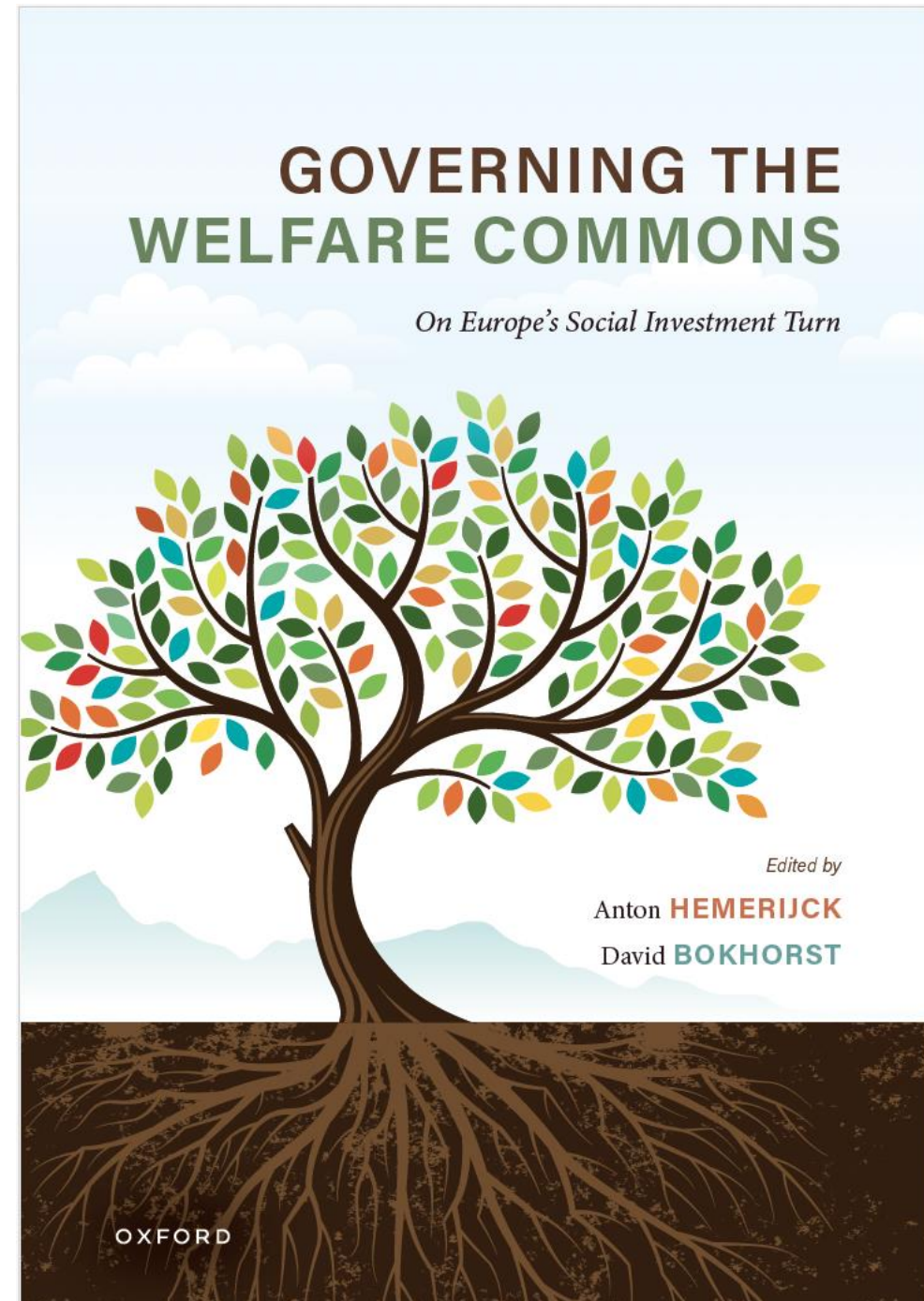


Returns to Social Investment

Lessons from *ERC Advanced Grant WellSIRE* project
(2020 – 2026)

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Skills Lab, ETF, 25 June (online)



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Two approaches

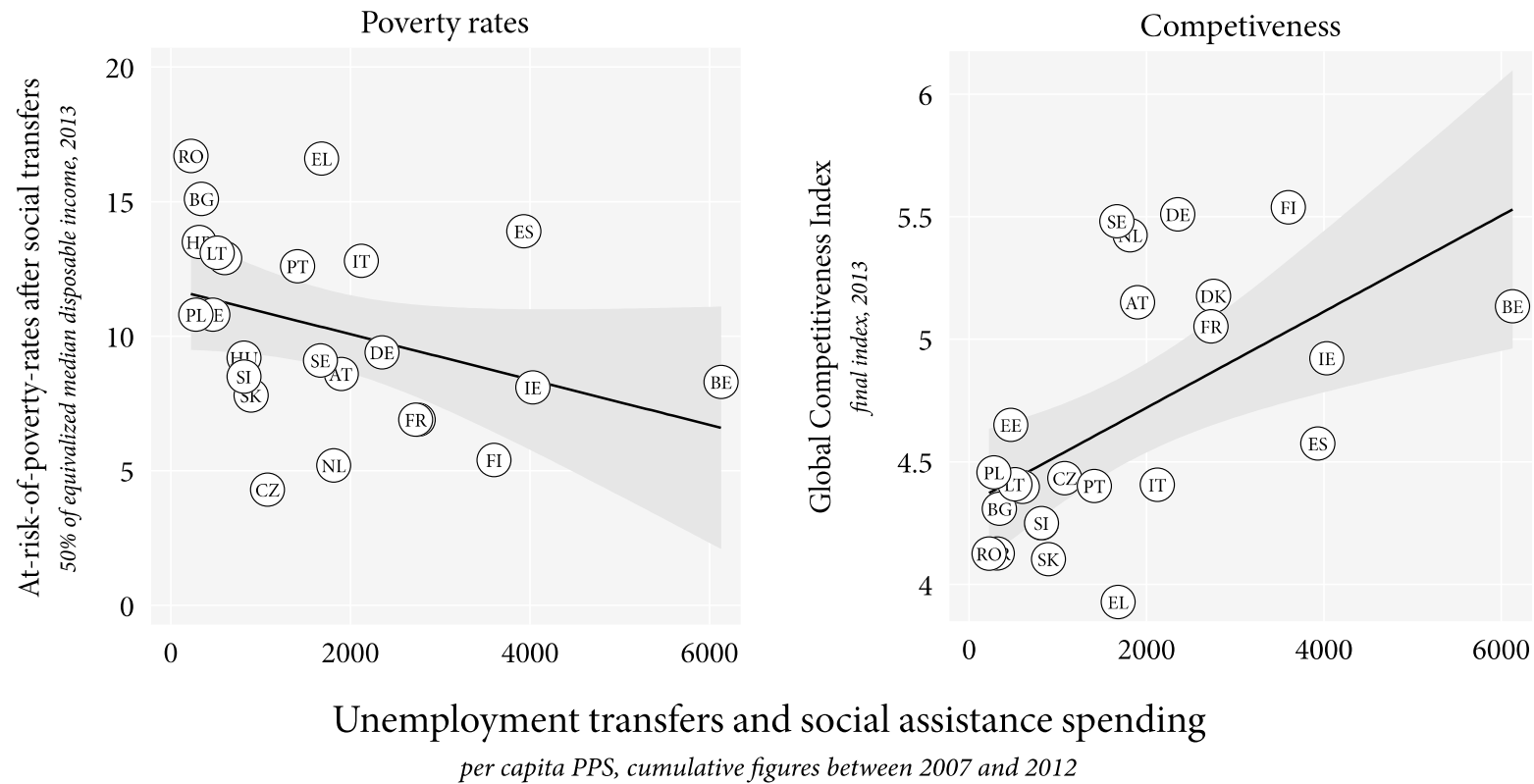
Zero-sum distribution

- Social investment ***crowds out*** social protection and poverty reduction (Cantillon/Van Lancker) – ***Matthew Effect***
- New middle class preferring social investment forces governments to ***ration social protection*** for the worst off (Busemeyer/Hausermann/Garritzmann/Pali er)
- ***One-dimensional*** causality under presumed *fiscal constraints*
- ***Easy to operationalize*** under *ceteris paribus* conditions
- *Generalization* (evidence-based)

Positive-sum capacitation

- Social investment ***self-financing*** by reducing reliance on social protection by raising employment without reneging distributive commitments (Esping-Andersen/Hemerijck/Kenworthy/Lindert/Pl avgo) – ***Manna Mechanism***
- Social protection commitment ***crowds in*** social investment – politically (Hemerijck/Bokhorst). No resource competition *per se*
- ***Configurational*** causality with positive synergy effects
- *Conditionally dependent* analysis (more) ***difficult to operationalize***
- *Contextualization* as important as *generalization* (more specific policy use)

Beyond trade-offs: social expenditures, poverty reduction and competitiveness 2007 - 2012



Lessons from the long 2010s

Great Recession (2007-15) no return **Great Depression**

- European welfare states absorbed economic and social **aftershocks** well through **automatic stabilisers** that did not have to be invented
- Supported by “**whatever it takes**” non-conventional monetary policy

Annus Horribilis 2020

- **Lockdown** imperative to **buying time** to develop **vaccines**
- Strengthening social protection, based on post-2009 success of **short-time furlough** schemes
- From austerity-biased Stability Pact (SGP) toward **New Generation EU fiscal solidarity**

Capacitation oriented welfare states of North-West Europe **swift employment recovery** both recessions

Looming vulnerabilities

Architecture of EMU *redesigned* but not fully

- ✓ *Fiscal imbalances still attract more (penalty) attention than **macroeconomic** and **social imbalances**;*
- ✓ *One-off fiscal solidarity (NGEU/RRF/SURE) – no structural backstop.*

EU caught off guard in the new multipolar world

- ✓ *Weaponization of trade, finance, energy*
- ✓ *Defense spending imperatives (with or without NATO)*

Known knowns:

- ✓ *Adverse demography*
- ✓ *Territorial inequalities* unaddressed
- ✓ *Digitization and AI*
- ✓ *Climate change*

Resurfacing doubts and old mantra ***Europe is lagging because of too much risk aversion, a penchant for redistribution, and over-regulation*** - whilst comparative evidence never so strong)

WellSIRe in a nutshell

- Social disadvantage is ***multidimensional***: intimate association income, work, schooling, health, housing, and wellbeing, etc.
- Policy focus on **breaking/preventing *cumulative vulnerability*** (*pitfall effects*)
- Social protection alone not (or no longer) effective in knowledge economies and ageing societies. **Imperative to complement inclusive social protection with gender-balance capacitating services**, for which organisation/intermediation/implementation is of major portent
- **Dynamic analysis** (preventing pitfalls and improve stepping-stones across the life-course)
- Voluntaristic (policy agency matters – social structure not determining)
- **Sen/Nussbaum** over/alongside **Rawls** in normative orientation

WellSIRe: an exercise in *layered cumulative causal adequacy*

- The **macro-economic dividends of social investment** (macroeconomic *quantitative*) as *launching pad*
- **Material wellbeing returns on social investment** (micro-sociological *quantitative*) nested in macro-observables (Coleman's bathtub)
- **Subjective wellbeing returns on social investment** (micro-sociological) anchored on material macro- and micro- wellbeing returns
- ***Governing the Welfare Commons. Tracing social investment reform sequences*** across Europe since 2000 (*qualitative* comparative: ten countries and the EU) using quantitative evidence as launching pad
- ***Laboratories of Social Investment.*** Changing boundaries of welfare provision across post-industrial cities since 2000 (*qualitative* comparative: twelve cities) embedded in national reform dynamics. ***Exploring local social investment experimentation***

Logic of social investment

Number people supported by social policy (<i>transient</i>)	Consumption per welfare client (<i>transfers and services</i>)
Number of workers (hours worked) economically active population	Average productivity per worker

Long-term resilience of economy and welfare state increasingly dependent on the contribution of social policy to the (dynamic) **denominator** of the welfare cost-benefit formula.

(Incomplete) gender revolution, knowledge economy, and ageing populations require wide **multidimensional repertoire** of capacitating and compensating social policy across the life course, beginning with children.

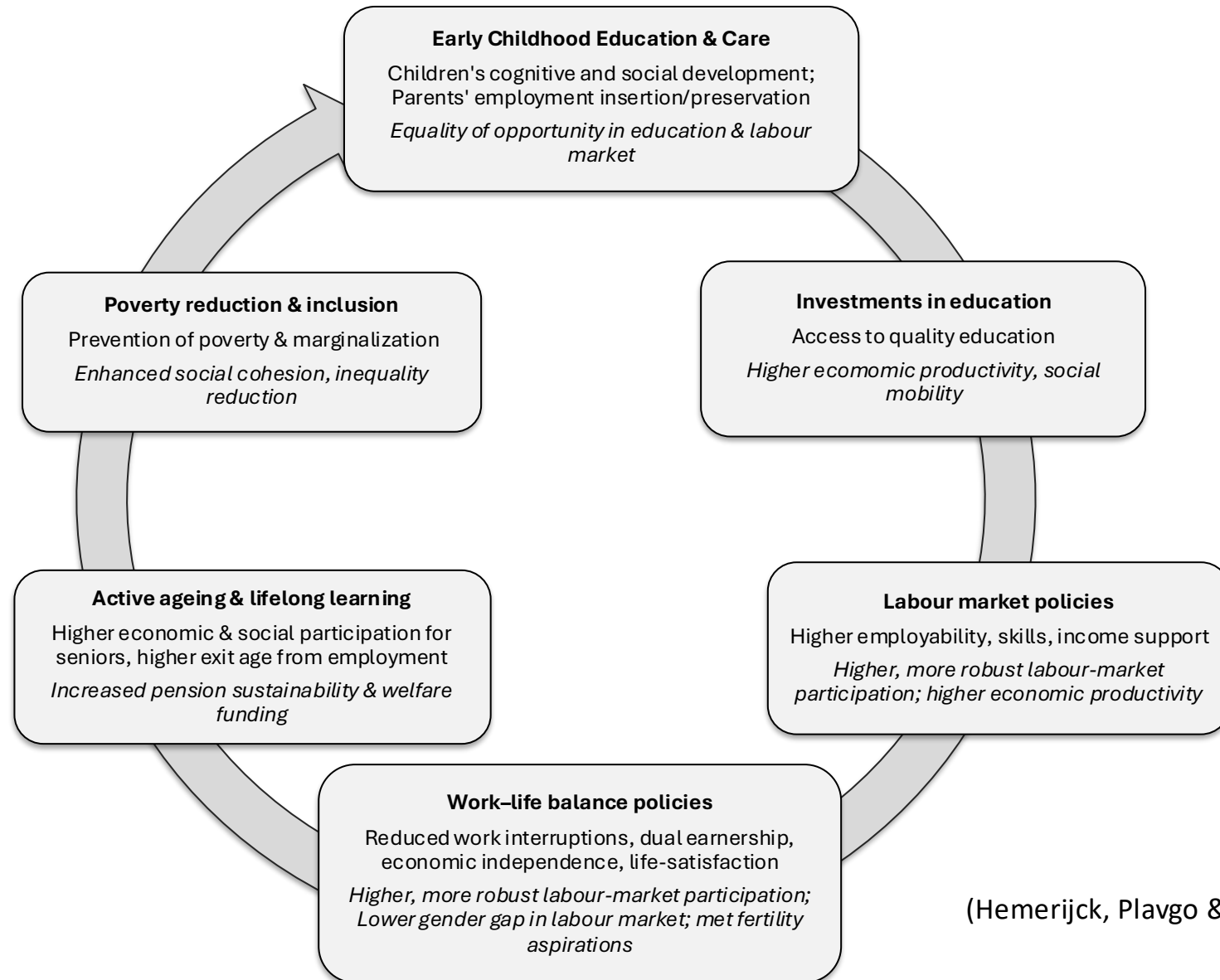
Policy implication: from **redistributive numerator** conflict to **productive denominator** governance

Definition social investment

Social investment policy improves ***ex-ante*** individual life chances and **capabilities** of individuals and families by mitigating social risks associated with post-industrial economies and ageing societies across the entire life-course at its spine: from childcare, education and training, active labour market policy, paid parental leave and long-term care. Throughout, social investment does not replace the ***ex-post compensation*** rationale of mid-20th century social security but supplements ***Piggy Bank*** and ***Robin Hood*** solidarities with ***Stepping Stone*** solidarity.

Social investment *life course multiplier*

Micro-level effects
Macro-level effects
→ Life-course effects



(Hemerijck, Plavgo & Ronchi, 2023)

Stock, Flow, en Buffer **policy complementarities**

21st century social policy: **three** (interdependent and complementary) **functions**:

- **Stock:** enhance and maintain human capital through education and training of citizens across *all stages of the life-course (knowledge economy)*
- **Flow:** easing transitions in *gendered labour markets and life courses* to better reconcile work- en family responsibilities (*world of work and family transformation*)
- **Buffer:** broadening and renewing *inclusive social protection buffers* to mitigate poverty pitfalls across the life course (*demographic ageing*).

Social outlays competitiveness 2012 - 2022

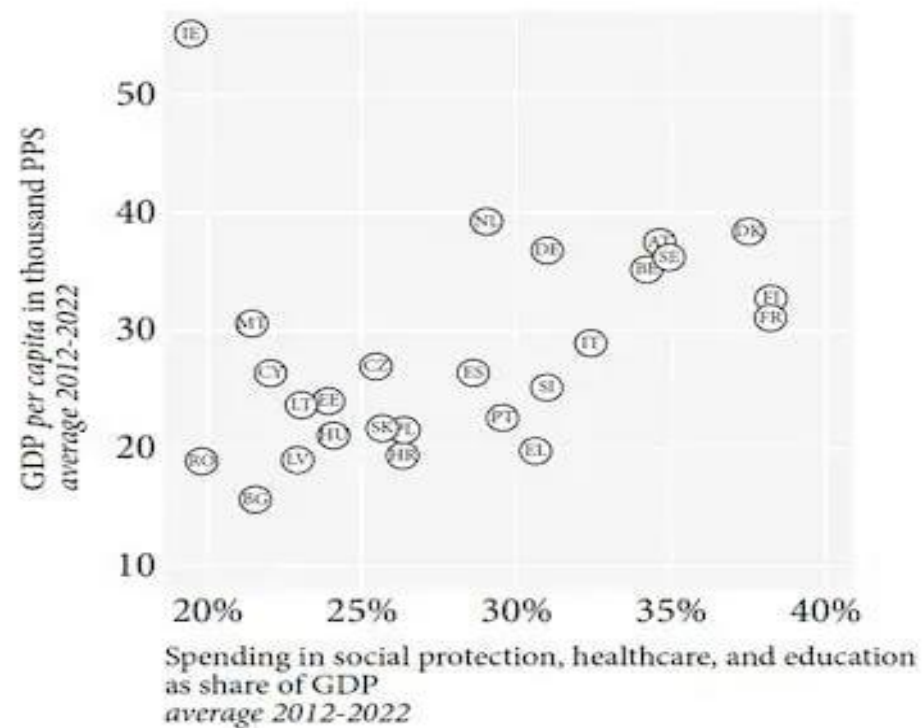


Figure 1: Social spending and GDP per capita

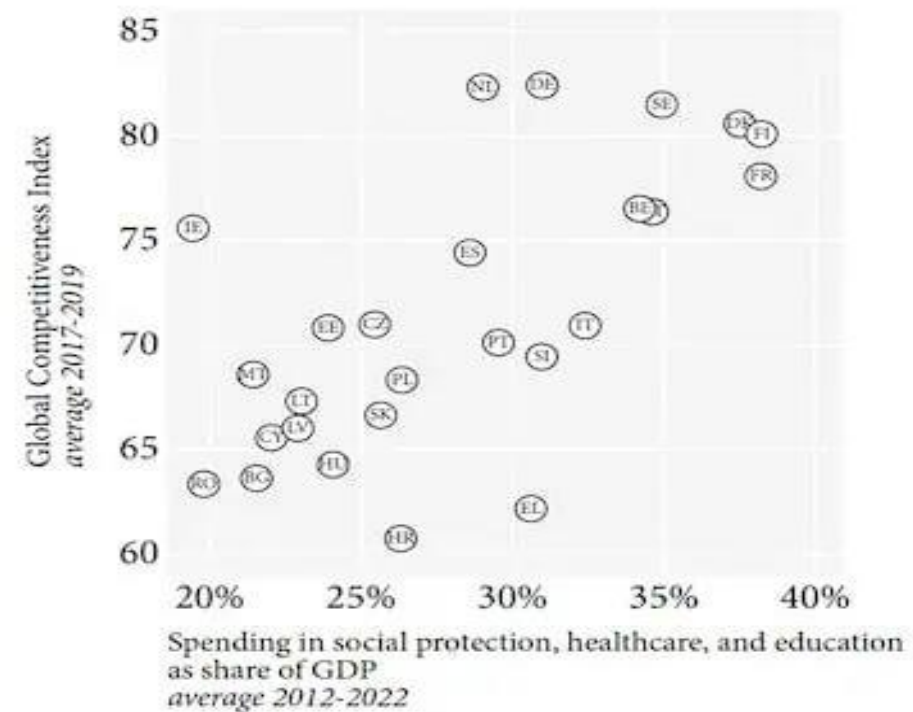


Figure 2: Social spending and competitiveness

Compensating and capacitating social spending

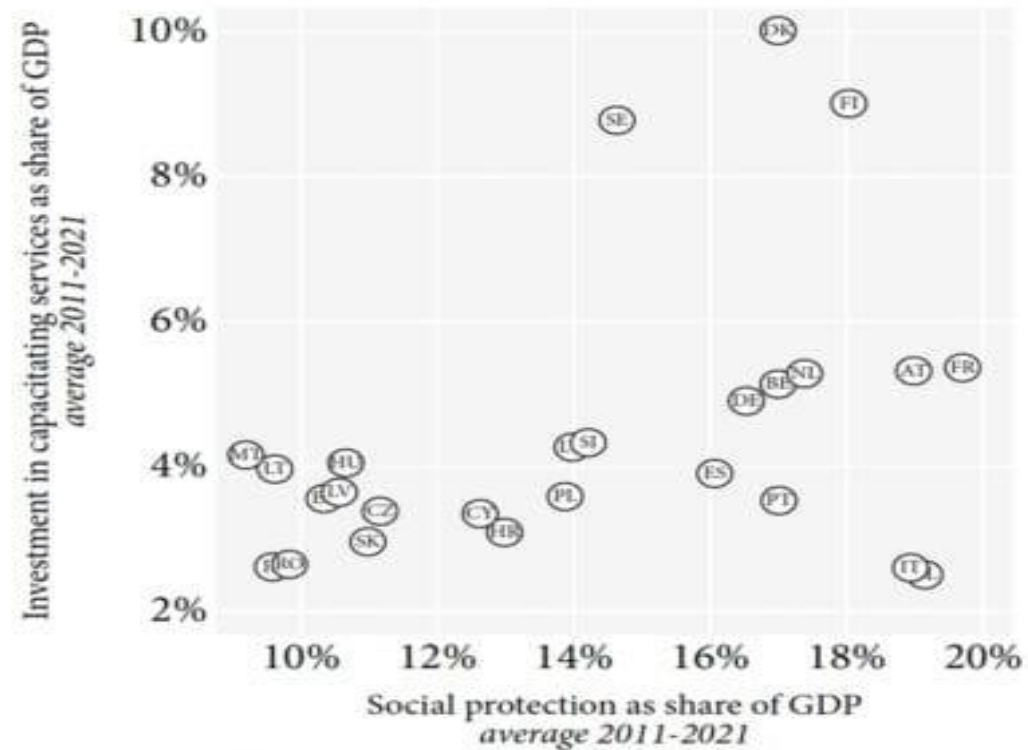
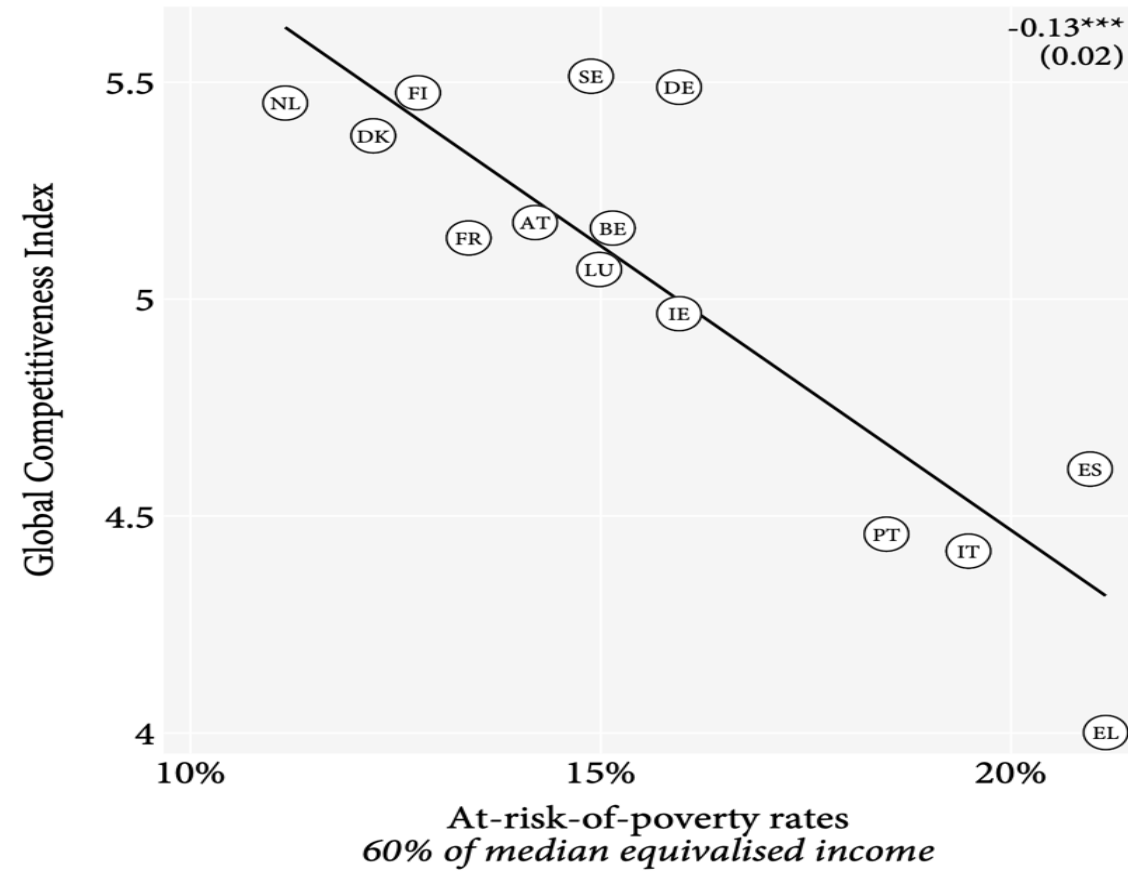
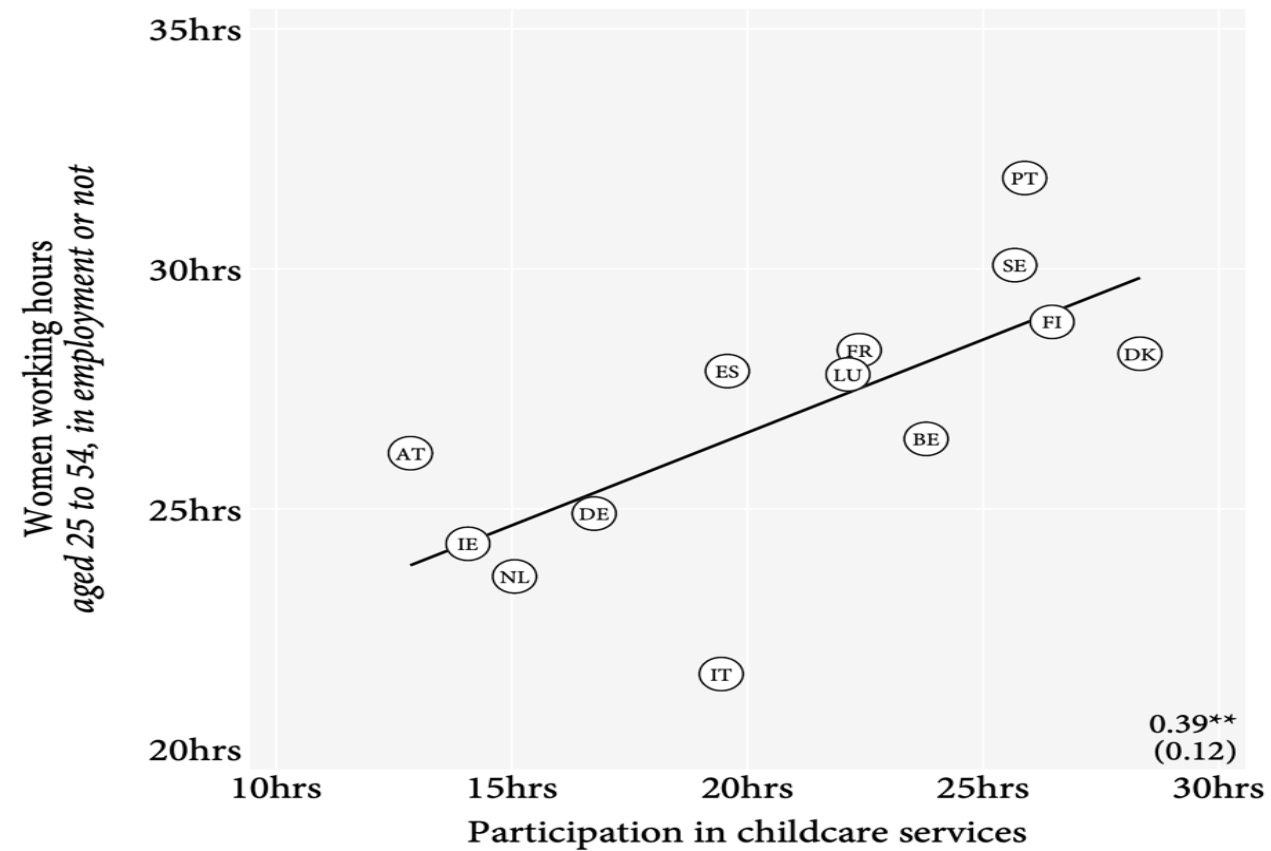


Figure 3: Investment in capacitating services and social protection spending as share of GDP

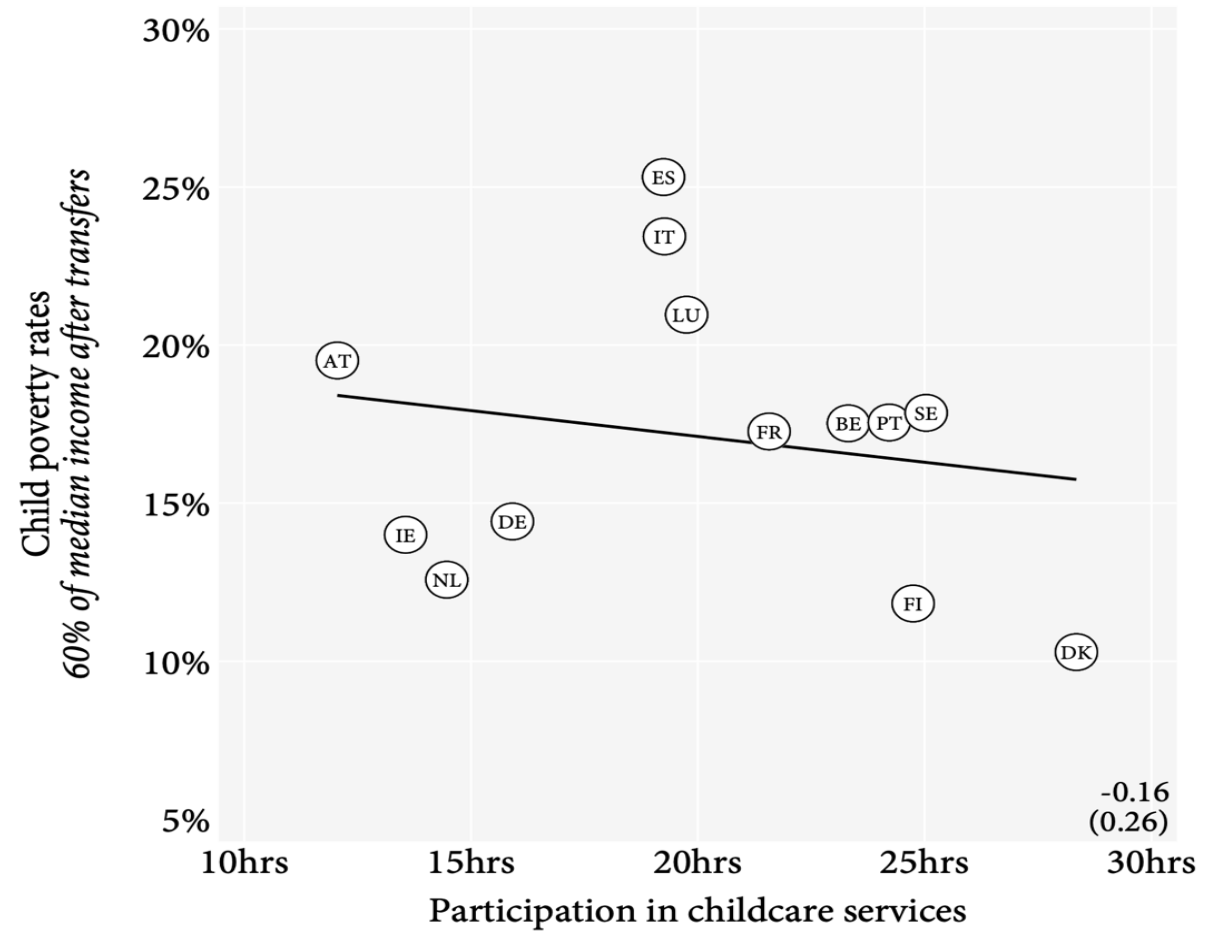
Competitiveness poverty



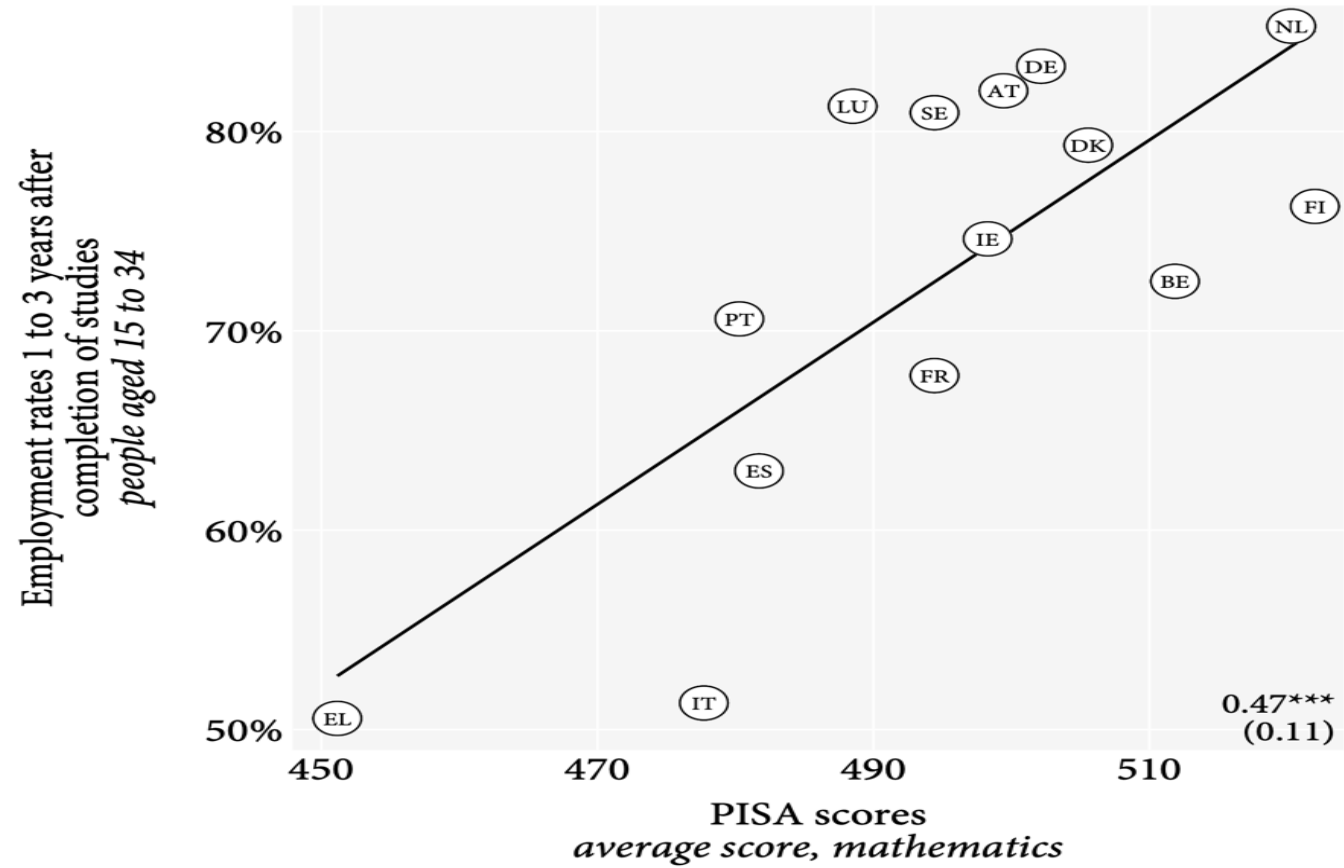
Female employment childcare participation



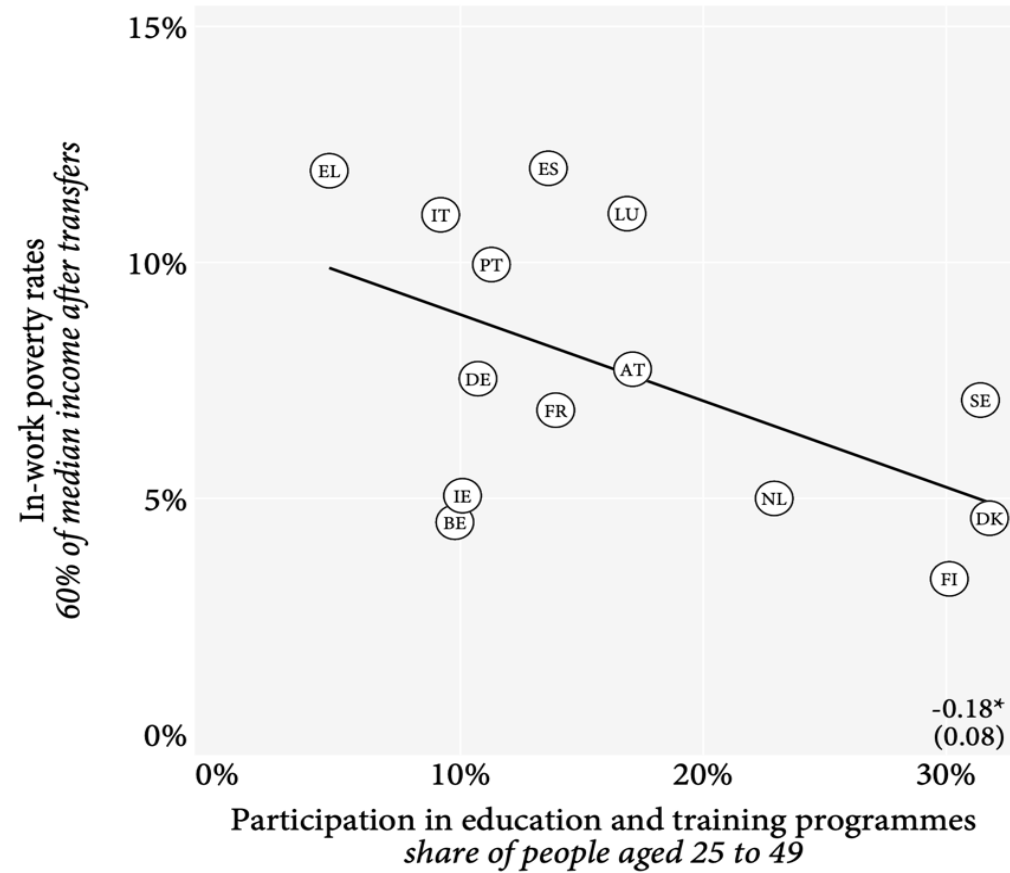
Child poverty childcare



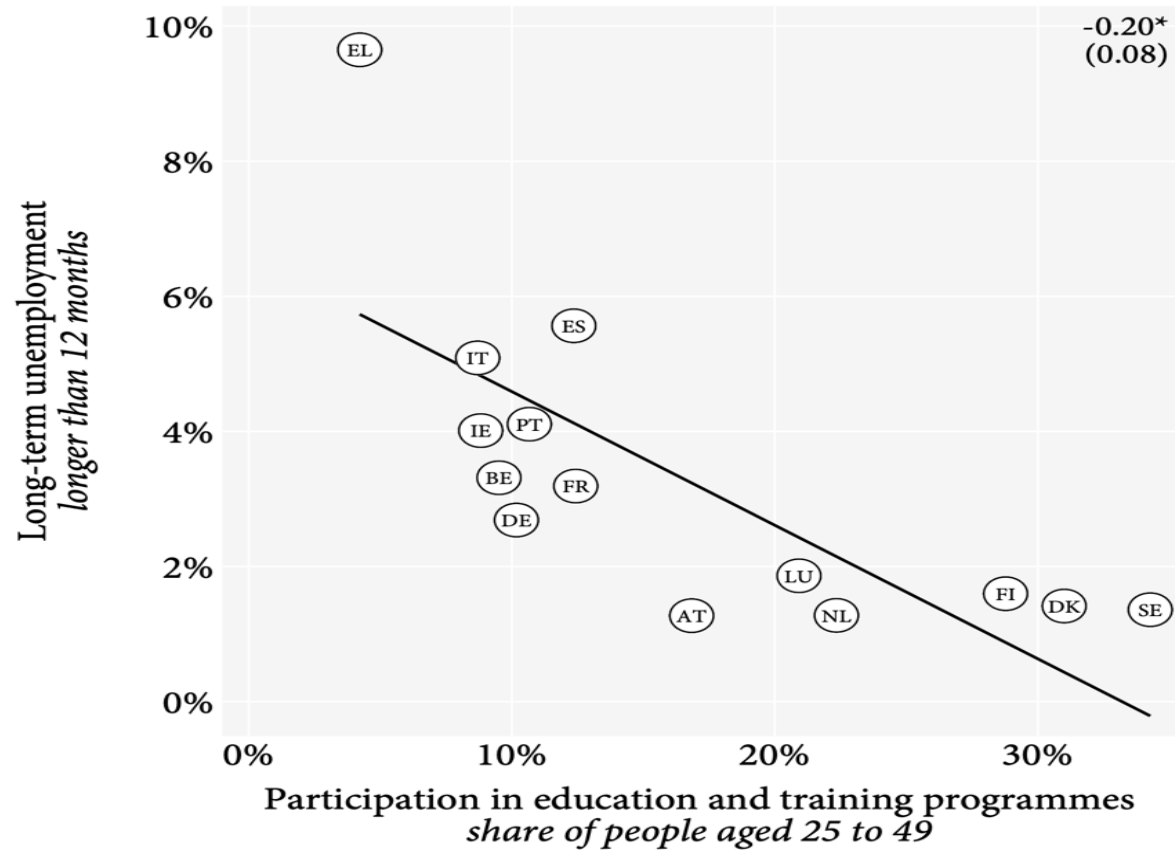
Young adults in employment educational attainment



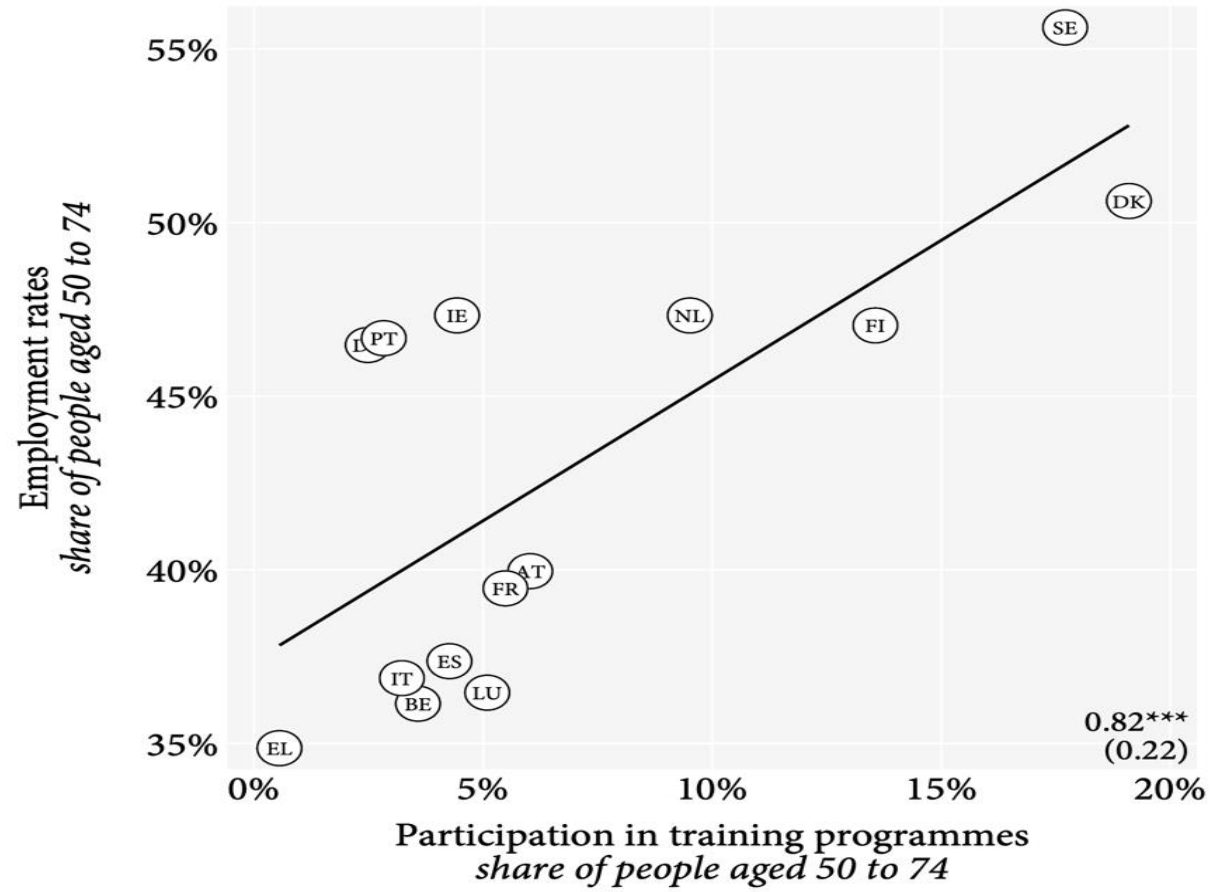
In-work poverty training participation



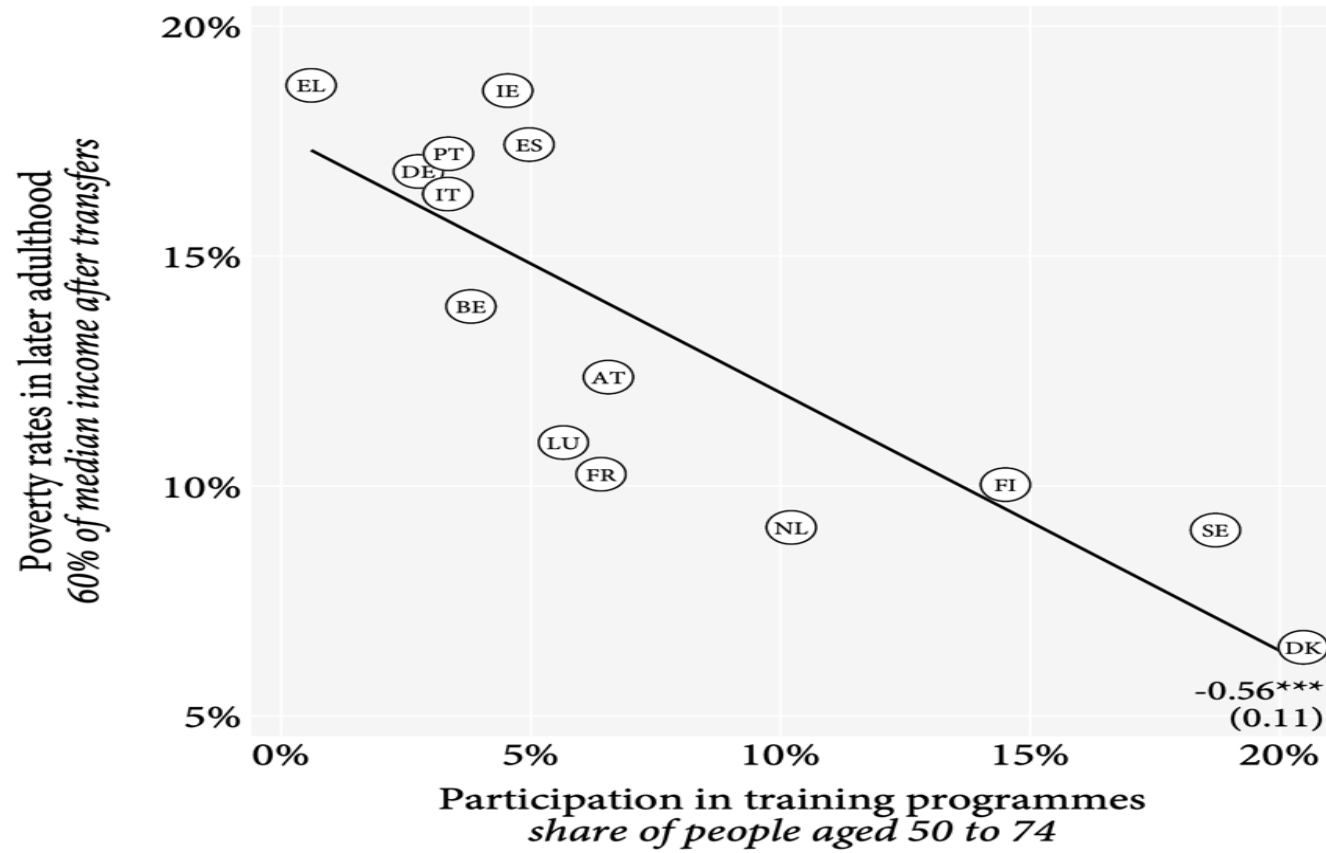
Long-term unemployment training participation



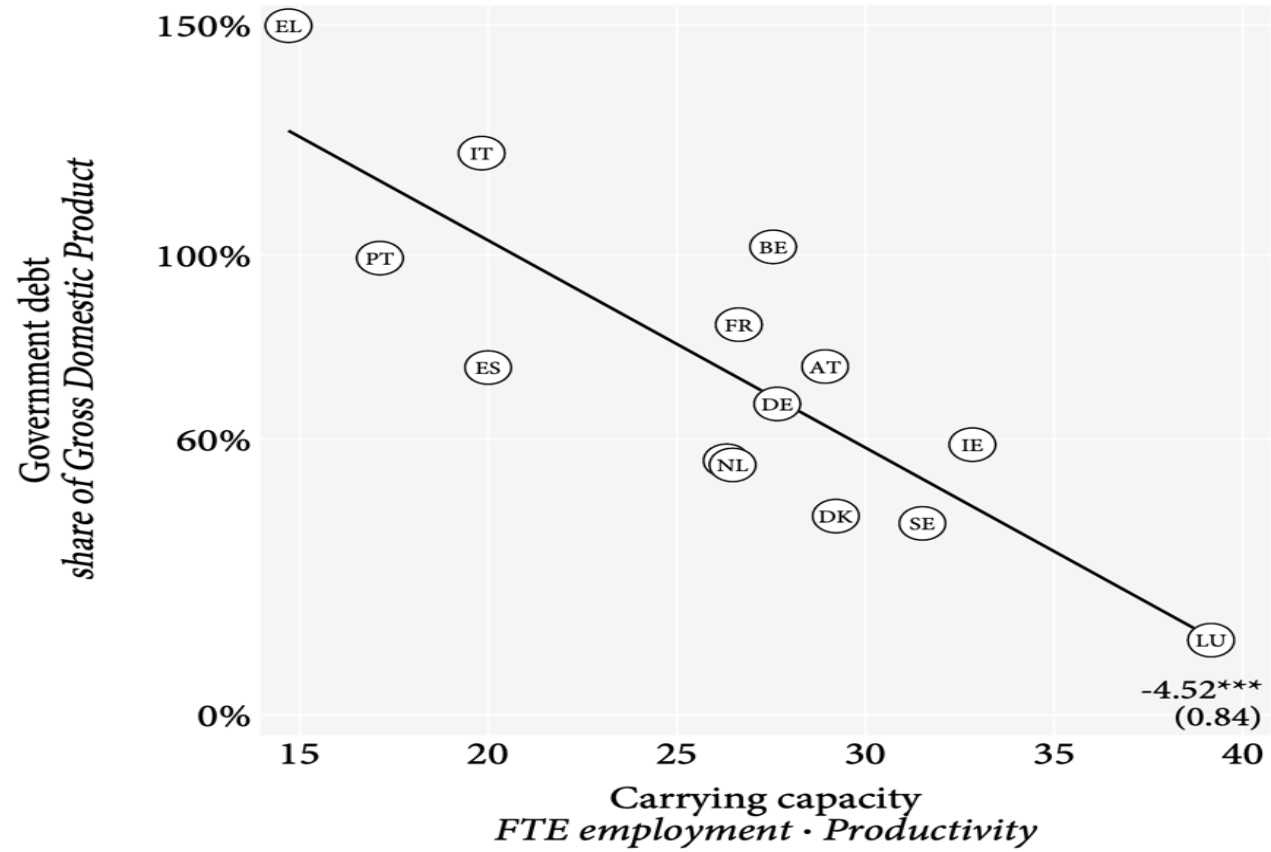
Employment elderly training participation



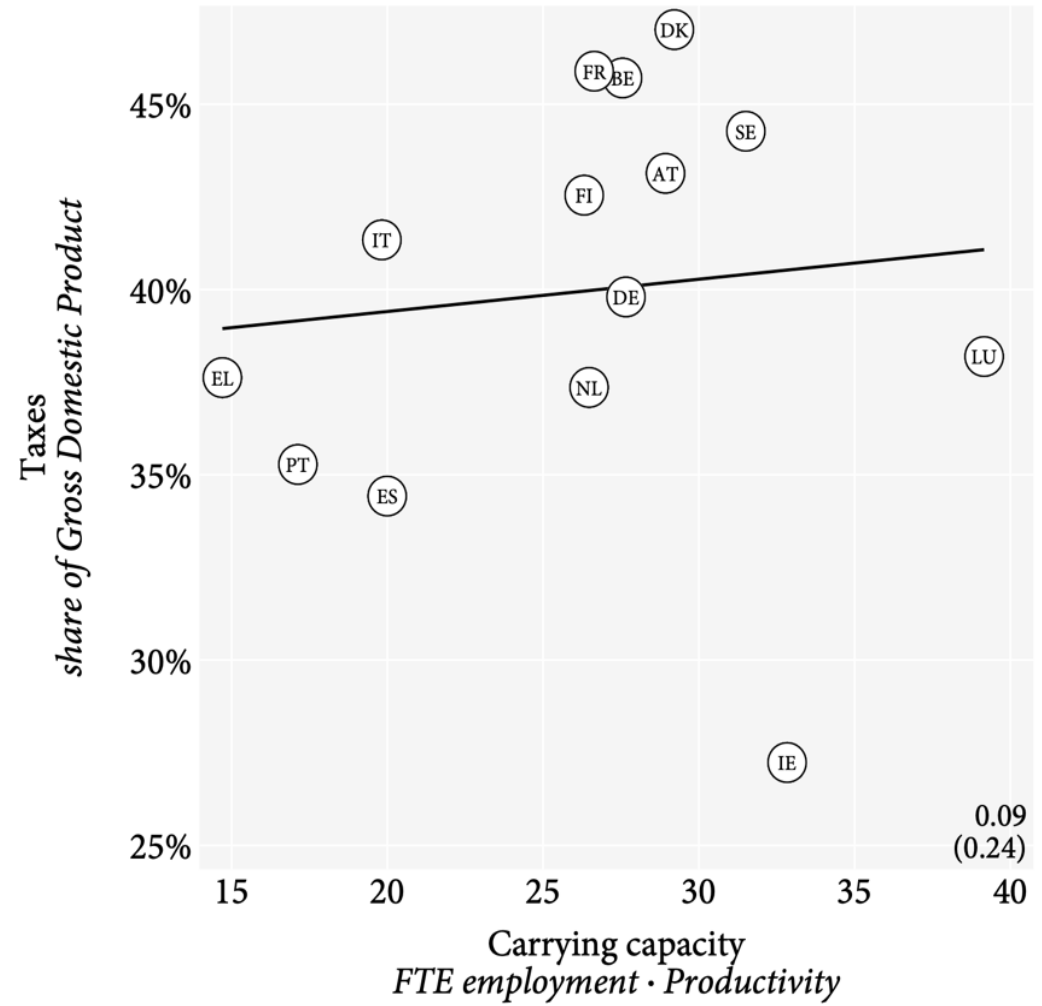
Poverty in late adulthood training



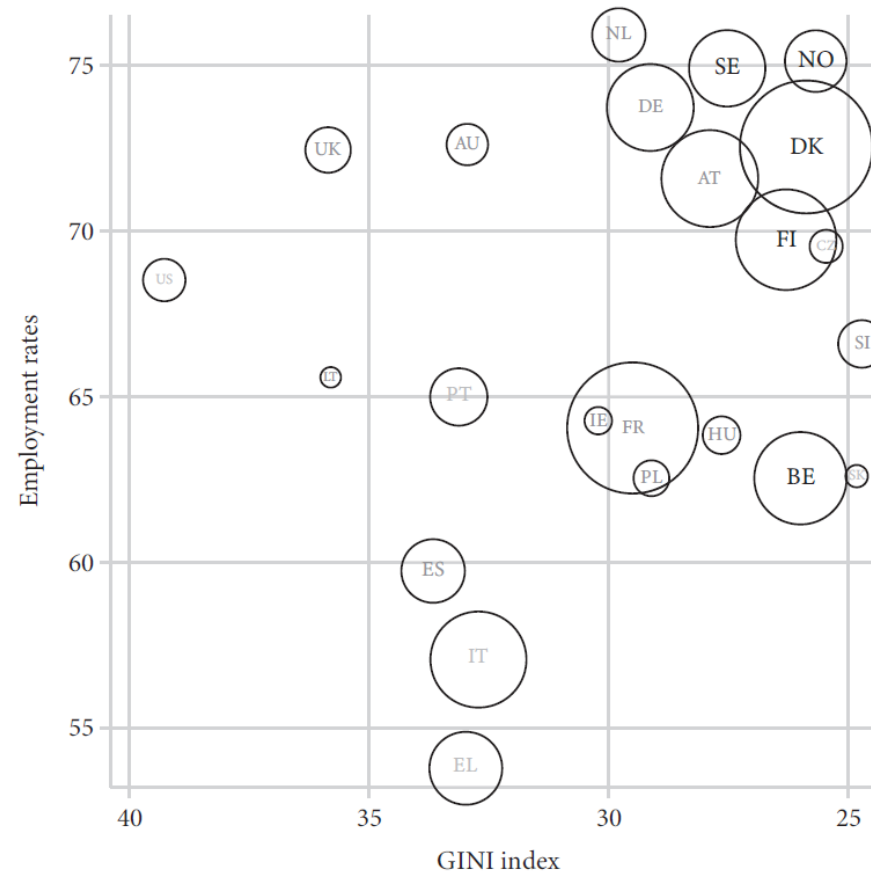
Carrying capacity welfare state public debt



Carrying capacity and taxes



Ergo: social investment welfare state are: expensive, effective, but affordable!



The color and size of the market represents the intensity of social investment:
Small label, light gray: less than 2.5% of GDP
Medium label, gray: between 2.5 and 4% of GDP
Large label, black: more than 4% of GDP

Policy complementarities
micro-correlates of the social investment multiplier logic (EU-SILC/LSF – with Ilze Plavgo and Brian Burgoon)

- ALMP **flows** more effective when investments in ECEC **stocks** are present
- Work-family reconciliation **flow** more effective when ALMP investments are adequate
- Social investment more effective at higher levels of educational attainment
- **Social investment and inclusive social protection** important for effective **poverty mitigation**

Policy complementarities: Target group micro-correlate specific subjective wellbeing **(with Heta Poylio)**

- **Social investment** positively associated with subjective wellbeing and happiness (ESS)
- **Social investments** generates positive results beyond direct beneficiaries
 - *First order direct effect*: life satisfaction/sense of control target group (childcare – families with children and long-term care – need-dependent elderly)
 - *Second order signalling effect*: non-targeted groups (young adults without children and the healthy elderly) feeling that they will be covered for contingencies
 - *Third order diffusion effect*: wider population
- **Effects stronger** when **buffers** are adequate (**above the poverty line**)

Takeaways

- Social protection (alone) ineffective in knowledge economies and ageing societies; to be complemented with **capacitating services**, for which organisation/intermediation/implementation are central (*conversion factors*)
- Complementarities across social investment and social protection have considerable potential to generate **positive-sum stock-flow-buffer synergies** across life-course cohorts
- Dynamic configurational analysis of **Stepping-Stones** across the life-course, building on **Piggy Bank** and **Robin Hood** buffers as *preconditions*
- Social investment departs **normatively** from the relative income understanding social justice (Rawls), evaluating policy more in terms of reducing **capability deprivation** (Sen/Nussbaum) based on wider wellbeing objectives, yet with a primary concern for the least-well-off.
- EU citizens aspire to live in social investment welfare states.

Methodological implications: *What are we studying?*

- Incipient shift from ***protective social security*** to ***enabling social investment***.
- How to distinguish capacitating social investment in relation to social protection), their reform dynamics and (joint) effects in ageing societies and knowledge economies
 - Do family allowances/childcare/parental leave arrangement increase female labour supply and fertility?
 - Do pension improvements increase longevity? But what about fiscal sustainability?
 - Under what conditions do governments take social investment seriously? Post-industrial risks and needs must be politicized in a mixed market economy before elected governments pursue reform.

Methodological implications: *The credibility revolution*

- Major advances in quantitative evidence-based policy research, employing **causal inference techniques (DiD)** and experiments, modeled after randomized control trials (**RCT's**).
- Techniques premised on the assumption that a policy's causal effect is identifiable and interpretable independently of the configurational context in which the policy is executed (*what works here, works everywhere*)
- Coming along with **little reflection on (theoretical) conceptualization prior to methodological operationalization** and measurement.
- The quest for useful empirical indicators should be guided by theories and substantive knowledge, with explicit reflections on indicator choices. if our concepts in theoretical models are poorly operationalized and measured in empirical design, then we are not really testing a theoretical model.

Methodological implications:

Life course spine and policy complementarities

- WellSIRe positions cross-national comparative evidence as a primary source of information of mechanism scope conditions of social investment return at the macro-level.
- Trace dependent variable change from material outcomes (employment and poverty) through subjective wellbeing at the micro-level of subpopulations where the substantive returns to social investment are ultimately achieved.
- Causal mechanisms are activated by complementarities: *lateral, temporal, distributive, and cumulative*.
 - Higher female employment when both childcare and leave policies are easily accessible (lateral complementarity)
 - ALMP more effective on higher prior education investments (temporal complementarity).
 - Policies affect subpopulations differently (distributive complementarity)
 - Exposure to policy support in one point in time, enables capacities in the next.
- Configurations do not only vary across countries but also over time within countries. Different cohorts experience different life-course trajectories contingent on reform sequencing.
- *Sine qua non*: **welfare states represent complex and changing policy configurations.**

Future Project

- **Welfair** (Horizon Europe) *Intergenerational Fairness and the Welfare State in the Age of Inequality, Demographic Transformation and Technological Change (2026 – 2030)*

Thank you!

Reconstruction: where we're coming from

- **Before 1990:** focus on what causes of **welfare state growth** (*dependent variable*): Harold Wilensky (industrialism) and Peter Flora (modernization/cleavage change).
- **After 1990:** Focus on **cross-national variation** as the *dependent variable* together with a deeper understanding of the welfare state is a stratifying force as an *independent variable* (Esping-Andersen, 1990) and projection.
- **Political inertia** (Pierson, 1994) welfare state as **independent variable** pre-structuring failed retrenchment because of interest-groups capture and blame-avoidance politics brought on by welfare state expansion
- Synthesis: **regime-specific reform trajectories** (Scharpf/Schmidt, 2000), path-contingent adaptation to changing policy environment (**welfare states not entirely locked in**)