

SOCIAL INVESTMENT NOW!

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ADVANCING SOCIAL EUROPE
THROUGH THE EU BUDGET

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FOREWORD

The EU's Social Investment Imperative!

By **László Andor**

*Secretary General of FEPS
and former European Commissioner for Employment,
Social Affairs and Inclusion*

Society creates its future through investments. Still, for a very long time, investments have been a peripheral issue on the EU agenda, including in debates on possible reforms of the Economic and Monetary Union (EMU). Even facilities like the EU structural funds were often considered as instruments of redistribution alone, although they also constitute powerful drivers of our future prosperity.

Shifting the focus of European economic policy to investment, however, became necessary, especially after the outbreak of the Great Recession. This shift was due to the reform of the EMU governance framework being not deep or fast enough, and that growth had to be generated somehow. The EU had to revamp its broken business model, and, to this end, new tools had to be considered.

However, the EMU's economic governance should not only rely on *tools* designed with the sole purpose to more effectively address economic shocks and generate a recovery. The EU also needs new *policies* able to bolster a new model of economic growth. When speaking about the need for investment, most examples point towards infrastructure. But in most countries, this is not exactly the missing link. Excessive focus on infrastructure investment may be well intentioned, but taken alone, it won't suffice to drive the socioeconomic transformation Europe needs today.

In the last decade, the EU has been encouraged to take on a new role in supporting the transformation of

European Welfare States in a way that can more effectively address new social risks. Academic scholars from different traditions have long called the EU and its member states to support the transition towards a new 'social investment' paradigm. In 2013, the European Commission has taken on board such an approach in an emblematic and ambitious document, the so-called Social Investment Package (SIP). The key goal of the SIP, besides advocating future-oriented reforms of national welfare systems, was to act as guidance for the member states, especially as concerns long-term reforms in the field of fight against child poverty, and homelessness. Moreover, the Social Investment Package made it clear, once and for all: without adequate resources, social rights remain illusory.

By investigating the relationship between social investment and the EU budget, the present report represents an important contribution to the ongoing discussions on how the EU and its member states should dedicate their resources in order to deliver on the recently agreed European Pillar of Social Rights. I consider the original conceptualisation of social investment (in terms of stocks, flows and buffers, and the important focus on their complementarity) and the proposal to apply such approach to the next EU budget, as the authors suggest, a particularly timely and constructive contribution for three different reasons.

First, I see the potential of social investment policies in helping EU governments, especially in the EU's Southern and Eastern periphery, to address major socioeconomic challenges, including health inequalities and demographic decline. Promoting inclusive growth remains a key concern in many regions of Europe, especially where the signs of economic underdevelopments or vulnerability are stronger. For sustaining economic growth in Europe's



peripheries, but also for reproducing the growth potential in these regions in the long-run, governments need to rethink their role in developing human capital, supporting women's participation in the labour market, providing life-course transitions' income support, facilitating work-life balance, and incentivising longer working lives.

These great challenges regarding human capital and life-course transitions' challenges are particularly important in countries and regions experiencing population decline, which we mainly find in the European peripheries, and especially in East-Central Europe. This specificity is well illustrated by data on workers' participation in lifelong learning. With the exceptions of Slovenia and Estonia, East-Central Member States tend to have a far lower percentage of workers or unemployed people who participate in training and education compared to 'older' Member States. In Romania, Slovakia and Bulgaria the share is only around 5%.

Second, I believe that there is a strong economic case for promoting a social investment approach throughout the EU budget. Social investment is not only socially and politically important. In today's low interest rate environment, investing in human capital development, easier transitions over the lifetime, and better safety nets when crises hit, also makes economic sense because it provides Europe with a healthier and better-qualified workforce, which is highly needed in today's knowledge economy. Missing out on it would have strong opportunity costs at a time where global competitors such as U.S. and China do not shy away from investing in their future, be it on the technological or on the human capital side.

Third, in a post-austerity decade, I am convinced that embracing this social investment approach provides an opportunity to better align investment strategies in EU member states with the priorities of EU citizens and thereby to help prevent a scenario *à la US* or *à la UK*. Opinion surveys practically everywhere find strong support for a greater concentration of resources dedicated to more robust social policies. Recent surveys¹ show that popular support for "a larger EU budget aimed at promoting economic and social investments, for helping people

in severe poverty and for providing financial help to member states experiencing a rise in unemployment" is high both in EU countries with larger populations (Spain, France, Italy, Germany, Poland) but also in smaller ones. Conversely, the national political leaders of the same countries often show limited support for more ambitious social policies at the EU level. We need to fill this expectation gap between the mass and the elite.

As the authors of the report rightly suggest, the peoples' call to step up the game on social investment should be reflected by the way countries make use of all available resources from the EU budget, ranging from the EU Structural and Investment Funds to EU's macroeconomic stabilisation tools. The European Social Fund (ESF), for example, already plays an important role in helping to promote the employment of women, young professionals starting their career (e.g. through the Youth Guarantee), Roma integration, labour market integration for people

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Society creates its future through investments. Still, for a very long time, investments have been a peripheral issue on the EU agenda, including in debates on possible reforms of the Economic and Monetary Union (EMU).

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¹ See the latest survey realised by Maurizio Ferrera and Alessandro Pellegata in the framework of REScEU project: <https://www.resceu.eu/publications/working-papers/wp-4-2019-can-economic-and-social-europe-be-reconciled-mass-elite-differences-in-attitudes-toward-integration-and-solidarity%E2%80%9D.html>.

FOREWORD

with disabilities and active ageing. Going forward, the ESF+ – as it is called in the MFF proposal for 2021-2027 – could prove much more effective in achieving all these objectives, provided that it follows a proper ‘social investment logic’, identifying institutional complementarities between stocks, flows and buffers at different levels of governance in the EU. Besides, the ESF+ should increase its leverage to deliver on what should be an EU-wide primary objective: eradicating child poverty and social exclusion.

Yet, EU social policies are not limited to the ESF and more reforms are also needed in the wider EU economic governance framework to allow social investments to prosper. The authors’ recommendations go precisely in that direction. The EU and its member states should introduce a silver rule for human capital investment in the Stability & Growth Pact, adopt a reinsurance European Unemployment Benefit Scheme (EUBS), and set up a complementary procedure to the Macroeconomic Imbalances Procedure that addresses social imbalances. Efforts should also be stepped up to protect European unemployed workers by increasing the scope and the financial envelope of the European Globalisation Adjustment Fund, potentially transforming it into a fully-fledged European Transition Fund.

Ultimately, we also ought to acknowledge that greater social investment is not only a responsibility of the public sector. It is also in the best interest (and therefore also a responsibility) of private companies. Here again, survey data show that businesses in East-Central Europe

tend to attribute lower priority to human capital issues than their Western European peers. This is especially true for businesses in Romania and Bulgaria. I believe that embracing the needs of our fellow citizens requires us to collectively do better on this issue.

All in all, the EU needs now more than ever a robust and assertive social investment agenda. This approach involves looking at the design of the Multiannual Financial Framework (MFF), the EU’s budget for the next seven years and looking with more ambition to a fully-fledged reform of the EMU governance, as the authors point out. Besides that, this social investment approach should be fully integrated in the definition of a new performance-oriented strategy, like Europe 2020, which would provide a clear purpose to the EU’s financial architecture.

Whether the EU can deliver more solidarity and help generating convergence with greater confidence is a key question for the economic, social and political sustainability of the European integration project. The path we take regarding investment will be decisive in this respect. Ensuring that EU economic policies – whether its budget or its wider economic governance framework – contribute to implementing the European Pillar of Social Rights should be seen as a decisive step in redefining our development model.

László Andor

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Ensuring that EU economic policies contribute to implementing the European Pillar of Social Rights should be seen as a decisive step in redefining our development model.

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EXECUTIVE SUMMARY

In her 16th of July 2019 Opening Statement to the European Parliament, Ursula von der Leyen identified Social Europe as one of her main objectives as new President of the European Commission. In her opening statement, Ms. Von der Leyen not only projected an ambitious EU climate change agenda but also pointed to the need to “creating a fairer and more equal Union”, “leaving nobody behind”. More specifically, she stressed the importance of “bringing our Pillar of Social Rights to life”, called for the European Semester to be better aligned with the United Nations Sustainable Development Goals, and highlighted the key contribution that tools such as a Child Guarantee, a European Unemployment Benefit Reinsurance Scheme, or “flexibility in the rules of the Stability & Growth Pact” could play in achieving these objectives.

The present report sheds light on how the objective of “bringing the Pillar of Social Rights to life” may be pursued through the adoption of an EU social investment strategy in the 2021-2027 Multiannual Financial Framework (MFF).

The EU has, in words at least, been a key advocate in the need to modernise the European Welfare State in social investment terms. Ever since the mid-1990s, EU policy makers and institutions pledged allegiance to ‘social policy as productive factor’ (1997), to the Lisbon Agenda for ‘more and better jobs and greater social cohesion’ (2000), all the way to the 2013 Social Investment Package (2013). In line with this, the EU has urged Member States to advance post-crisis welfare reform strategies that help ‘prepare’ individuals, families and societies to respond to the changing nature of social risks in the knowledge economy in the face of demographic ageing. The endorsement of a European Pillar of Social Rights (EPSR) by the Council of the European Union, the European Commission and the European Parliament at the Social Summit for Fair Jobs and Growth in Gothenburg on 17 November 2017 is the latest example of the positive steps taken in that direction by the EU.

However, the Great Recession has evidenced that social investment reform was put on ice as soon as bad weather was forecast. Thus, over the crisis years, concerns about inequality, poverty and mass (youth-) unemployment, and their negative implications for employment, productivity, growth and equality of opportunity, were rel-

egated to ‘auxiliary’ status to remain subordinate to the Six-Pack (2011), the Fiscal Compact (2012) and the Two-Pack (2013), prescribing balanced budgets irrespective of urgent social needs. This can notably be explained by the fact that E(M)U economic governance regulations, to this day, remain solidly anchored in the policy theory of the inevitable trade-off between equity and efficiency and the conjecture that public welfare provision – or state intervention – inescapably incurs suboptimal economic performance and declining competitiveness.

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Important changes in the EU’s economic, social and political environment conspire behind a growing case for the EU to embrace social investment beyond two-decade lip-service.

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In this report, the authors argue that there is no fatality to this predicament and that ‘structural reforms’ should not be defined in a conservative fashion. As the context is favourable and there is also a momentum for both EU budget review and EMU reform, we believe that the time has come to reconcile both agendas by putting social investment at the core of an EU strategy aimed at strengthening its economic and social resilience with a renewed human face. This is the moment for the EU to put its money where its mouth is.



Important changes in the EU's economic, social and political environment conspire behind a growing case for the EU to embrace social investment beyond two-decade lip-service. Ten years after the first deep economic crisis of 21st century capitalism, the European Union (EU) may have passed the nadir of the economic aftershocks unleashed by the 2008 global downturn. Yet, both the legacy of the Great Recession and new challenges brought about by trends such as climate change, globalisation, digitalisation, or the new demography have led to an environment of high uncertainty about future job prospects and overall prosperity. At the same time, the current macroeconomic context, characterised by low-interest rates, provides a unique environment for European governments to invest in people and their capabilities in ways which give them the tools to prepare for the 21st century while anchoring fiscal consolidation over the long-run.

Taking advantage of this opportunity requires, however, a more fundamental review of today's economic reasoning, putting new facts ahead of inert beliefs. Most policymakers and analysts will probably agree that the era of salvage neo-liberalism may gradually come to an end. But whether the new geo-economic and political landscape will also be characterised by the ascendance of a new welfare state with a stronger human face, remains an open question. To move forward, the authors argue that the following questions have to be answered:

1. What kind of welfare state is effective in the aftermath of the crisis under the radically altered economic, social, demographic conditions of the early 21st century?
2. What is the role of the EU and its budget in support of a more productive and capacitating welfare consensus?
3. Can the problems of economic divergence, social and territorial imbalances, currently confronting the Eurozone, be resolved without an assertive economic governance commitment to manifest social investment objectives? Or, will the austerity reflex continue to be jeopardised by intergovernmental joint-decision traps, while the crisis aftermath intensifies downward welfare competition between national 'socio-economic' models to further polarise domestic and supranational political conflict?

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Strong and competitive European welfare states, with levels of social spending hovering between 25% and 30% of GDP, are best at achieving high employment, subdued poverty, and healthy public finances.

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EXECUTIVE SUMMARY

Accordingly, **Part II puts the hypotheses of ‘trade-offs’ between equity and efficiency, social spending and competitiveness to the empirical test** by juxtaposing (recent) macroeconomic indicators, ranging from economic growth, employment levels, fiscal balance and public debt, social spending, and re-distributive efforts to reign in poverty, using mainly cross-national data from the Organisation for Economic Cooperation and Development (OECD) and Eurostat. The main take-away from this ‘snap-shot’ overview of the recent macroeconomic evidence is that strong and competitive European welfare states, with levels of social spending hovering between 25% and 30% of GDP, are best at achieving high employment, subdued poverty, and healthy public finances. This contradicts the myths that social protection is bad for jobs or hinders competitiveness. Yet, the observed variation in socioeconomic performance behind various levels of welfare spending also calls to consider the quality rather than the quantity of social spending in trying to better understand the relationship between economic prosperity and social wellbeing in rich democracies.

Part III looks inside the social protection black box with the aim of identifying social spending measures having a positive impact on both social inclusion and competitiveness. On the basis of relevant macro-indicators, the authors positively seek out the micro-economic logic and institutional dynamics behind social investment synergies, understood in terms of three interdependent and complementary social policy functions: (1) easing the flow of contemporary labour-market and life-course transitions; (2) raising and up-keeping the quality of the stock of human capital and capabilities; and (3) maintaining strong minimum-income universal safety net buffers for micro-

level income protection and macro-economic stabilisation in support of high employment levels in aging societies. Findings suggest that timely (early) investment generates the best performance, also in terms of reduced inequality and (child) poverty, more equalised educational opportunity, greater gender-equity, less welfare dependency, and a broader tax base. Sooner or later, investment in the social infrastructure of Europe’s advanced welfare state will prove costly in an ageing society, as a consequence of lower employment, more career interruptions and

skills’ erosion, higher gender gaps, lower social mobility, and increased educational inequality. The imperative of ‘making work pay’ by benefiting austerity, social service privatisation and labour market deregulation urgently needs to be replaced by a ‘capacitating’ approach, centred on poverty relief, family services, education, training and employment intermediation, and also public health, ‘crowding in’, rather than ‘crowding out’, private economic initiative and growth, at lower levels of inequality and poverty.

Based on these findings, **Part IV investigates how the current EU budget and the new Commission’s proposal for the 2021-2027 Multiannual Financial Framework (MFF) are**

social investment-proofed, with the aim of identifying how Social Europe could be advanced by the means of the EU budget. As regards the current MFF, the authors point out that the social expenditure of the EU budget – as it currently stands – mainly relies on to the European structural and investment (ESI) funds and is mainly driven by a GDP-led macroeconomic criterion of resources’ redistribution. More could however be done to better appreciate the micro-economic foundations and institutional complementarity of the social invest-

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Based on multilevel policy complementarities, guarantees a high level of life-course wellbeing returns of public investments through the exposed multiplier effect.

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ment approach. Still, some social-investment ‘lights’ can be identified also in the 2014-2020 MFF, notably in the Youth Employment Initiative (YEI), the Fund for European Aid to the most deprived (FEAD), or to a certain extent, in the Erasmus Plus.

As regards the Commission’s proposal for the social programmes in the 2021-2027 MFF, some positive steps can be traced in the direction of a social investment approach: a better funds’ complementarity through the new European Social Fund Plus; a reinforced link between the ESI fund and the European Semester that facilitates better targeting of social needs; a slight revision of the ESI funds’ allocation criteria; and a heightened focus on human capital programmes. Thus, the proposed significant investment in Erasmus Plus and the creation of a new Social Investment and Skills window in the newly proposed program, InvestEU, could represent **concrete steps forward in championing a new social investment logic**.

Yet, more could be done to maximise the economic and social returns on EU spending programmes. We identify, in fact, three main limits in the Commission’s proposal:

1. **The lack of accessibility and inclusiveness** of EU human capital development programmes;
2. **Persisting shortcomings on the ‘buffer’ side** of the equation, i.e. the ability for the EU to collectively support the most vulnerable part of its population as economic shocks arise;
3. **Contradictions between EU objectives**, notably those pursued by EU social programmes and those of its wider economic governance framework.

Overall, the Commission’s proposal for the 2021-2027 EU Multiannual Financial Framework continues to **lack an assertive and comprehensive Social Investment strategy**, based on a policy and institutional complementarity logic, that would allow for a maximisation of the social and economic returns of the EU social spending.

Against this background, **Part V presents some concrete proposals on how to reform EU’s economic governance and the MFF to make the EU budget ori-**

ented to a fully-fledged social investment strategy.

What the authors show, highlight and advocate in this study is that there is absolutely no reason to be afraid of the European social model, and that by placing citizenship ‘capacitation’ in the driving seat of European integration, as a second-order effect, competitiveness is often better served. Under such a scenario, the EU’s contribution could aim to remove the constraint on capacitation in knowledge economies and ageing societies. This would bring into purview a truly alternative policy programme to the mere (and often politically rejected) objective of removing constraints on competitiveness – for the sake of competitiveness.

Putting social investment at the centre stage would have several advantages:

1. From a macroeconomic perspective, a social investment approach can have a high stabilisation function for national welfare states’ carrying capacity.
2. A social investment approach, based on multilevel policy complementarities, guarantees a high level of life-course wellbeing returns of public investments through the exposed multiplier effect.
3. A social investment approach to the next MFF could have a high political legitimisation effect for the EU at a time where its image remains associated with that of an austerity monster across the continent.

Accordingly, the authors recommend EU policymakers to focus on the three following objectives:

EXECUTIVE SUMMARY

1. REVAMP EU PUBLIC FINANCES

by introducing a comprehensive social investment logic throughout the EU budget as strategic lever

Better aligning EU economic and social policies, programmes, and frameworks among each other but with existing programmes in EU Member States would allow the EU to benefit from important leverage effects and achieve better outcomes even in the current context of budgetary pressures on the 2021-2027 MFF. In line with this, the EU should:

1.1. Support targeted social investment reforms in Member States through the ESF+: The EU would benefit from (i) promoting the ‘social investment logic’ as one of the objectives of the ESF+; (ii) designing new frameworks to better identify institutional complementarities between stocks, flows and buffers at different levels of governance; (iii) establishing an ‘ideal policy-mix’ for EU support in Member States and regions; (iv) tailoring the ESF+ to where EU funds would add most added value from a social investment perspective.

1.2. Introduce a Social Imbalances Procedure (SImp): In order to rebalance the economic and social dimensions of the EU’s macroeconomic oversight, a Social Imbalances Procedure (SImp) should be introduced as proposed by Sabato et al. (2019). The SImp would entail (i) the identification of national excessive social imbalances through an updated set of indicators; (ii) the elaboration of a national ‘Multiannual Action Plan’, which supports (technically and financially) the implementation of social investment structural reforms; (c) the activation of a “silver rule” to create fiscal space in the national budget to implement social investment reforms; and finally (d) the monitoring of the reforms’ implementation in the framework of the Semester.

2. PREPARE EU ECONOMIC GOVERNANCE STRUCTURES

for upcoming shocks by providing a holding macroeconomic environment for the EU

The EU should focus on developing a ‘holding environment’, a **zone of resilience based on shared values and a common future-oriented purpose**, matched by competent institutions, in times of painful adaptation. The main functions of this holding environment would be to mitigate stress and uphold the integrity of welfare provision, but also to maintain pressure to adapt to changing conditions. In line with this, the EU should:

2.1. Introduce a reinsurance European Unemployment Benefit Scheme (EUBS): As an automatic counter-cyclical fiscal redistribution over time and space mechanism, a reinsurance EUBS would provide fiscal breathing space for countries asymmetrically affected by a downturn by allowing their unemployment expenditures to be insured through a fund provisioned by other EU Member States. Such EUBS would be based on a common indicator of short-term unemployment; it would have a fiscal balance over the economic cycle; it would prevent permanent transfer through claw-back mechanism; and it would be financed on a regular basis by Member States. The EUBS should be accompanied by active measures to help bring people back into work. To this end, we also suggest linking the EUBS to a European Transition Support Fund.

2.2. Transform the European Globalisation Fund into a European Transition Support Fund: The scope of the ETSF should include any major restructuring event of more than 250 workers regardless of the cause. Its budget granted should be increased to at least € 500 million endowments each year and included in the EU budgetary ceiling so as to allow for a more efficient disbursement of the funds. Moreover, in the ETSF, regional level actors would also be entitled to apply to the Commission for support, with the involvement of social partners.



3. CAPACITATE EU CITIZENS

by promoting human capital investment programmes across the EU

Turning the page to the austerity reflex means repairing and preparing for the future by creating a holding environment supporting its citizens in terms of painful adaptation, allowing all EU citizens to benefit from opportunities such as those offered by EU integration. We notably suggest to:

3.1. Introduce a silver rule for human capital investment in the Stability & Growth Pact: Such a rule would involve taking consideration of public social investments in human capital stock capabilities, lifelong education, training and healthcare, as being eligible for favourable treatment when assessing government deficits and compliance with the Stability and Growth Pact (SGP). Granting more fiscal room for social investment in human capital (within bounds) to countries experiencing excessive social and macro-economic imbalances would enable them to secure future-oriented financing of their lifelong education, skill upgrading and social care systems before the ageing predicament becomes truly overwhelming.

3.2. Increase the overall allocation of resources to the ESF+: A budgetary line on a 'Children's Initiative' should notably be introduced to finance a Child Guarantee, in line with the proposal of the European Parliament. This proposal suggests granting an extra €5.9 billion to measures falling under the European Child Guarantee, a newly proposed instrument aimed at encouraging equal access of children to free healthcare, free education, free childcare, decent housing and adequate nutrition for the eradication of child poverty and social exclusion.

3.3. Tailor support to regional needs: With different levels of reforms delivery capacity across the EU, a uniform social investment reform agenda could potentially lead to moving EU funds away from the regions that need it the most. To prevent this, the EU should take account of the specific needs of the different regions and territories of the EU, building on existing and tools to assessing the resilience of EU regions to economic shocks and wider barriers to spreading innovation. This would also allow the EU to consider for example how ALMP reforms could be better aligned to needs 'on the ground' and how social infrastructure investment strategies involving the private sector may also benefit regions most in need.

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for the future by creating
a holding environment
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terms of painful adaptation.*

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INTRODUCTION

Ten years after the first deep economic crisis of 21st century capitalism, the European Union (EU) has passed the nadir of the economic aftershocks unleashed by the 2008 global downturn. Time to count our blessings. Economically, while Europe has gone through a deep recession, a rerun of the Great Depression has been avoided. Today, economic growth has resurfaced, in spite of a highly uncertain global economic environment. Socially, aggregate welfare has undeniably improved since the crisis, but disparities remain very high in the EU, and uncertainties linked to future job prospects continue to crystallise fears among many EU citizens. The political landscape, finally, has also evolved, with, on the one hand, the rise of populist and nationalist movements across Europe, Brexit, and authoritarian turns in Hungary or Poland exerting continuous pressure on the EU integration project. On the other hand, emerging megatrends including climate change, migration, and wider societal trends has brought about a new cleavage between liberal and illiberal political forces, also reflected in the result of the last European Parliament's election.

While the EU's survival of the Great Recession owes a great deal to the monetary policy decisions taken by the European Central Bank in the midst of the crisis, European governments won't be able to endlessly shy away from their own fiscal responsibilities. Today, a broad consensus is emerging that the very low interest rates of the ECB will prevail far into the future. This historical collapse in interest rates provides European governments with extremely favourable borrowing conditions, be it in Germany or in Italy. As such, the current macroeconomic environment has brought fiscal

policy back to centre stage. Some argue that governments should preserve enough fiscal space to address (alone) future economic shocks; others call them to use this historical situation to invest in the much-needed transition towards a more inclusive and sustainable development pathway.

In this study, we argue that the current political and economic context provides a unique environment for European governments to invest in people and their capabilities in ways which give them the tools to prepare for the 21st century while anchoring fiscal consolidation over the long-run in knowledge economies and ageing societies.

This requires, however, a more fundamental review of our economic reasoning, putting new facts ahead of inert beliefs.

Deep economic crises and fundamental social transformations are traditionally moments of political truth. They expose the strengths and weaknesses of extant policy repertoires and their underlying causal beliefs and normative mind-sets. In a Popperian fashion, crises and failures, new challenges to existing socioeconomic structures, encourage fresh thinking about policy and

governance. In the aftermath of both the Great Depression of the 1930s and the Great Stagflation of the 1970s, policy paradigms were transformed in fundamental ways. The Great Depression that spilled out into World War II gave rise to the establishment of the Keynesian-Beveridge welfare state after 1945. A quarter century later, the Great Stagflation crisis inspired the neoliberal critique of the welfare state of the 1970s and 1980s.

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The current political and economic context provides a unique environment for European governments to invest in people and their capabilities in ways which give them the tools to prepare for the 21st century while anchoring fiscal consolidation over the long-run in knowledge economies and ageing societies.

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However, surprisingly, neither the recent financial and economic crisis nor the ongoing post-industrial transformation seem to have seriously affected the hegemony of the neoliberal critique of the welfare state. Whilst the economic teachings of John Maynard Keynes on volatile open capital markets have been re-habilitated, his ideas, and those of William Beveridge, on full employment and the need for inclusive social security ‘buffers’ for economic stabilisation and household-income consumption-smoothing and poverty alleviation in times of recession, have only resurfaced in a muted fashion. To wit, the neoliberal critique of the welfare state – revolving around social insurance moral hazard, unemployment hysteresis, and employment policy deadweight loss – experienced a strong comeback with the Eurozone fallout of the global financial crisis. Being interviewed by the Wall Street Journal at the height of the Eurocrisis in early 2012, Mario Draghi, President of the European Central Bank (ECB), thus declared the ‘European social model’ as ‘long gone’. A year later, speaking at the World Economic Forum in Davos on January 5th 2013, German Chancellor Angela Merkel likewise dramatised the European predicament by underscoring that the crisis-prone continent, covering “7% of the world population”, while making up for “almost 25% of global GDP (...), “accounts for nearly 50% of global social spending”, intimating that Europe’s generous welfare state commitment inescapably undermines competitiveness (Merkel, 2013).

The era of salvage neo-liberalism may gradually come to an end, but whether the new geo-economic and political landscape marks the ascendance of a new welfare state with a stronger human face, remains an open question. To be sure, as the ensuing recession put

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Quite remarkably, the EU has, in words at least, been a key advocate of the need to modernise the European Welfare State in social investment terms.

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strain on redistributive institutions and taxes, the crisis reminded Europeans of the importance of social programmes to support the unemployed, the disabled, and the others most negatively affected by the credit crunch. Now that things are looking up, it may be tempting for policy-makers to believe the conservative policy solutions for a slimmed-down welfare state are as valid as ever before. Thus, some seem to keep believing that the unorthodox interventions in the financial system, needed to temporarily shore up the economy, were the infamous temporary exceptions to the universal truth of the efficient market hypothesis. This includes the deeply entrenched belief that welfare support inadvertently ‘crowds out’ private economic initiative, employment and growth.

Quite remarkably, the EU has, in words at least, been a key advocate of the need to modernise the European Welfare State in social investment terms. Ever since the mid-1990s, EU policy makers and institutions pledged allegiance to ‘social policy as productive factor’ (1997), to the Lisbon Agenda for ‘more and better jobs and greater social cohesion’ (2000), all the way to the 2013 Social Investment Package (2013). In line with this, the EU has urged Member States to advance post-crisis welfare reform strategies that help ‘prepare’ individuals, families and societies to respond to the changing nature of social risks in the knowledge economy in the face of demographic ageing. Accordingly, EU policy guidelines regularly stress the need to focus on investing in human capabilities from early childhood through old age, rather than pursuing policies that merely ‘repair’ social misfortune after moments of economic or personal crisis.

Most recently, the endorsement of a European Pillar of Social Rights (EPSR) by the Council of the European Union, the European Commission and the European Parliament at the Social Summit for Fair Jobs and Growth in Gothenburg on 17 November 2017 has represented another step in that direction for the EU. The Social Pillar, setting out 20 key principles, defined in terms of rights in support of fair and well-functioning labour markets and welfare systems, thus covers a well-balanced portfolio of ‘fair-playing-field’ social and employment regulation. Among other things, the EPSR includes equal treatment, gender equality, work-life balance, health and safety, minimum wages and social security rights, together with a range of ‘capacitating’ social investment policy priorities,

INTRODUCTION

such as access to essential social service, inclusive education and training, active labour market policy, childcare and family benefits, the inclusion of people with disabilities, long-term care, and housing assistance. Other initiatives, such as the ‘Youth guarantee’, the ‘New Skills Agenda’ for Europe, or the introduction of a special scoreboard for assessing progress towards a social ‘triple A’ for the EU, are in line with the recommendations of the Social Investment Package.

Yet, E(M)U economic governance regulations, to this day, remain solidly anchored in the policy theory of the inevitable trade-off between equity and efficiency and the conjecture that public welfare provision – or state intervention – inescapably incurs suboptimal economic performance and declining competitiveness. Thus, during the crisis, concerns about inequality, poverty and mass (youth-)unemployment, and their negative implications for employment, productivity, growth and equality of opportunity, have been relegated to ‘auxiliary’ status to remain subordinate to the Six-Pack (2011), the Fiscal Compact (2012) and the Two-Pack (2013), prescribing balanced budgets irrespective of urgent social needs. In spite of the post-crisis lip service paid to social investment by the Commission, the ‘default’ policy theory, pace Draghi and Merkel, to this date remains principally committed to market liberalisation, balanced budgets, hard currency, labour deregulation, collective bargaining decentralisation, pension privatisation and welfare retrenchment. The Commission’s proposal for the 2021-2027 Multiannual Financial Framework (MFF) unfortunately does not make any exception to this rule. Hiding under the all-encompassing mantra of ‘structural reforms’, the austerity agenda that lead European economies into a brick wall in the first stage of the crisis continues to rule the waves.

We do not believe that there is a fatality to this predicament and that ‘structural reforms’ ought to be defined in a conservative fashion. Given that the EU is uniquely committed to balancing economic prosperity and social protection, it is surprising that EU institutions, beyond the rather oblique endorsement of a social triple-A for Europe in the Five Presidents’ Report on the future of EMU, have not really invested in alternative economic thinking, modelling, and methods, so to assist Member States in seeking positive synergies between economic growth, job creation, and income protection and social investment.

As there is also a momentum for both EU budget review and EMU reform, we believe that the current context also provides an opportunity to reconcile both agendas by putting social investment at the core of an EU strategy aimed at strengthening its economic and social resilience with a renewed human face. This means, however, boosting political leadership based on a future-proof perspective to allow EU budget negotiations not to obey traditional give-and-take logics but also to take into account the new economic and political environment, including growing concerns on future employment prospects in the knowledge economy. This also implies a review of EU economic governance in a way that not only aims to reduce negative cross-border externalities (crisis contagion) but also with an ambition to foster economic and social upward convergence across the continent. In short, allowing the EU to not only be expected to ‘repair’ but to also better ‘prepare’ for future contingencies.

To move forward, we believe that the following questions have to be answered: What kind of welfare state is effective in the aftermath of the crisis under the radically altered economic, social, demographic conditions of the early 21st century? What is the role of the EU and its budget in support of a more productive and capacitating welfare consensus? Can the problems of economic divergence and social imbalances, currently confronting the Eurozone, be resolved without an assertive economic governance commitment to manifest social investment objectives? Or, will the austerity reflex continue to be jeopardised by intergovernmental joint-decision traps, while the crisis aftermath intensifies downward welfare competition between national ‘socio-economic’ models to further polarise domestic and supranational political conflict? These questions we aspire to answer in this report.

Accordingly, this report proceeds in the following steps:

First, **Part II**, puts the hypotheses of ‘trade-offs’ between equity and efficiency, social spending and competitiveness to the empirical test by juxtaposing (recent) macroeconomic indicators, ranging from economic growth, employment levels, fiscal balance and public debt, social spending, and re-distributive efforts to reign in poverty, using mainly cross-national data from the Organisation for Economic Cooperation and Development (OECD) and Eurostat.



On the basis of relevant macro-indicators, **Part III** then positively seeks out the micro-economic logic and institutional dynamics behind social investment synergies, understood in term of three interdependent and complementary social policy functions: (1) easing the *flow* of contemporary labour-market and life-course transitions; (2) raising and up-keeping the quality of the *stock* of human capital and capabilities; and (3) maintaining strong minimum-income universal safety net *buffers* for micro-level income protection and macro-economic stabilisation in support of high employment levels in aging societies.

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We believe that the current context also provides an opportunity to reconcile both agendas by putting social investment at the core of an EU strategy aimed at strengthening its economic and social resilience with a renewed human face.

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Part IV, next, is devoted to how Social Europe could be advanced by the means of the EU budget. How social investment-proofed are the current EU budget and the new Commission’s proposal for the 2021-2027 Multiannual Financial Framework (MFF)? What should be the role of the EU budget and how can we conceive EU budgetary initiatives to help advance and bolster the social investment turn across the member countries? A tragic historical irony is that while the EU integration project has been a driving force behind domestic social investment

reform, its own investments on this score remain ambivalent in the EU-budget, except for the European Youth Guarantee. At a minimum, the EU and its macroeconomic policies should not stand in the way of promising social investment domestic reform strategies. Better is when EU institutions assertively back up national social investment programs with appropriate instruments. Instead of a European social investment strategy, we plead for effective EU (budgetary) support for national social investment reform progress that allows national welfare states to develop country-specific mixes of ‘stock’, ‘flow’, and ‘buffer’ policies, specifically targeted to their highly diverse economic structures, institutional capabilities, and social conditions

Part V concludes with recommendations. In summary, we recommend EU policymakers to focus on the three following objectives:

- **Revamp EU public finances** by introducing a comprehensive social investment logic throughout the EU budget as strategic lever;
- **Prepare EU economic governance structures** for upcoming shocks by providing a holding macroeconomic environment for the EU;
- **Capacitate EU citizens** by promoting human capital investment programmes across the EU.

We wish you all an enjoyable and productive read and look forward to further engaging with you in these important debates.

PART II

Beyond trade-offs and trilemmas

THE THEORETICAL FOUNDATIONS OF AUSTERITY POLITICS

Over the past forty years, essentially since the oil crisis of the 1970s, the relationship between economic prosperity and social protection has predominantly been couched in terms of tough trade-offs and deep trilemmas, indicating intuitively appealing common-sense limits to welfare provision in advanced market economies. In the mid-1970s, the American economist Arthur Okun came to formulate a ‘big trade-off’ between equality and efficiency (Okun, 1975). Okun argued that generous welfare states, employed as a political instrument to reduce inequality and relative poverty, harm economic growth by producing all kinds of income and labour market distortions (for example, through the impact of progressive taxation). Hovering around 10 per cent with few signs of improvement, unemployment rates in France, Germany, and Italy were then twice as high as in the United States (US) of America, while their employment rates were about twelve points below that of the US. In a similar vein to Okun, OECD economists singled out downward wage rigidity (linked, for example, to minimum wage legislation) as the main obstacle to full employment. They also pointed out strong ‘insider-outsider’ cleavages curtailing employment opportunities for the young, women, the old, and the low-skilled. The central policy recommendations that followed naturally for the OECD Jobs Study included wage bargaining decentralisation, lowering minimum wages, reducing non-wage labour costs, restricting the duration of unemployment insurance, privatising pensions, lowering taxes, and loosening employment protection, so as to help Western European economies to achieve a US-level of employment. The inevitable price to pay to

improve labour market allocation and ‘make work pay’ was to attenuate the generosity of the welfare state and thus allow for greater wage and income inequality (OECD, 1994; 1997).

By the late 1990s, the political economists Torben Iversen and Ann Wren, moving away from a logic of trade-offs, figured that advanced European welfare states were increasingly faced with a tragic predicament, which they coined the ‘trilemma of the social service economy’ (Iversen and Wren, 1998; Wren, 2017). The gist of their trilemma is that, with the shift from an industrial to a service economy against a background of accelerating economic internationalisation, it was becoming inherently more difficult for welfare states to simultaneously attain the triple aspiration of earnings equality, employment growth, and budgetary prudence. Any government may pursue any two of these goals but no longer all three at the same time. Within a tight budgetary framework, private employment growth can only be accomplished at the expense of higher wage inequality. If wage equality remains a primary objective, employment growth can be generated only through the public sector, at a cost of higher taxes, public borrowing, debt or deficits. And as international competition and technological innovation restricted job creation in the exposed (mainly manufacturing) sector, employment growth in advanced economies was to be achieved mainly through well-paid public service sector jobs, with the consequence of undercutting budgetary restraint, or through an expansion of low-paid private services, whereby earnings equality was to be sacrificed. The service economy trilemma is strongly rooted in the so-called ‘Baumol cost disease’, named after the American economist and Nobel Laureate William Baumol (1967), who conjectured that productivity improvement in labour-intensive welfare



services – health, education and family care services – would consistently lag behind productivity gains in competitive industries. To the extent that public service pay's increases follow wage developments in the more dynamic capital-intensive private sectors, low productivity services, as a consequence, would become ever more expensive. In other words, any expansion of welfare services would incur a competitiveness deficit.

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Taking heed of the recommendations of the OECD, as well as the IMF and the World Bank at the time, doctrines of financial liberalisation, labour market deregulation, pension privatisation, and the marketisation of welfare provision gained precedence across Europe. With the introduction of the single market and the monetary union, price stability and fiscal austerity took over from full employment as overriding macroeconomic objectives. So as to achieve the Lisbon Agenda (2000) objective of raising EU-employment levels to 70 per cent by the year 2010, the European Employment Strategy recommendations to the Member States revolved around ‘structural reform’ in their labour markets and welfare systems. In the original vision of the Lisbon Agenda, economic and social policy goals were placed on an equal footing, but structural inequalities were allowed to persist and, ever since, child and old age poverty increased in quite a few EU Member States, including Germany and Italy, among the old Member States, and Latvia, Romania and Bulgaria among the new members of the EU. Indeed, Thomas Piketty was able to show that while many OECD economies saw their GDP increase by up to 25% over the past three decades leading up to the crisis, median incomes barely rose (and in some countries even declined), revealing a skewed distributive bias towards competitive social deflation. It has been argued that the rise in wage and income inequality and the hollowing out of the middle-class is, in part, driven by skill-biased technological change (Autor, Katz and Kearney, 2008; Oechs, 2015). Goldin and Katz (2007) talk about a “race between education and technology”, with technological change increasing the returns of high levels of education, further raising inequality.

This raises our first set of questions: What is the relevance today of Arthur Okun’s equity-efficiency trade-off, the OECD Job Study’s equity-employment dilemma, Torben Iversen and Ann Wren’s service sector trilemma, Golden and Katz’s race between technology and education, and Chancellor Angel Merkel’s social-spending and economic-competitiveness trade-off? Has the crisis sharpened these predicaments? Or, should we, in the light of the available evidence, judge these dilemmas as policy beliefs, falsified by the crisis as hampering the European Union and its Member States to optimise on the EU’s self-proclaimed goal of ‘inclusive growth’ across resilient social market economies?

PART II - BEYOND TRADE-OFFS AND TRILEMMAS

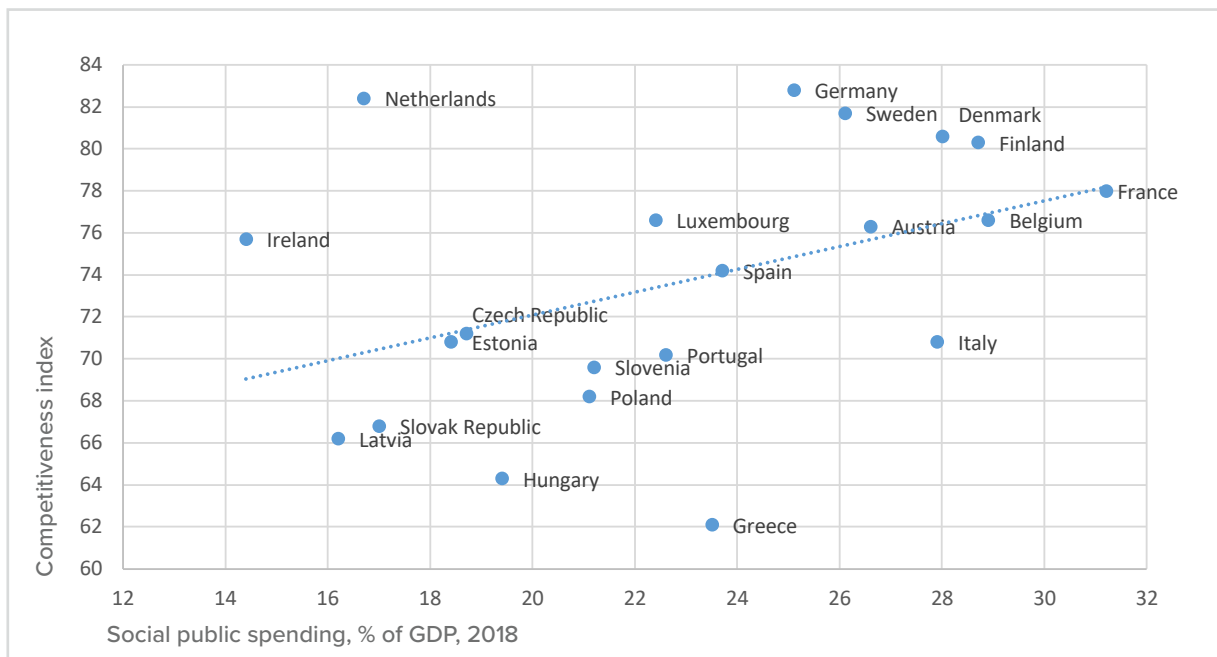
DEBUNKING MYTHS

Let us consider the postulated welfare disincentive problems in reverse order, beginning with Merkel's welfare spending and competitiveness predicament, based on the latest OECD and Eurostat evidence.

“Social protection does NOT hinder competitiveness”

On close inspection, the EU's share of global welfare spending is a little less than 40% and broadly in synch with the US and Japan in the OECD area. Moreover, the emerging economies are catching-up in taking up global social spending, but these are moot points (Begg et al. 2015). If we simply plot social protection spending, as measured by the OECD in its Social Expenditure Database (SOCX), to the World Economic Forum competitiveness league for 2015-2016, as represented in Figure 1, we are able to show that social protection spending does not hurt competitiveness. If anything, the relationship is positive. Some of the most competitive EU economies preside over high spending welfare states, such as Finland, Germany, the Netherlands, and Sweden, all devoting between 20 and 30 per cent of GDP to social protection (see Figure 1).

Figure 1: Government social protection spending does not hinder competitiveness

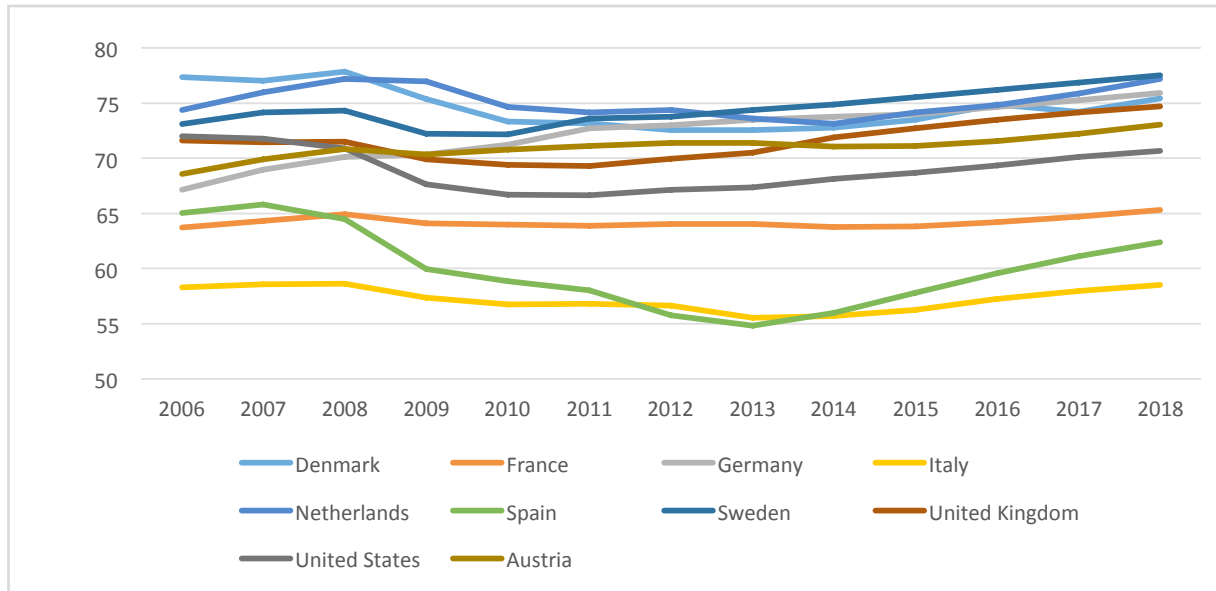


Source: <http://reports.weforum.org/global-competitiveness-report-2015-2016/competitiveness-rankings/>

“Social protection is NOT bad for jobs”

When we bring the case of the US back into the analysis, one can easily see that the model which the Paris-based think tank hailed back in the 1990s, has seemingly exhausted itself. The US job ‘miracle’ – based on a less protective welfare state – is no more. Today, the highest levels of employment in the OECD area are in effect achieved by the high social spending competitive economies of Northern European Scandinavian countries, such as Sweden, joined by the Netherlands, Germany and the United Kingdom (see Figure 2).

Figure 2: Employment rate (% of working age population)



Source: Eurostat, own graph.

Among US economists, there is a heated debate about America’s mediocre employment record levels in the early 21st century. In hindsight, America’s aggressive fiscal stimulus and quantitative easing measures, right after the 2008 global credit crunch, do not appear to have saved many jobs. Some economists suggest that the sluggish decline in employment participation is the long-term consequence of demographic ageing; others relate the decline to automation and digitalisation as the prime cause of stagnation; still others believe that globalisation lies behind US employment decline. However, in terms of demography, the US populace is younger than most EU countries. In addition, most high-employment EU countries preside over small open economies, except for Germany. In other words, they are far more exposed to globalisation than the relatively closed US economy. Finally, in terms of ICT-coverage, the better performing European economies are at the vanguard of digitalisation. In short, more adverse demography, more intense economic internationalisation, and more intrusive technological change, do not seem to have adversely affected employment performance in the most competitive EU economies. Should the design of their expensive welfare state be – counter-intuitively – reconsidered as a ‘productive factor’?

By taking a closer look into the gender and age dimension of employments growth, two developments stand out. Sweden, Germany, Denmark, the Netherlands and Great Britain employ more older workers (55-64 years) than the US. A starker divergence appears when we compare female employment. Ever since the late nineties female employment in the US declined from a relatively high level of just under 70 per cent. Today, Sweden, Denmark, Germany, the Netherlands, and the UK employ 5 to 10 percentage points more women than in the US (OECD, 2017). The research carried out by FEPS and the Danish Economic Council of the Labour Movement (ECLM) goes in the same direction²: there is not trade off between social protection and employment levels. Actually, in Europe the two things go hand in hand. A comparative look at European labour markets in terms of: the number of jobs, quality of jobs and wages and the inclusiveness of earnings and employment opportunities, shows that institutions which secure a high job quality and inclusiveness underpin a high employment rate.

² See Jon Nielsen and Andreas Gorud Christiansen (2018), High job quality gives high employment – An assessment of the performance of European labour markets, FEPS Policy Paper.

PART II - BEYOND TRADE-OFFS AND TRILEMMAS

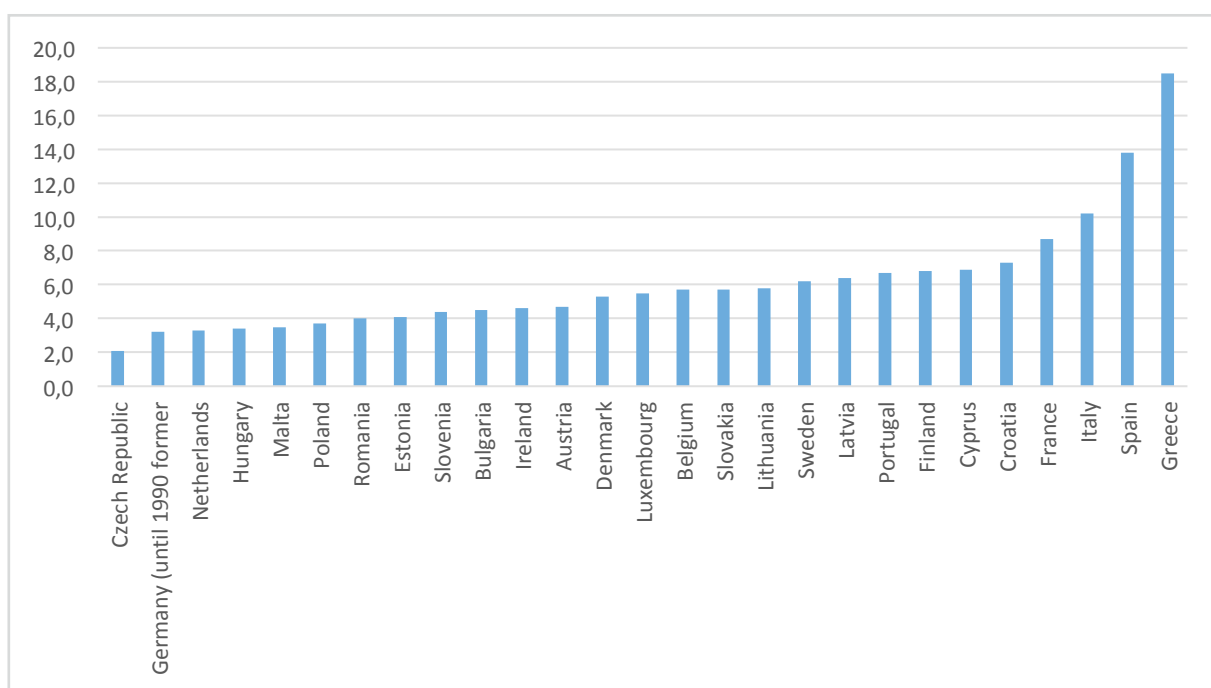
Looking inside the 'social protection' box

Admittedly, the overall European picture is not all rosy.

Although the statistical relationship between competitiveness and social spending is positive, it has to be acknowledged at the same time that the spread is wide, especially for the Eurozone (Figure 1). Among the high spending, but less competitive, welfare states we find Greece, Portugal, Spain and Italy, all countries that have been particularly badly affected by the crisis. This situation can be partly explained by the fact that these countries also experienced rising social protection spending due to the automatic stabilisation function of social insurance provision.

Recent data show that these high spending, less competitive countries hardly hit by the crisis still lag way behind their counterparts as far as unemployment figures are concerned, with countries like France, Italy, Spain, and Greece all remaining above the 8% threshold (see Figure 3).

Figure 3: Unemployment rate (% of labour force)



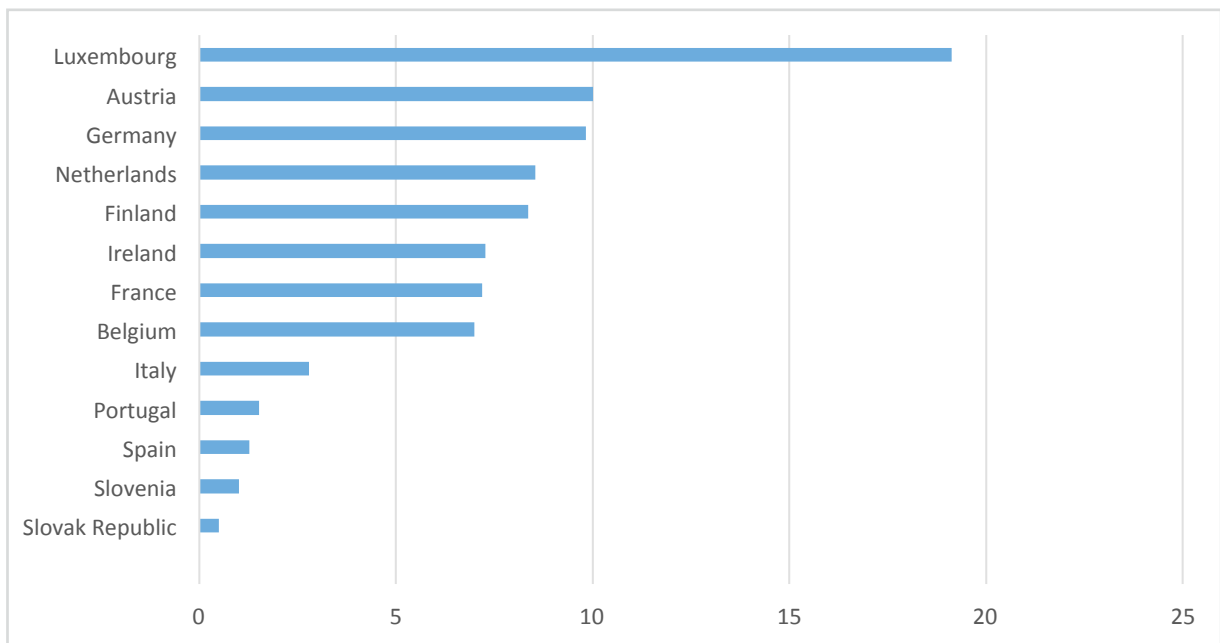
Source: Eurostat (data from April 2019 or latest available, seasonally adjusted), own graph.

Employment figures also highlight similar differences. Some of the high spending EU welfare states still employ less people than the US (Figure 2). France, today the biggest social protection spender in the OECD area, has employment at a level of about 70 per cent of the working age population. Italy, second in EU social protection spending, is employing less than 65 per cent of the working age population. By opposition, outcomes are much better in countries like Denmark, Sweden, the Netherlands, and Germany.

Active labour market policies (ALMP) that help unemployed workers to return to employment as swiftly as possible, in order to avoid unemployment persistence and to secure adequate job and skill matches, are often said to play an important role

in the employment successes of ‘Northern’ economies. Interestingly, these welfare states also stand out as high ALMP spending countries, especially when calculated in terms of ALMP-spending per unemployed. Thus, in the Eurozone, Luxembourg, Austria, Germany, the Netherlands, and Finland – all countries with high employment rates – are heading the table of spending on ALMP (see Figure 4).

Figure 4: Euros spent on Active Labour Market Policies per unemployed by the Government



Source : Eurostat, own graph.

Employment figures are also reflected in below per female employment in France and Italy. More in details, the evolution of female employment in these two countries shows that this indicator has been stagnating over the last decade, with a slightly upward trend from 2015. By contrast, Germany, and among the Member States that joined the EU in 2004, the Czech Republic and Poland show rising levels of employment of female workers (see Figure 5).

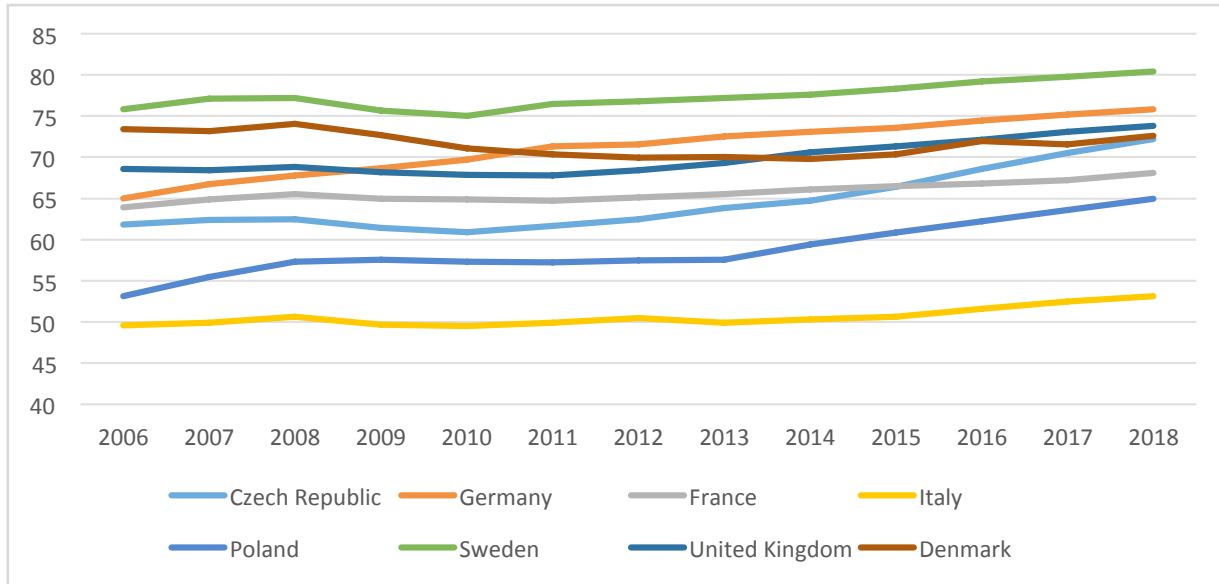
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Female employment is highest in the countries where participation in formal childcare and pre-school services is equally high, as in Denmark, Sweden, and the Netherlands.

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PART II - BEYOND TRADE-OFFS AND TRILEMMAS

Figure 5: Female participation (% of working age female population)

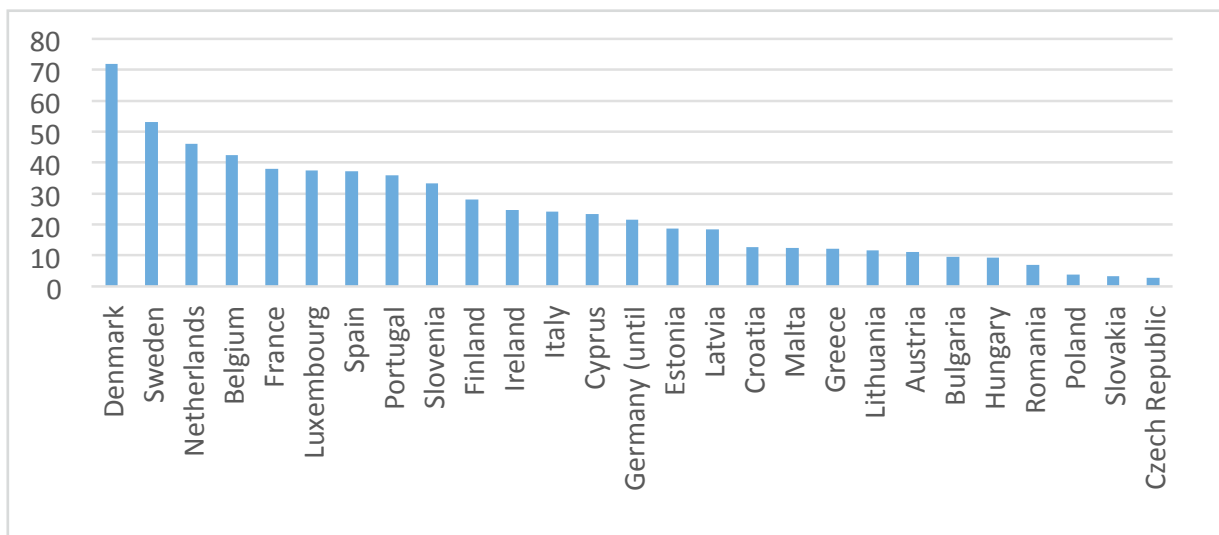


Source : Eurostat, own graph.

An interesting relationship is that female employment is highest in the countries where participation in formal childcare and pre-school services is equally high, as in Denmark, Sweden, and the Netherlands (see Figure 6).

Recent research has robustly established that early childhood education and care (ECEC), beyond its supporting role for female employment, is also instrumental in preventing large achievement gaps between children of socio-economically advantaged and more disadvantaged families (OECD, 2011). Universal and subsidised high-quality ECEC helps to mitigate child poverty by allowing for dual earner families, and especially mothers to seek employment.

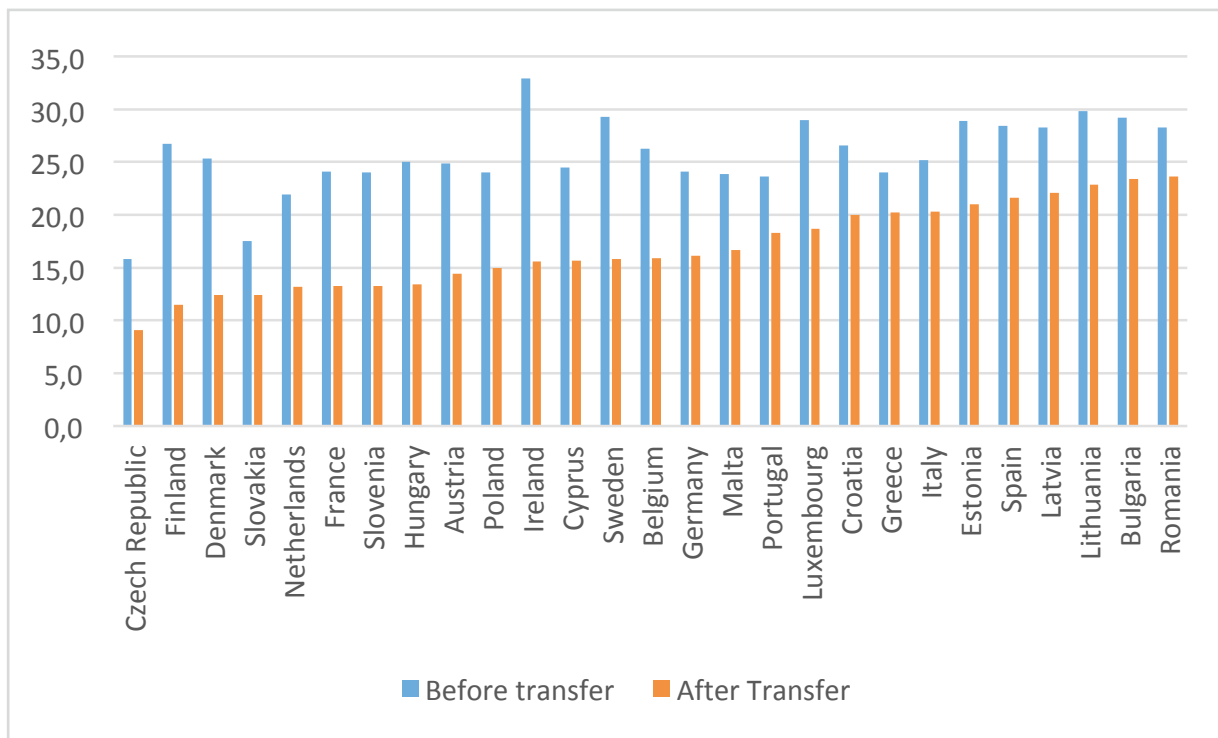
Figure 6: Children aged less than 3 years in formal child care



Source: EU-SILC (2005-2015 average), own graph.

After having surveyed comparative labour market performance and their policy support structures from different angles, we look at the distributive performance of EU welfare states and their fiscal sustainability. As the Gini-coefficient is a relative inequality index, we use, as indicator, the population at risk of poverty, especially after taxes (see Figure 7).

Figure 7: At-risk-of-poverty rate (%) before and after social transfers



Source: EU-SILC survey, Own graph

We also know from extensive research that children growing up in poverty are at greater risk than non-poor peers to do worse in education later in life, which in turn is likely to spill over in adverse employment opportunities and dampen growth prospects. We therefore also look at this indicator. Today, the lowest levels of child poverty are to be found in Denmark and Finland, at respectively 3 and 4 per cent. Germany and France are respectively at 9 per cent and 12 per cent. The advanced economy tragic record is set by the US, at a rate of 20 per cent (see Figure 8).

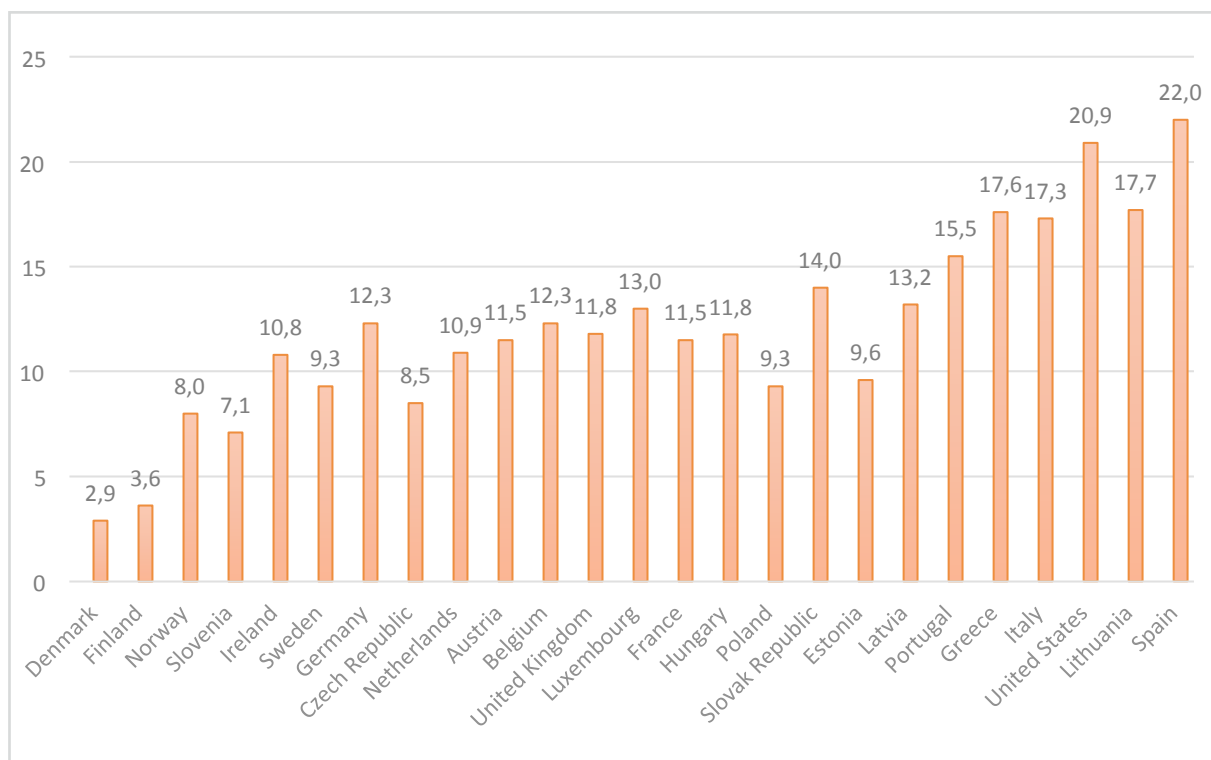
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The better performance of social investment-oriented countries is also reflected in the latest evidence on income mobility across generations

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PART II - BEYOND TRADE-OFFS AND TRILEMMAS

Figure 8: Child income poverty rate (2017 or nearest available year)



Source: OECD (2017 or nearest available year), own graph

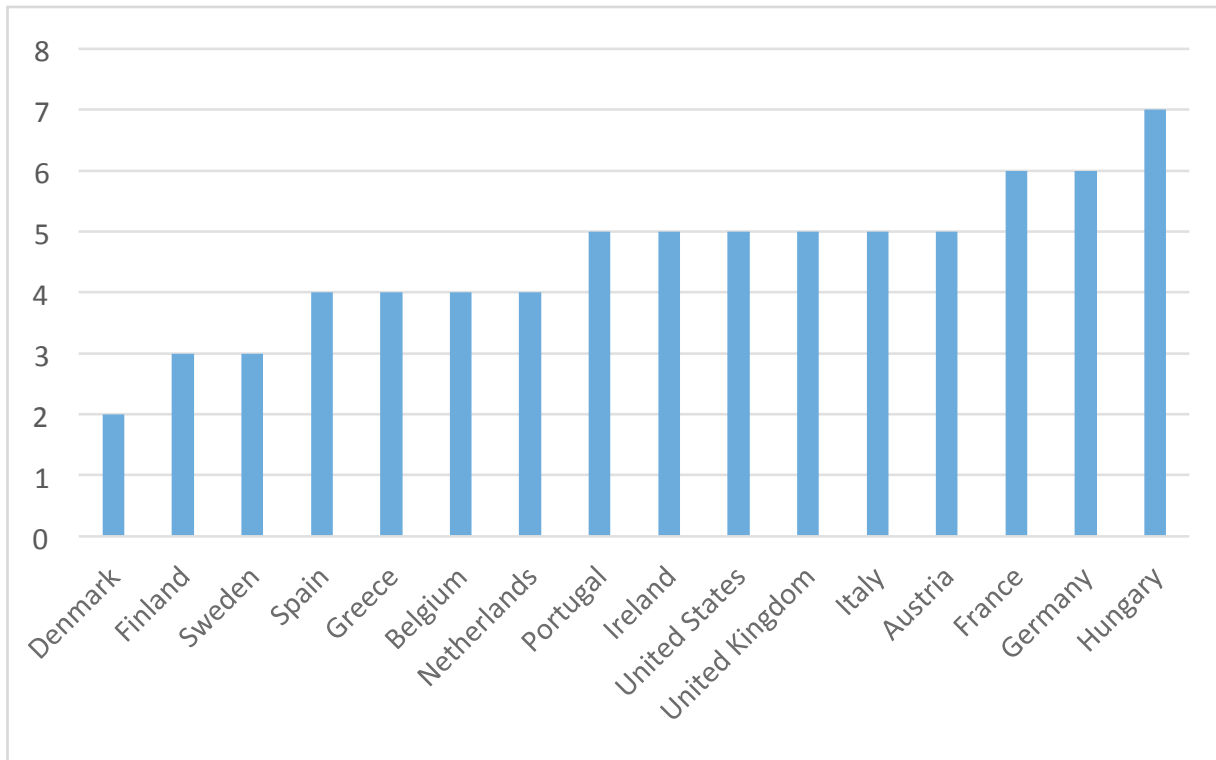
As stressed by the recent edition of *Employment and Social Developments in Europe 2019 (ESDE)*, investing in affordable, inclusive and accessible quality childcare services is needed ‘to avoid vicious cycles which could reinforce existing inequalities between children from disadvantaged and advantaged background’ (Fulvimari et al. 2019, p. 160). Unsurprisingly, the better performance of social investment-oriented countries is also reflected in the latest evidence on income mobility across generations. Thus, while a recent study (OECD, 2018) estimated that it would take from 2 to 3 generations for those born in low-income families to approach the mean income in their society in Denmark, Finland, Norway, and Sweden, this time is expected to be twice as long in France or Germany, where it would take up to 6 generations (see *Figure 9*)!

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The better performance of social investment-oriented countries is also reflected in the latest evidence on income mobility across generations.

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Figure 9: Number of generations needed for those born in low-income families to approach the mean income in their society



Source: OECD Income Distribution Database, own graph.

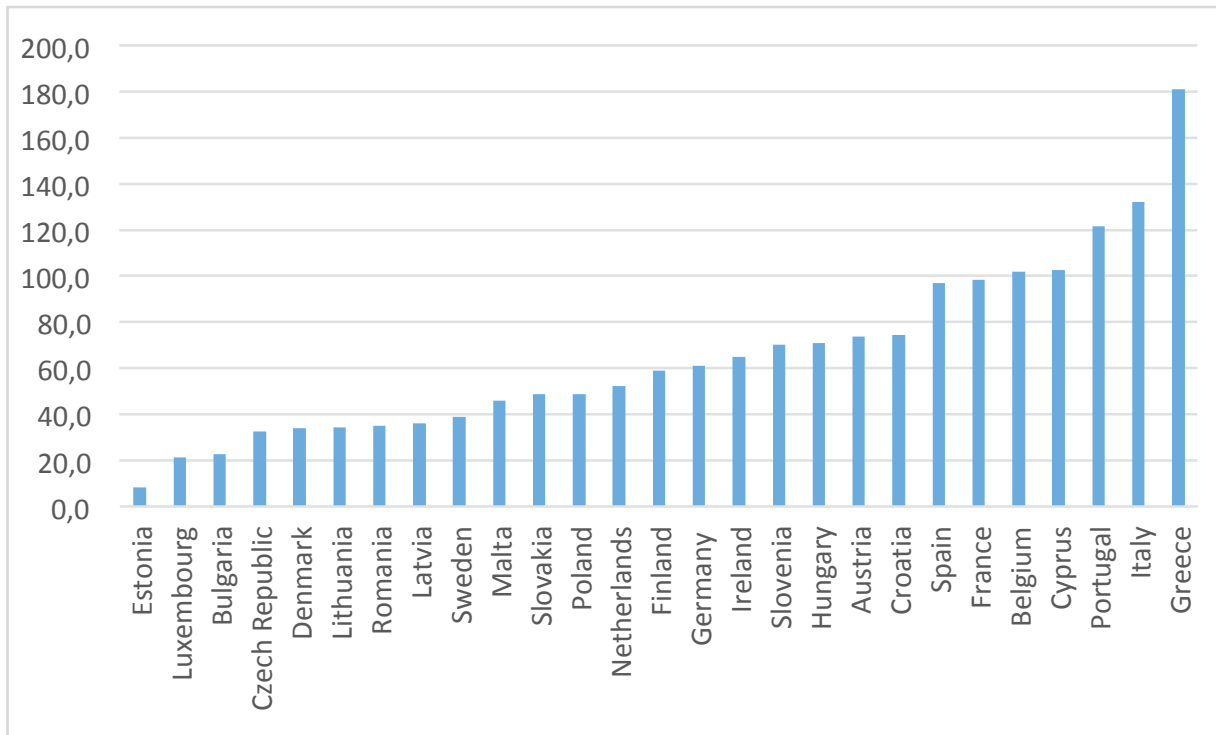
In short, we can see that the best performing countries in terms of low levels of relative poverty and high rates of employment include Denmark, Finland, the Netherlands and Sweden, as well as the Czech Republic among the Central and Eastern European Member States. The above data also seems to reveal different economic structures and social preferences: thus, Germany combines high employment with medium levels of relative poverty, while France matches medium rates of employment with lower at-risk-of-poverty levels after transfer.

c) Fiscal position

Finally, we have to look into the public purse for gaining a perspective on budgetary sustainability of country-specific distributive efforts and employment successes and failures (see Figure 10).

PART II - BEYOND TRADE-OFFS AND TRILEMMAS

Figure 10: Government consolidated gross debt (% of GDP ratio (2018 Q4))



Source: Eurostat; own graph.

Stable public finances in support of high levels of employment and subdued poverty can be found in Denmark, Finland, the Netherlands and Sweden, which also happen to be countries that have among the most progressive taxation systems. Among the late entrants to the EU, fiscal positions are particularly healthy in Estonia, Bulgaria, Latvia, Lithuania, Poland, and Slovakia. Low employment Eurozone countries, including France, Greece, Italy, Portugal and Spain, face troubled public finances at low levels of employment. Germany also remains a twilight zone of above average levels of debt relative to GDP.

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Main take-away

The main take-away from our ‘snap-shot’ overview of the recent macroeconomic evidence is that strong and competitive European welfare states, with levels of social spending hovering between 25% and 30% of GDP, are best at achieving high employment, subdued poverty, and healthy public finances. *Ex negativo*, the battered, weak and fragmented US welfare state, confronted with stagnant levels of employment, high levels of debt, and very high levels of child poverty, certainly no longer appeals as a ‘model’ worth emulating. Also the more segmented welfare states of Southern Europe, especially Greece and Italy, and also France, at high levels of social spending, have not been able to follow the lead of the North-Western active European welfare states, because of the limited stabilisation capacity of their pension-biased welfare states, on the one hand, and on the other, because underdeveloped family support, education and training support, and active labour market policies, altogether negatively affecting (female and older worker) labour utilisation, productivity growth and economic demand. Altogether the available evidence suggests that the axiomatic disincentive predicaments associated with generous welfare provision, originally derived from neo-liberal economic doctrine of the 1980s and 1990s, today have to be rebuffed as false beliefs and dangerous myths. To be sure, there are many interacting factors at play. Evidently, the observed variation in socio-economic performance behind various levels of welfare spending presses us to consider the *quality* rather than the *quantity* of social spending in trying to better understand the relationship between economic prosperity and social wellbeing in rich democracies.

The empirics of wholesome combinations of economic growth, inclusive labour markets and fair redistribution, but also adverse problems of high social protection spending, low employment and unequal redistribution, requires a more institutionally sensitive, multi-factor policy analysis than any simplified trade-off and trilemma allows for. It is to this novel kind of ‘sometimes true’ mid-range theorising that we turn to in the next section.

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PART III

Understanding social investment synergies

Over the past two decades, academic experts from various disciplines have started to rethink, in a rather understated fashion, the interaction between economic progress and social policy: from equity-efficiency ‘trade-offs’ and associated ‘trilemmas’ to Pareto-optimal “social investment synergies”, even in Rawlsian terms of benefiting the worst off (Esping-Andersen et al, 2002; Esping-Andersen, 2009; Morel et al, 2012; Hemerijck, 2013; 2017; Hemerijck et al., 2016). Social investment is today understood as welfare provision that helps ‘prepare’ individuals, families and societies *ex ante* to respond to the changing nature of social risks in advanced economies, by investing in, upkeeping and protecting human capabilities from early childhood through to old-age, rather than pursuing policies that only ‘repair’ social misfortune *ex post*, after moments of economic and personal crisis.

The *policy theory* behind the social investment paradigm was given explicit impetus with the publication of the book, edited by Gøsta Esping-Andersen, *Why We Need a New Welfare State* (Esping-Andersen et al. 2002), commissioned by the Belgian Presidency of the European Union in 2001. The core diagnosis of this book is that economic internationalisation, technological innovation, demographic ageing, and changing family structures in the post-industrial age, increasingly foster suboptimal life chances for large parts of the population. Esping-Andersen et al. not only took issue with the neo-liberal axioms that generous welfare provision inevitably implies a loss of economic efficiency, but the volume was equally critical about the staying power of male-breadwinner, pension-heavy and insider-biased welfare provision in many European countries, reinforcing stagnant employment and long-term unemployment, in-work poverty, labour market exclusion, family instability, high dependency ratios and below-replacement fertility rates.

The *work-family life course* is very much the “lynchpin”

of the social investment policy paradigm (Kuitto 2016). As such, *Why We Need a New Welfare State* urged for social investment policies for improved resilience over the family life course, with special attention placed on avoiding career interruptions for women with small children; promoting dual earner families, with a gender-equal parental leave. The orientation on the life course is crucial. Lengthier, more diverse and volatile working lives harbour important implications for social policy. People are most vulnerable over critical transitions in the life course: (1) when they move from education into their first job; (2) when they aspire to have children; (3) when they – almost inevitably – experience spells of labour market inactivity; and, finally, (4) when they move to retirement. To the extent that policy makers are able to identify how economic wellbeing and social problems at such transitions in the life course impinge on later conditions, preventive policies should be advanced to forestall cumulative social risk and poverty reproduction, with the eradication of child poverty taking pride of place together with more continuous female careers. Target support for the most vulnerable families, especially, lone parents, single mother and low-income families with children should be privileged.

Like any notion of ‘investment’, the concept of social investment begs the question of measurable welfare ‘returns’ (De Deken 2017; Verbist 2017; Begg 2017; Burgoon 2017). Wellbeing returns on social investment hinge fundamentally on the synergy effects across complementary – capacitating and compensatory – policy interventions. In recent years, the lead author of this chapter developed an operational taxonomy of three interdependent and complementary social investment policy functions: (1) easing and improving the ‘flow’ of contemporary labour-market and (gendered) life-course transitions; (2) raising and upkeeping the quality of the ‘stock’ of human capital and capabilities; and (3) maintain-



ing strong minimum-income universal safety net ‘buffers’ for micro-level income protection and macro-economic stabilisation in support of high employment levels in aging societies, for further empirical analysis and assessment (Hemerijck 2015; 2017). In this taxonomy, the ‘buffer’ function is about securing adequate and inclusive income protection, thereby further stabilising the business cycle and buffering economic shocks. Next, the ‘stock’ function includes a lifelong commitment to cognitive and non-cognitive development and physical and apprenticeship training and on-the-job professional skills. Arguably, the ‘stock’ function of social investment has wider bearings, relating to the provision of ‘capacitating social services’, bringing under one roof adjustable bundles of professional assistance from child- to elderly care, including skill enhancement and training services in case of unemployment, health, family and housing support (Sabel et al., 2017). The ‘flow’ function, finally, is about efficient and optimal allocation of labour and employment over the lifespan, making sure that unemployed workers can return to work as fast as possible through active labour market policies and job matching. In this context, Guenther Schmid (2015) aptly speaks of a shift from “making work pay” to “making transitions pay”.

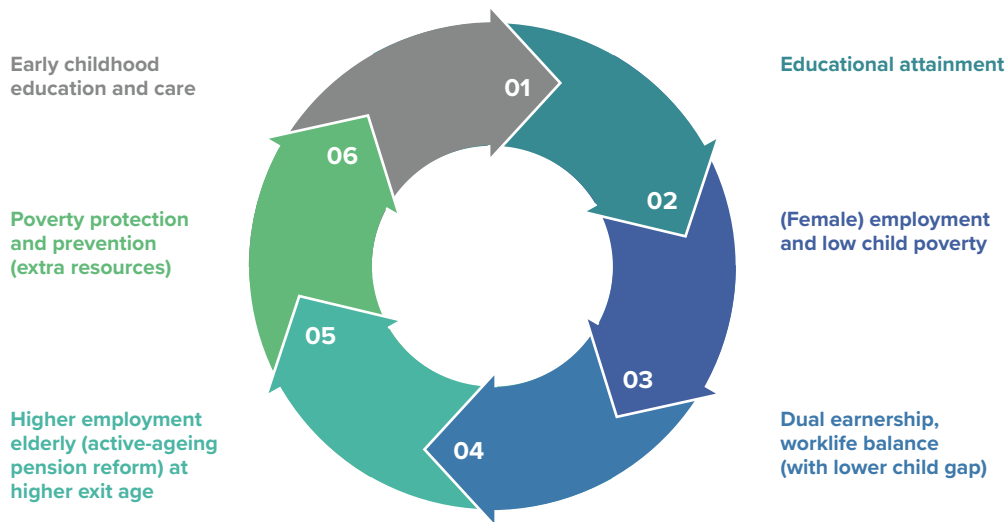
In everyday policy-practice, there is ample overlap between the policy functions of ‘stocks’, ‘flows’ and ‘buffers’. They can run as ‘institutional complementarities’ with the operation of one social investment function being enhanced by one of the others or both in a mutually reinforcing fashion (Hall and Soskice, 2001). Policy provisions that seemingly focus on one of the three functions often back up the others in an interconnected fashion and need to do so (Dräbing and Nelson 2017). For example, poverty alleviation is principally a “buffering” policy, but adequate financial security can facilitate smoother labour market “flow” as a consequence of mitigated pressure to accept any job on offer, with the potential overall benefit of better job matching and less skill erosion.

The growing evidence on how effective ‘stock’, ‘flow’, and ‘buffer’ policies reinforce the proficiency of each other has allowed Anton Hemerijck (2015; 2016; 2017) to conjecture the operation of a social investment ‘life-course multiplier’ effect, whereby high quality early childhood care over time contributes to higher levels of educational attainment, which in turn, together with more tailor-made vocational training, can spill over into higher

and more productive employment in the medium term. To the extent that employment participation is furthermore supported by effective work-life balance policies, including adequately funded and publicly available childcare, higher levels of (female) employment with lower gender pay and employment gaps can be foreseen. More opportunities for women – and men – to combine parenting with paid labour is, in addition, likely to have a dampening effect on the so-called ‘child gap’, the difference between the desired number of children per couple (aspirational fertility) and the actual number of children (realized fertility) (Bernardi 2005). A final knock-on effect is a higher effective retirement age, provided the availability of active ageing policies, including portable and flexible pensions, for older cohorts (see figure 11).

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*Lengthier, more diverse
and volatile working
lives harbour important
implications for social policy.*
”

Figure 11: Social investment life-course multiplier effect



Source: Hemerijck (2017)

Social investment is not without its critics. In the much-cited article ‘*What use is social investment*’, Brian Nolan (2013) cast doubts on the positive employment effects associated with social investment. The most empirically pernicious critique of social investment policies is that they are plagued by **‘Matthew Effects’ of middle-class groups disproportionately benefiting from capacitating**

services at the expense of vulnerable groups in society (Cantillon, 2011; Cantillon and Van Lancker, 2013). It is worth putting the two trenchant criticisms about the doubtful employment effect and regressive distributive effects of social investment policies to the empirical test of the available evidence. In a unique interdisciplinary methodological study, Anton Hemerijck, Brian Burgoon, Alessandra Di Pietro and Simon Vydra (2016) produced an in-depth analysis of two prime examples of social investment policy provisions, active labour market policy (ALMP) and early childhood education and care (ECEC) in relation to their direct, indirect, and interactive – that is institutionally complementary – impact on employment and poverty (Hemerijck et al., 2016). The most prominent finding is that social investment, in terms of ALMP and ECEC effort, strongly supports high employment and productivity growth. These findings falsify Nolan’s scepticism about the employment and employability potential of social investment policies. With respect to the Matthew Effect predicament, the picture is more ambiguous, but still largely positive. ECEC spending, while supporting female employment, sometimes does enhance relative poverty, suggesting a Matthew Effect. By contrast, ALMP

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The available evidence today suggests that ‘stocks’, ‘flows’ and ‘buffers’ are better considered as complements rather than substitutes.
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The benefits of social investment substantially outweigh private and public costs and, especially, that timely (early) investment generates the best performance, also in terms of reduced inequality and (child) poverty, more equalised educational opportunity, greater gender-equity, less welfare dependency, and a broader tax base.

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efforts, using both micro- and macro-data, is associated with significantly lower poverty for the vulnerable group of low-skilled older males. The qualitative institutional analysis on this score is even more revealing, showing far lower Matthew Effects in Denmark and more so in the Italian case of a singular pension ‘buffer’ welfare state. The latest finding reveals a **politically conservative ‘fallacy of composition’ behind the Matthew Effect critique of social investment**. Essentially, social investment ‘stock’ and ‘flow’ services are considered substitutes for ‘buffer’ transfers. Thus, according to the proponents of this critique, a universal programme of ECEC, which privileges middle-class families capable of purchasing childcare

servicing in the market, would, under assumed conditions of fiscal austerity, increase rather than decrease inequality, especially between single-earner and dual-earner families. Critiques therefore argue that universal ECEC ‘stock’ and ‘flow’ services would conjure up a misuse of public finances that would be better spent on family ‘buffer’ benefits for work-poor families. Following the Matthew Effect critique, ‘buffers’ generating immediate (re-)distributive effect, should be prioritised over less immediately redistributive ‘stocks’ and ‘flows’, which, seen as substitutes, would simply ‘crowd out’ ‘buffers’ for the poor. However, **the available evidence today suggests that ‘stocks’, ‘flows’ and ‘buffers’ are better considered as complements rather than substitutes**. In reality, the productive returns on ‘stock’ and ‘flow’ services can potentially raise the generosity and efficiency of ‘buffer’ transfers through higher growth and tax revenue. To the extent that ‘stocks’ and ‘flows’ bolster the carrying capacity of the welfare state through higher levels of employment and productivity, they can in effect increase the fiscal space available for inclusive buffers, thereby **‘crowding in’ sustainable benefits** for lone mothers, the older unemployed, and the disabled, who indeed face greater difficulties in finding quality employment. The principle takeaway is that Matthew Effects are not predetermined by social investment reform, as Cantillon and colleagues suggest. On the contrary!

The overall conclusion from this section is that the benefits of social investment substantially outweigh private and public costs and, especially, that timely (early) investment generates the best performance, also in terms of reduced inequality and (child) poverty, more equalised educational opportunity, greater gender-equity, less welfare dependency, and a broader tax base. Late or no investment in the social infrastructure of Europe’s advanced welfare state will prove costly in Europe’s ageing society, as a consequence, of lower employment, more career interruptions and skill erosion, higher gender gaps, lower mobility, and increased educational inequality. The imperative of ‘making work pay’ by benefiting austerity, social service privatisation and labour market deregulation urgently needs to be replaced by a ‘capacitating’ approach, whereby activating poverty relief, family services, education, training and employment intermediation, and also public health, ‘crowding in’, rather than ‘crowding out’, private economic initiative and growth, at lower levels of inequality and poverty.

PART IV

Social Investment in the EU budget

4.1 SOCIAL INVESTMENT AS A STRATEGY FOR THE NEXT MULTIANNUAL FINANCIAL FRAMEWORK

4.1.1. Current pressures on the EU budget push to consider how to maximise the economic and social returns on EU social spending programmes

The priorities of the post-2020 Multiannual Financial Framework are currently being debated. As always, the spending proposals for these seven years are a compromise between **competing sets of demands**. The resistance of the net contributors³, the rise of national Eurosceptic movements all over Europe and the decision of the United Kingdom to withdraw from the EU: all these factors put on pressure to keep the next MFF budget 2021-2027 as low as possible. Painful choices have to be made between the necessity, on the one hand, of addressing the new challenges of migration, terrorism and digitalisation, and, on the other hand, to sustain existing priorities (e.g. Common Agricultural Policy and cohesion funds).

On 2 May 2018 the European Commission presented its proposals for the next Multiannual Financial Framework (MFF) 2021-2027. A first look at the overall size of the proposed budget reveals the approach adopted by the European Commission in drafting its proposal (see Fig. 1). If we compare the proposed MFF to the current one (without the UK contribution), the former would be slightly

higher in absolute terms but slightly lower in relative terms. Therefore, according to the European Commission, the withdrawal of the UK and the Eurosceptic movements' pressure should not lead to a significant reduction in the size of the budget, as some MS would have liked (e.g. Sweden, Denmark, Austria and the Netherlands): in a way, we “**carry on**” (Andor 2018).

With a proposed new EU budget similar to the current level, the emergence of new priorities for the EU implies that the new challenges will have to be addressed by reducing the resources for existing programs (so “doing more with less”). In the “doing more with less” scenario, it is important to consider how to maximise the **leverage potential of each program**, i.e. how much value one euro invested by the EU can create. In the case of EU social policies, it is important to consider value in terms of **economic and social returns**. This calls for looking at policies from a new perspective anchored in synergy-effects. As such, we believe that time is ripe for social investment to become the strategy of EU social expenditure in the next MFF 2021-2027.

4.1.2. An EU's social investment strategy going beyond lip service would help achieve several benefits

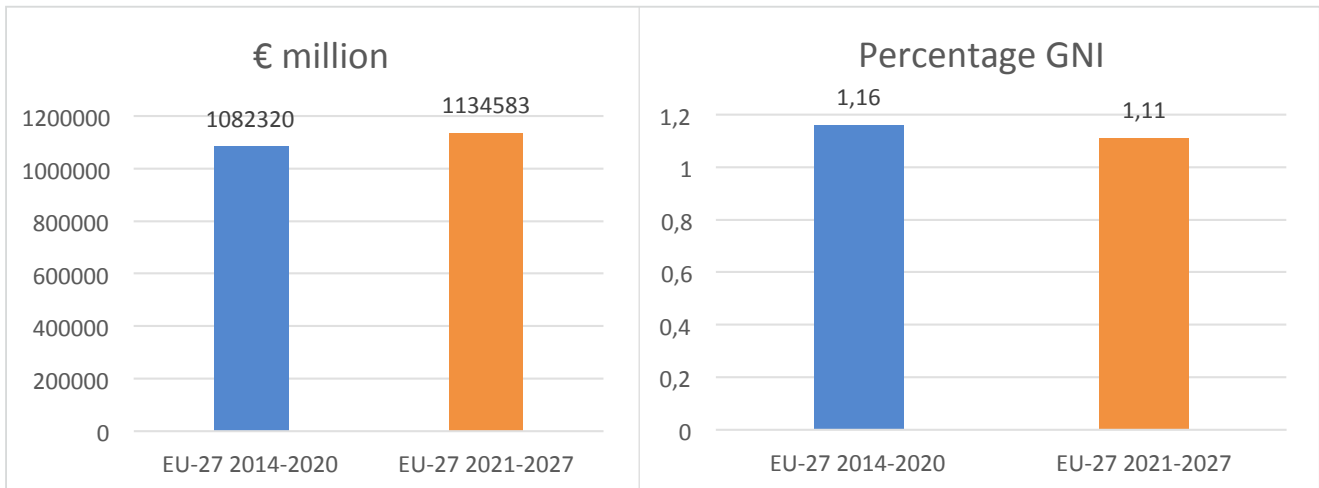
At the European level, the idea of social investment is certainly not new. The EU has been at the forefront of setting the social investment agenda ever since the mid-1990s. In the Europe 2020 strategy, social cohesion and inclusion are acknowledged to be at the core of growth agenda⁴. With the Social Investment Package (SIP), the Commission

³ Net receipts or contributions vary over time, and there are various ways of calculating net contributions to the EU budget.

⁴ In the social area, EU2020 defines quantified objectives to reduce poverty and social exclusion (lifting at least 20 million people out of poverty/social exclusion by 2020), boost employment (75% employment rate by 2020), improve tertiary education attainment (40% of 30-34-year-olds completing tertiary education by 2020) and reduce early school leaving (below 10% by 2020).



Figure 12: Proposal for the 2021-2027 MFF compared with the current MFF (commitments, 2018 prices, without the UK)



Source: EPRS, calculation based on data from the Secretariat of the Committee on Budgets, European Parliament, June 2018

put forward a policy framework, at the hearth of which are the key SI elements: investing in human capital, supporting women’s participation in the labour market, providing life-course transitions’ income support, facilitating work-life balance, and incentivising longer working lives. More recently, all EU Member States have solemnly proclaimed in November 2017 the **European Pillar of Social Rights (EPSR)**, which further codify the social investments’ principles enshrined in the SIP (Sabato and Corti 2018).

Despite agenda-setting courage on the part of the Commission, some scholars have argued that social investment has only been developed superficially and that there is a real discrepancy between policy objectives and their implementation at the European level (Dhéret and Fransen 2017). Notably, as regards the role of the EU budget, while investments in human capital and active labour market policies are covered by several EU funds, many have expressed concerns that no strategy has yet been developed in order to ensure that money is put where its mouth is.

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In the “doing more with less” scenario, it is important to consider how to maximise the leverage potential of each program, i.e. how much value one euro invested by the EU can create.
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PART IV - SOCIAL INVESTMENT IN THE EU BUDGET

Against this background, in what follows, we compare the proposed MFF 2021-2027 with the current one with the aim of inquiring to what extent social investment has been embedded in the EU social spending so far and whether a social investment approach can be discerned in current proposals.

4.2 THE CURRENT MFF: FIRST EMBRYONIC SIGNALS OF SOCIAL INVESTMENT

4.2.1 The precious contribution of EU social policies under structural investment funds

To pursue its social and employment objectives, the EU has traditionally mainly relied on the European structural and investment (ESI) funds. An important objective of the ESI funds is to reduce territorial disparities across the EU and **convey European solidarity**, by investing in diverse

projects in less developed regions (above half of the funds goes there).

Among the structural and investment funds, the **European Social Fund (ESF)**⁵ is the main tool for promoting sustainable and quality employment and labour mobility, fostering social inclusion, combating poverty and discrimination and investing in education, training and vocational training, skills and life-long learning. Overall, the ESF support social policies that facilitate skill development and investment in human capital throughout the life-course.

Other ESI funds with a specific allocation for social objectives are the **European Regional Development Fund (ERDF)**, the **European Agricultural Fund for Rural Development (EAFRD)** and the **European Maritime & Fisheries Fund (EMFF)**⁶. The use of the ERDF is encouraged, for instance, for measures investing in health and social infrastructure, measures to reduce health inequalities or promote social inclusion through improved access to social, cultural and recreational services, and to contribute to the transition from institutional to community-based services. The EAFRD plays an important role in supporting activity, employment and incomes in rural areas and is adapted to the specific poverty and social exclusion risks found in these areas. Finally, the EMFF promotes job creation and supports employability and labour mobility, including diversification of activities.

Notwithstanding the prominence to social policies, in general, and social investment, in particular, some of the rules associated to the use of the ESI funds limit their potential in boosting high economic and social returns. This is because of at least three reasons.

First, while answering to a logic of territorial cohesion, the distribution of ESI funds is mainly **based on GDP per capita in each region**. In so doing, it becomes more difficult for the ESI funds identifying social imbalances *within* the regions. For instance, the same region can feature a strong and robust economic activity and have, simultaneously, significant difficulties to erase poverty. As claimed by Dhéret (2017), aggregate figures provided at regional level are not sufficient to address social issues that can hide behind good macroeconomic performance. More, in the absence of a territorially differentiated approach, scholars pointed to significant limitations in the effec-

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European Social Fund (ESF) is the main tool for promoting sustainable and quality employment and labour mobility, fostering social inclusion, combating poverty and discrimination and investing in education, training and vocational training, skills and life-long learning.

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⁵ For the 2014-2020 period, the ESF has a planned allocation of € 121 billion, of which 84 billion is EU funded and the rest is co-financed from national budgets. Notably, one-third of the budget has been allocated to education and training investments (€ 27.3 billion out of € 84 billion).

⁶ The planned financing for the 2014-2020 period dedicated to the social objectives of the ERDF, EAFRD and EMFF amounts to almost € 52 billion, of which 39 billion EU funded.



tiveness of traditional development policies in achieving their objectives of economic, social and territorial cohesion (Huguenot-Noel, Hunter, Pilati and Zuleeg, 2018). A social investment approach, based on micro-level data, would get a better and more precise understanding of socio-economic trends' development within a region, and consequently develop better policy measures to address such trends.

The second limit preventing ESI funds from maximising their potential concerns the **lack of policy alignment with other EU programmes**. As it emerges from the ex-post evaluations of the programs, the lack of policy alignment between different EU programmes considerably undermines the effectiveness of the funds and often impedes a full use of the available resources. In response, some reports have stressed the need for stronger policy coordination between ESI funds and the wider EU economic governance framework and suggested concrete recommendations to achieve this (Huguenot-Noel, Hunter and Zuleeg, 2018). In line with this, we believe that a social investment approach, based on the idea of complementarity between interdependent policy provisions and working together in a multilevel governance architecture could help produce higher wellbeing returns, both at the time of delivery and longitudinally over the life course.

A third limit of the ESI funds is linked to the fact that in the wake of the financial crisis ESI funds have been **assigned a (too) wide variety of (sometimes conflicting) objectives**, which have undermined their effectiveness in achieving the objectives of economic, social and territorial cohesion, established by the EU Treaties. A telling example in this case is the decision to attach a Macroeconomic Conditionality (MEC) to the use of the funds. The MEC is a procedure composed of two arms. First, the so-called preventive arm, which gives the right to the Commission to request a country to partially or entirely review its funding, with the aim of maximising the 'growth and competitive impact' of the Funds. Second, the so-called corrective arm, which allow the Commission to suspend the EU funding when a country is running into Excessive Deficit Procedure (EDP), the Excessive Imbalance Procedure (EIP) or other adjustment programs. As recent studies have pointed out, the corrective arm of the MEC has numerous concerns among stakeholders in charge of implementing the ESI Funds (Huguenot-Noel,

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In the wake of the financial and economic crisis the EU launched several new social programmes, which can be considered as a right step towards more social investment oriented kind of spending.

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Hunter and Zuleeg, 2017). Among others, the risk, when suspending the funding for social objectives, to further deepen the social crisis of a country (Haas and Huguenot-Noel, 2017), clearly stands in opposition to using the ESI Funds to boost economic and social returns in a sustainable manner.

4.2.2. Social investment lights in the current Multiannual Financial Framework

In the wake of the financial and economic crisis, in front of the deteriorating effects on social standards in many European countries, the EU launched several new social programmes, which can be considered as a right step towards more social investment oriented kind of spending. Among them, the Youth Employment Initiative (YEI), the Fund for European Aid to the most Deprived (FEAD), the European Globalisation Adjustment Fund (EGF) and the Erasmus + programme. We claim that all these programmes explicitly pursue at least one of the three social investment functions.

Notably, a strong emphasis has been put on the necessity to grant **inclusive safety nets**, which could allow flows to better function and avoid stock depreciation, thus guaranteeing the necessary income support to secure far more volatile and precarious labour markets. A clear example in case is the **Youth Employment Initiative (YEI)**, which is the EU programme, addressed to young people who are not in employment, education or training (“NEET”) and reside in the regions of the European Union which are

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particularly affected by this challenge⁷. The goal of the YEI, in accordance with the Youth Guarantee, is to deliver early intervention and fast-acting measures to support young peoples' activation. The YEI facilitates a strong multi-level partnership between all the key stakeholders, at European, national, regional levels. In most Member States, public employment services (PES) are involved in delivering the YEI, alongside other public bodies and less frequently NGOs, training providers, social partners and private employers. A similar approach characterises the **European Globalisation Adjustment Fund (EGF)**, an EU 'emergency solidarity fund', which targets active labour market policies at workers unexpectedly made redundant due to globalisation or an economic crisis⁸, with the aim of re-training and re-employing them.

Another explicit buffer function is pursued by the **Fund for European Aid to the Most Deprived (FEAD)**, the EU social programme aimed at confronting the severe forms of material deprivation by providing non-financial assistance to the most in need⁹. The assistance takes primarily the form of food, clothing and other essentials, accompanied by advice and counselling to help beneficiaries to re-integrate into society. The implementation of the measures primarily relies on partner organisations, i.e. civil society organisations such as food-banks and charities that are in charge of the actual distribution of assistance and the provision of social inclusion measures.

Finally, **Erasmus Plus**, the EU's programme which supports education, training, youth and sport in Europe, shows an explicit *stock* function. Among other actions, in fact, Erasmus Plus supports initiatives aimed at reducing early school leaving, tackling (youth) unemployment, and promoting adult learning for new skills, by investing, for instance, in learning opportunities abroad for students in higher education and in vocational education and training, for education staff and for youth exchanges. As part of this, the programme brings together education institutions and youth organisations with training providers and enterprises with the aim of facilitating the transition between education and work.

To sum up, in the aftermath of the economic crisis, the EU has come up with new tools, which can be considered as a **right step towards a more social investment oriented spending**, given the stronger focus on leverage potential, a better targeting of specific segments of the population and an explicit focus on the *buffer-stock-flow* functions.

Yet, this is still **not enough to speak about a proper "social investment turn"**. Some concerns have notably emerged regarding the lack of inclusiveness and accessibility of EU programmes (e.g. only 1/10 of the Erasmus students come from disadvantaged groups). The lack of a logic of policy and institutional complementarity has also been identified as a shortcoming across the board of EU policies and programmes. A clear example in case is the FEAD, which addresses material deprivation and food provision, but is barely connected to the social inclusion and employment measures under the ESF. Another example is the EGF, which suffers from a lack of inclusion of local authorities and social partners and, as a consequence, shows an extreme low ownership in numerous Member States (e.g. 75% of targeted workers under the EGF come from eight Member States: France, Belgium, Spain, Germany, Italy, Finland, Ireland and the Netherlands). The consequence of these limits is a reduced capacity to maximise social and economic returns of the EU investments.

We now turn to a review of the EU Commission's proposal for the next MFF with the aim of considering which of these shortcomings have been addressed and what further progress could be made.

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Some concerns have emerged regarding the lack of inclusiveness and accessibility of EU programmes
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⁷ Eligible regions must have a youth unemployment rate (15-24 years-old) above 25% in 2012, or a rate above 20% but 30% higher than in 2011, can apply to the fund. Over the period 2014-2020 the total EU allocation for the YEI is € 4.2 billion + € 4.2 billion from the ESF. Total allocation is € 8.4 billion

⁸ Given its contingent nature, there is no precise commitment for EGF expenditure in the MFF. The Framework only defines an annual cap. In the current MFF, the total amount that can be used by the EGF is € 1,206 billion (172.3 million per year). The co-financing rate is 60 %.

⁹ Overall, the program was endowed with 3.8 billion euros from the EU budget (minimum national co-financing 15%, 0% for Member States under adjustment program).



4.3. SOCIAL EXPENDITURE IN THE NEXT MFF: A FURTHER STEP TOWARDS SOCIAL INVESTMENT

If we look at the social expenditure for the next MFF proposed by the Commission, we identify four main novelties compared to the current MFF: (i) the creation of the European Social Fund Plus (or ESF +, see box 1); (ii) the reinforced link between the ESI fund and the European Semester¹⁰; (iii) the change in the ESI funds allocation criteria under the Common Provision Regulation; (iv) the heightened focus on human capital programmes.

If we then compare the budget for the social programmes in the proposed MFF to the current one (without the UK revenues), we observe that the resources for the ERDF, Erasmus + and the EGF increase by, respectively, 2%, 92% and 16%, while the resources for the EMFF and the EAFRD decrease by, respectively by 13% and 28%¹¹. Finally, the ESF+ has a budget slightly lower (-2%)¹² than the sum of the existing programs merged into it.

Against this background, the question is to what extent the proposed social budget reflects asocial investment logic.

4.3.1. Better funds' complementarity though the new European Social Fund Plus

The creation of the ESF + has been already subject to important debates among EU stakeholders. On the one hand, the idea of merging ESF, YEI, FEAD, EaSI and Health under the same umbrella might represent a positive innovation allowing for better complementarity between social policy provisions. On the other hand, concerns have been raised that the subtraction of the ESF+ from the wider framework of the ESI funds may in turn lead to a disconnection of EU's social policies vis-à-vis

the common objective of strengthening economic, social, and territorial cohesion attributed to the Funds. The decision to earmark the ESF+ to specific target (see Box 1) has received better reception, with most stakeholders viewing it as a step in the right direction, taking better account to the specific social needs of different groups of people.

4.3.2. The reinforced link between the ESI fund and the European Semester

With respect to the proposal to strengthen the link between the ESI funds and the country specific recommendations, this proposal aims to make sure that the Member States put their money where their mouth is. Moreover, since the link between the Semester and the funds is made operational through the lenses of the European Pillar of Social Rights¹³, this has two positive effects: (a) better targeting the social needs of the Member States and consequently increasing the added-value and leverage capacity of EU funding; (b) providing a framework that gives the Commission legitimacy to steer the implementation of the social investment principles of the European Pillar of Social Rights.

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Shortcomings also persist the ability for the EU to collectively support the most vulnerable part of its population as economic shocks arise.

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¹⁰ In the Common Provisions Regulation 2021-2027, the Commission proposed to strengthen the link between the funds and the Country-specific recommendations. Notably, the CSRs will be considered both in the programming of the funds and design of the cohesion policy programmes at the beginning of the 2021-2027 period, and in the mid-term review of the programmes in 2024.

¹¹ The decision to cut both the EMFF and the EARDF is particularly problematic for two reasons. The first one is purely quantitative and refers to the budgetary size of the programmes. The second is qualitative and regards the expenditure's objectives. The European Commission, in fact, has proposed, while implementing ESI funds, to concentrate on the so-called "best-performing investments", which involve support for SMEs, smart specialisation strategies, the low carbon economy, sustainable urban development, and regional co-operation, but exclude the social objectives.

¹² Although the proposed ESF+ has an allocation by 7% lower in real terms compared to the sum of the current programs, one should take into account that the ESF+ has one action less, which is the whole thematic objective 11 of the former ESF (addressed to public administration reform). Amounting the total envelope of this action to € 4.7 bn, this means that, in real terms, the ESF+ slightly decreases by only 2%.

¹³ The Social Pillar is mainstreamed into the Semester through the Social Scoreboard and it constitutes the reference framework for the social objectives of the new CPR.

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4.3.3. The change in the ESI funds allocation criteria under the Common Provision Regulation

Another positive novelty in the direction of an increased focus on social investment is represented by the change in the criteria of ESI funds' resources allocation. Although the distributional criteria remain still mainly regional GDP-led, in the new proposal the Commission gives more weight to the *labour market, education, demographics* indicators, to which two new areas have been added, *climate change* and *reception and integration of migrants*, while the GDP financial weight decreases.

Box 1: The European Social Fund Plus

The ESF+ is a merger of five existing programmes under the current MFF: European Social Fund, Fund for European Aid to the most Deprived, Youth Employment Initiative, Employment and Social Innovation and Health.

The overall goal of the ESF+, as claimed by the Commission, is twofold. On the one hand, helping create a more performing and resilient 'Social Europe' and implementing the European Pillar of Social Rights. On the other hand, streamlining existing rules across different types of measures, simplifying funding management and increasing flexibility, so that the funds can be more responsive to the challenges identified in the economic governance cycle and to EU priorities. To this end, the Commission proposes to allocate € 89,688 billion in 2018 prices (€ 101 174 million, in current prices) for the 2021-2027 period, of which € 88,646 billion will be under shared management and € 1,042 billion for EaSI and Health. As regards the former allocation, at least 25% of the funds will be earmarked for promoting social inclusion and tackling poverty (including non-material assistance). Moreover, Member States will have to allocate at least 2% of their ESF+ resources to material support targeting the most deprived. At least 10% of the ESF+ will be allocated to tackling youth unemployment. € 675 million will be allocated to EaSI and € 367 million to Health.

4.3.4. A heightened focus on human capital programmes

A major positive innovation of the proposed MFF would be the creation of the Social Investment and Skills window in InvestEU (see Box 2). As stressed by Fransen et al. (2017), the EU suffers from a social investment gap estimated at 142 billion per annum¹⁴. At the same time, the European Fund for Strategic Investment (EFSI) had so far played a marginal role in addressing the shortfall in social investments¹⁵, pushing several scholars to call for a specific window for investment in human capital to be created (Huguenot-Noel and Zuleeg, 2016; Rinaldi and Ferrer, 2017). The decision to suggest the creation of a Social Investment and Skills window within InvestEU is undoubtedly a positive step in bridging this gap. Such an instrument would indeed respond to a social investment approach and shows a logic of policy complementarity, while supporting policy provisions aimed at investing in human capital, education, childcare (*stock*), housing, social infrastructure (*buffer*) and training, reskilling, upskilling, long-term care (*flow*).

In addition, a look at the overall proposed social expenditure for the next MFF unveils two other elements going in the same direction of a strengthening of EU's investment in human capital. The first is the significantly increased budget for Erasmus Plus, which is the most important EU programme with an explicit *stock* function. The second concerns the proposed EGF, which increases its ceilings, compared to the current one, and significantly extends its coverage, by simplifying its rules and extending the eligibility criteria.

To sum up, the proposal for the post-2020 MFF may be viewed as a step forward towards a more assumed EU social investment approach. Two main trends highlight this new approach. First, the significant increase in the investments in human capital (e.g. through Erasmus+ and InvestEU). Second, the stronger focus on the leverage potential of the EU budget, through a better alignment with the spending to the country specific needs identified in the European Semester and a better targeting of the ESI funds allocation under the new Common Provisions Regulation.

¹⁴ 15 billion in Education and Lifelong Learning, 70 billion in Health & Long-term Care and 57 billion in Affordable housing.

¹⁵ In December 2016, less than 4% of the EFSI had been used to finance social infrastructure and less than 1% had been invested in social services.



Box 2: The 'Social investment and skills' window within InvestEU

InvestEU is the program proposed by the Commission with the objective to address market failures and investment gaps that hamper growth and helping to reach EU policy goals such as sustainability, scientific excellence and social inclusion. Among the policy area supported by InvestEU, one is dedicated to 'Social investment and skills', with a budget of 4 billion (expected to mobilise 50 billion), aimed at supporting 'private and public investment in social infrastructure in areas such as education, social housing, and health, as well as to develop and consolidate the nascent market structures underlying the European social economy and social enterprises and the training and education sectors, both in terms of financing support and technical assistance/capacity building'.

Among the objectives of the new 'social investment and skills' window of InvestEU, increasing access to, and the availability of, microfinance for vulnerable persons (e.g. the unemployed, youth, elderly, migrants) and micro-enterprises, social enterprises; building up a stronger capital market for social infrastructure promoters investing in areas such as education (including childcare), social housing, and health (including long-term care); supporting human capital investments (both demand and supply side), for students and workers and other persons in need of initial training, reskilling and upskilling, as well as for education and training providers, start-ups and companies at large; and supporting the Commission's future action in the field of social enterprises at EU level.

4.4 THE NEED FOR A FULLY-FLEDGED SOCIAL INVESTMENT TURN

Although the Commission's proposal for the social programmes in the next MFF post-2020 present some positive steps in the direction of a social investment approach, this is still not enough if we want to maximise the economic and social returns on EU spending programmes. We identify, in fact, **three main limits in the Commission's proposal**.

First, legitimate concerns remain about the **accessibility of EU human capital development programmes**. For example, the lack of an overall strategy to guarantee equal access to most vulnerable groups within Erasmus + is a problem, which, if not addressed, could lead to a rise of further inequalities in the EU's territories. In the status quo, there is indeed a risk that Erasmus Plus becomes an opportunity for people who can afford the luxury of travel or, at least, its value as a future career investment. This would not only also be ruling against basic fairness principles but may also significantly reduce the leverage potential of the programme as one could argue that, for example, the social returns are higher on a student learning a first foreign language than one perfecting a third one, already practiced at home.

Second, **shortcomings also persist on the 'buffer' side of the equation**, i.e. the ability for the EU to collectively support the most vulnerable part of its population as economic shocks arise. With respect to the proposed EGF, the lack of institutional complementarity (between EU, Member States policies, and regional) and the still low level of policy complementarity with other existing European instruments undermine the ownership of the fund and, consequently its leverage potential in times of shocks. At the same time, the integration of the YEI and FEAD into the ESF might raise two main concerns. First, merging counter-cyclical tools that deal with shocks (e.g. YEI) with structural and convergence tools that deal with long-term economic development (e.g. ESF funds) is a false good idea. Both functions cannot be pursued in one single tool.

PART IV - SOCIAL INVESTMENT IN THE EU BUDGET

Thus, while the former may need a more centralised function, the latter probably needs a more decentralised one. Second, the association of the YEI and FEAD with the macroeconomic governance objectives could risk reiterating the pro-cyclical impact of EU budget spending cuts in times of crises. Finally, the proposed European Investment Stabilisation Function, the newly proposed financial assistance instrument, aimed at supporting Member States affected by a major asymmetric shock, while providing, automatically and without conditionality, loans and interest rate subsidies, has a budget size, which is too small to tackle asymmetric shocks (Claeys 2018).

Third, numerous **contradictions remain between the objectives pursued by EU social programmes and those of its wider economic governance framework**. The recent financial and economic crisis has shown that when social cohesion and fiscal discipline objectives opposed, arbitration by the EU and its Member States nearly always favoured the latter. Today, the maintenance of the ex-post conditionality on the use of the ESI funds is a good example of a problematic policy provision. Suspending ESI funding in times of crises may, indeed, risk further deepening the social crisis of a country and deprive the EU spending from the social investment multiplier effect.

Overall, the EU Multiannual Financial Framework (as it is and as it is proposed to turn into according to the European Commission) continues to **lack an assertive and comprehensive Social Investment strategy, based on a policy and institutional complementarity logic**, that would allow for a maximisation of the social and economic returns of the EU social spending.

Against this background, in the next section, we present some concrete proposals on how to reform the current proposals to make the EU budget oriented to a fully-fledged social investment strategy.

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Numerous contradictions remain between the objectives pursued by EU social programmes and those of its wider economic governance framework.
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PART V

Conclusion

In this final section, we once more counter the myth according to which the European Welfare State would be a burden for the EU in a globalised economy. We encourage EU and national policymakers to move beyond supposed trade-offs between EU's economic and social objectives and to place citizen 'capacitation' in the driving seat of European integration. We finally suggest several policy recommendations aimed at enacting this change in the EU's economic governance and budgetary frameworks, in line with the European Pillar of Social Rights (EPSR) recently agreed by all EU member states.

5.1 WHO'S AFRAID OF THE EUROPEAN SOCIAL MODEL?

Up to now, the rationale for EU's economic governance has mainly relied on its unique ability to prevent or mitigate the **spill over effects** inherent to a common monetary union. Thus, this logic has, for example, prevailed in the wake of the Great Recession where numerous instruments (including among others new fiscal rules, a macroeconomic governance framework, multi-billion rescue mechanisms) were introduced to limit the contagious impact of shocks affecting a Member States' economy.

At times, this rationale has been supplemented by a growth and **competitiveness logic**, mainly rooted in the potential economies of scale and other efficiency gains generated by EU's economic integration. Following the trade-offs logic exposed in the first section of this paper, EU policymakers in power often prioritised lowering labour market protection, collective bargaining decentralisation, deregulation and what have you – using **people's lives (call it market flexibility, mobility or something else) as the main variable of (both cyclical and structural) macroeconomic adjustment**. As voices raised concerns about the negative social impact of these reforms, the same leaders argued that more growth and competitiveness, through intensified EU integration, would automatically give Member States

more resources for domestic welfare redistribution.

This, of course, is another fairy tale. Because of a shared, implicit perception of a trade-off between equity and efficiency, the obsession with 'competitiveness' has been accompanied with a strong inclination to believe that the **European social model was a burden on EU's competitiveness**. If not yet considered 'dead' or 'long gone' (Draghi), many still see it as a 'waste of public resources' (Macron). Don't tell the children, however. Aware of the political resistance that welfare state retrenchment could lead to, reference to the social market economy has often served as useful 'lip service' – preventing it from putting more capacitating reforms of welfare protection or "flourishing lives" (Sen, 2001) at the centre of its agenda.

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5.2 THE EUROPEAN PILLAR OF SOCIAL RIGHTS: A NEW IMPETUS FOR CAPACITATION

What we show, highlight and advocate in this study is that there is absolutely no reason to be afraid of the European social model, and even that by **placing citizenship 'capacitation' in the driving seat of European integration**, as a second-order effect, competitiveness is often better served.

As this paper has highlighted, the EU has been a strong agenda-setter behind social investment ever since the Treaty of Amsterdam, where it officially recognised the importance of social policy as a productive factor. Whilst social investment as a term seemed to have vanished from the EU's vocabulary at the beginning of the term of the Juncker's Commission, the President of the Commission himself brought it back to the table by integrating it in the **European Pillar of Social Rights**. In November 2017, EU Member States indeed agreed on this new welfare protection contract between the EU and its Member States. This recent initiative, which introduces a new *rights-based social investment* approach to social policies (Sabato and Corti 2018), should be considered a new impetus for the EU to promote this capacitation perspective.

To allow for this capacitation perspective to take place, policy makers should become aware and concerned with optimising stock-flow-buffer synergy effects to enhance **'flourishing lives'**. This would allow them to discover such an approach improves competitiveness without triggering unnecessary political fear and panic in proclaiming that the European social model is long gone. With capacitation in the driving seat, the EU's contribution could instead aim to **remove the constraint on building individual and social resilience in knowledge economies and ageing societies**. This would bring into purview a truly alternative policy programme to the mere (and often politically rejected) objective of removing constraints on competitiveness – for the sake of competitiveness.

5.3 WHY SOCIAL INVESTMENT NOW

We argue that enacting a **social investment logic** as exposed in this paper would represent a **more economically, socially and politically sustainable alternative**. There are three reasons for this.

First, from a macroeconomic perspective, a social investment approach can have a **high stabilisation function** for national welfare states' carrying capacity. As hinted to in the introduction of this study, the current low interest rate environment does not only allow governments to benefit from lower borrowing conditions for investing in flourishing lives, but it also allows countries to invest in their own economic, social, and political resilience at a time where the scope for monetary policy to support this objective has become more muted. By investing in human capabilities from early childhood through old age and improving carer-life balance provision for working families, social investment policies can increase employment participation and labour productivity, thus putting the carrying capacity of national welfare state on a more sustainable fiscal footing. Equally, as these policies enhance individual and collective resilience – i.e. people's opportunities and capabilities to respond to the changing nature of social risks – social investment policies harbour a far better case for sustainable growth and upward E(M)U convergence, than the austerity reflex, based on the 'false necessities' of equity-efficient trade-offs or trilemmas among the objectives of employment growth, income protection, and fiscal balance.

Second, a social investment approach, based on multi-level policy complementarities, guarantees a **high level of life-course wellbeing returns** of public investment through the above exposed *multiplier effect*. As previous sections have shown, these returns can be measured 'quantitatively' in terms of increased employment and productivity rate and reduction of gender (pay) gaps and poverty rate among people – including children – who benefited from social investment-oriented policies. Qualitatively, social returns can be measured in terms of subjective wellbeing (job and work-life balance satisfaction) and capability acquisition (skills, working-time, work-life balance). While current debates on the fight against growing inequalities often focus on the taxation of digital firms, financial services, or high-net-worth individuals, the performance of social spending against this



objective is, unfortunately, often neglected. By opposition, assessing public spending against the social investment approach would help ensure that higher taxation does translate into improved life chances for vulnerable EU citizens.

Third, a social investment approach to the next MFF can have a **high political legitimisation effect**. The EU is now experiencing a recovery path after an economic and social crisis. Yet, several challenges remain to be tackled. High rates of NEET and youth unemployment in several EU regions, a still unequal access to childcare, education, training and lifelong learning opportunities, and a high level of poverty and social exclusion rates across the EU are problems that demands responses. An entire generation sees the EU still as an austerity headmaster, and less as a social investment cheerleader. Now that our time calls for critical investments, an assertive EU social investment pact could fill the political vacuum that has emerged between right-populist welfare chauvinism and the ongoing calls for overnight fiscal consolidation at the heart of the European project in the aftermath of the crisis.

Finally, the appointment of a **new European Commission**, in the context of ongoing negotiations about strategic priorities for the **post-2020 Multiannual Financial Framework** offers a timely opportunity to implement this agenda once and for all.

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A social investment approach would have a high stabilisation function for national welfare states' carrying capacity, guarantee a high level of life-course wellbeing returns of public investments, and have a high political legitimisation effect.

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PART V - CONCLUSION

5.4 THREE SETS OF POLICY RECOMMENDATIONS

According to the principles and evidence highlighted in this paper, we recommend a list of recommendations aimed at using the 2021-2027 Multiannual Financial Framework (MFF) as a lever to promote a Social Investment turn in the European Union and thereby achieve better alignment with the recently agreed European Pillar of Social Rights.

In summary, we recommend focusing on three objectives:

- **Revamp EU public finances** by introducing a comprehensive social investment logic throughout the EU budget
- **Prepare EU economic governance structures** for upcoming shocks by providing a holding macroeconomic environment for the EU
- **Capacitate EU citizens** by promoting human capital investment programmes across the EU

RECOMMENDATION 1:

REVAMP EU public finances – Introduce a social investment logic throughout the EU budget

Previous sections have shown that following a social investment logic, based on the multilevel policy provisions' complementarity, allows for social expenditure to benefit from important **leverage effects**, multiplying the economic and social returns on the original investment. **Better aligning EU economic and social policies, programmes, and frameworks** among each other but also with existing programmes in EU Member States could hence allow the EU to achieve better outcomes even in the current context of budgetary pressures on the 2021-2027 MFF.

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***The EU should focus on three priorities:
Invest in people, Facilitate life-course transitions,
Provide reliable safety nets.***

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In line with this, we consider that the EU should:

1.1. Support targeted social investment reforms in Member States through the ESF+: for the new programming period, the European Commission suggests to link the disbursement of ESF+ funds to the respect of the reforms identified in the context of the European Semester. In line with this, the EU would benefit from (i) promoting the 'social investment logic' as one of the objectives of the ESF+; (ii) designing new frameworks to better identify **institutional complementarities** between stocks, flows and buffers at different levels of governance; (iii) establishing an 'ideal policy-mix' for EU support in Member States and regions; (iv) tailoring the ESF+ to where EU funds would add most added value from a social investment perspective.

1.2. Introduce a Social Imbalances Procedure (SlmP): In order to rebalance the economic and social dimensions of the EU's macroeconomic oversight, a Social Imbalances Procedure (SlmP) should be introduced as proposed by Sabato et al. (2019). The SlmP would entail (i) identifying national excessive social imbalances through a revisited and updated set of social indicators; (ii) the elaboration of Multi-annual National Action Plans, which supports (technically and financially) the implementation of social investment structural reforms, for example through the new Reform Support Programme; (iii) a strictly conditional increase in the EU contribution in the ESF+ or the triggering of a "silver rule" to create fiscal space in national budget to implement social investment reforms; and finally (iv) monitoring of reforms' implementation through the European Semester Country Reports.

RECOMMENDATION 2:

PREPARE EU economic governance structures – Provide a macroeconomic holding environment for the EU

The EU should focus on developing a 'holding environment', a **zone of resilience based on shared values and a common purpose**, matched by competent institutions, in times of painful adaptation. The main functions of this holding environment would be to mitigate stress and uphold the integrity of welfare provision, but also to maintain pressure to adapt to changing conditions.

We notably suggest to:

1.3. Introduce a *reinsurance* European Unemployment Benefit Scheme (EUBS): As an automatic counter-cyclical fiscal redistribution over time and space mechanism, a reinsurance EUBS would provide fiscal breathing space for countries asymmetrically affected by a downturn by allowing their unemployment expenditures to be insured through a fund provisioned by other EU Member States. Such EUBS would be based on a common indicator of short-term unemployment; it would have a fiscal balance over the economic cycle; it would prevent permanent transfer through claw-back mechanism; and it would be financed on a regular basis by Member States. The EUBS should be accompanied by active measures to help bring people back into work. To this end, we also suggest to link the EUBS to a European Transition Support Fund.

1.4. Transform the European Globalisation Fund into a European Transition Support Fund: The scope of the ETSF should include any major restructuring event of more than 250 workers regardless of the cause. Its budget granted should be increased to at least €500 million endowments each year (Fernandes and Daniel, 2018) and included in the EU budgetary ceiling so as to allow for a more efficient disbursement of the funds. Moreover, in the ETSF, regional level actors would also be entitled to apply to the Commission for support, with the involvement of social partners.

RECOMMENDATION 3:

CAPACITATE EU citizens – Promote human capital investment programmes across the EU

The experience of the crisis, especially the Eurozone austerity reflex, has resulted in a public investment strike, most unfortunately in the area of human capital stock capabilities, lifelong education and training, with significant negative consequences for future growth, employment, productivity and social cohesion in knowledge economies facing adverse demography. Turning the page of the recession means repairing and preparing for the future by promoting a boost in human capital investment, allowing all EU citizens to benefit from opportunities offered by the European integration.

We notably suggest to:

1.5. Introduce a silver rule for human capital investment in the Stability & Growth Pact: As the economist Jean Pisani-Ferry convincingly argued in a recent article: “when Facts change, change the Pact” (2019). Introducing a Silver Rule in the SGP would involve taking consideration of public social investments in human capital stock capabilities, lifelong education, training and healthcare, as being eligible for favourable treatment when assessing government deficits and compliance with the Stability and Growth Pact (SGP). Granting more fiscal room for social investment in human capital (within bounds) to countries experiencing excessive social and macroeconomic imbalances would enable them to secure future-oriented financing of their lifelong education, skill upgrading and social care systems before the ageing predicament becomes truly overwhelming.

1.6. Increase the overall allocation of resources to the ESF+: A budgetary line on a ‘Children’s Initiative’ should notably be introduced to finance a Child Guarantee, in line with the proposal of the European Parliament. This proposal suggests granting an extra € 5.9 billion to measures falling under the European Child Guarantee, a newly proposed instrument aimed at encouraging equal access of children to free healthcare, free education, free childcare, decent housing and adequate nutrition for the eradication of child poverty and social exclusion.

1.7. Tailor support to regional needs: With different levels of reforms delivery capacity across the EU, a uniform social investment reform agenda could potentially lead to moving EU funds away from the regions that need it the most. To prevent this, the EU should take account of the specific needs of the different regions and territories of the EU, building on existing and tools assessing the resilience of EU regions to economic shocks and to wider barriers to spreading innovation (Huguenot-Noel, Hunter, Pilati, and Zuleeg 2018). This would also allow the EU to consider for example how ALMP reforms could be better aligned to needs ‘on the ground’ (Andor 2017) and how social infrastructure investment strategies involving the private sector may also benefit regions most in need (Fransen, del Bufalo, Reviglio, 2018).

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THE PRESENT REPORT SHEDS LIGHT ON HOW THE OBJECTIVE OF “BRINGING THE PILLAR OF SOCIAL RIGHTS TO LIFE” MAY BE PURSUED THROUGH THE ADOPTION OF AN EU SOCIAL INVESTMENT STRATEGY IN THE 2021-2027 MULTIANNUAL FINANCIAL FRAMEWORK (MFF).

Important changes in the EU’s economic, social and political environment conspire behind a growing case for the EU to embrace social investment beyond two-decade lip-service.

Ten years after the first deep economic crisis of 21st century capitalism, the European Union (EU) may have passed the nadir of the economic aftershocks unleashed by the 2008 global downturn. Yet, both the legacy of the Great Recession and new challenges brought about by trends such as climate change, globalisation, digitalisation, or the new demography have led to an environment of high uncertainty about future job prospects and overall prosperity. At the same time, the current macro-economic context, characterised by low-interest rates, provides a unique environment for European governments to invest in people and their capabilities in ways which give them the tools to prepare for the 21st century while anchoring fiscal consolidation over the long-run.

Taking advantage of this opportunity requires, however, a more fundamental review of today’s economic reasoning, putting new facts ahead of inert beliefs. Most policymakers and analysts will probably agree that the era of salvage neo-liberalism may gradually come to an end. But whether the new geo-economic and political landscape will also be characterised by the ascendance of a new welfare state with a stronger human face, remains an open question. To move forward, the authors argue that the following questions have to be answered:

1. What kind of welfare state is effective in the aftermath of the crisis under the radically altered economic, social, demographic conditions of the early 21st century?
2. What is the role of the EU and its budget in support of a more productive and capacitating welfare consensus?
3. Can the problems of economic divergence, social and territorial imbalances, currently confronting the Eurozone, be resolved without an assertive economic governance commitment to manifest social investment objectives? Or, will the austerity reflex continue to be jeopardised by intergovernmental joint-decision traps, while the crisis aftermath intensifies downward welfare competition between national ‘socio-economic’ models to further polarise domestic and supranational political conflict?

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