



European  
University  
Institute

DEPARTMENT  
OF POLITICAL  
AND SOCIAL  
SCIENCES

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# The Social Investment Imperative

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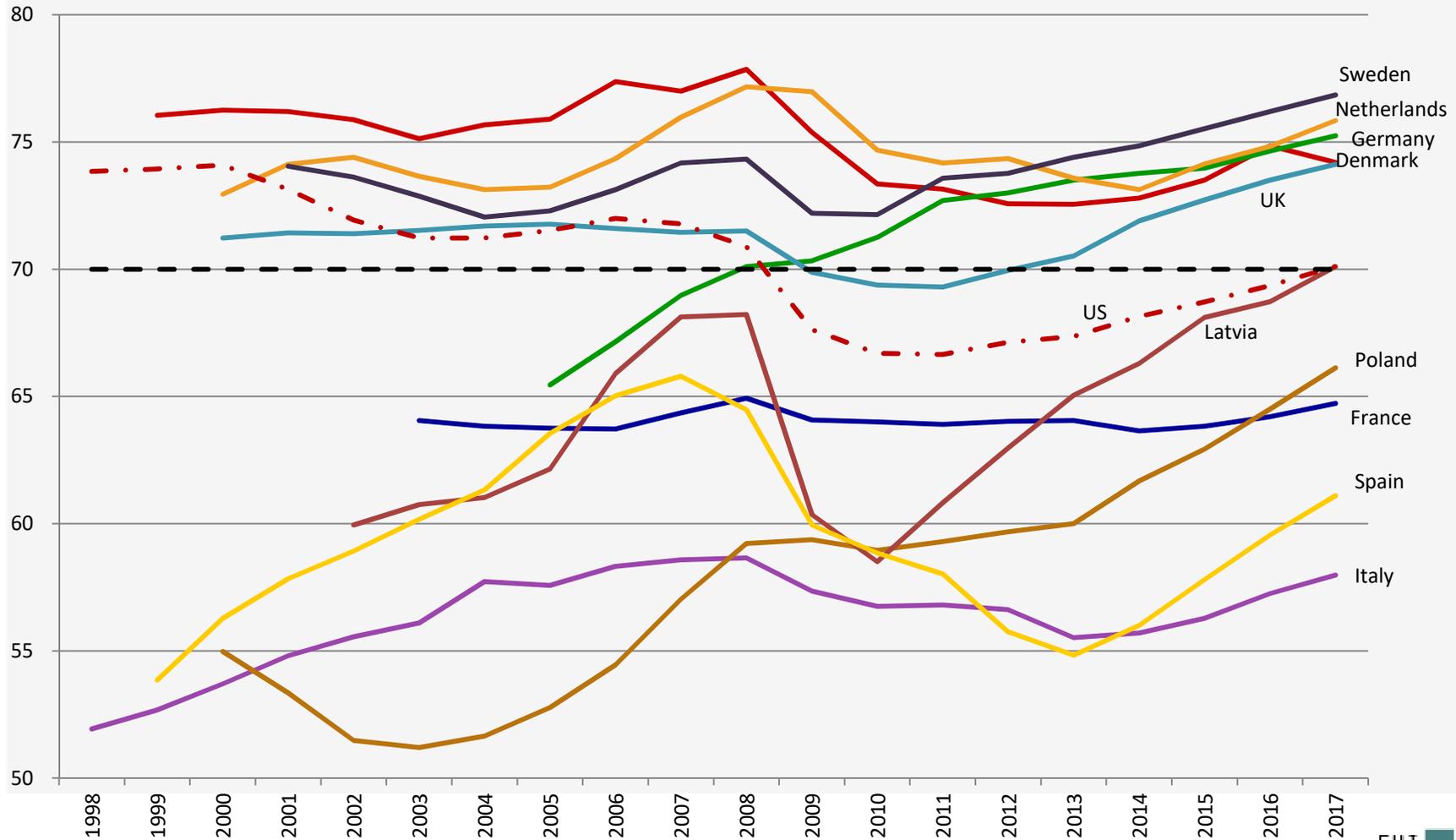
# Outline

1. *A puzzle*
2. Taking social investment seriously – *theory*
3. Taking social investment seriously – *evidence*
4. Taking social investment seriously – *politically*
  1. An EMU social investment pact
  2. From *subnational innovation* to *national codification*



# Glass half full

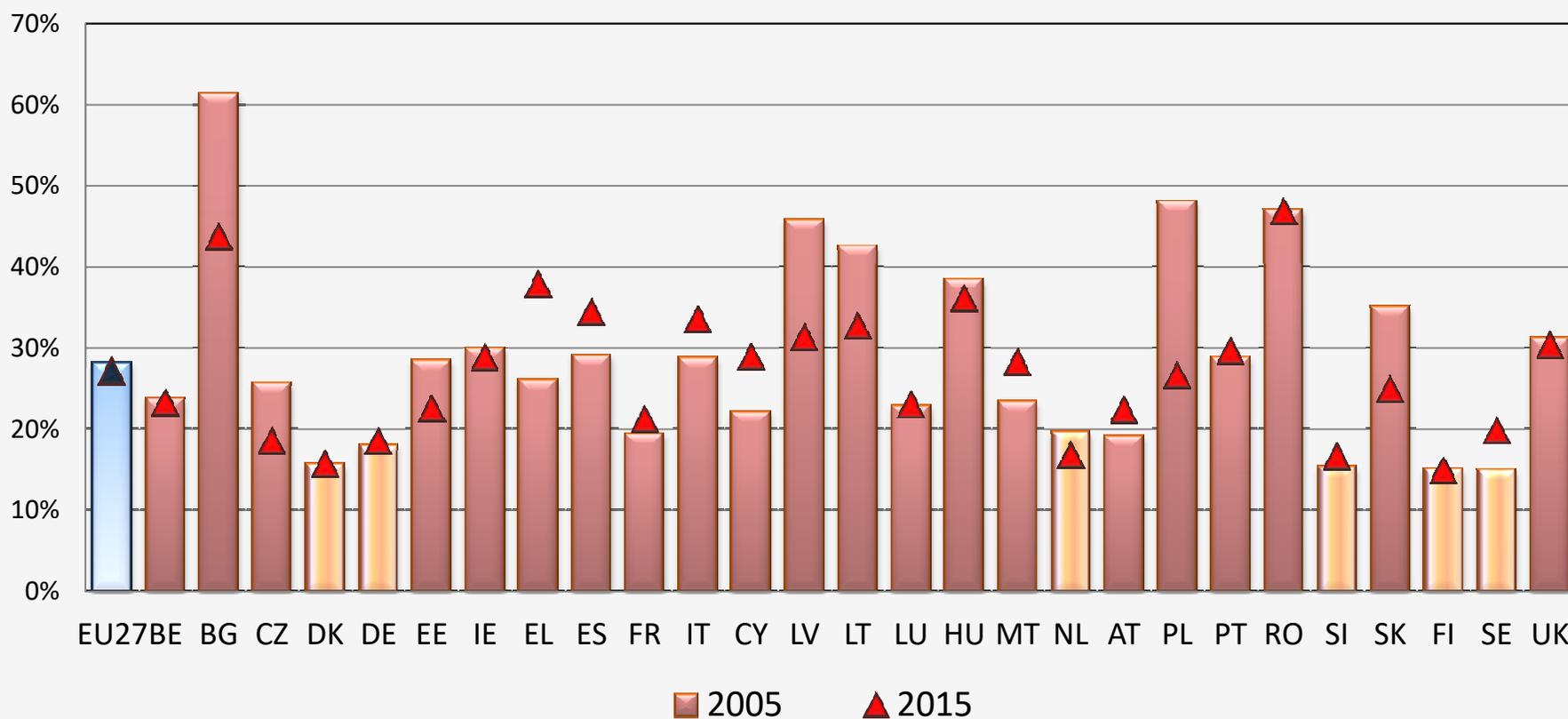
Employment trends in 11 selected OECD countries (% of working-age population; Source: OECD)





# Glass half empty

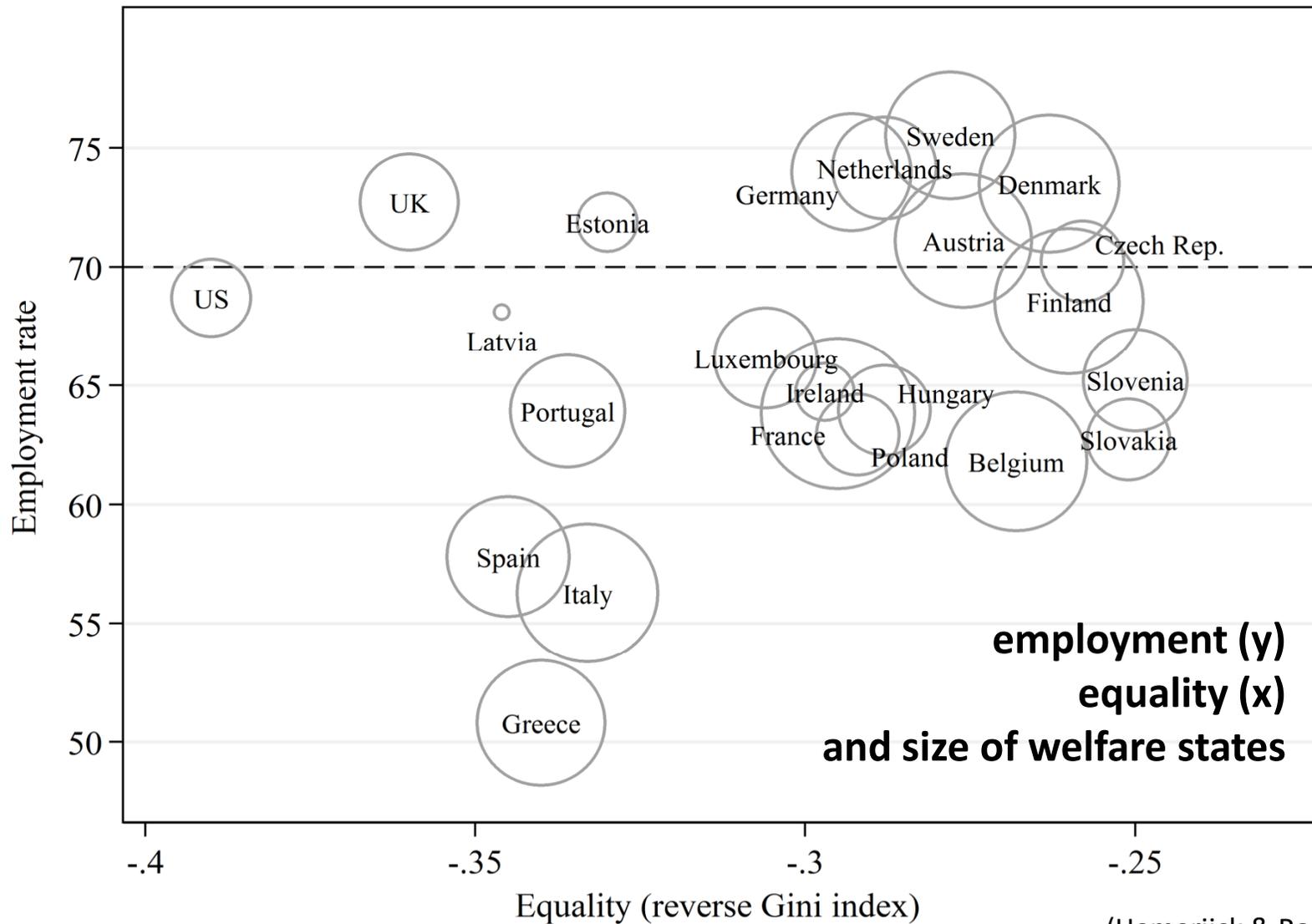
## Children at risk of poverty or social exclusion



Source: Eurostat



# Beyond Okun's Tradeoff





## Social investment reform [WLB, ECEC, ALMP, LTC]

- *All Nordic* welfare states
- *Continental* SI: NL, DE with delay (FR and BE less so)
- *Southern* SI: ES before crisis (not IT)
- *Liberal* SI: lean UK, IE, CND [Quebec] (but not US)
- *New EU members*: SI, CZ, and PL (even today), lean Baltics (not HU)



# The 'carrying capacity' of the welfare state

Number supported by welfare provision

Average consumption per welfare client

Number of workers (hours worked)

Average productivity per worker

Long-term strength of the economy and welfare provision increasingly contingent on social policy contribution to the (dynamic) productive '*denominator*' side of the welfare equation, requiring a wider and more multidimensional ambit of policy interventions across the entire life course, beginning with children

(Esping-Andersen et al., 2002)



# How: social investment *stocks, flows and buffers*

## Three complementary functions:

- *Raising* the quality of human capital **stock** and capabilities over the life course from the young to the old
- Easing and improving the **flow** of contemporary labour market transitions in line with (*gendered*) life course dynamics to *retain* human capital
- Upkeeping minimum-income universal safety nets and social insurance as social (income) protection and macro-economic stabilization **buffers** over risky transitions to *protect* human capital

(Hemerijck 2015, 2017)

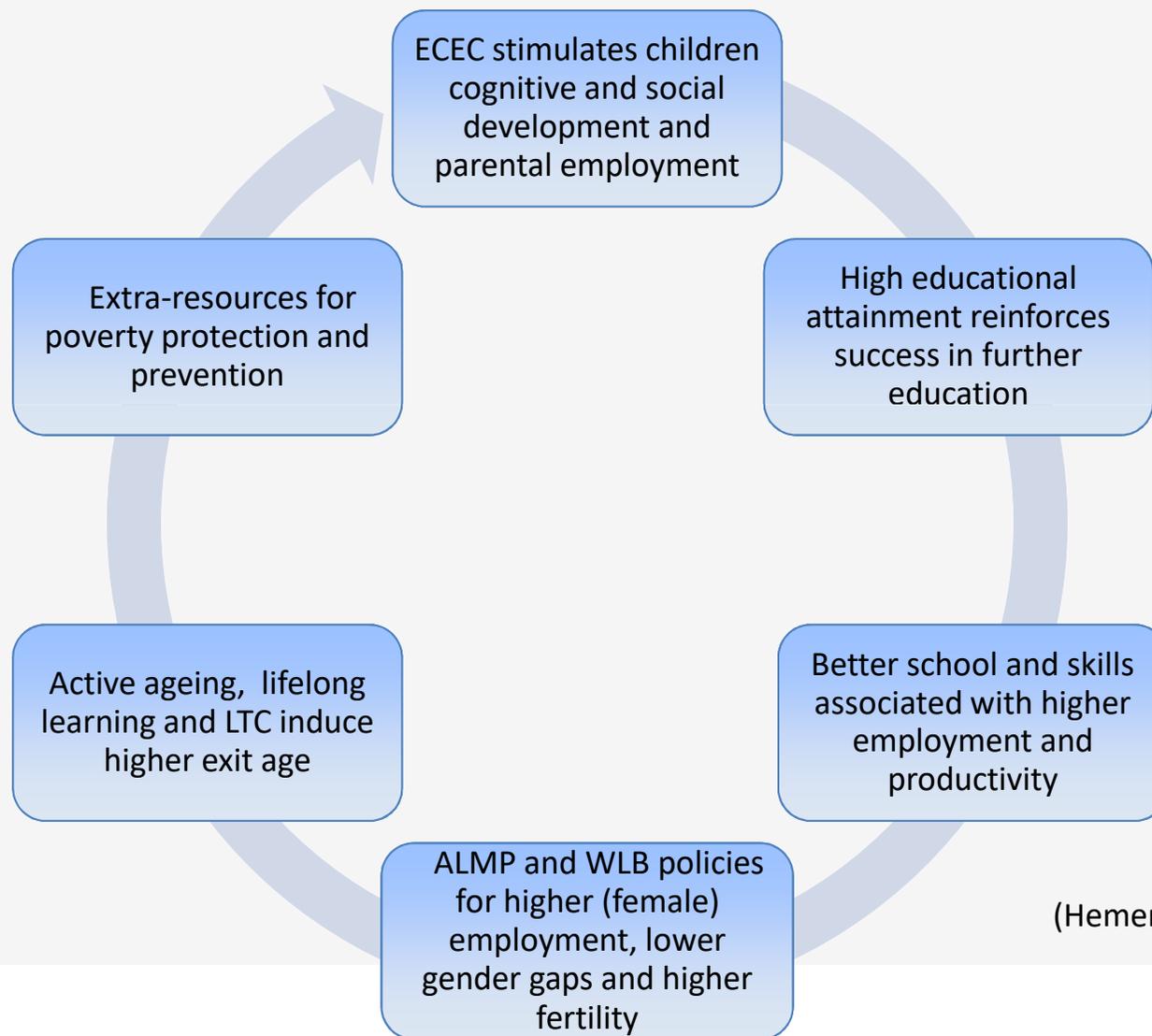


## What's "new" welfare state?

- *Keynesian-Beveridgean welfare compromise* prioritized (male) employment-related **buffers** (male-breadwinner industrial economy)
- *Neo-liberal critique of interventionist welfare state* privileged undistorted labour market **flow** (*flexibility*) by retrenching **buffers** (because *moral hazard*) and employment protection (immediate allocative effect) in service economy
- *Social investment welfare state* aligns "**lifelong**" stock investments in *tailor-made* relation to **gender-balanced** "**worklife**" flows and "**inclusive**" buffers over longer (and potentially healthier) lives



# The social investment 'life-course multiplier'



(Hemerijck 2017)



## Policy complementarity

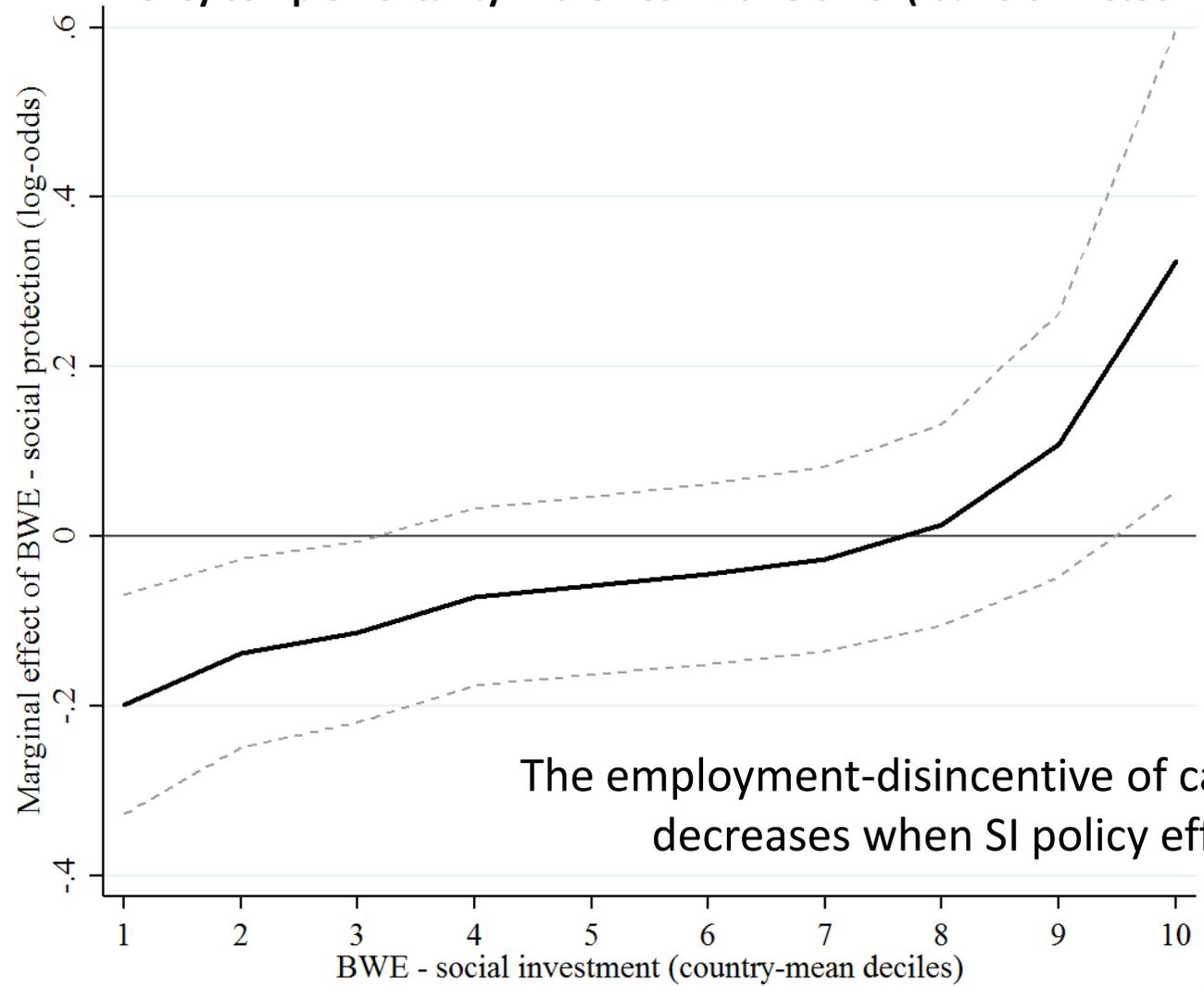
**It is the *policy mix* that matters:** different policies performing ‘stock-flow-buffer’ functions *interacting* to support citizens’ life-course transitions

- *Here and now:* ‘stock-flow-buffer’ policies work in conjunction to enhance current opportunities
- *Over-time cumulative returns:* policy synergies addressing one phase of the life course enhance capabilities in the next phase (e.g. early investments in children -> future human capital gains in lower inequality)
- *National social investment backing for local delivery* (or local experimentation to leverage national commitment)



# Social investment *moral Hazard* mitigation

Policy complementarity in the flesh: Buffers x SI ('buffers' X 'stock & flow')

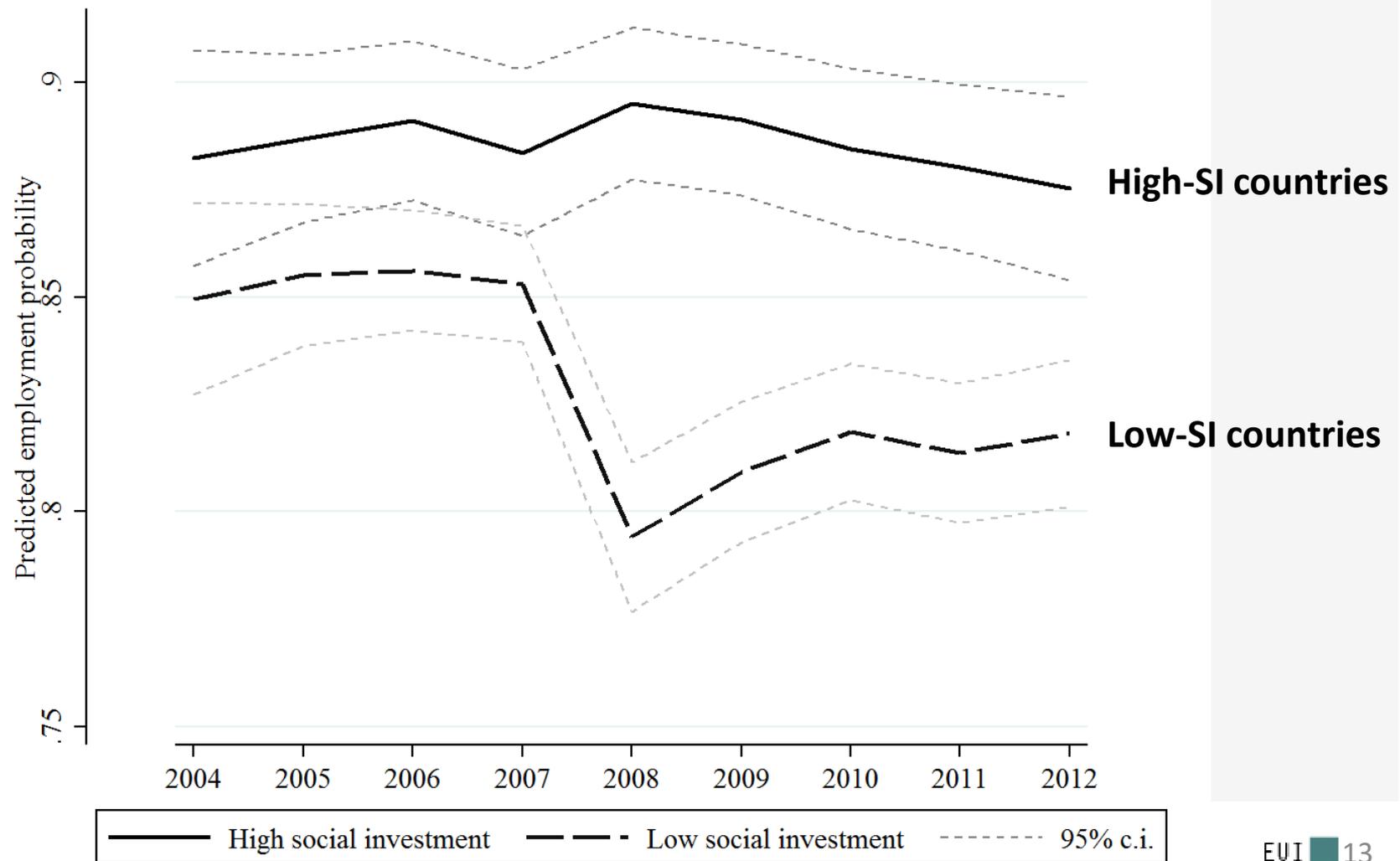


The employment-disincentive of cash transfers decreases when SI policy effort is higher



# Social investment *shock absorption*

SI as *ex-ante* employment shock absorber (time-dynamic perspective: 'stock & flow' X time)



— High social investment    - - - Low social investment    ······ 95% c.i.

(Ronchi 2018)



# Three EU-regions

	Catalonia	Rhône-Alpes	West Sweden
<p><b>Vertical coordination and Horizontal policy complementarity</b> between the <i>stock-flow-buffer (SFB)</i> functions in three regions</p>	<p><b>Weak policy vertical policy complementarity</b> between central and autonomous governments due to the institutional fragmentation and <b>inefficiency</b> of the <b>administrative</b> capability</p> <p><b>No horizontal coordination</b> between training agencies, employment services, social services and income guarantee schemes</p> <p>Banking crisis undermining regional social investment effort</p>	<p><b>Coordination</b> but the highly complex relations between of social protection and employment assistance making the system <b>sectoralized and fragmented</b></p> <p><b>Rigid</b> administrative structures <b>limiting the 3 functions to work together</b></p> <p>Paris stands in the way for Lyon</p>	<p><b>High vertical and horizontal coordination</b> between SFB functions</p> <p>Emphasis is placed on cooperation between public authorities and stakeholders at different levels of government, in order to <b>foster greater alignment between policy measures and functions</b> (childcare, education, training, ALMPs, income supports) to support citizens' life-course transitions</p>



## Is the EU still the trade union of the next generation (Monti)? *No!*

- EU is a union of national welfare states!
- ‘Buffers’ jealously defended in national politics
- Underinvestment in ‘stocks’ next generation (and brain-drain)
- Little cross-country interest mutual learning about effective ‘flow’ policies
- Making the ageing burden difficult to bear



## Heterodox proposal to exempt stock investment from the SGP

- To incentivize *national reform ownership*
- Linked to *learning from best 'flow' practices and more 'inclusive' buffers*
- Leveraging *higher female and older worker employment* over time (for at least a decade) through carrots (rather than sticks) to bolster *carrying capacity welfare state*



# The new politics of social investment

- *Welfare states here to stay! ‘Successes’ and ‘failures’ are staring us in the face* – critical implications for capitalism and democracy to survive
- Upward recalibration less difficult than assumed to stay clear of present danger of downward welfare drift and Matthew effects. Big spending welfare state as “*productive constraints*”
- But requires serious *re-imagination* of the welfare state from an ‘equal social worth’ dynamic *life-course wellbeing* perspective – «*flourishing lives*»
- *Especially in Italy, but don’t wait for Rome*