1. Apriori: bringing the welfare state back into the financial crisis management debate

2. Social investment (not) taken seriously (enough)

3. The social investment perspective as a policy theory

4. Assessing social investment returns

5. EMU and the welfare state: *friends* and *foes*

6. Making social investment happen (for the Eurozone)
2. SOCIAL INVESTMENT (NOT) TAKEN SERIOUSLY (ENOUGH)

- EU from ‘social policy as productive factor’ (1997) to Social Investment Package (2013)

- OECD from Babies and Bosses (2008) to In It Together: Why Less Inequality Benefits All (2015)

- World Bank Inclusive Growth (from 2009 to 2015)

- Cumulative diffusion: Scandinavia, West European Continent, Anglo-Irish Third Ways; Canada (Quebec) and Australia, South-East Asia, Latin America

- However: in hard times austerity prevails! Why?
ANGELA MERKEL AT 2013 WORLD ECONOMIC FORUM

“The European Union accounts for roughly 7 per cent of the world’s population and 25 per cent of its GDP, but over 50 per cent of its welfare spending”

- *Suggestion*: European welfare states are ‘unaffordable’ in face of intensified economic internationalization and adverse demography (“we are not competitive”)

- *Misleading figures*: EU welfare spending less than 40 per cent global GDP (EU 24 per cent share), broadly in sync with US and Japan, and emerging economies are rapidly catching-up

- Four out of ten most competitive economies in the world are generous and inclusive EU welfare states (*DK, NL, FIN, DE*)

Should we not consider the causal arrow running in reverse (pace IT and FR)?
**Political objective**: economic growth best served through *undistorted* market competition (legacy of 1970s ‘stagflation’ and 1980s ‘unemployment hysteresis’)

**Policy theory**: inescapable *trade-off* between efficiency and equity – generous public welfare provision “crowd out” private economic initiative

**Policy instruments**: anti-inflationary monetary and rule-based fiscal macro-economics (EMU) to underpin micro-level supply liberalization (Single Market) for optimal labour market allocation (‘*structural reform*’ discipline)

**Governance**: negative state theory ‘low-trust’ rent-seeking ‘distributive coalitions’ (trade unions and the public sector), Baumol cost disease, moral hazard and deadweight loss

**Political discourse**: There-Is-No-Alternative (TINA) – in ‘inequality is good for competitiveness and (full) employment self-adjustment’
3. SOCIAL INVESTMENT PERSPECTIVE

**Political objective**: raising family-friendly employment over life course to sustain popular but aging welfare states (and break the inter-generational reproduction of social disadvantage)

**Policy theory**: Social investments “crowd in” private initiative through higher employment and improved long-term human capital use in knowledge-based economy

**Policy instruments**: policy mixes that mitigate gender sensitive life course contingencies *ex ante*

**Governance**: social service and social protection integration supported by ‘productive coalitions’ at various levels of administration

**Political discourse**: *capacitating* social justice and equity
Number supported by provision welfare \[ \times \] Average production per worker

Average consumption per welfare client

Dominant focus on ‘numerator’ distributive side of equation in aging societies (them and us). Long-term strength economy and welfare provision contingent on social policy contribution to the (dynamic) productive ‘denominator’ side of the welfare equation, requiring a wider and more multidimensional ambit of policy intervention.
Social risks of the life course and the labor market have become less predictable – and therefore less insurable in a strict actuarial sense.

1. Raising the quality of human capital ‘stock’ over the life course from the young to the old (cumulative returns)
2. Easing the ‘flow’ of contemporary labour market transitions in line with (gendered) life course dynamics
3. Upkeeping/upgrading strong (universal) minimum-income universal safety nets as social (income) protection and macro-economic stabilization ‘buffers’ over risky transitions
4. Devil in detail of “institutional complementarities”
4. ASSESSING SOCIAL INVESTMENT RETURNS (LIFE COURSE MULTIPLIER WORKING HYPOTHESIS)

Early childhood education and care

Poverty protection and prevention

Educational attainment

Exit age

Employment

Dual earnership, worklife balance (fertility)
1. Temporal complexity (short-term and [very] long-term impact socioeconomic wellbeing)

2. Multi-faceted ‘social investment’ (different aspects and combinations of ‘stock’, ‘flow’ and ‘buffer’ policies in different contexts)

3. Multiple implications wellbeing (for different ‘old’ and ‘new’ risk groups)

4. Complementarities and conflicts (interactions among different features of welfare policy mixes)

Requires differentiated policy analysis away from ‘pars-pro-toto’ welfare (regime) aggregation in terms of distribution only
STRONG THEORETICAL PRIORS ALLOW FOR TESTING

1. *Interaction effects* across policy provisions

2. *Positive* impact on
   - Employment (*flow*)
   - Labour productivity (*stock*)
   - Group variation (inclusive)

3. *Negative* (*Matthew Effect*) privileging middle class
   - Poverty buffers
   - Group variation (exclusive)

4. *Institutional complementarity* in welfare governance (countries matter)
Complementarity/conflict BETWEEN SI and other policies

**Social investment policies**
- e.g. Active Lab. Mrkt Pol. (ALMP)
- Early-child education

**Social welfare transfers**
- e.g. Total social security transfers

**Employment and Poverty**
CUMULATIVE INSIGHT THROUGH METHODOLOGICAL LAYERING (ASIS)

1. *Quantitative macro* analysis:
   - SI correlated with high employment
   - SI correlated with high productivity
   - SI spending correlated with high social protection spending

2. *Quantitative-micro* analysis:
   - Social investment positive impact on employment
   - Narrow focus on ‘buffers’ associated with low employment
   - No *Matthew Effect* to ALMP (rather the opposite)
   - Statistically not significant *Matthew Effect* ECEC

3. *Qualitative institutional* analysis managing complementarities:
   - DK high; DE medium; IT low (countries matter!)
5. EMU AND THE WELFARE STATE: FRIENDS AND FOES

• Unintended but welcome ‘contingent convergence’ of social investment through long cycles of rolling spillover reforms under high real interest rates in many countries, because unreconstructed retrenchment recommended by Brussels and Frankfurt politically difficult to swallow.

• In due course active and unsegmented/family friendly welfare regimes outperform in terms of employment and distribution.

• EMU acts as a ‘reform tranquilizer’ in the EU South, leaving pension biases, labour market dualization and perverse familialism, unaddressed for over a lost decade.

• Eurocrisis exposes and deepens divergence, making the euro unpopular within and outside the Eurozone, raising a question of sustainability.
6. MAKING SOCIAL INVESTMENT HAPPEN

- Austerity beliefs and powerful (DE), but under siege (IMF, EU, OECD)

- Debtor economies (facing high interest rate risk premia) pressed to adopt austerity to rebuild credit, but human capital flight and skill erosion, due to prolonged unemployment, reinforce deflation, making long-term austerity self-defeating economically and austerity-reform ownership self-destructive politically.

- Excessive social imbalances (-) and reliable social investment returns (+) should be incorporated in a post-crisis E(M)U ‘inclusive’ growth strategy.

- Requires tangible (fiscal) support for member states that opt for social investment reform (with political ‘ownership-bonus’) that are currently prohibited (because Fiscal Compact) to upgrade their social infrastructures.
1. Rule-based fiscal policy is here to stay, given veto (DE) on fiscal risk-pooling and burden-sharing (Eurobonds/EU unemployment insurance).

2. Social Investment Protocol in EMU governance, discounting lifelong education (‘stock’) from Stability Pact criteria (up to a limit {1,5% GDP for a decade, details to be worked out in ‘reciprocity’) to bolster domestic social investment ‘reform ownership’

3. Overall guidance to redress labour market dualism through improved, institutionally contextualized, alignment of ‘stocks’, ‘flows’, and ‘buffers’ (OMC ‘learning by monitoring’ with SI Protocol bite)
EU AND DOMESTIC POLITICAL INCENTIVES OF DISCOUNTING SOCIAL INVESTMENT UNDER EMU

- Viability of E(M)U at stake
- Consistent with ‘social market economy’ Treaty commitment
- SI protocol as concrete move of establishing an ‘holding environment’ for ‘active’ welfare states to prosper as (pro-EU) political-mainstream answer to rising anti-EU populism

- Strong evidence-based empirical support by OECD, WB and EU-SIP, allows reform articulation in Pareto-optimal fashion, enabling a wide array of reform coalitions.
- Social investment reform normatively in sync with broadly converging family aspirations founded in decent work for everyone and “dual” earner capacitating care provision
- Politicians wishing to break neoliberal orthodoxy, social investment help re-legitimate a capacitating European social model for the 21st century

- Making the Euro once more attractive to outsiders
FINAL THOUGHT

UNLEARNING IS ALWAYS MOST DIFFICULT DIMENSION OF ANY KIND OF SOCIAL LEARNING EXPERIENCE.