MAKING SOCIAL INVESTMENT HAPPEN AFTER BREXIT

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OUTLINE

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)?

MERKEL'S DEFAULT POLICY THEORY (OBLIVIOUS OF GERMAN FAMILY POLICY REFORM)

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

SOCIAL INVESTMENT BACKGROUND POLICY THEORY

$$\frac{\textit{Number supported by provision welfare}}{\textit{Number of workers (hours worked)}} \times \frac{\textit{Average consumption per welfare client}}{\textit{Average production per worker}}$$

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.

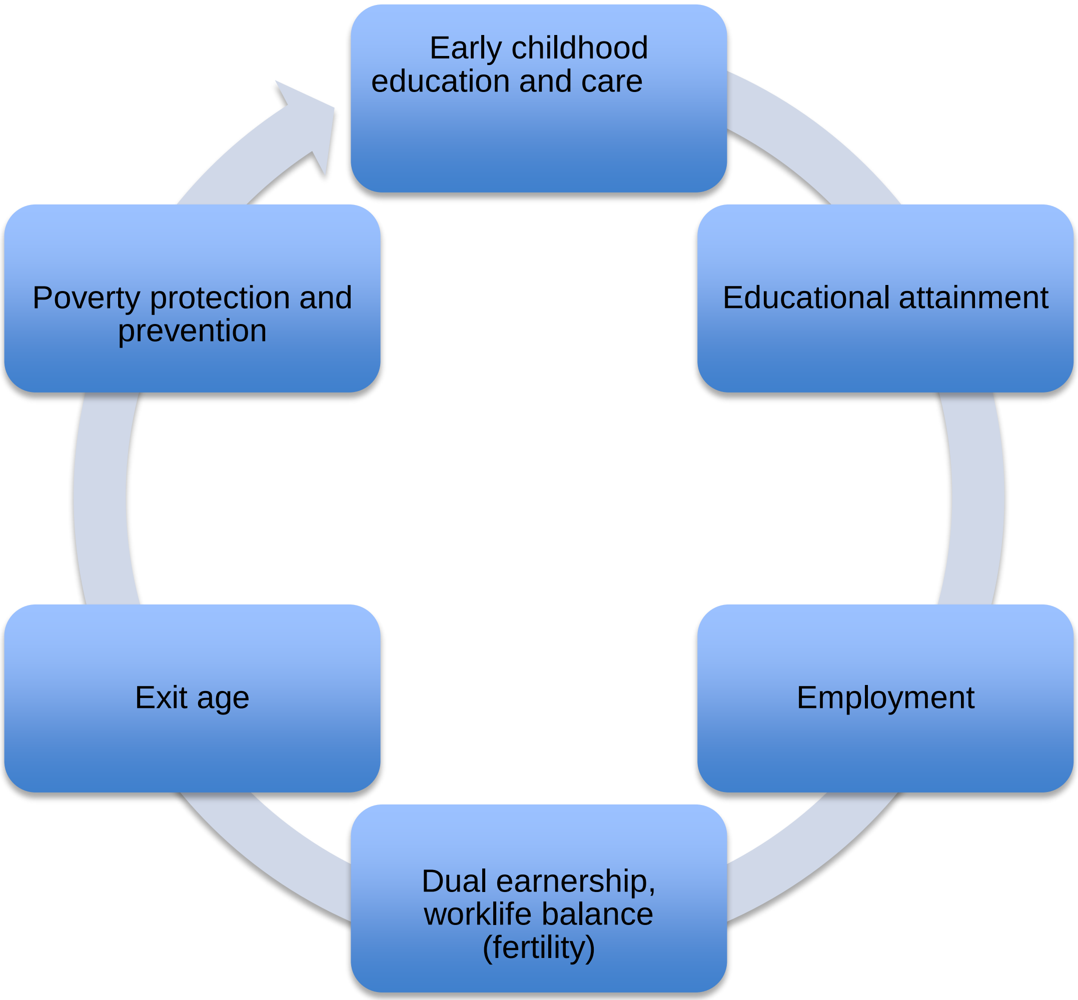
STOCK, FLOW AND BUFFER COMPLEMENTARITIES

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)



CHALLENGES IN ASSESSING SOCIAL INVESTMENT RETURNS

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

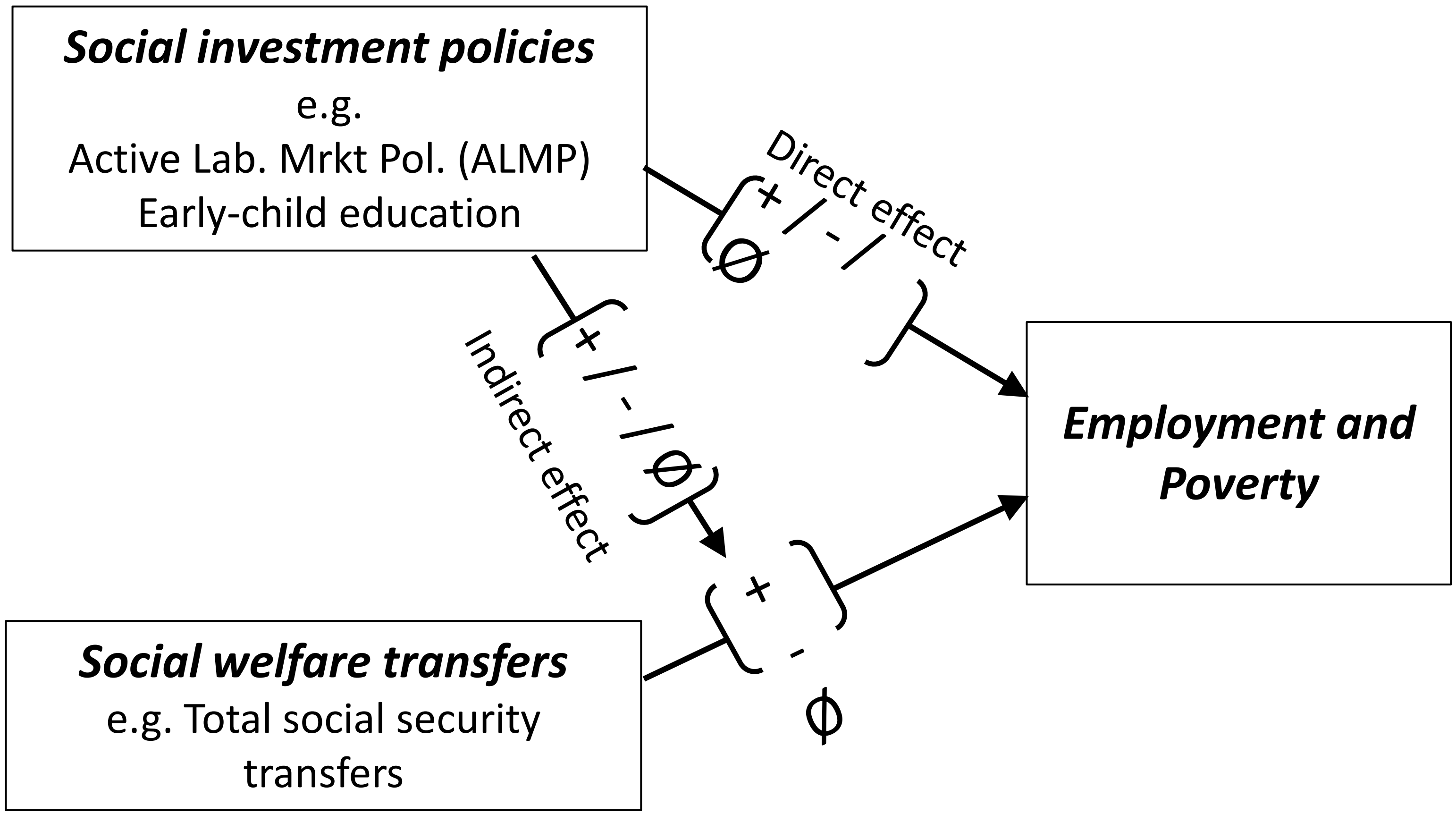
1. *Interaction effects* across policy provisions

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



CUMULATIVE INSIGHT THROUGH METHODOLOGICAL LAYERING (ASIS)

1. *Quantitative macro* analysis:
    - SI correlateed 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 outperfom 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.

PROPOSAL: SOCIAL INVESTMENT "PACT" NOT PACKAGE

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.