMPs because of the European Union is similar to what happened in the Visegrád countries.

The main argument made by Szelewa and Polakowski (see Chapter 8 in this volume) is that in the Visegrád countries no vocal domestic socioeconomic or political actor had an interest in expanding social investments. Analytically, the authors distinguish three periods of social investment (lack of) development in the Visegrád countries. In a first period, after the eastern bloc collapsed, public opinion (in general and families in particular) and sociopolitical elites in the Visegrád countries went against the perceived "forced commodification" of the Soviet era and established refamilialization as a new (social) right and liberty. Thus, no party and no vocal socioeconomic actors pushed for the expansion of ECEC or work–life reconciliation policies; that is, social investments (particularly ECEC) were not at all politicized at this stage. Rather, the countries saw a tacit consensus toward refamilialization. The refamilialization that seems like a "conservative" backlash from the perspective of Western Europe (going back to a more traditional male-breadwinner family model) was perceived as a rather "progressive" step in the view of many in the Central and Eastern European countries as dual-earner families were the norm before 1990 and refamilialization was a move away from this legacy. The same was true for other social investment policies like ALMPs as there was little public or elite demand to increase (female) labor force participation.

This changed, to some degree, in a second period, after EU accession in 2004 when the Visegrád countries came under the influence of the European Union's Employment Strategy, its Open Method of Coordination, and its Social Fund. Policymakers in all four Visegrád countries—irrespective of their ideological orientation—all established ALMPs because the European Union strongly encouraged and partly funded such programs. These policies largely remained "depoliticized" and did not feature prominently on the political agenda. ALMPs in these countries are hardly skill-focused but rather take a workfare direction, offering targeted social investment at best. Moreover, some of these funds have been misused, for example, in Hungary, to fund other (political) goals.

This changed again during a subsequent third period, which is characterized by the political rise of radical populist right parties. According to Szelewa and Polakowski (see Chapter 8 in this volume), the few existing (EU-promoted) social investment policies came under political pressure because these right-wing parties oppose the progressive and liberal family models associated with the social investment perspective and compare the European Union's attempts to exert influence to the former experience under communist rule. While social investments are thus more politicized now, the leading sentiment toward social investment is very antagonistic, contributing further to the lack of development of social investment in the Visegrád countries.

We summarize the main findings on the politics of social investment in Central and Eastern Europe in Figures 17.7 (Baltic countries) and 17.8 (Visegrád countries).

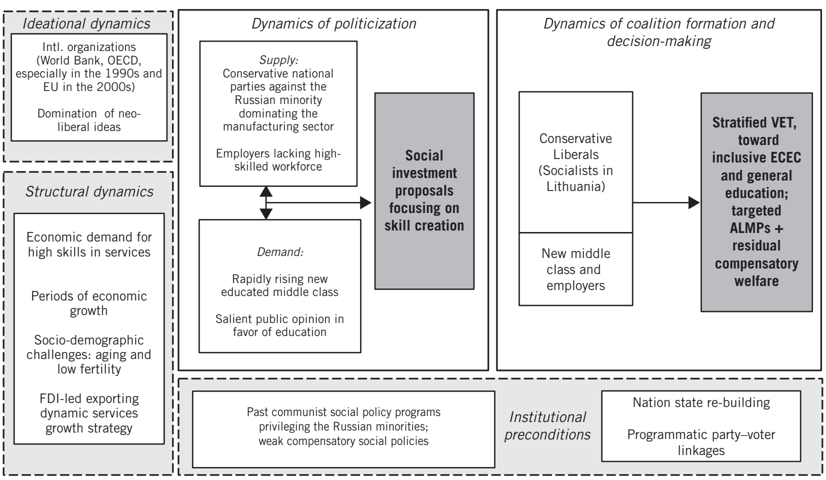

Figure 17.7 The politics of social investment in Baltic countries.

Note: FDI = foreign direct investment.

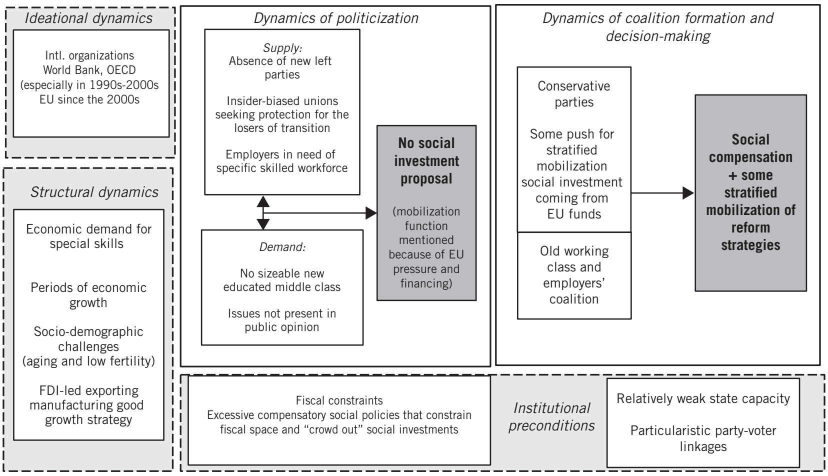

Figure 17.8 The politics of social investment in the Visegrád countries.

Note: FDI = foreign direct investment.

17.2.4. North East Asia

Japan, Taiwan, and South Korea (hereafter, Korea) are known as developed countries with relatively low levels of public social expenditure. Since the late 1990s, spending on pensions and healthcare has, however, increased rapidly, mostly due to the aging of the population. Meanwhile, the three countries have also developed childcare and family policies, with the explicit goal of mobilizing women to enter the labor market. All these endeavors remain quite stratified. The move toward social investment has been quite explicit in Korea, with the left-leaning president Roh Moo-hyun (2003–2007) using the notion of social investment in his policy agenda, the subsequent two conservative governments continuing along similar lines, and Moon Jae-in, elected in 2017, reiterating this orientation. Japan had family policies (child allowance and some childcare) for many years, but the move toward investing in childcare and parental leave is more recent and less explicit than in Korea. Taiwan is also developing mobilizing social investment policies. While Korea appears to be a "path shifter," Japan and Taiwan have been "slow movers" in social investment policy but are decidedly moving in this direction.

17.2.4.1. A progressive turn toward stratified social investment

Social investment policies are clearly expanding in the three developed North East Asian democracies. Korea, Japan, and Taiwan have had a long tradition following the male-breadwinner model and familialism where the role of women was to care for the husband (working long hours) and children. Confronted with an aging society and a shrinking workforce, they moved toward getting women into the labor market, which requires a significant change in mindset and policies. Social investment in North East Asia is less aimed at creating human capital and skill than at mobilizing women to join the workforce. The countries seem much less interested in future returns in terms of knowledge and in terms of social integration than in the increase of labor participation. The main goal is to confront the challenges of an aging society by promoting higher fertility (through investments in child allowances and childcare) and by increasing labor market participation rates, including women's employment.

A system of public social protection has not developed significantly in these countries since firm-based social protection, full (male) lifelong employment, familialism, and the male-breadwinner model have prevailed. Hence neither consumption nor social investment public spending was much of a focus until the reality of an aging population—the result of a very rapid increase in life expectancy and very rapid decline in fertility rates—hit. In the 1990s, social expenditure was tilted toward the elderly (pensions and healthcare), while spending on education and family policies remained relatively low. Even though the overall level of expenditure was low, the ratio of compensation policies over social investment policies strongly favored compensation policies in Japan and Taiwan until the mid-2010s (see Figure 11.2 [p. 264] in Chapter 11 in this volume). However, in the early 2000s, Korea started to develop more social investment policies, followed by Taiwan (after 2008) and Japan (during the 2010s).

Hong et al. (Chapter 11 in this volume) underline that Korea's pension system was established only in 1988. It has thus a lighter burden from preexisting policy legacies and a higher ratio of social investment over compensation policies. However, Lee and Kim (Chapter 13 in this volume) point out that in Korea social investment emerged at a time when old and new social risks (i.e., aging and increasing non-standard workers) were appearing simultaneously, thereby pushing for a change from a merely productivist to a more welfarist attitude in the policy networks. Thus, societal demands for social compensation and social investment are not necessarily opposed.

Miura and Hamada (Chapter 12 in this volume) point out that Japan shifted from weak compensation and weak investment (around the year 2000) to strong compensation and partial investment (around 2015). Japan now spends major sums on compensation due to its aging population and by the mid-2010s started to spend more on social investment. This case also reinforces the thesis that there must not be a trade-off between social compensation and social investment spending.

As Hong et al. (Chapter 11 in this volume) put it, social investment policies were neglected and underdeveloped in Taiwan in the late 1990s and early 2000s. In the period after political democratization in the late 1980s, passive income protection policies were the highest priority on the political agenda, with a focus on health and pension policies. However, the quiet politics of work–family policy gradually exploded into loud politics in the 2010s as the salience of social investment grew.

17.2.4.2. Explaining how North East Asian countries became social investors

17.2.4.2.1. A demand for social investment in aging societies

According to our authors, the main reason for the move toward social investment is demographic. The aim is to increase both fertility and women's participation in the labor market. As shown by Shim (Chapter 10 in this volume), the social investment issues that have increasingly gained legislative and media salience in all three countries are largely geared toward general voters and appear mostly as problem-driven valence issues aimed at tackling problems of an aging society and the low-fertility crisis. They are much less interested in the knowledge economy and the creation of human capital. This seems paradoxical when one knows how important and costly education is in these countries. As Garritzmann (2016) noted, in these countries (at least Japan and Korea), vocational training is provided by private firms, and higher education is highly elitist (at least historically) and highly privatized. The dominance of privately provided education and training has become so ingrained and produced such reinforcing effects that by now hardly anyone opposes the private provision of (higher) education, high tuition fees, and low public spending. This can explain why there is not a lot of discussion about public human capital provision as most people simply regard this to be a private concern and have no incentives for pushing for more egalitarian access to education.

It is clear that Japan's move toward social investment was triggered by the "1.57 shock" when the fertility rate fell in 1989 to its lowest level since 1966. But, even though the rate continued to decline until about 2005 when it stabilized somewhat, it took time for the Japanese government to really move toward social investment services and policies. In 2007 the government shifted the problem definition from the declining birth rate to the declining population. Only by recognizing the declining population did the government realize the necessity to push and keep women in the labor market.

If the Japanese welfare state has undergone a silent and slow social investment turn, Korea has shown a radical shift in family policy since the middle of the first decade of the 2000s, when the Roh Moo-hyun government and its "Vision 2030" policy strategy aimed to tackle the new social risks arising from demographic changes and the new knowledge society. Under those circumstances, more emphasis was put on human capital creation, even though the pressure to increase female labor participation and fertility was high.

17.2.4.2.2. Party politics and party system more influential than legacies

In all three countries, societal demand for increasing social investment arose in the context of a general push for more welfare intervention, triggered by the decline of the model based on the combination of equitable economic growth and unorthodox social policies implemented by private firms with the state's support in terms of tariffs and subsidies. Estévez-Abe and León (Chapter 14 in Volume I [Garritzmann et al., 2022]) point out that in Japan (much like in Italy) social protection relied on a network of clientelist connections which started to be questioned already in the 1960s and then increasingly in the 1990s, when the LDP (the center-right dominant party) was forced to enter into a coalition with the emerging progressive forces and thus to implement more universalistic welfare reforms, including an increase in family spending. Similarly, Shim (Chapter 10 in this volume) underlines that the increasing openness and exposure of the North East Asian economies to volatile international markets starting from the 1990s made unorthodox social policies less sustainable (especially those based on tariffs and subsidies) and thus prompted an increasing awareness of the need for more social spending. This also resonates with Lee and Kim's (Chapter 13 in this volume) contention that the increase in atypical workers in Korea was, along with population aging, one of the factors which sparked the crisis of the country's "growth first, distribution second" model.

What is striking is that the legacy of the developmentalist state does not seem to be that important for understanding the development of social investment in North East Asia. One might think that arguing for a productive social policy like social investment would be easier in countries where the population is used to having the state interfere in economic affairs in order to promote growth and productivity. But this has not been the case in the three North East Asian countries. Though they are all developmental states, they did not introduce social investment policies until recently. Furthermore, their paths toward social investment differed: Having the same developmentalist legacy does not lead to the same path to social investment policies. One reason is that the developmentalist state was strongly based on familialism and the male-breadwinner model and considered the caring and welfare functions to be the responsibility of women and families. There were thus no seeds for social investment in the developmentalist state.

In the case of Korea, Lee and Kim (Chapter 13 in this volume) suggest that the developmental legacy was in fact more hostile to the social investment turn than conducive to it. Since the 1970s and 1980s, development had been the product of the combination between an overriding emphasis on economic growth and a lack of redistributive policies. Stimulated by the state and big companies (*chaebols*), economic growth was supposed to achieve relatively equitable outcomes. This engendered what Lee and Kim call the "economic growth first, distribution second" political mantra, which made the very idea of social welfare policy unpopular within Korean policymakers' and public opinion. Hence, the turn to social investment was more of a break with tradition than a continuation of it.

As noted, the big impetus for change has been demography: low fertility, the care crisis due to the scarcity of caregivers for an increasing number of frail elderly, and a shrinking economically active population. All these trends have led to the perceived need to bring more women into the labor market. In a way, the turn to social investment in these countries is less linked to a growth strategy than to a demographic strategy. What also seems to be common to the three cases is that, beyond demographic preoccupation, the social investment agenda and policies have been a political attempt to reach out to and attract both women and the younger generation.

Shim (Chapter 10 in this volume) shows that political partisanship is not an important factor in determining whether a social investment bill is introduced. While an individual legislator's partisan affiliation does not matter, several other individual-level characteristics are important: Female, newly elected legislators are more likely to introduce social investment bills. However, when examining the choice of the type of social investment strategy proposed, the effect of partisanship is clearly a factor. That is, left-leaning parties tend to emphasize social goals over economic ones and, at the same time, prioritize skill creation and skill preservation over skill mobilization social investment policies. Conservative governments, which dominate political life in all three countries, emphasize workforce mobilization social investment policies. Very often, right-wing governments have been pushed toward proposing social investment policies by the pressure coming from the opposition.

Differences in the paths to social investment between the three countries can be explained by their political systems, in particular the party system and the type of political competition. In Japan, until recently, there has been almost no connection between elections and governments, with the same party in power but highly unstable governments. As Miura and Hamada (Chapter 12 in this volume) show, in Japan the dominance of the conservative party and its policy orientation, despite leadership changes, led to the partial and stratifying nature of social investment. This distinguishes Japan from Korea where competitive politics have mattered much more. In Korea, despite elections being partly dominated by regional belongings, there have long been two camps; and it was thus easier to go from politicization or agenda to decision-making and implementation. Estévez-Abe and León (Chapter 14 in Volume I [Garritzmann et al., 2022]) as well as Lee and Kim (Chapter 13 in this volume) emphasize the role that competitive districts around Seoul, inhabited mainly by younger and more progressive voters, played in shaping the political battle which eventually prompted relatively drastic increases in ECEC spending. In Korea, it is when a left-leaning president came to power that the turn to social investment was most visible and accelerated, even though there was no strong backlash when right-wing conservative governments returned to power.

We summarize the main findings on the politics of social investment in North East Asia in Figure 17.9.

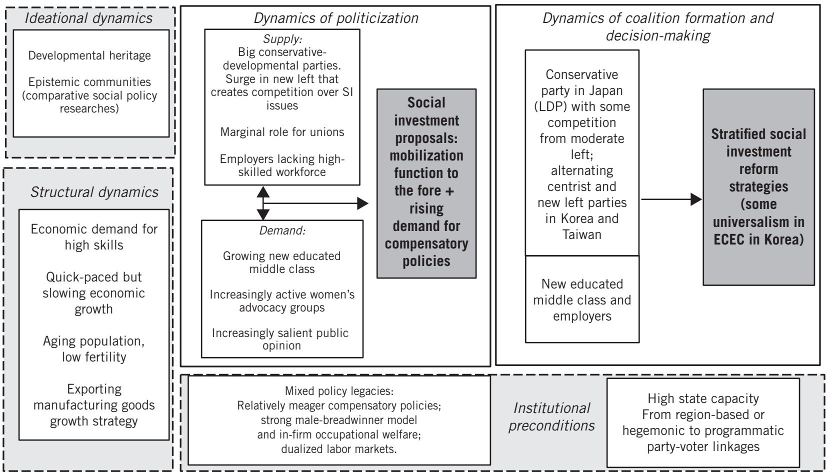

Figure 17.9 The politics of social investment in North East Asia.

Note: SI = social investment; LDP = Liberal Democratic Party.

17.2.5. Latin America

For Latin America, one can certainly speak of a clear general trend toward the expansion of social investment policies starting in the early 1990s and accelerating after the first decade of the 2000s. The focus of this expansion was mainly on human capital creation and preservation, namely in health and education (VET as well as post-secondary and tertiary education), and the expansion of CCT programs. During the 2010s, ECEC programs were also expanded in several countries.

Contrary to Western Europe, there is no "turn to" social investment away from social compensation policies (see Chapter 13 in Volume I [Garritzmann et al., 2022]). Rather, in the generally weakly developed, fragmented, and truncated welfare states of the Latin American region, the focus of welfare expansion was usually on improving social security for the lower classes, in particular people working in the informal sector. This goal was pursued both via social compensation or income transfer policies and via social investment policies. Bogliaccini and Madariaga (Chapter 7 in Volume I [Garritzmann et al., 2022]) show that social investment and social compensation generosity seem positively correlated. Peralta (Chapter 14 in this volume) even finds that throughout the region—whether the country was economically and democratically more or less developed—the large majority of expansive reforms qualified as social consumption. Hence, the salience of social investment was not higher than that of social compensation, and the politics of social investment can generally not be seen as a trade-off between the two orientations (see Chapter 13 in Volume I [Garritzmann et al., 2022]). This also resonates with Bremer's finding (see Chapter 12 in Volume I [Garritzmann et al., 2022]) that preference profiles in Latin America are less distinctive when it comes to social investment and social compensation. Unlike in Europe, there is no consistent class divide, with lower classes supporting social compensation more strongly and upper classes supporting social investment more strongly, in Latin America.

The expansion of social investment in Latin America needs to be seen, however, as relatively fragile, and the likelihood of disruption of the observed trend exists. The expansion of social investment policies—at least in their more inclusive and quality-oriented ways—was contingent not only on the benefits derived from exploitation of natural resources but also on determined (mostly left-wing) governments being in power, as well as the absence of very strong veto players (private providers, trade unions, depending on the legacies).

17.2.5.1. Different capacities for social investment

The main type of social investment reform in Latin America is based on targeted social investment, especially in the form of CCT programs (with the exception of Bolivia where the CCT program was universal). CCTs are cash transfers for poor families usually conditioned on their children going to school and/or attending health checkups. The original main purpose of these programs was to reach the informal workforce—representing between 25% and 50% of the workforce, depending on the country—with the goal of both poverty alleviation and human capital and skill development to avoid the intergenerational reproduction of poverty. Hence, throughout Latin America, these CCT programs have pursued the joint goals of compensation and investment, with the accent more on compensation (e.g., Uruguay) or more on investment (e.g., Brazil) depending on the country. Social investment is often introduced to fill in gaps in welfare coverage.

The various chapters of our two volumes analyzing the Latin American cases lead us to distinguish between two broad groups of countries. The strongest development of social investment could be observed in Brazil, Chile, Argentina, and Costa Rica (notably with regard to education, healthcare, and CCTs). Uruguay also exhibited strong inclusive reforms in the health sector but implemented fewer reforms regarding education and put less emphasis on the investment aspect of the income-supporting CCT program. Among the most economically developed countries in Latin America, Mexico also developed a strong CCT program, but its health and (early) education programs remained more stratified in terms of access and quality.

Among the less developed countries of Latin America, which also tend to exhibit weaker state capacity (see Chapter 7 in Volume I [Garritzmann et al., 2022]), many countries, for example, Peru, Bolivia, Guatemala, Nicaragua, and Honduras, implemented CCT programs as well; but they were generally not integrated in an overall strategy of expanding also the corresponding services (see Chapter 13 in Volume I [Garritzmann et al., 2022] and Chapter 15 in this volume). In these cases, CCT programs were kept at low benefit levels (as in

Bolivia) and generally lacked the capacities to monitor conditionality effectively (see Chapter 16 in this volume).

In the more advanced Latin American countries, CCT expansion generally went together with the expansion in terms of access and quality of health and education services (see Chapter 13 in Volume I [Garritzmann et al., 2022]). In the first decade of the 2000s, ECEC programs were also introduced in either universalistic (Chile) or targeted (Mexico) ways (see Chapter 11 in Volume I [Garritzmann et al., 2022]). In the less advanced countries, the creation of CCT programs was oftentimes not matched with expanded services, thereby undermining the policy's investment orientation.

In addition to CCT programs, many countries expanded policies of skill formation to support economic development. While the children of middle-class families were concentrated into the (expanded) post-secondary and tertiary education, VET policies became an alternative to incorporate poorer populations in the professional education system (see Chapter 7 in Volume I [Garritzmann et al., 2022]).

In Latin America, not everything that is called social investment really fulfills the functions of creating, preserving, or mobilizing human capital and improving people's economic situation and capabilities. Various conditions matter. Huber et al. (Chapter 13 in Volume I [Garritzmann et al., 2022]) underline that CCT programs sometimes cannot rely on efficient health and education services. They argue that CCT programs should only be counted as social investment if there is a parallel expansion of services that allows the conditional transfers to have their intended impact. For example, *Bono Juana Azurduy* in Bolivia offered a cash benefit for young mothers conditional on giving birth in a hospital and accepting pre- and postnatal medical care. Yet, adequate medical services were scarce, and the social investment character of that policy was wholly undermined (see Chapter 15 in this volume). Hence, the effectiveness of conditionality and the capacity to provide services attached to CCT programs are key. It is only with functioning medical or educative services that CCT programs can further human capabilities (see Chapter 16 in this volume). In Brazil, Argentina, and Mexico, for example, CCT programs involved detailed requirements that were closely checked and continuously monitored, with clear dispositions for implementation. In Uruguay, by contrast, the conditions were purely formal, with no dispositions for monitoring or sanctioning in case of non-fulfillment. Hence, the emphasis of the Uruguayan CCT program was not on investment but on income transfer. In other cases, the focus on human capital development was not present, even if some services were provided. The Mexican *Estancias* program, for instance, simply aimed at expanding childcare facilities so that low-income mothers could work, without regard for either good-quality care for the children or good employment for mothers (see Chapters 11 and 13 in Volume I [Garritzmann et al., 2022]). Therefore, social investment requires a minimum of state capacity to implement the accompanying human capital enhancement measures.

Also required is a relative weakening or absence of clientelism. As shown by Jenson and Nagels (Chapter 15 in this volume), breaking patron–client relationships was a key goal of the design of the Brazilian CCT program, as well as similar programs in Bolivia and Peru. However, where this was not successful (e.g., Honduras) or where strong unions managed to appropriate the gains of education expansion (e.g., Mexico; see Chapter 6 in Volume I [Garritzmann et al., 2022]), the social investment aspects were undermined.

17.2.5.2. Explaining the politics of social investment in Latin America

As shown by many chapters, the development of social investment in Latin America has to be understood as a reaction to the negative social consequences of neoliberalism. The role of international organizations and their discourse, once they shifted their views from structural adjustment plans toward social investment (see Chapter 3 in Volume I [Garritzmann et al., 2022]) appears as rather a background condition than an explanatory factor. Instead of pushing social investment policies from the outside, international governmental organizations such as the World Bank, the Economic Commission for Latin America and the Caribbean (ECLAC, CEPAL in Spanish), and the Inter-American Development Bank and international academic think tanks rather reinforced domestic political actors. In every country, it is possible to locate the domestic political forces that pushed for social investment policies. These reform initiatives certainly took place in a context of a general discourse of "modernizing social policy" (e.g., Chile and Brazil) or more radical "re-embedding of the economy" (e.g., Bolivia and Venezuela; see Chapter 15 in this volume), but domestic dynamics seem clearly dominant.

Institutional legacies were important in three ways. First, they shaped the nature of the problems addressed via social investment initiatives (i.e., the focus of targeted social investment on the informal workforce and the poor). Targeted social investment expansion had a higher importance in stratified and segmented systems (e.g., Chile and Mexico) than in more universal ones (e.g., Costa Rica). Second, legacies mattered in the sense that a social investment orientation of reforms really had to break with earlier practices of social policy, in particular clientelistic practices at the local and regional levels (see Chapter 15 in this volume and Chapter 6 in Volume I [Garritzmann et al., 2022]). Hence, these legacies fed into the logistic and technological complexity of implementing social investment conditions effectively. Clientelism and lack of state capacity appear to be important reasons why the less advanced countries in Latin America were generally less able to develop effective social investment programs. Third, legacies matter in that they establish political actors that may oppose reforms, such as teachers' unions in Uruguay and Mexico or private sector providers in Chile and Mexico who oppose inclusive and equality-oriented programs.

The most important explanatory power for the varied development of social investment policies in the more advanced Latin American countries lies in domestic political dynamics. Throughout the analyses of these countries, governments appear as the single most important protagonists of social investment (see Chapters 11 and 13 in Volume I [Garritzmann et al., 2022] and Chapters 15 and 16 in this volume). In only two instances were social movement actors mentioned as important protagonists of social investment initiatives: the *sanitaristas* movement in Brazilian health politics and the student movement in Chile (see Chapter 13 in Volume I [Garritzmann et al., 2022]). Neither trade unions nor business organizations appear to be important social investment protagonists in either country.

The partisan composition of governments also made a major difference. Left-wing governments in all the Latin American countries analyzed showed a commitment to reducing poverty and to expanding welfare provision to the entire population while reducing inequality in quality and access. Examples are Uruguay's, Chile's, and Brazil's healthcare reforms toward more inclusive systems. The left-wing governments in Chile and Brazil had to make concessions to the right-wing opposition in parliament or to private providers, but they explicitly pursued an inclusive, equality-oriented agenda (see Chapter 13 in Volume I [Garritzmann et al., 2022]). Similarly, the left-wing government in Chile implemented an inclusive childcare reform that moved away from formal employment as an eligibility condition (see Chapter 11 in Volume I [Garritzmann et al., 2022]). By contrast, the right-wing government in Mexico pursued only a targeted expansion of health and ECEC services, contributing to the solidification of a strongly stratified, dualized system (see Chapters 11 and 13 in Volume I [Garritzmann et al., 2022]). Also, right-wing governments in Mexico implemented CCT programs with a more punitive, sanction-oriented design.

While partisan governments were clearly in a leading role, coalitions also were important in some cases. In Uruguay, for instance, the left-wing government held a strong majority and could thus implement the reforms as preferred without compromises. However, in Brazil and Chile, governments had to make concessions to coalition partners. Rossel et al. (Chapter 16 in this volume) show that when it comes to CCT programs, the design of conditions became an effective means of coalition-building. It allowed the Brazilian government to rally different forces behind the CCT program, which defended quite distinct policy ideas from basic income to social investment; and the same holds for the introduction of the Argentinian CCT program by the Kirchner government.

Corporatist actors such as employer organizations and trade unions are generally much weaker in these Latin American countries as a consequence of the authoritarian periods and neoliberal reforms. Hence, their role in the politics of social investments appears to be much more marginal than that of political parties. Trade unions appear at best as consenters of reforms but never as protagonists. In Chile, trade unions allied with the government in active defense of inclusive ECEC reforms (see Chapter 11 in Volume I [Garritzmann et al., 2022]). However, the (stronger) trade unions in Uruguay opposed equality-oriented reforms in the education sector and appropriated much of additional spending on education in the form of teacher salaries (see Chapter 7 in Volume I [Garritzmann et al., 2022]). Similarly, trade unions in Mexico operated in both an opportunistic and a stratifying way in the fields of education reform and ECEC expansion (see Chapters 6 and 11 in Volume I [Garritzmann et al., 2022]).

In the less advanced group of countries, two notable differences as to the domestic politics of social investment emerge. First, these countries suffer from lower state capacity than the more advanced countries. Therefore, the influence of international agendas and actors was generally stronger (see Chapter 7 in Volume I [Garritzmann et al., 2022]). Second, bureaucrats and technocrats played a comparatively bigger role. Jenson and Nagels (Chapter 15 in this volume) show that in Peru techno-bureaucrats with international ties developed the CCT program (to work against clientelistic structures), with complete disregard for existing programs and in opposition to much of domestic politics, which eventually hampered their effective implementation.

We summarize the main findings on the politics of social investment in Latin America in Figures 17.10 (economically advanced countries) and 17.11 (less advanced countries).

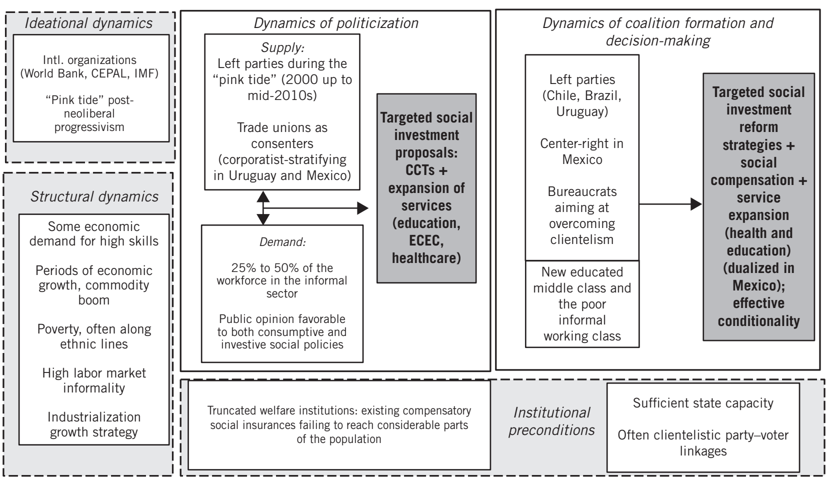

Figure 17.10 The politics of social investment in economically advanced Latin American countries. (e.g. Brazil, Chile, Argentina, Uruguay, Mexico and Costa Rica)

Note: CEPAL = Comisión Económica para América Latina y el Caribe; IMF = International Monetary Fund.

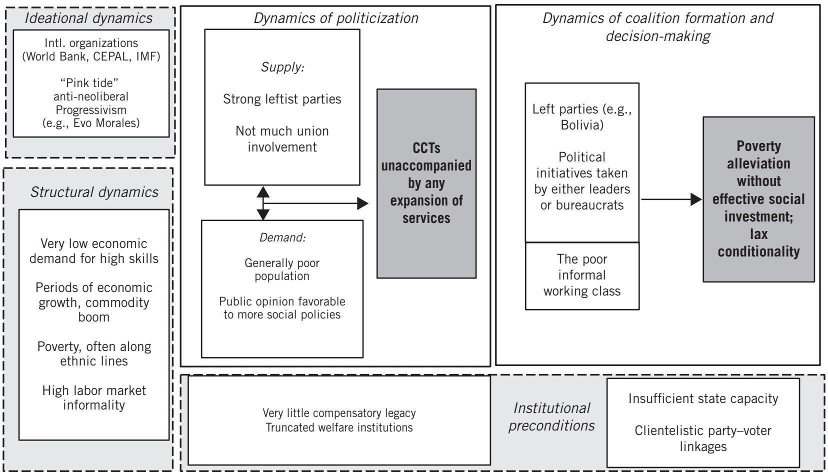

Figure 17.11 The politics of social investment in less advanced Latin American countries. (e.g. Peru, Bolivia, Guatemala, Nicaragua, Honduras)

Note: CEPAL = Comisión Económica para América Latina y el Caribe; IMF = International Monetary Fund.

17.3. THE FIVE TYPES OF SOCIETAL AND POLITICAL COALITIONS BACKING THE FIVE WELFARE STATE REFORM STRATEGIES IN THE 21ST CENTURY

While the WOPSI project focuses on the increasing importance of social investment policies in welfare state reforms, we have also taken a broader view and theorized about what are the main welfare state reforms that have occurred in capitalist democracies since the 1990s. In Chapter 1 of Volume I (Garritzmann et al., 2022), we hypothesize that, theoretically, there could be six main types of welfare state reform strategies. Among them are three social investment strategies: "inclusive," "stratified," and "targeted," according to their distributive profile. In addition, there could be three "non-social investment" strategies, that is, alternative strategies of welfare state development that do not engage with the social investment paradigm: "market liberalism," a strategy of retrenchment, individualization, and privatization of protection against risks, most likely resulting in "forced" commodification; "social protectionism" that privileges compensation over investment and decommodification over activation; and "basic income strategies" that favor the introduction of a universal basic income.

After having reviewed the many cases studied in our two WOPSI volumes, we come to the conclusion that there are actually five main types of welfare state reform strategies, four that include social investment and one without any social investment component. We confirm that there are three types of social investment reform strategies, depending mostly on their distributive profiles: one where inclusiveness of social investment prevails, one that develops stratified social investment, and one that targets social investment. The functions—skill creation, mobilization, or preservation—associated with them can vary depending on the socioeconomic context, but the main differences between the three strategies in terms of politics and social outcome remain their distributive profiles.

What the empirical case studies add to what we expected, however, is that the scope and meaning of targeted social investment can differ depending on what type of other welfare state reforms they are combined with. In some contexts, targeted social investment appears as a complement to existing or newly developing compensatory social insurance, when the latter is unable to reach an important segment of the population (see the cases of Latin America, for instance). In that case we call it "integrative targeted social investment" in the sense that it is used to integrate within public welfare some population that is usually excluded, whether because of extreme poverty or informality of labor.

In other contexts, targeted social investment is not complementary but substitutive. It is used to substitute for existing social assistance. In that case, targeted social investment replaces formerly unconditional assistance cash transfers provided to excluded and poor populations. The aim of this targeted social investment is to activate those populations and commodify their working capacities without paying much attention to the quality of jobs or to the content or improvement of skills. What the case studies show is that this "substitutive targeted social investment" is usually associated with the welfare state reform strategy we theoretically identified as "market liberalism" (see the cases of English-speaking liberal countries in Europe and North America). Hence, we conclude that what we identified as the "pure" market liberalism type of welfare state reform strategy actually includes some social investment (mainly with the mobilization goal) as yet another means to activate the poor and unemployed and to commodify labor.

Furthermore, we have indeed found places where welfare state reforms exclude social investment, as in most of the Southern European and eastern European Visegrád countries. We confirm that the dominant welfare state reform strategy in these situations is social protectionism.

Finally, we did not find any existing case of an unconditional universal basic income. Some experiments have indeed been developed (as in Finland in the late 2010s) but without any effort to scale up. Further, some countries claim to have partially implemented the idea, as Italy with the "citizens' income" (*reddito di cittadinanza*) adopted in 2019, although it is more a means-tested benefit conditional upon seeking a job, making up for the absence of both a minimum income guarantee and a real unemployment insurance in the Italian welfare system (Vivaldi, 2019).

As stated in the theoretical Chapter 2 in Volume I (Garritzmann et al., 2022), what interests us the most here are the political coalitions behind these welfare state reform strategies. In this section, we present the societal and political coalitions that are linked to these five strategies of welfare reform. We contend that the size and political behavior of the educated middle class in interaction with institutional legacies (i.e., how prevalent social compensation is) are crucial to understanding why one strategy prevails over the other competing ones.

As argued in Chapter 2 and confirmed in Chapter 12 (both in Volume I [Garritzmann et al., 2022]), in many countries the new educated middle class is the key supporter of investment strategies. In the developed world, the educated middle class is predominantly represented by left-leaning parties (social democrat, green, or social liberal parties, depending on the country). The size of the educated middle class varies greatly across countries (depending itself on the welfare state legacy; see Oesch [2015]). In the Nordic countries, for instance, educated people in interpersonal service occupations represent about a fourth of the workforce, whereas the same group remains way below 10% in the Southern European countries (Beramendi et al., 2015; see also Chapter 12 in Volume I [Garritzmann et al., 2022]).

But even in the Nordic countries, this class is generally neither large nor strong enough to carry a policy reorientation to success on its own (see Chapter 2 in this volume). However, where the educated middle class reaches a certain size, it will enter into cross-class coalitions in order to seize control of the political process and press for actual policy change (Häusermann & Palier, 2017). Among our cases, we identify two main coalitions in which the educated middle class is pivotal: a middle class–business alliance, on the one hand, and a middle class–working class alliance, on the other hand. Depending on socioeconomic conditions, welfare legacy, salience, and party politics, each type of coalition leads to different types of welfare state reform strategy. Business and new educated middle-class coalitions can lead to either conservative stratified social investment reform (notably in Continental Europe and North East Asia) or to market liberal welfare reforms including welfare retrenchment, privatization, and targeted social investment substituting for social assistance. Conversely, when a sizeable new educated middle class chooses to ally with the working class, the resulting coalition will generally lead to a pro–middle class social democratic inclusive social investment strategy (as in Nordic countries but also in Korea).

However, the educated middle class is not always large enough to construct and lead a welfare reform coalition. In countries where the educated middle class is small, different types of coalitions will emerge, in which we see social groups other than the new educated middle class act as the pivotal constituency for welfare reforms. We identify two such coalitions, both revolving around the working and lower (industrial) middle classes as the pivotal classes. Instances where the working class allies with the emerging educated middle class will lead to a pro-poor social democratic coalition, developing integrative targeted social investment (as in Latin America), as a way to complement a truncated welfare system and reach out to the working and lower-middle class employed mostly in the informal sector. On the contrary, if a coalition emerges between the working class, the lower (industrial) middle class, and business (small firms), we see the prevalence of social protectionism and limited to no social investment policies. All five of these coalitions are depicted in Figure 17.12.

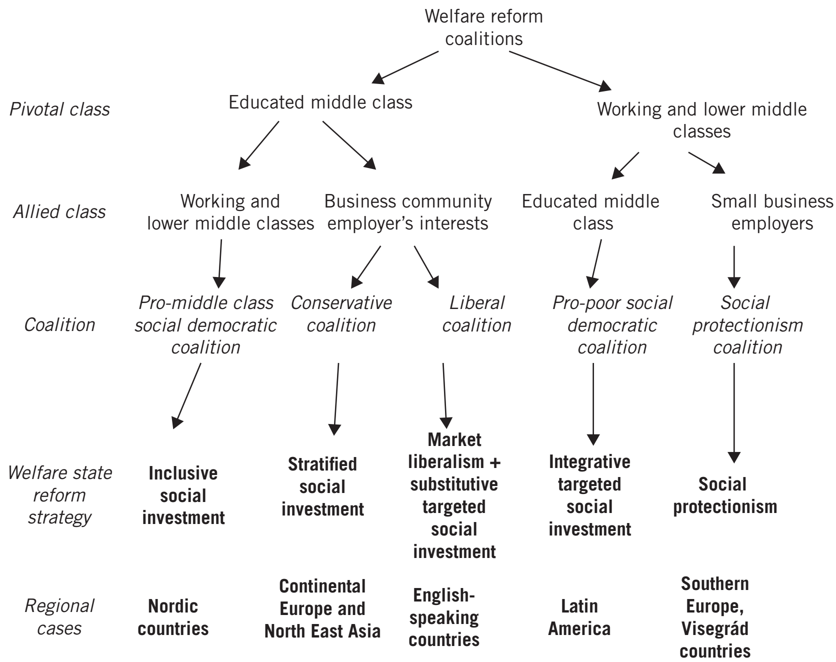

Figure 17.12 The five societal and political coalitions behind the five welfare state reform strategies.

In what follows, we review each of the five societal and political coalitions behind the main welfare state reform strategies. We first present their main (ahistorical) characteristics, then detail the way they developed in specific regional and historical contexts.

17.3.1. The two social democratic coalitions

We identify two types of potential social democratic coalitions, which form when the educated middle class (i.e., the expanded middle class that concentrates mainly in interpersonal and cognitive service occupations; see, e.g., Oesch [2013] and Gingrich & Häusermann [2015]) engages in political compromises with the working class around an agenda of universalistic welfare provision. This does not necessarily have to be centered on a program of social investment, but it will tend to include social investment as long as the middle class demands it, in line with their interests and values (see Chapter 12 in Volume I [Garritzmann et al., 2022]). It also requires that social investment be framed as a policy which also benefits and mobilizes the lower classes (i.e., when it is conceived as an encompassing policy where the poor benefit from the same public social investment services as the middle class or a targeted one through which the previously excluded poor and informal workers gain access to public welfare through targeted social investment and when it is conducted as part of a broader strategy of inclusive development).

This will in turn depend, on the one hand, on the nature of the middle class (i.e., how "new" and "educated" it is) and the level of a country's proximity to a knowledge economy. On the other hand, it will also depend on the extent to which social investment is politicized as a strategy of inclusive growth (see Chapter 3 in Volume I [Garritzmann et al., 2022] on the notion of inclusive growth). In these cases, the defining feature of the two types of social democratic coalition is that social investment will be conceived of as a means of both economic growth *and* (more or less egalitarian) social inclusion.

This means that such a social democratic coalition will be likely to emerge in countries where the new educated middle classes and the working (or generally "lower") classes, which might include less well-off farmers or informal workers, will be large enough together to constitute an electoral majority and will be open to allying on a program of inclusive social investment. This can mean one of two things: 1) either the new middle class, which is the "natural" constituency of social investment, is large enough to constitute a powerful electoral constituency *and* is committed to an agenda of inclusive social investment around which an alliance with the "lower" classes can be cemented (as in Nordic countries) or 2) even in the absence of a sizeable new educate middle classes, the "lower" classes, which do not necessarily favor social investment (indeed, they often prefer social protection strategies; see Chapters 2 and 12 in Volume I [Garritzmann et al., 2022]), are presented with an investive social policy strategy which they prefer over, or at least value as much as, an expansion of social compensation instruments (as in Latin America).

In the first scenario, the new educated middle class is the pivotal political engine whose support determines the viability of an inclusive social investment agenda, the economy is mostly knowledge-based, and the working classes participate in the social contract in exchange for plentiful opportunities to profit from a thriving labor market and training opportunities as well as the existence of a generous safety net in case they fail to reap such benefits. In the second scenario, the lower classes are the larger pivotal electoral constituency, and the new educated middle classes are of secondary importance. Targeted social investment plus the general expansion of services (education and healthcare) are considered a solution to promote social investment for both middle and lower classes.

We thus see social democratic coalitions emerging at both ends of the developmental spectrum: either in mature and wealthy post-compensatory welfare states, with a large knowledge economy–based middle class, or in emerging democracies, where compensatory legacies are absent or of minimal influence and where the working classes stand to profit from a general strategy of inclusive growth.

17.3.1.1. Nordic social democratic coalitions and inclusive social investment

The main empirical example of the pro–middle class social democratic coalition are the Nordic European countries, where early formative alliances between the labor movement and farmers evolved to encompass the moderate or liberal parties and engendered a cross-class constituency in support of universalistic welfare (see Chapter 2 in this volume). Access to public services and insurance coverage was universalized, and social risks were pooled across the society, in order to guarantee income security as wished by the working class. At the same time, a strong emphasis was placed on the quality of the social investment–oriented public services (especially education) and of the associated jobs, in line with the expectations of the early middle classes. This welfare expansion contributed to the enlargement of the middle class and to the reinforcement of its commitment to the universal welfare state, granting a solid social base for the establishment of a social democratic coalition. As of the early 2020s, the Nordic countries remain dominated by examples of this coalition, with Denmark's government being historically supported by a parliamentary alliance between the Social Democrats and the Social Liberals and Sweden's Social Democrats being similarly supported by the Centre, Liberal, or Green party, depending on the coalition.

The Nordic social democratic coalition is on the whole conducive to *inclusive* social investment policies, oriented to all three *functions* (i.e., human capital creation, mobilization, and preservation). This is in line with the universalistic orientation of the welfare state in general (*legacies*) and with the cross-class, encompassing coalition that constitutes the heart of social policy innovation in the Nordic countries.

The Nordic social democratic coalition exemplifies the dynamic by which social democratic parties' turn to an electoral strategy that caters both to a large educated middle class (which constitutes about one-fourth of the labor market; see Chapter 2 in Volume I [Garritzmann et al., 2022]) *and* to the working class. Such an agenda will mostly propose a middle class–oriented social investment policy menu, but working-class support is shored up on the premise that participation in the labor market will be open to fair competition in a generally egalitarian and capacitating system (see Chapter 2 in this volume). In this context, the main threat to the coalition's stability is that the educated middle class might withdraw its support for the inclusive agenda and start supporting a more stratified or even privatized welfare system. This is precisely the calculation upon which the new pro-market, pro-liberal parties such as the Danish Liberal Alliance have based their electoral strategies (see Chapter 2 in this volume). However, even after the economic crisis that began in 2008, the subsequent recession, and the emergence of populist political groups, the Nordic social democratic coalition has so far demonstrated extraordinary resilience to external change, with, for instance, the

2019 elections in Denmark resulting in a landslide victory of the "red bloc" and the Swedish elections in 2018 seeing the social democratic parties topping the polls, albeit with slight losses.

The "ancient" Nordic social democracy is, however, a relatively unique case of contingent political alliances developing into a long-lasting universalistic constituency and, as such, is hardly replicable. Nevertheless, it does provide useful insights on the connection between institutional legacies and the feasibility of particular efforts of coalition formation: The well-developed, inclusive, and capacitating welfare state of the Nordic countries, with its entrenched system of education and flexicurity and its good public jobs, helped create and empower that very constituency which now forms the backbone of the left-liberal electorate and the main (loud) voice for social investments.

17.3.1.2. Social democratic coalitions in Latin America and targeted social investment

A second, albeit different manifestation of the social democratic coalition is what can be called the pro-poor social democratic or progressive coalition, observable in Latin America in the late 1990s and early 2000s and in Spain and Portugal between the establishment of the democratic regimes in the late 1970s and the economic crisis in 2008, especially in the "Lisbon Strategy" decade (see Chapter 5 in this volume and Chapter 14 in Volume I [Garritzmann et al., 2022]). Here, we also find an alliance between the working class (in the case of Latin America, also the informal sector) and parts of the middle class. The huge difference is that, unlike in the Nordic countries, the middle class plays a much more marginal role, reflecting the generally less mature stage of development of such countries' economies—which can be characterized as instances of "incomplete Fordism" and underdevelopment of the knowledge-based economy (see Chapter 14 in Volume I [Garritzmann et al., 2022]).

It is the "lower" classes, the working class plus the informal sector in Latin America, which form the backbone of this type of coalition, with the (small) urban, educated middle class being relatively marginal to the electoral calculations of the social democratic parties which usually lead such a coalition. In the Spanish and Portuguese examples, the middle class played a more relevant role, for instance, in the introduction of family policy reform before the 2008 crisis (see Chapter 14 in Volume I [Garritzmann et al., 2022]); but the reforms were introduced under the rule of strongly working class–oriented socialist parties.

This form of the social democratic coalition must be differentiated from the social compensation coalition (such as the Italian M5S/League coalition in 2018–2019) and counted among the pro–social investment coalitions because it aims to use social investments to pursue joint developmental and social goals. This attempt may be framed as part of a broad process of institutional reform (see Chapter 13 in Volume I [Garritzmann et al., 2022] and Chapter 15 in this volume), which in turn stems from the peculiar political circumstances under which both the Pink Tide governments (wave of left-leaning governments in Latin America up to the mid-2010s) and the early social democratic governments of Spain and Portugal (see Chapter 14 in Volume I [Garritzmann et al., 2022]) took office. In both sets of cases the social democratic parties found themselves in the position of governing countries with a very recent autocratic past. Furthermore, social investments were introduced under ideological premises, such as the ECEC reform in Spain which was framed as an issue of gender justice (see Chapter 14 in Volume I [Garritzmann et al., 2022]) and the emergence of the CCTs under the Morales government in Bolivia, whose presidential campaign was characterized by a strong progressivist ethos centered on the rejection of neoliberal legacies and on the rewriting of the constitution in a markedly social democratic direction. Social investment was framed as an instrument of deep institutional and social reorientation (see Chapter 15 in this volume). Similarly, the Lula de Santos administration in Brazil and the Bachelet one in Chile (see Chapter 16 in this volume) were strongly tilted toward a program of inclusive development and rejection of neoliberal legacies.

In Latin America, social investment did not emerge as a “turn” away from compensation-oriented policies (see Chapter 12 in Volume I [Garritzmann et al., 2022]) but came within the context of a general expansion of the welfare state, for example, through healthcare expansions in Brazil and Chile (see Chapter 13 in Volume I [Garritzmann et al., 2022]) and educational expansion in Colombia (see Chapter 14 in this volume). However, social investment reforms were generally more prevalent vis-à-vis social compensation where compensatory legacies were weaker and the welfare state less developed. The cases of Uruguay and Costa Rica are telling: Both already had relatively large and developed welfare states with established legacies of social protection, and both struggled to expand social investment “at the expense” of such legacies, with social compensation legislation much more salient in the legislature there than in countries with relatively less entrenched decommodification traditions such as Colombia (see Chapter 14 in this volume). This might be explained by the fact that in less developed compensatory systems such as Bolivia, Colombia, or Brazil the “lower” classes could more easily be rallied around social investment programs which presented stronger traits of inclusive development such as CCTs and, albeit to a lesser extent, the related public services expansion. These programs did not compete for funding or other resources with any preexisting compensatory schemes.

These programs have become extremely popular policy instruments (see Chapter 13 in Volume I [Garritzmann et al., 2022]). The alliance between the (small) urban middle classes and the working classes is cemented by the capacity of the government to expand policies which benefit both social groups. A striking example is Chile under the governments of Lagos and Bachelet, who implemented inclusive and universalistic provisions in the field on ECEC, with the establishment of universal access to the *Chile creche con tigo* program (see Chapters 11 and 13 in Volume I [Garritzmann et al., 2022]) and targeted public healthcare reform to improve the inclusion in the healthcare system of "lower" classes that could not benefit from private health insurance (see Chapter 13 in Volume I [Garritzmann et al., 2022]).

Three main weaknesses may hinder the sustainability of such coalitions: the incapacity of the state to properly deliver social investment programs, which is frequent in countries characterized by weak state capacity (see Chapter 7 in Volume I [Garritzmann et al., 2022] and Chapter 15 in this volume); the clientelistic political relationships between electorates and governments that might undermine the investive dimension of the programs (see Chapter 6 in Volume I [Garritzmann et al., 2022]); and the potential weakening support of the middle class, which may ask for more choice, insulation, or even stratification. Maintaining the middle class within the coalition requires considerable fiscal resources as countries need to satisfy their expectations in order to keep their support for inclusive social investment.

Moreover, as underlined by many of our authors, almost everywhere in Latin America, social investment reforms were initiated by the government and administration alone and not by societal demand, even in the most progressive cases, such as Lula's Brazil or Bachelet's Chile (see Chapter 13 in Volume I [Garritzmann et al., 2022]). The alliance between the working and lower classes, the governing social democratic partners, and the urban middle classes is therefore much less entrenched and institutionalized than in the case of the Nordic-style coalitions. The most pressing danger for the Latin-style social democratic coalitions is that the working classes lose faith in social investment's capacity to actually foster inclusion and then start supporting more compensation-intensive programs, shifting the coalition from one centered on social investment to one centered on social consumption and populist redistribution, which might be possible, for example, via the exploitation of natural resources (as in Bolsonaro's Brazil). This shift would most likely result in a policy mix which combines forms of social protection and market liberalism—depending on the extent to which the business community is involved in the coalition—and which consolidates an agenda centered around identity as well as social issues.

The overall weakness of these countries' economies also tends to reduce the space for social investment reform and constrain the scope of existing programs, especially in times of economic crisis. Weak economies are much more likely to find themselves facing harsh trade-offs between fiscal consolidation and international credibility and the maintenance of an adequate social investment budget. This is particularly the case when strong international organizations and a large business community are pushing the cause of austerity and reduced public spending as a response to high levels of (unsustainable) public debt or to generally poor economic performance. This pressure can have the power to shut down social investment programs completely or to drastically reduce their magnitude. The example of post-2008 Spain and Portugal is telling: In both cases, pressing demands for fiscal austerity from the European Union and the business community pushed the then right-wing governments to reduce the extent of the social investment strategy, for instance, by putting an end to the Educa3 program in Spain (see Chapter 5 in this volume; Bouget et al., 2015).

17.3.2. The conservative and liberal coalitions

In countries where the middle class is not interested in a universalistic project and/or where the working class is in a position to successfully defend older compensatory legacies, the social democratic coalition will not emerge. Instead, welfare reforms will be based on different types of coalitions, where the business community, the traditional middle class (e.g., the petty bourgeoisie), or even some part of the traditional industrial working class will have a say. If the educated middle class still plays a role, social investment may come to the fore in either a fragmented or *stratified* way or a private one, with the state providing only substitutive *targeted* social investment.

If the educated middle class is large enough to constitute an appealing electoral constituency, some form of social investment–centered coalition is likely to emerge. However, whether this will lead to public or private social investment, which population groups will benefit from it, and what kind of stance will be taken on compensation versus investment depend on the welfare institutions (*legacies*), on the weight of business, and on the size, morphology, and level of organization of the working class.

Broadly speaking, we can identify two types of potential coalitions where the middle class allies with the business community on a set of policies which favor the interests of both: on the one hand, the *conservative* coalition; on the other, the *liberal* coalition. On the whole, the conservative and liberal coalitions involve the same social groups, but the reform strategy differs according to the morphologies of the market economy and welfare systems in which they have unfolded. The main difference is the extent to which social investment is delivered by the public or the private sector. The conservative coalition emerges in countries with some experience in (welfare) state intervention in the coordinated market economy through either corporatist-conservative institutions, as for Continental Europe, or developmentalist ones, as for North East Asian countries.

In these countries, actors are used to seeing both employees and employers having a say, with the state playing an active role in the management of the social economy (together with the social partners). As such, these countries have preserved institutions which were intended to foster this coordination. We recall here the institutional and political traits of coordinated market economies, as analyzed by the varieties of capitalism approach (Hall & Soskice, 2001). Such an interventionist legacy finds many and diverse historical manifestations, spanning from the VET system in Germany to French *tripartisme*, from "unorthodox social policies" and subsidies in Korea to firm–state relations in Japan. It has contributed to establishing entrenched policy networks, practices, and institutions and has pushed governments in these countries to embrace an active role in the management of the social investment–based strategy. In Continental Europe, compensatory welfare provisions have historically been public and jointly managed by the state and the social partners (Palier, 2010), thereby forging a strong link between welfare, business, unions, and the state. In North East Asia, where social protection was delivered primarily by firms, at least for productive insiders (Miura, 2012), the participation of business firms in welfare policies and decision-making is also inherited from the past. These countries are also characterized by a deep dualization of their labor market and of their social protection system (Emmenegger et al., 2012). The stratification of social investment follows suit, in the sense that social investment will benefit mostly those already well protected through their job contract and occupational social protection schemes.

By contrast, the liberal coalition is likely to emerge in countries where public welfare legacies are weak(er), as is the case in the United States, or where there is a strong legacy of neoliberal motivation for welfare retrenchment, as for the United Kingdom. We also find this type of coalition in Baltic countries that have retrenched public spending and partly privatized compensatory welfare in the wake of the transition to market economies after 1990. Here, the middle class–business coalition demands that social investments be largely attained through market-based solutions or firm-level programs. In the United Kingdom, where a stronger legacy of public welfare was left from the post–World War II years, the liberal–right coalitions which governed the country from 1979 to 1997 and then again from 2010 have typically sought to erode the public welfare state by introducing and encouraging private alternatives or complements (as was the case for retirement pension reforms but also the introduction of more market mechanisms in healthcare and increased privatization of education) as part of a financialization growth strategy (Avlijaš et al., 2021). Under the "New Democrats" in the United States or "Third Way" governments in the United Kingdom, the introduction of social investment followed a mixed logic of increased private provision for the middle class and complementary introduction of substitutive targeted public programs aimed at including the most vulnerable citizens who could not afford access to the private system. In that case, the publicly financed social investment programs that replaced the previous social assistance benefits are mainly used as another instrument of activation and commodification of labor, but they also contribute to providing better access to ECEC, education, and training to the most deprived part of the population and their children.

17.3.2.1. Corporatist-conservative coalitions and stratified social investment

The conservative social investment coalition emerges when the educated middle classes establish an alliance with the business community and the old industrial middle classes premised on the necessity of economic growth–oriented social investment. This already differentiates it from the social democratic coalitions, which place equal importance on the social and the economic functions of social investment. When it is the right-wing parties that oversee the process of social investment, economic growth tends to carry more weight than social fairness (see Chapters 12 and 14 in this volume and Chapters 12–14 in Volume I [Garritzmann et al., 2022]). The stratified social investment agenda embraces neither a program of universalistic welfare provision nor a targeted strategy of combined human capital creation and poverty reduction; instead, it envisages a socially segmented expansion of investive policies with the more or less acknowledged consequence of preserving traditional disparities in access to welfare and related social inequalities.

Whereas the social democratic coalitions view social investment as, among other things, a means to address market-induced inequalities and the intergenerational reproduction of inequalities, the conservative social investment coalitions see it mainly as a means to spur economic growth by developing skills and human capital on a meritocratic basis (what Chevalier [2016] calls “skills for the best”) and easing access to the labor markets for the middle and upper classes regardless of the inequalities which this might produce. Such inegalitarian attitudes are often accompanied by socially conservative values especially concerning family policy (see Chapter 14 in Volume I [Garritzmann et al., 2022] and Chapters 3 and 12 in this volume).

From a party politics point of view, the conservative coalition is generally led by Christian democratic or otherwise conservative parties. For example, in Germany, the CDU-CSU bloc would preside over the conservative alliance; in Japan, the LDP; in France, the Republican Party and then Macron’s La République en Marche!

In social terms, the educated middle classes profit from the segmented expansion of public services that will mostly benefit them (Matthew effect), which allows them to pool the costs of participating in the knowledge-intensive labor market (through ECEC and LTC expansions for women, more efficient programs of labor market transition, and investments in lifelong learning). In parallel, the business community benefits from the expanded availability of skilled labor through the mobilization of educated women, in a context where qualified labor shortages are observed. Businesses also expect to benefit from savings in public expenditure on social compensation that a “turn” to social investment is likely to produce (see Chapter 9 in Volume I [Garritzmann et al., 2022]).

One crucial issue for such coalitions is how to deal with the politically marginalized working classes and their preferred social policies. In other words, what attitude will such a coalition have toward compensatory policies, which mainly benefit the traditional working class, and to what extent will the coalition attempt to include them among the beneficiaries of the new welfare? In countries where compensatory policies are highly developed and social protection legacies are strong, the issue is likely to be presented as a trade-off between the expansion of social investment policies and the retrenchment or at least recalibration of social compensation. This is in stark contrast with the social democratic tendency to view the compensatory and investive social policies as complementary.

What matters here is also the division within the working classes (especially between insiders and outsiders). In Europe, Christian-conservative welfare states are characterized by a strong legacy of social compensation, leading to a segmentation of the working classes into the "old," traditional, industrial working class, which benefits disproportionately from the existing decommodification apparatus, and the new, young, ethnically diverse and widely neglected labor market outsiders (Emmenegger et al., 2012). Labor market dualization, albeit defined by the arrangement of welfare institutions, is the historical product of the succession of labor market and welfare reforms that Bismarckian countries have undergone since the 1990s (Palier, 2010). This period has seen a shrinking of the core manufacturing sectors around which industrial growth and counterbalancing compensatory protective policies had been designed and preserved and a corresponding growth of the low-paid interpersonal service sector with largely deregulated labor markets and lower social protection for the new outsiders (Palier & Thelen, 2010). In Western European countries, welfare reforms have not affected the two working classes (in manufacturing and in services) equally. Differentiated reform paths will change the socioeconomic morphology of the beneficiary groups and thus the coalitional dynamics of a country's political system.

In the German model of social investment stratification, for instance, the erosion of social compensation and labor market protections at the periphery of the labor market is combined with the preservation of some traditional compensatory policies and the implementation of certain social investments at its core. To this are added some (limited) forms of welfare universalism, as with the country's inclusive ECEC reform in 2015 (see Chapter 15 in Volume I). This mixture can partly be explained by the party structure shaping Germany's conservative social investment coalition. The traditional conservative Christian democratic parties (i.e., the CDU-CSU bloc) have formed the backbone of the coalition since 2005, mainly with support from the SPD (except between 2009 and 2013). But what matters here is also the unions' position.

The unions representing workers in core sectors retain a large degree of influence over key policy areas and are strong enough to mobilize against the erosion of protections for their members. In the German case, the political coalition stretches to include the *core* industrial working classes along with the middle classes and the business community. This might, at first glance, resemble the cross-class alliance typical of social democratic coalitions. However, there are two crucial differences. First of all, social policy for the core industrial sector excludes labor market outsiders working in low-paid services. The organized actors who oversee the delivery of such policy are usually opposed to any enlargement, or at least opposed to policy expansions that would come at the expense of their members' or their own meso-level interests (see Chapter 10 in Volume I [Garritzmann et al., 2022]). A classic and often cited example is that of the 2004–2005 VET reform in Germany (see Chapter 10 in Volume I [Garritzmann et al., 2022] and Chapter 3 in this volume), promoted by a social democratic–green coalition government in response to the shortage of good-quality apprenticeship slots, which is per se symptomatic of the "shrinking" of the industrial core of the German productive apparatus. The large unions in the metal sector, such as IG Metall, opposed the expansion of the apprenticeship system beyond the existing one (involving cooperation between unions, employers, and the state in the oversight of apprenticeship programs) which would have increased the number of available slots in the vocational education system and increased access for marginalized groups. Particularly telling is the union's stance on the proposal to create shorter-term apprenticeship contracts in order to expand the training capacity of the system as a whole, which would have introduced a trade-off between the quality of each individual contract and the overall inclusivity of the program. IG Metall opposed the proposed change as it came into direct conflict with the interests of its members (see Chapter 10 in Volume I [Garritzmann et al., 2022]). Likewise, educational reforms which attempted to "equalize" opportunity and access throughout Germany's highly stratified educational system faced opposition from conservative core teachers' unions. These unions represented teachers in the most prestigious school tracks, which opposed the introduction of comprehensive schools and the dissipation of the relative privileges which they enjoyed within the segmented German system (see Chapter 3 in this volume).

What is striking is that, although there is a division between standard and non-standard workers also in Japan, Korea, and Taiwan (Emmenegger et al., 2012; see Chapters 10, 12 and 13 in this volume), the underdeveloped state of their welfare systems and the low level of unionization prevented the formation of a clear, compensation-oriented, industrial working-class constituency. This is reflected in the public attitude toward social investment (see Chapter 12 in Volume I [Garritzmann et al., 2022]) and allows for the gradual implementation of a more inclusive approach to social investment (as can be seen in ECEC in Korea). In North East Asian countries where there is a weak compensatory legacy and unionization coverage of core sectors is low, investive and compensatory social policies were presented not as trade-offs requiring welfare recalibration but as part of the same integrated strategy (see Chapter 12 in Volume I [Garritzmann et al., 2022] and Chapter 13 in this volume). That Korea focused on social investment sooner, more explicitly, and at a higher level of spending than Japan (see

Chapter 11 in this volume) can be explained by the situation that the Korean pension system was much younger than the Japanese one and thus left more room for maneuver in the direction of a social investment strategy (see Chapters 11 and 13 in this volume). In both countries, however, social compensation and social investment were eventually both expanded (Japan developing more and more explicit social investment policies, especially in ECEC after 2014), albeit not simultaneously. Both strategies were deployed in order to fight the contemporary emergence of old and new social risks, especially the aging population and the increasing casualization of the labor markets (see Chapter 13 in this volume), brought about by the fast-paced growth which characterized North East Asian countries' development.

The conservative social investment coalitions tend to embrace socially relatively conservative values (see Chapter 14 in Volume I [Garritzmann et al., 2022]). This is again to be understood in light of the composition of the political coalition behind the strategies. Some of the constituencies which form the backbone of the electorate of conservative parties such as Germany's CDU (Bavarian Catholics) or Japan's LDP (the religious right; see Chapter 12 in this volume) are more likely to support such conservative values (see Chapter 12 in Volume I [Garritzmann et al., 2022]). This has far-reaching consequences for the social investment strategy these coalitions promote, especially in the field of family policy. Indeed, in these countries, family policy tends to be rather lacking and marked by entrenched familialistic biases. In the Bismarckian Continental European countries, family policies are oriented by the principle of "free choice" (Morel, 2007); that is, parents can choose between formal childcare and parental leaves for home-based childcare. There is, however, nothing free in the choice being offered since one sees a strong bias in which benefit is chosen: Educated mothers use formal childcare and hence benefit from social investment, while low-skilled mothers take long, badly paid parental leaves that keep them far from the labor market and their children from social investment. This is a strong mechanism feeding social fragmentation, Matthew effects, and the reproduction of inequalities. In Germany and France, for example, the ECEC system is widely fragmented, and negative incentives in the form of a cash allowance for stay-at-home mothers undermine the inclusivity of the system (see Chapter 15 in Volume I [Garritzmann et al., 2022]). In Korea, the right-wing government introduced a cash allowance which also started to compete with the ECEC system, thereby reducing its reach and inclusivity (especially with respect to its class fairness) (see Chapter 14 in Volume I [Garritzmann et al., 2022]).

17.3.2.2. The "Third Way" liberal coalition: Market liberalism and substitutive targeted social investment

The liberal coalition is composed of the same groups as in the conservative coalition, but it emerges in countries with a very different institutional history than the Christian democratic or North East Asian ones. Here, the public sector's commitment to the provision or coordination of social policy is historically absent, and social investment is traditionally delivered by the private sector, for instance, through a highly privatized tertiary education system. Other characteristics include the lack of an entrenched "dual" or public VET system, the lack of a developed ECEC network, and a tradition of market liberalism in relation to labor regulation. As Esping-Andersen (1990) pointed out, in liberal welfare regimes typical of English-speaking countries the welfare state is primarily intended as a means to support vulnerable individuals or groups which the market cannot or does not serve or which face systemic disadvantage under the "equal opportunity" system and thus are entitled to some form of affirmative action. In these countries, public social investment is targeted to the most deprived population, with the main aims being activation and re-commodification, while social investment benefiting the educated middle class remains private (but with high public subsidies like tax exemptions).

It is in this context that so-called new social policy, coined in terms of social investment, was developed by the "New Democrats" in the United States under President Clinton's leadership and by New Labour in the United Kingdom under Blair's leadership and theorized by Giddens (1998). In order to gain power after years of conservative neoliberal governments, these parties claiming "new left" ideas proposed to bring more emphasis to social justice and social policies than the conservative neoliberal parties, while leaving out the compensatory elements (passive social policies), in order to develop new, active social policies, aimed at both bringing people back into the labor market and allowing for more investment in human capital. As Morel et al. (2012, pp. 18–19) put it, Giddens and other Third Way proponents argue—against neoliberals—for a new, more active, and enabling role for the state and seek to promote a more inclusive society with greater social justice, particularly through schemes aimed at minimizing poverty risks. They nonetheless share with neoliberals a very similar diagnosis of the failures of the traditional post-war welfare state and the causes of unemployment. For the Third Way perspective, spending on unemployment benefits, for instance, is considered an unproductive social expenditure. Generous benefits, according to Giddens (1998), increase the risks of "moral hazard" and of fraud. Giddens explicitly shares with neoliberal thinkers the notion that inequalities are necessary for the dynamism of the economy. The emphasis then is on promoting equality of opportunity. Thus, for Giddens and the Third Way, welfare state restructuring is about going from "passive" social policies to "active" social policies. Social policy should act as a "springboard," with the "spring" coming from both investments in human capital and the strong (negative) incentives toward activation.

Here, two principal methods were deployed: making work pay by making it more profitable than receiving social benefits and reinforcing availability for work. The level of taxation was lowered for unemployed individuals who accepted poorly paid work, with government assistance topping up the lowest wages (the Blair government's Working Family Tax Credit). New income support benefits, such as childcare vouchers, were created for those on low wages. "Availability for work" was reinforced by limiting access to benefits for the unemployed. The Labour government in the United Kingdom supplemented these mechanisms by setting up a type of "welfare-to-work" program that sought to improve training for the young and the chronically unemployed (Palier & Hay, 2017). One thus sees a reorientation of public social expenditure away from compensatory social policies toward more social investment–oriented policy domains such as education and family policy but very little upskilling ALMP.

This process of welfare recalibration was concurrent with an attempt by social democratic and social liberal parties (such as Labour in the United Kingdom and the American Democratic Party) to respond to their political sidelining by the neoliberal "new right" throughout the 1980s (Hay, 1999). The advent of the "new left" in the United States and the United Kingdom happened at roughly the same time and within a similar context, and it took similar forms. This is also because a measure of policy and strategy "borrowing" was taking place between the Labour and Democratic parties in the 1990s and early 2000s (Dolowitz et al., 1999). The key point is that in both countries the 1980s were characterized by an uncontested dominance of right-wing neoliberal parties, with the Thatcher and Reagan administrations pursuing a strategy of welfare retrenchment and increasing marketization which moved the political center to the right and consolidated a middle-class block that came to conceive of its interests as being best realized by a system of market exchange (Watson & Hay, 2003). This, combined with the identification of the left with Keynesian policy (especially in Britain, where Labour had the reputation of being a "tax and spend" party), managed to alienate the increasingly influential middle classes from traditional social democratic politics and relegated left-of-center parties to the margins.

This was the context in which the 1992 US presidential elections took place. By then, the advisors of the Democratic Party's candidate Bill Clinton had come to believe that if they wanted to defeat the Republicans, they had to target undecided swing voters from the suburban middle classes (Dolowitz et al., 1999). This would require dropping the party's traditional attachment to countercyclical policies in favor of a staunch anti-inflationary preference and switching their social policy commitments from compensation (especially unemployment benefits), which had been stigmatized by the new right as engendering a culture of welfare dependence and thus deemed unpopular with the middle classes, to the abovementioned "active" social policies. A very similar story goes for Blair's victory in the 1997 UK general election. Hence, the advent of new social policy and "Third Way" economics as formulated by Giddens can be understood as part of a wider political attempt to co-opt the middle classes into a "new" and rejuvenated project.

In Britain, this shift toward the center also marked the beginning of an age of ambiguous and complex relations between the Labour Party and trade unions. In the earlier years of "corporatist Britain" the Labour Party and the Trade Union Congress (TUC) had worked in close partnership on issues of labor market and industrial policy, with the Labour Party acting as the political expression of the wider labor movement (Coulter, 2014). The advent of Blair's leadership significantly weakened this link and opened an age in which cooperation was more contentious and the Labour Party shifted to servicing the interests of businesses and organized financial capital as well as labor (Watson & Hay, 2003). A complex game was on: While the Labour Party depended in part on unions' money (Quinn, 2010) for funding, it nonetheless tried to act as a mediator between employers and workers (often explicitly favoring the former) and sought to introduce measures which were directly against the interests of union members (McIlroy, 1998). The resulting policies have often been based on compromises reached between the Labour leadership and the TUC, which in certain policy areas, such as VET and apprenticeships (see Chapter 10 in Volume I [Garritzmann et al., 2022]), led to the inclusion of unions in the governance mechanisms of welfare policy administration. Notably, these mechanisms were thereafter changed to exclude unions during the Liberal Democrat and Tory coalition government.

The behavior of the social partners also helps explain differences in the breadth and inclusiveness of social investment policies in the liberal regimes of the United States and Canada (see Chapter 6 in this volume). While in the United States too the relationship between Clinton's New Democrats and the unions is a complex one (Dark, 2018), union membership in the United States has historically been much lower and has declined more drastically than in either the United Kingdom or Canada. According to Prentice and White (Chapter 6 in this volume), the difference in unionization rates explains in part why the United States has been so exceptionally lacking in the provision of certain crucial social investments, such as paid parental leave and childcare, even compared to other liberal countries.

At this point it is important to distinguish the "new left" coalition as presented in this section from the social democratic coalition as it emerged in the Nordic countries or in Latin America. In this case, the commitment to social investment comes hand in hand with an erosion of established compensatory policies such as unemployment benefits, and it often amounts to substitutive social investments. More generally, their commitment to liberalization policies puts the new left coalitions in a very different category than the social democratic coalitions: On a number of topics, notably fiscal and monetary policy (Watson & Hay, 2003), the new left governments acted in full continuity with their new right predecessors.

Both in the United Kingdom and in the United States, working- and lower-middle-class dissent against the liberal reorientation of the welfare state has emerged through increased support for right-wing protectionist groups, giving rise to some of the most spectacular examples of right-wing populism (with

Trump in the United States and Brexit in the United Kingdom). This has resulted in the formation of a new type of coalition, initiated by the right-wing party, which has attempted to co-opt the working and lower middle classes onto an agenda of market liberalism plus social protection at the expense of vulnerable groups, such as immigrants. It is important to point out that in liberal countries the concept of dualization of the working classes into an "insider–outsider" dichotomy is of only limited use, given the low compensatory legacies of their welfare systems (at least after the Thatcher years for the United Kingdom). Under this new type of coalition, the working classes and lower-middle classes are offered the establishment of a system of *surrogate* social protections in the form of tariffs or immigration control, which are designed to contain downgrading pressures in the low skill–intensive labor markets, particularly in services, at the expense of foreign workers (through trade dislocation) and potential immigrants. To this, however, is coupled no increase in public expenditure on social policy proper, and especially not on public social investment, which continues to be dominated by the private sector.

17.3.3. The social protectionist coalition

If the educated middle class is not large enough to constitute an appealing electoral constituency and if social compensation eats a large share of public social expenditure, social investment is not likely to emerge as a reform strategy around which a political coalition can be cemented. The (industrial) working and lower-middle classes are probably not willing to embark on a program of inclusive development. Instead, they engage in a defensive strategy with respect to the existing welfare institutions.

Under these circumstances, coalitions are likely to form which encompass the core industrial working classes and lower-middle classes and might even stretch to include parts of the business community. These coalitions are organized around fragmented and conflicting agendas which attempt to attract support from each of the likely electoral constituencies, what is called "particularistic politics." Rarely will these revolve around clearly formulated agendas of (public or private) social investment, and as a result they will often lack a clear "plan" for the future of welfare reform or of socially sustainable economic growth. This might result in a weakening of programmatic politics and even degenerate into group-level clientelism.

The lack of a prominent constituency calling for long-term economic development results from the ability of each social group to rationally prefer more immediate gains under policy strategies that are not conducive to growth than to bet on the uncertain capacity of the economy to transition into a stable path of inclusive development. This type of short-term particularistic politics is typical of countries at the medium-high end of the economic development spectrum, which have not completed their transition to a knowledge-based economy. In these circumstances, the educated middle class is relatively small and incapable of organizing behind a coherent agenda of political demands. Few constituencies have a direct stake in the overall performance of the economy, and many are in the position to "settle comfortably" in an equilibrium of slow economic decline, the costs of which are passed down to future generations that will have to deal with the consequences of an unsustainable public debt, an underperforming economy, and a deteriorating labor market. The process of downgrading is thus conceptually integral to the social protectionist coalition.

The real losers of social protectionist coalitions are the (small) educated middle classes and labor market outsiders (particularly youth, low-skilled, women, and migrants). Labor market outsiders are excluded by the old social policies and do not see the rise of new ones. The poor quality of investive policies and, relatedly, the limited social mobility which characterizes such systems mean that they provide scant opportunities for social insertion; the deterioration of the labor markets means that the few opportunities they find will be characterized by low skill requirements and low wages. If countries dominated by compensatory social policy did engage in educational expansion (as in Italy or Spain), the declining trend in the labor market would lead to a pervasive problem of overqualification.

However, no group—neither the relatively small educated middle class nor educated youth nor labor market outsiders—has the resources to start a social investment revolution. The educated middle classes usually enjoy the possibility of sending their children to private schools or abroad for their education and to start off their careers, which will typically result in a large-scale brain drain. Labor market outsiders, which are numerous enough to mobilize around the initiation of a more socially inclusive course of welfare politics, might be tempted to do so by demanding to benefit from social compensation rather than establishing social investment policies. Under these circumstances, clientelistic and familialistic practices of particularistic inclusion are likely to emerge.

In short, social compensation coalitions are likely to engender what could be called "rent-seeking social protectionisms" where economic decline, corporatist privileges, and particularistic inclusion go together with the preservation of an inefficient and generally exclusionary consumption-intensive and protectionist welfare state. Social investment, which together with growth-oriented structural reforms constitutes the only real hope to reverse these countries' socioeconomic decline, is off the table due to the lack of feasible potential coalitions. The result is extreme instability which marks, almost by design, the social protectionist coalition and which is likely to increase as the economy deteriorates.

Among our regional cases, such a socioeconomic situation is characteristic of Southern Europe and partly of the Visegrád countries. In Southern Europe, the middle classes are usually dominated by the petty bourgeoisie, traditional (corporatist) liberal professions, and semi-skilled clerical workers, who tend to be more interested in tax exemptions, cost savings, and social compensation policies than in a coherent strategy of growth-friendly social investment. Moreover, the working class is predominantly employed in the manufacturing sector under competitive pressure that leads unions to ask for social compensation and protection in case of redundancy (in both southern and eastern Europe).

The most obvious historical example of the social protectionist coalition is the coalition government which emerged in Italy after the 2018 legislative elections (see Chapter 5 in this volume) and lasted until the summer of 2019, to be replaced by a new coalition government which too presented similarities, albeit less marked, with this ideal type. The first coalition was formed by the League, an authoritarian, radical right party that initially called for the North's secession from the South of Italy but campaigned mainly on identitarian and security issues in the mid-2010s, and M5S, a left-populist party that had emerged in 2009 around an agenda of radical contestation of the institutions and the politics of Italy's Second Republic. These anti-establishment parties captured votes from almost all social classes except for the "elites" (i.e. the educated upper-middle class and most parts of the business community, which instead converged toward the left-liberal Democratic Party, marking that party's shift to the center and to being an "elite" party) (De Sio, 2018).

M5S based its successful electoral strategy on an agenda of welfare protectionism and unemployment reduction targeted at precarious workers and the unemployed in the South (Emanuele & De Sio, 2018), while the League targeted the dissatisfied electorate of former prime minister Berlusconi's center-right *Forza Italia*, including mainly the Northern middle classes and parts of the business community (small firms and shops), running on the promise of more stringent anti-immigration measures and tax cuts. The shrinking industrial working classes voted almost indiscriminately for the two outsider parties, with clefts being mainly geographic (the South voting for M5S and the North and Center for the League) (D'Alimonte, 2018). The coalition included a fragmented collection of lower-middle-class voters, some labor market outsiders, parts of the Northern business community, and parts of the old industrial working classes. This meant that, for the first time in Italian history, the parties which represented the "elites" had no voice in the running of the country.

This structure was reflected in the policies the government implemented. First, the compensatory welfare state was enlarged through the introduction of a poverty reduction strategy (*reddito di cittadinaza*), which, as of 2020, had performed poorly as a means of labor market inclusion (Agenzia Nazionale Politiche Attive del Lavoro, 2020; Corte dei Conti, 2020), with less than 5% of the beneficiaries actually succeeding at finding a job. It was one of the first universalistic measures introduced in the previously stratified social security system, albeit in an assistance-oriented direction. Second, a pension reform was implemented that lowered the retirement age and reintroduced protections previously abolished by a 2012 reform (Fornero reform). The government attempted but failed to deliver a tax cut, strongly sponsored by the League and *Forza Italia*, which was mainly intended to appeal to the middle classes and the small business community. During this period, Italian employers behaved in a quasi-rent-seeking way, with lukewarm support for "fiscal welfare" (i.e., tax cuts) (see Chapter 9 in Volume I [Garritzmann et al., 2022]), and showed little interest in a coherent plan of economic reorientation through human capital upgrading and mobilization. Again, this is very much in line with the general deterioration of the Italian economy (Kazepov & Ranci, 2017; see Chapter 9 in Volume I [Garritzmann et al., 2022]).

17.4. CONCLUSION

17.4.1. A brief summary of our findings

In this chapter, we have reviewed the main findings which have emerged from all the contributions in the two volumes resulting from the WOPSI project. We started the chapter by (re)examining the various components of the analytical framework developed in Chapters 1 and 2 of Volume I (Garritzmann et al., 2022) and by "filling in the boxes" with our research results. We then applied this analytical framework to each of the five regions under scrutiny in the WOPSI project (Western Europe and North America, Southern Europe, Central and Eastern Europe, North East Asia, and Latin America), providing a complete characterization of the dynamics of welfare state reforms and their sociopolitical drivers since the 1990s. Finally, we extrapolated from the empirical findings a typology of possible sociopolitical coalitions to be associated with types of welfare state reforms that dominate the capitalist democracies in the early 21st century. To close, we now briefly summarize the main insights of each of these sections.

We started the re-examination of the analytical framework by assessing the drivers of politicization. Our main findings are that sociodemographic concerns mattered everywhere but in different ways: New social risks were prevalent in Western and Southern Europe, aging and low fertility in North East Asia and Eastern Europe, and poverty and inequality in Latin America. The interaction of demand and supply of high skills in the economy shape the politicization of the goals which social investment reforms should pursue: Countries with high demand and short supply focus on human capital creation and mobilization; in countries where both supply and demand are high, the sustainability and inclusivity of the social investment system are politicized; those with relatively high supply and low demand should (in theory) focus on preservation and mobilization, even though they have generally failed to do so in practice (see Southern Europe as a striking example); and finally, where both are low, skill demand and supply dynamics are unlikely to influence the politicization process at all. Welfare legacies determine the room for maneuver for social investment reforms (i.e., whether they are in competition with preexisting social compensation policies in a trade-off between the two types of welfare state policies [compensation and investment]). This is, however, not always the case: In countries where social protection legacies were low, both social compensation and investment policies have emerged at the same time, and where they were both high, the politicization debate has focused more on sustainability. Salience influences the arena in which a specific reform is carried forward—"loud" mass politics versus "quiet" bureaucratic and pluralistic policymaking systems—and is influenced by the size of the educated middle class and the presence of new social risks, aging, or both.

We then addressed coalition-formation and decision-making dynamics. Here, the main findings are that left-leaning political parties are on the whole more likely to embark on social investment reforms, even though there are also many instances where conservative parties were key protagonists. Partisanship matters a great deal in determining the distributive profile and the overarching rationale of social investment reforms, with the conservative right being more prone to sponsor stratified reforms as a means to spur economic growth and the left keener to address social inclusion concerns through inclusive or targeted reforms aimed at integrating the segments of the population excluded from traditional welfare. Social and economic players—mainly unions and employers' associations—adjust their attitude toward social investment reforms depending on the nature and interests of their membership.

The second part of the conclusion mapped the specific dynamics of welfare reforms within each world region we have studied. Since these have already been schematized in each of the region-specific graphics (Figures 17.3–17.11), there is no need to further summarize the results again here.

In the third part of this chapter, we have proposed a typology of political coalitions backing welfare state reforms which is extrapolated from the analysis of the empirical cases. Our typology starts from the premise that the size and political behavior of the educated middle class are the main explanatory variables for different welfare reform strategies in terms of the distributive profile of social investment and of whether non–social investment strategies are preferred. We identify two main class coalitions: a middle class—business alliance, on the one hand, and a middle class–working class alliance, on the other hand. The interactions between coalition, socioeconomic conditions, welfare legacy, salience, and party politics lead to different types of welfare state reform strategies.

Business and new educated middle-class coalitions can lead to either stratified social investment reform (notably in Continental Europe and North East Asia) or market liberal welfare reforms consisting of welfare retrenchment, privatization, and targeted social investment substituting for social assistance. This will depend on the interaction between coalitional dynamics and welfare legacies.

On the other hand, new educated middle-class and working-class coalitions can lead to either a social democratic, inclusive social investment strategy (as in Nordic countries) or targeted social investment (as in Latin America). Which strategy emerges will mainly depend on the respective size of the educated middle class and of the working class and on socioeconomic factors, chiefly the relative importance of poverty reduction vis-à-vis other concerns.

In instances where the old (industrial) middle class is dominant because the new educated middle remains quite small, we see the prevalence of a social protectionist coalition. Here pro-growth and social inclusion considerations are off the table, and an economy characterized by "rent-seeking social protectionism" is likely to emerge.

17.4.2. Social investment during and after the COVID-19 crisis

As we were finishing our WOPSI project, we were hit by the COVID-19 pandemic. It was impossible to integrate the countries' reactions into our detailed analysis. We, however, know that the Great Recession of the early 21st century and now even more the COVID crisis have reaffirmed the power of the state, which has mobilized massive resources. However, we see that those who could benefit from social investment and who are likely to push for it (the young, service workers, and the like) have not received many of the benefits. This may lead to strengthening support for welfare but not strengthening inclusive social investment per se. To provide one example, the German government responded to the socioeconomic challenges of the crisis mainly with traditional social policy instruments (i.e., providing healthcare and unemployment safety nets and using short-time working [*Kurzarbeit*] in order to avoid mass unemployment). What the government did not do was to focus on social investments. Only toward the end of the third COVID-19 wave in Europe (spring 2021) did the German government launch a major education policy with the proposed goal to combat and repair the educational inequalities that have unequivocally risen during the crisis. This measure is extremely important, but given that many observers warned repeatedly that educational inequalities are and will be increasing during the pandemic, it is telling that there were essentially no preventive measures. We thus see a traditional "repair rather than prepare" compensatory logic, typical of the Continental European approach. What is more, this new policy will take a stratified form because it will create mainly facultative educational programs that are likely to be used by middle-class families rather than the worst-off.

More generally speaking, we can point out here how much this crisis seems to work against social investment policies, in line with previous analyses showing that economic crises undermine discretionary spending (Breunig & Busemeyer, 2012). Those most affected by COVID-19 (i.e., the actual disease) are to be found among the elderly population. This has led to a focus on protecting and caring for elderly people, in many cases at the expense of social investment services and at the expense of children, young cohorts, and the working population, who have suffered tremendously from lockdowns.

We have seen schools being closed, students being trapped in their small rooms for online teaching, school dropouts increasing (especially among the poorest), and depression spreading among youngsters and young parents (Hawes et al., 2021). We have seen women suffering more from lockdowns than men, the work–life balance (taking care of children while working from home) becoming even more hard to find under lockdown conditions (Badri, 2020). So, in a way, the COVID-19 pandemic is just amplifying the new social risks and specific stress on women, youth, and children that social investment is supposed to be addressing. All these changes make the social challenges meant to be addressed by social investment even more acute and relevant.

Moreover, there is an obvious social bias against the most deprived social groups during this crisis. The death toll is higher among lower classes (Hawkins et al., 2020; Seligman et al., 2021). Furthermore, access to vaccines is skewed against lower classes. In the labor market, those having low-paid precarious jobs in logistics, delivery, and interpersonal services are on the front line, while job losses affect primarily mid-skill precarious jobs or specific service industries such as tourism, hotels, restaurants, and culture where jobs tend to be low-paid and precarious (International Labour Organization [ILO], 2021; Ray, 2021). Meanwhile, the jobs occupied by the educated middle class and upper class (public services, knowledge-intensive services) have been shielded from economic shocks thanks to the ability to work from home (Garrote Sanchez et al., 2021). Like the wages for protected well-paid jobs, old-age pensions continued to be paid and rise, at least during the early months of the crisis (Organisation for Economic Co-operation and Development, 2020). There is a big risk that dualization of the labor market and in social protection will increase because of this crisis.

In the meantime, the indispensability of social investment jobs (in health, education, and care) becomes highly visible. As the ILO points out,

> Many of those still working, especially health workers, are at the frontline, fighting the virus and making sure that people have their basic needs met, including workers in transport, agriculture, and essential public services. Globally, there are 136 million workers in human health and social work activities, including nurses, doctors, and other health workers, workers in residential care facilities and social workers, as well as support workers, such as laundry and cleaning staff, who face serious risk of contracting COVID-19 in the workplace. Approximately 70 per cent of jobs in the sector are held by women. (ILO, 2020, p. 4; see also European Parliament, 2021)

Let us hope that countries will understand that the recovery requires the development and improvement of the quality of these social investment jobs that will be essential to heal those who suffered the most psychologically, socially, and economically from the pandemic. It is only if inclusive social investment is developed that our societies will be able to recover in the long term and prepare for the knowledge-based economy and its challenges.

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