

INSTITUTE FOR FUTURES STUDIES

Research Report

Editors: Nathalie Morel | Bruno Palier | Joakim Palme

What Future for Social Investment?

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Executive summary

During the Lisbon Summit in 2000, the European Union – partly inspired by the new ‘social investment’ paradigm – adopted a new approach to meet the future challenges of ageing populations and the shift towards a knowledge-based and service economy. The Union expressed its intention of making Europe become ‘the most dynamic and competitive knowledge-based economy in the world, capable of sustainable growth with more and better jobs and greater social cohesion, and respect for the environment by 2010’. It appears that the strategy was based on the view that human capital was the core asset in Europe.

The targets of the Lisbon strategy seemed difficult to achieve for many countries even before the global financial crisis of 2008, and it is now clear, with less than one year left, that these targets will not be met. In a long-term perspective, Europe faces a number of common challenges related to environmental concerns and the threats of climate change, deregulated financial markets, mobile global capital, ageing populations and de-industrialisation. The current economic crisis has made these long-term challenges even more acute. It is therefore of great importance that future policies go beyond immediate responses to the current crisis in order to face these long-term challenges and to avoid reproducing the failures of the past.

The contributions to this report give an assessment of the social investment strategy as it has been pursued in different national contexts and provide not only a framework for reform but also a number of concrete examples of how to promote or improve the social investment approach:

- The development of publicly funded child care and education programmes constitutes an essential dimension of the social investment approach. Such services express the goals of this perspective in two ways: they invest in the human capital of mothers by helping them remain in paid work; and they invest in the human capital of children by providing them with quality educational stimulation at an early age. From this perspective, many of the policies currently being adopted for reconciling work and family life are inadequate. Strategies like long parental leave or vouchers for the purchase of private services may offer some immediate support to parents but lack the long-term perspective that is central in terms of social investment.
- Human capital policies that promote participation in education throughout the life-course are crucial. Skill needs within advanced industrial societies have changed quite dramatically in the past decades. In particular, demand has increased for higher levels of skills as well as for cognitive and social skills. Viewed from a historical perspective, investment in vocational education followed an economic logic whereby firms in

European economies relied on specialised vocational skills. In the knowledge-based post-industrial economy, however, new skill needs outline an economic logic for the expansion of public education policies. Policy agendas aimed at advancing human capital policies as part of their social investment strategy need to address the growing economic benefits of investing in education.

- If social investment is to be the defining feature of the new welfare state, then one should certainly differentiate between ‘varieties of social investment’. Within the field of labour market policy, one can identify at least three different approaches that refer to different principles and have different objectives: investing in human capital, removing obstacles to employment and preventing the depletion of human capital during a period of unemployment. While policies geared towards preventing human capital depletion seem to have gone out of fashion, countries tend to emphasise either training or policies aiming at removing obstacles to labour market participation. Both approaches are connected to work incentives. But if the current crisis results in a longer period of high and persistent unemployment, strengthening work incentives may be an inadequate response in a context of sluggish economic growth and employment losses. In contrast, active labour market policies that target human capital seem preferable, including job creation programmes aimed at slowing the process of human capital depletion associated with unemployment.
- There is also reason to think beyond the assumptions of the current era as a knowledge-based economy, which is the underlying rationale of the Lisbon strategy. A slightly different approach, here defined as ‘the learning economy’, focuses more on the rate of change and the consequential requirements of constantly renewing capabilities in firms and competences for workers. What the comparison of European economies shows is, firstly, that innovation tends to thrive in societies where workers are engaged in organisational learning and do creative work and, secondly, that creative work is most widely diffused in egalitarian societies with broad-based and democratic education systems and with labour market institutions that combine flexibility with active labour market policies and income maintenance for the unemployed.
- There is thus a need to combine social policies with policies that promote organisational change. The focus should be upon social investments and institutional change related to the organisation of work and learning. Three tasks stand out as particularly important, especially for Southern and Eastern Europe: to expand systems of vocational training and aim at new combinations of theory and practice in the overall education systems; to develop active labour market policies and institutions that support flexicurity; and to reduce inequalities in income and in access to learning. Such a programme would increase social cohesion both nationally and for Europe as a whole since it would help reduce the big gaps in income between the different parts of Europe. And it would certainly strengthen the competitiveness of the region as a whole.
- The social investment approach can be seen as a strategy that aims at simultaneously promoting competitiveness and growth, employment and quality of jobs. It is essentially about resolving the trade-off between efficiency and equality. Achieving this goal is dependant on how credible policies can be formulated and delivered. Different examples of best practices can be identified that help to simultaneously widen the tax-base, increase fertility, fight poverty and inequality, or improve the financial sustainability of certain key programmes such as pension schemes.

These points give examples of a common theme in the various contributions to this report, which is that the way we design our institutions is critical for what kinds of achievements we can expect. But it is also evident from the contributions that politics matter for what kinds of chances the social investment strategy will have in the future. Political courage is demanded for anyone who want to bring long-termism into policy making. We need to put that high on the agenda.

This report aims at stimulating the scholarly and political debate on the future of the social investment approach. By bringing the analytical light to bear on the interplay between social, educational and labour market policies, it looks at how different European countries face the new requirements of the 'knowledge-based' or 'learning economy' and puts forward some ideas for policy innovation. Both the current economic crisis and the common long-term challenges that Europe faces make such innovations urgent. With the Lisbon agenda coming to its close in 2010, the time is ripe to invent a new future.

Foreword

This report is the outcome of a conference organised by the Institute for Futures Studies in May 2009 with the economic support of NordWel, the Nordic Center of Excellence (The Nordic Welfare State – Historical Foundations and Future Challenges). The Policy Network in London and Terra Nova in Paris made active contributions to the content of the conference.

The Stockholm conference provided a very stimulating framework for discussing possible futures for the social investment approach. I wish to express my sincere gratitude to those who actively participated in the workshop; in particular, to the contributors to this volume and also to Vitor Gaspar, Anton Hemerijck and André Sapir. A number of individuals from both the academic and the policy arena served as chairs and discussants and made the intellectual exchange very stimulating.

The report will be presented at the conference Sustainable Work – a Challenge in Times of Economic Crises, held in connection with the Swedish EU presidency, 27–28 October 2009, and organised by the Swedish Council for Working Life and Social Research (FAS), the Swedish Governmental Agency for Innovation Systems (VINNOVA) and the Swedish ESF Council in collaboration with Work-in Net and European Foundation for the Improvement of Living and Working Conditions (Eurofound).

For the organisation of the May conference and the publication of this report we wish to acknowledge financial support from the Swedish National Research Council, The Bank of Sweden Tercentenary Foundation, the Swedish Council for Working Life and Social Research and NordWel.

The editors also wish to express their deep appreciation to Jakob Larsson who not only organised the Stockholm conference in May, but who, as project manager for this report, has also been responsible for the production of this report in this new Research Report series of the Institute. The editors gratefully acknowledge his various, substantive contributions to this report. We are grateful to Pat Fitzgerald who proofread the entire manuscript.

Finally, I wish to thank my co-editors Nathalie Morel and Bruno Palier, for their dedication to this project.

Institute for Futures Studies, October 2009
Joakim Palme

Introduction

Nathalie Morel, Bruno Palier and Joakim Palme

In a period of deep crisis and with classical neo-liberal solutions for both the economy and the welfare state having seemingly run their course, the question arises as to what kind of new strategies should be implemented to recover stronger growth, more and better jobs and more equality and social cohesion. Thinking has to go beyond immediate responses to the current crisis to discuss the kind of strategy that should be implemented in the medium to long term in order not to reproduce the failures of the recent past.

Ageing populations, the shift to a knowledge-based and service economy, deregulated financial markets, mobile global capital, environmental concerns and the threats of climate change are all part of a new context that calls into question past policy paradigms, whether they be neo-Keynesian or neo-liberal. The current global economic crisis is increasing uncertainties and pressures on governments as well as ordinary people. The consequences are difficult to overestimate, urgent to address the social agenda. The difficulties to raise new resources for long term spending purposes are obvious. We can be sure that it will become more difficult, not only because the tax bases will be eroded, but also because social protection expenditures, notably unemployment insurance, will automatically and massively increase. In the absence of adequate social insurance programmes some governments have found themselves forced to launch additional spending programmes.

It is obvious that the threat of a continued and aggravated downturn is forcing governments to rethink past policy paradigms. An interesting aspect of the global crisis in the financial system is that it is changing our views on what is possible. In our recent history we find other examples of how big changes may suddenly appear possible, or even inevitable. The unification of Germany is one example; the enlargement of the EU is another. How can we rethink the European future, beyond the Lisbon Agenda, beyond the big spending on the Common Agricultural Policy and with the prolongation of the time horizon with regard to the issue of climate change? Whereas investment in physical capital, such as infrastructure, has figured quite prominently as a policy instrument, human capital investments have perhaps been getting less attention in the debate. There are good reasons to change that.

Since the mid 1990s, a new 'social investment' paradigm has begun to emerge. As Jane Jenson reminds us in this report, 'the announced goals of the social investment perspective are to increase social inclusion and minimise the intergenerational

transfer of poverty as well as to ensure that the population is well prepared for the likely employment conditions (demand for higher educational qualifications; less job security; more precarious forms of employment) of contemporary economies. Doing so will allow individuals and families to maintain responsibility for their wellbeing via market incomes and intra-family exchanges, as well as lessening the threats to social protection regimes coming from ageing societies and high dependency ratios. The state's role is to define its interventions and social protection practices so that these conditions will be met. In policy terms this implies increased attention to and investment in children, human capital and making work pay'.

In 2000, during the Lisbon Summit, the EU adopted part of this strategy when it expressed its intention of making Europe become 'the most dynamic and competitive knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion, and respect for the environment by 2010'.

With just one year left until the deadline, it seems that the goals of the Lisbon Strategy will be hard to meet, even more so with the new global crisis. Some countries have been more active than others in pursuing a social investment strategy, and the very content and impact of this strategy has differed considerably from one country to another.

In the Nordic countries this strategy has a longer history than elsewhere and has translated into an investment in high quality, universal childcare provision and generous and progressive family policies; massive investment in education and training for all; life-long learning; promoting job opportunity and equality for men and women; income maintenance programmes and high levels of minimum income, along with a relatively high degree of labour market flexibility to facilitate a more lively economic development (where non-profitable economic activities leave room for new, innovative and profitable ones). The Nordic countries have experienced high levels of growth during the last decade and are recognised to be amongst the most competitive economies, displaying high employment rates and low levels of unemployment, while still maintaining the lowest levels of inequalities. How sustainable are such policies in the current period?

Other countries have also adopted economic and social strategies aimed at 'modernising' (rather than dismantling) their welfare states with the aim of reconciling them with renewed economic growth. The UK (through its Third Way strategy) or the Netherlands (through flexicurity) are other examples of countries which have implemented reforms that are akin to a social investment strategy, i.e. reforming the welfare state to adapt it to the new economic context by reorienting its spending towards 'preparing' rather than 'repairing'.

Despite some important reforms or projects (such as the modernising of family policy and development of childcare facilities in Germany or attempts at introducing more flexibility along with new social protection measures in France), some countries seem a long way from adopting this new strategy. In most continental European countries, governments are still more preoccupied with balancing their old age and health care budgets than with restructuring their welfare system towards social investment policies. Looking at their activation strategies, it would seem that the policies pursued have led to a dualisation of the labour market and of

social protection rather than to better and more equal job opportunities and social protection. In continental Europe, economic growth has been slower than in the Nordic countries and still partly organised around traditional industrial activities.

Since all countries are now confronted with a deep financial and systemic crisis, can the social investment strategy provide governments and the EU with some guidelines for the macro-economic and social policies to be implemented? What are the effects of climate change in the context of policy making? How can the discourse on sustainable policies for the climate inform policies that are aimed at social and economic sustainability? The time has come to reflect on how the various components of the 'social investment' strategy fit the new social, economic and ecological context. What have been the successes and failures of the social investment strategy in Europe? Where are the most important policy gaps to be found and how can they be filled?

The fact that investment today means fewer resources for consumption cannot be avoided. It may be that the systems of social investment are affordable if the various programmes are adequately designed. The desirability of this is partly a question of value judgements and whether or not it is possible to extract the necessary taxes now and in the future will depend on what people want and probably on international co-operation. This makes the modernisation of our social and economic policies a democratic problem with national as well as international dimensions. Each and every step in the expansion of social policies in Europe has been subject to political conflicts and controversies. Over the past decade or so, to mention increased taxes has been somewhat of a 'third rail' in European politics. Recent trends and events suggest that there is room for change. That it is possible to think the unthinkable. What is at stake here is the political and social sustainability of the European Social Model. What is needed is the capacity to formulate and deliver credible policies to ensure not only the sustainability but also the improvement of the European social model. Can 'social investment strategy' achieve this? This is the core question of this report.

The chapters presented in this report aim at assessing the diversity, the feasibility and the relevance of the social investment strategy in Europe. Which policies have been implemented in the different countries, with how much success? Can we identify examples of good practice? What have been the key drivers of change or impeding factors in pursuing a social investment strategy? Are the goals defined in 2000 still relevant, and can they help face not only traditional European problems but also new issues created by the current crisis? Or do the current times require new, alternative strategies?

The first part of this report – *Content and Diversity of the Social Investment Strategies* – presents the underlying rationale and conceptual background to the social investment strategy before taking stock of the various social investment strategies implemented in different countries. Behind the notion of 'social investment', diverse programmes and policies have been developed. The chapters in this first section address the different facets of the social investment strategy and the different ways in which such social investment policies – seen in a broad sense – have been implemented in Europe. In doing so, they look at the political conditions that facilitate or hinder the adoption of social investment policies. Through the analysis of these various national examples, and through the comparison of these different approaches, the contributions address the adequacy of the chosen policy

instruments and open for a discussion of the implications of the different strategies for the advancement of the Lisbon agenda.

Jane Jenson's contribution ('Redesigning Citizenship Regimes after Neoliberalism. Moving Towards Social Investment') examines the 'social investment' paradigm, defining its content in different settings to uncover its general policy logic. Stated briefly, the social investment strategy implies that spending should be made in the form of investments, such as in human capital, to support labour market participation in the future as well as the present or to confront new social risks (such as family breakdown, low wage work or unstable work, the challenge of balancing earning with social care, ageing) and poverty. The author also maps out the changes in social citizenship that result from this new social investment approach. Three dimensions of social citizenship are examined – rights and duties; access and governance; and the responsibility mix between the market, the family, the community and the state – in order to document the characteristics of the social investment perspective in comparison to two other policy paradigms, those of Keynesianism and neo-liberalism.

Kimberly J. Morgan's chapter ('Child Care and the Social Investment Model: Political Conditions for Reform') examines the political conditions for reforms that further one dimension of the social investment model, the development of publicly funded early childhood care and education programmes. Such services express the goals of this model in two ways: they invest in the human capital of mothers by helping them remain in paid work; and they invest in the human capital of children by providing them educational stimulation at an early age. Based on a cross-national analysis, this chapter shows that the political conditions for the full achievement of this model include widespread societal consensus on the acceptability of mothers' employment; the political domination of left-leaning political parties; powerful public sector unions, all of which are rarely obtained outside of Scandinavia. Instead, labour market concerns, demographic anxieties, and short-term political expediency are more likely to drive governmental policies to reconcile work and family. One result is that many of the policies currently being adopted do not necessarily further the aims of the social investment ideal. Long parental leaves, vouchers for the purchase of private services and inadequately-funded public programmes may offer some immediate support to parents but may not produce the kinds of social investments that advocates might hope for.

Giuliano Bonoli's contribution ('Varieties of Social Investment in Labour Market Policy') examines different types and approaches to active labour market policy from the perspective of social investment. Intuitively, active labour market policy can be seen as the locus of investment oriented social policy par excellence. Helping non-working individuals to find a job is a new approach to labour market policy that differs from both traditional left and right wing solutions. Yet active labour market policies in the real world display such high degree of variation that it is difficult to formulate encompassing judgments with regard to their social investment orientation. The author thus develops a conceptual distinction between different types of active labour market policy, making reference to different principles that can inform labour market policy: protection, investment and recommodification.

the social investment perspective provides pride of place to human capital policies that improve participation in education throughout the life-course. These policies are crucial not only because of the increased dependence on employment for wellbeing but also because skill needs within advanced industrialised societies have changed quite dramatically in the past three decades. In particular, demand has increased for both higher levels of skills as well as cognitive and social skills. Viewed from a historical perspective, investment in vocational education can be shown to follow an economic logic whereby firms in European economies rely on specialised vocational skills. The new skill needs brought on by the development of the knowledge-based post-industrial economy, however, outline an economic logic for the expansion of public education policies. Policy agendas aimed at advancing human capital policies as part of their social investment strategy need to address the growing economic benefits to educational investment.

Bengt-Åke Lundvall and Edward Lorenz ('On the Role of Social Investment in the Learning Economy: A European Perspective') suggest going beyond the idea of a knowledge based economy as put forward in the Lisbon agenda and propose a slightly different perspective – the learning economy – where the focus is upon the rate of change and the consequential requirements of constantly renewing capabilities in firms and competences for workers. They show, firstly, that innovation thrives in societies where workers are engaged in organisational learning and do creative work and secondly, that creative work is most widely diffused in egalitarian societies with a broad based and democratic education system and with labour market institutions that combine flexibility with active labour market policies and income maintenance for the unemployed. The analysis points to the need for combining such social policies with policies that promote organisational change. Starting from the learning economy perspective the authors argue that the major bottleneck for the realisation of the Lisbon Agenda has less to do with insufficient investments in research and development and more with big gaps between good and current practise in terms of organisational forms at the level of the firm and institutional frameworks at the national level.

Rita Nikolai's contribution, entitled 'Towards Social Investment? Patterns of Public Policy in the OECD World', seeks to identify empirically which countries can be said to have moved towards a social investment strategy and to what extent.

Transforming social protection systems in a way that favours investment rather than compensation entails a shift of expenditures towards such areas as family policy, active labour market policies and education and training. This contribution traces the development of welfare state change in the more mature OECD member states. By using disaggregated programme expenditure and relating expenditure for investment measures and compensation expenditures, the author identifies diverse spending priorities across countries. Three groups of countries are thus identified. Northern European countries form the first group. Denmark, Finland and Sweden are characterised by high spending for both investment-related and compensatory social policies. Scandinavian welfare states provide a high level of security against risks such as old-age or unemployment, but without neglecting the investment-related policies. The Anglo-Saxon countries, Switzerland and Norway form the second group. These countries are characterised by low spending both for age and unemployment and for investment-related social policies. With the exception of Switzerland and the United States, all countries in this group spend more on investment-related compared to spending on compensatory social policies. The

third group is composed of the continental European countries, Japan and Southern Europe. These countries spend higher levels on compensatory social policies while neglecting investment-related social policies. For instance, Germany, Greece, Japan, Spain and Italy exhibit far lower levels of education spending than one might expect on the basis of their levels of social spending.

The second part of the report – *‘The Future of the Social Investment Strategy. Challenges for Europe in the Context of the Current Crisis’* – looks beyond the Lisbon Agenda and questions the relevance of the social investment strategy for tomorrow’s world. Since all countries are now confronted with a deep financial and systemic crisis, can the social investment strategy provide governments and the EU with some guidelines for the macroeconomic and social policies to be implemented? Europe is having some difficulties becoming ‘the most dynamic and competitive knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion, and respect for the environment by 2010’. What have been the successes and failures of the social investment strategy in Europe? Where are the most important policy gaps to be found and how can they be filled? The different contributions warn against short-sighted policies that may result from the current crisis and emphasise the importance of taking, instead, a long-term perspective and investing in well informed productive social policy.

Kerstin Jacobsson analyses the ‘Achievements and Non-achievements of the European Employment Strategy’, with a particular focus on active labour market policy and ‘social investment’. She also discusses some ambiguities inherent in the European Employment Strategy and Open Method of Coordination as regards aim as well as methodology and policy content and the implications of these ambiguities for policy-making. Particular attention is given to the challenges connected to the enlargement of the EU. The apparent problems of implementing the European Employment Strategy are of crucial importance for any discussion of a future for the social investment strategy. A general problem here is the weak development of industrial relations. Another challenge is to improve local government and other stakeholders in the implementation process. Jacobsson argues that the increased emphasis (in the re-launched Lisbon strategy) on the differences in national contexts for the target settings might be one way to make advancements.

Thomas Lindh looks at ‘The Future Needs for Social Investment in Ageing Populations’, using Sweden as a pilot case. Ageing populations all over Europe have raised concerns about the sustainability of current welfare systems. The Swedish case provides both warnings and examples to learn from for the many fast-ageing European countries. The current crisis may very well lead to short-sighted decisions that undermine the opportunities to safeguard the welfare systems by a well-informed productive social policy. In the Great Depression Sweden faced a fertility crisis that profoundly affected social policy reform. The early baby boom in the 1940s that peaked with the return of peace in 1945 has provided both further motivation for social policy reforms as well as the means to do so. As the baby boomers of the 1940s now retire in the midst of the financial crisis, they are also causing a first crisis for the construction of the pension reform in the 1990s by releasing the ‘brake’ and lowering pensions to preserve long-run financial sustainability. The situation is complicated as the boomers from the 1990s are starting to fill the higher education system. Gloomy labour market prospects due to the crisis threaten to extend further the already excessively drawn-out period it

takes for young people to become established as adults. A new baby boom fills the day-care centres and will soon require further expansion of the school system. Further on the horizon, the now-retiring boomers will increase the need for elderly care and health care and thus strain the intergenerational transfer systems. It is of paramount importance for the future welfare state in Sweden as well as in Europe that the social investment in the generation, both natives and immigrants, who will be taxed to finance it in the 2020s does not fall victim to depressed labour markets, failing education systems and pointless salvage packets pouring tax money into failing industries. Lindh argues that tight-fisted policy may well undermine the future welfare for the elderly. In an ageing Europe with high youth unemployment this may easily turn into a general trend. National differences in demographics and institutions need to met by appropriate priorities and timing for social policy reform.

Erik Westholm's chapter ('A Territorial Approach to Politics of Climate Change') addresses the issue of climate change and raises some questions about the future role of politics at the national level in Europe. What future do nation states have if (when) politics of climate change becomes the dominating project? Westholm looks at spatial politics within the welfare model. The analysis is based on: 1) an anticipated deepening of the economic and political globalisation; and 2) an increasingly urgent need to address issues related to land use/climate change. The two processes are already transforming the agenda for the EU and the Member States. In this chapter it is argued that territorial control will be increasingly important and that the nation states are likely to continue to be the key institutions also in an era marked by increased needs for cross-border collaboration in order to dramatically reduce the greenhouse gas emissions. In these efforts the states will have to strengthen international institutions and collaborations while at the same time using the specific capabilities of the regions and the local communities.

Bernard Gazier's contribution ('The European Employment Strategy in the Tempest: Restoring a Long-Term Perspective') critically examines the policies of 'flexicurity', situating the flexicurity prescriptions within a wider set of policy agendas currently explored or implemented regarding the dynamic adaptation of labour markets to the globalised world. It then uses this framework for understanding the present and possible position of 'flexicurity' in our world in coping with the crisis. Finally, it sketches out what could be a renewed agenda for the European Employment Strategy and a new component of the wider Lisbon Strategy. Gazier proposes a collective and structured version of the 'social investment' paradigm, connected to the 'Transitional Labour Market' approach, which aims at developing a 're-embedded' version of the European labour markets.

Roger Liddle's contribution ('Social Investment after the Crisis: Political Choices for Britain and their Implications for the European Union') begins by discussing the UK's claim to see itself as a successful exemplar of the social investment model in the past decade. The second section of the chapter considers the impact of the global financial crisis and recession on the UK and argues that we are at a critical juncture for social investment strategies. The long-term consequences of the global financial crisis are such that they will impose severe constraints on both the scope and volume of public expenditure over the next decade. In an environment of 'tough choices' and spending discipline, the future of the third way social investment model depends not only on whether and how public investment is targeted and maximised within the overall resources available, but also on the success of more activist policies to

promote a return to sustainable economic growth. The final section of the chapter reviews the implications for the EU and the future of the Lisbon strategy or whatever replaces it.

Joakim Palme ('The Quest for Sustainable Policies in the EU: The Crisis and Beyond') concludes by reminding us that the emergence of a 'social investment strategy' a decade ago can partly be seen as response to the pressure for more redistribution by the European welfare states as a result of ageing populations. Moreover, the need to establish a new gender balance and a flexible working life was seen as critical for sustaining the welfare states in the context of deregulated financial markets and mobile global capital. In the European Union the need to promote social cohesion in countries with open economies has not been diminished by the 'enlargement'. The setting has also changed in other ways as the global financial crisis has turned into a crisis of the 'real' economy, resulting in rapidly falling growth rates and increasing unemployment. The chapter reflects on how the various components of the 'social investment' strategy fit this new setting. Where are the most important policy gaps to be found and how can they be filled? Palme argues that the political and social sustainability of the European Social Model is dependent on how credible policies can be formulated and delivered. The future economic sustainability of the model hinges, of course, on the number of taxpayers that can be mobilised and how productive they are. The author discusses principles and gives examples of good policies for further reflection.

* * * * *

We hope that reading these contributions will stimulate both the scholarly and political debate on the future of the social investment approach. In academia, discourses on social policy, education and the labour markets have led separate lives for a long time. With the broader approaches and concepts such as production regimes new ground appears to have opened up, which have provided opportunities for cross-fertilisation of perspectives. In politics, discussions about ecological, economic, political and social sustainability have been pursued within different circles. It is time to change all this, without losing the academic rigour and without losing sight of the practical instruments needed to be successful policy wise. The economic crisis will, in many ways, impose constraints. Yet it also provides a chance to innovate and to prolong the time horizons for policy making. In Europe, with the Lisbon agenda coming to its close in 2010, the time is ripe to invent a new future.

Part I.

Content and Diversity of the Social Investment Strategies

Redesigning Citizenship Regimes after Neoliberalism. Moving Towards Social Investment

Jane Jenson

Neoliberalism profoundly challenged and destabilised post-1945 political projects, policy arrangements and practices of governing. In particular, there were concerted efforts to roll back existing guarantees to social protection and practices of interest intermediation, in the name of a larger role for the market, families and communities. In the last decades of the twentieth century almost all countries were subjected to pressure for change in their citizenship regimes. This pressure came from neoliberal political forces operating both within and outside the country. Classical neoliberalism has lost its hegemonic position, however. Long before the financial meltdown of autumn 2008 revealed the fundamental limits of financial deregulation and reliance on capitalist forces to regulate market relations, there was a recognition in many countries that neoliberalism had reached its social policy limits.

Ideas about ‘social investment’ began to spread from the beginning of the mid 1990s’. Social citizenship regimes that rely on this new perspective are intended to sustain a different economy than those that came after 1945 – the knowledge-based and service economy. The announced goals of the social investment perspective are to increase social inclusion and minimise the intergenerational transfer of poverty as well as to ensure that the population is well prepared for the likely employment conditions (demand for higher educational qualifications; less job security; more precarious forms of employment) of contemporary economies. Doing so will allow individuals and families to maintain responsibility for their well-being via market incomes and intra-family exchanges, as well as lessening the threats to social protection regimes coming from ageing societies and high dependency ratios. The state’s role is to define its interventions and social citizenship practices so that these conditions will be met. In policy terms this implies increased attention to and investment in children, human capital and making work pay.

The contention of this paper is that, from a variety of positions and in order to serve a variety of objectives, governments adjusted their social policies to incorporate the social investment perspective. In doing so they did not try to return to the Keynesian past; they did not reject all of the social thinking of neoliberalism. They did, however, 27

begin to retreat from classical neoliberalism's emphasis on markets and communities as the main pillars of well-being and started to identify ways to better address the new social risks of contemporary economic and social relations. In doing so, they were redesigning social citizenship and relations between the state and citizens more broadly.

The social investment perspective never achieved consensus. It is most often used to frame the contemporary policy interventions of Nordic welfare regimes (Esping-Andersen with Palier 2008) or liberal regimes (Jenson 2007).¹ Bismarckian regimes have been slow to move towards social investment, while the European Union may have flirted with it over making a commitment. The social investment perspective is not confined to Europe, and can be found in the social policy perspectives of several Latin American countries as well as international organisations, especially the Organisation of Economic Cooperation and Development. Despite both this lack of consensus and widely varying expressions of it, there is merit in undertaking a systematic analysis of the general terms of the social investment perspective.

The Social Investment Perspective and Social Citizenship

Consensus is growing that the classic neoliberalism of Thatcher, Reagan, and forced structural adjustments are giving way to something else. There is less agreement, however, on what is emerging. Multiple labels are suggested: the third way (Giddens 1998); 'inclusive liberalism' (Porter and Craig 2004); the LEGO paradigm (Jenson and Saint-Martin 2006); the 'developmental welfare state' (Hemerijck 2007) or simply a 'new welfare state' (Esping-Andersen et al. 2002), for example. Of course, this lack of consensus either about naming a policy trend or about uncovering varied expressions and implementations of an idea is not unusual. After 1945 even Keynesianism ideas were domesticated in a variety of ways by national governments and they were often labelled as something other than 'Keynesian'. After the fact, however, the general trend toward countercyclical spending linked to social protection was identifiable in numerous locations and jurisdictions (Hall 1989).

The analytic task, then, is to go beyond local expressions to uncover the policy logic. Doing so reveals growing policy enthusiasm for a social investment perspective and the adjustments in social citizenship that result.² Its logic differs from those of the social state of the Keynesian era or the privatisation emphasis in neo liberalism.

In order to undertake this mapping, I use the heuristic of the *citizenship regime*, an analytic grid that permits one to make visible three intersecting dimensions of social citizenship: rights and duties, access and governance, and the responsibility mix (Jenson and Phillips 1996). Doing so in a comparative fashion provides a documentation of the characteristics of the social investment perspective compared to two other policy paradigms, those of Keynesianism and neoliberalism.

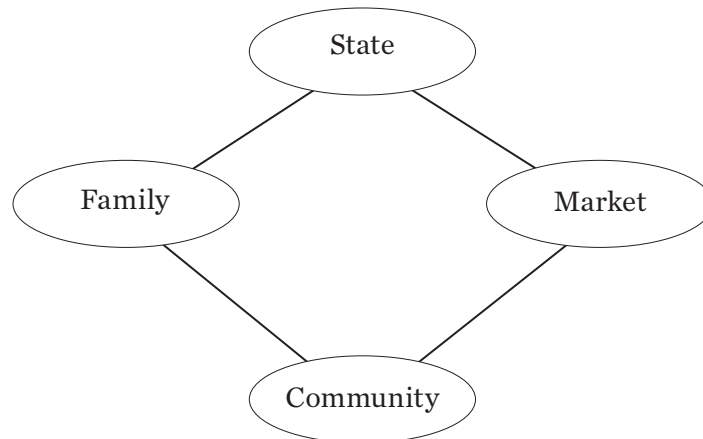
1. The exception to this generalisation is the United States under George W. Bush.

2. I am not claiming that this perspective is particularly progressive or particularly non-progressive. Assessment of the social investment perspective according to its consequences for a fair and just distribution of wealth or for the promotion of equality is a task for another paper. The one undertaken here is to describe the perspective and its consequences for social citizenship, the notion being that it is always helpful to know what is really going on.

The Responsibility Mix

The responsibility mix refers first and foremost to the distribution of tasks in what we can label the ‘welfare diamond,’ represented in Figure 1. This four-cornered image captures the distribution of responsibility for well-being in the market, family, community and state. That which is assigned to the state constitutes an essential element of social citizenship.

Figure 1.



When Keynesian economics dominated in the post-1945 years, all welfare regimes allocated a major role to the market as the foundation of well-being for most citizens and their family. The role of the other three sectors was to fill gaps left by market provision of income or services, while the state in particular would compensate for inadequate or limited market access (because of age, illness, family circumstances, lack of education and skills and so on) or to make it possible to withdraw from or remain outside the labour market (so as to engage in training, parenting and so on). Under the influence of Keynesianism macro-economic thinking the prevailing assumption was that social spending ‘would complement the market economy: it would be an instrument of automatic countercyclical stabilization, it would ensure an educated and healthy workforce; and it would provide the complex social infrastructure essential to an urban economy’ (Banting 1987: 185). It would also complement the family’s contribution to intergenerational well-being and reproduction. The community corner of the welfare diamond was important because many social services were publicly funded but actually provided by organisations in the third sector and anchored in the community. Church-based hospitals, senior residences, schools and so on provided many health and education services, often using public funds. Sometimes the partnership was quite explicit, as in the Bismarckian welfare regimes of continental Europe, where religious institutions and unions organised and ran pension funds and provided social services. Sometimes the partnership was very important but less visible, as in liberal welfare regimes where the growth of the welfare state also involved the expansion of non-profit agencies providing services of all kinds, at least partially with public funds.

In post-1945 social states, policy communities tended to describe government spending on social programmes and services as expenditures on social security for social protection, as well as serving to stimulate the economy in times of downturns in growth and employment; social spending was viewed, in other words, as a support

for the economy as well as individuals and families. In contrast to this set of ideas, the neoliberal perspective of the 1980s assumed that markets could and should generate all well-being and it spread the diagnosis that social spending and state intervention were in conflict with economic prosperity. Such ideas generated neoliberals' vision of the proper responsibility mix, downplaying the role of the state in favour of 'structural adjustments'. Relationships across the welfare diamond had to be redesigned so as to allow markets especially but also community-based organisations to reclaim their 'rightful' space in the allocation of well-being and to shrink the space of social citizenship. Families were also called on to 'exercise greater responsibility' for themselves.

Under the influence of neoliberals, governments limited access to social programmes and redesigned programmes. Those for the unemployed and social assistance recipients were targeted for cutbacks if not elimination, at the same time that programmes were intended to ensure that the 'employables' (particularly young people and lone parents) would be supplied to the labour market rather than going on to social assistance. The neoliberal perspective was particularly enthusiastic about the role of the community sector, seeing it as an alternative source for collective solidarity to that of the state. Communities and organisations were called on to organise themselves to become more business-like, and as such they could hope to be given contracts to provide services such as job training or services to the vulnerable elderly.

The social investment perspective's macro-economic analysis retains the focus on the supply-side that neoliberalism instituted and it is in this context that talk of social investment (rather than spending) provides discursive coherence. When enthusiastic about the market, it is of course natural to speak of investments. Therefore, as more activities are organised according to market principles, individuals and their families are called on 'to invest in their own human capital' so as to succeed in the labour market. At the same time they must invest in their own futures, via savings for their retirement pensions and their children's education. However, in contrast to neoliberal ideas, the state is also meant to share some of this responsibility, by ensuring adequate services (for example, child care) as well as by income transfers to make up for the fact that market incomes are often not high enough to meet family needs.³ It must also ensure access to the means of acquiring human capital, that is education and training (see Nelson and Stephens, and Palme, chapters 4 and 12 this volume). Such themes also clearly signal that the perspective is not simply an anti-poverty measure; social investments are for the middle-class too. In other words, it is an understanding of public interventions that rallies those who want social policy to focus on education, including early childhood education, on training, and on making work pay as well as those who are concerned about child poverty. Sharing the OECD's key notion that social spending is not a burden but an investment in economic growth, developed in the mid-1990s, the European Union could quickly move towards its own version, describing *social policy as a productive factor* under the Dutch Presidency of 1997 (Hemerijck 2007: 2).

Despite allocating a larger role to the state and opening up greater space for social citizenship, the social investment perspective does not reject the premise of either Keynesians or neoliberals that the market ought to be the primary source of well-being. It too emphasises the importance of paid employment and other forms of

3. For example, a survey in 2003 found that eight of the EU 15 countries had instituted an in-work benefit (Immervoll et al., 2007: 35). Sweden added its own in-work tax credit in 2008.

market income. But, whereas neoliberals assumed that market participation was the solution, the social investment perspective is suspicious that the market may not be producing sufficient and adequate employment for everyone. A common social investment prescription is the need to 'make work pay,' not only by making it competitive with social benefits rates but also by supplementing wages, providing low-cost services, or both.

It is in these terms that early childhood education and care (ECEC) can become a support for economic growth and social development. In the social investment perspective ECEC is not simply a family matter, as it was for liberal welfare regimes until very recently. Nor is it simply a support for workers, as it was initially in social democratic regimes.⁴ Asset-building is another favourite of the promoters of the social investment perspective.⁵ It involves public and private strategies intended to encourage and enable low-income persons to save and accumulate assets. Described as social investment, the plans often target adult savers through micro-credit programmes, but they are also popular as tools for promoting the capacity to invest in children and their human capital.⁶ In the United Kingdom, since 2002 the Child Trust Fund makes several payments into an account in the child's name (at birth and age 7); this money can not be accessed by parents while the amount is higher for low-income children. Canada's asset building programme for human capital acquisition is Learning Bonds, established in 2004 and targeted to children living in low-income families.⁷

Policy communities' focus on both ECEC and asset-building requires the state to underwrite activities which for Keynesians as much as neoliberals were private matters. In both cases neoliberals' emphasis on individual and family responsibility is muted, but there is also care to avoid the 'limits' of early welfare programmes, such as those that might have encouraged families to choose parental care over labour market participation as well as transfers for current consumption.

4. Both Esping-Andersen *et al.* (2002) and the OECD's *Starting Strong* project, initiated in 1998, have made this argument.

5. The case for asset-building as a new welfare policy approach, in comparison the outdated models is made in OECD (2003: ch. 1).

6. The OECD (2003: 17) makes the case for these instruments being social investments in this way: 'In a publicly funded asset-building scheme, the funds that match household savings or constitute the endowments of a "baby bond" programme really are not government current expenditures. They are savings, just like those of the households they benefit. Forget how government budgets may treat them; in the national economic accounts, they ought to be counted as "government saving", which is to say "government investment"'. In effect and under the rules of the schemes, governments transfer to households a portion of current revenues as a claim on human or physical capital. This forms the foundation for the idea of *social investment*. Following the reasoning above, it ought to be possible to simulate *ex ante* and to measure *ex post* social investment's net return over time, in terms of both economic growth and reduced income transfers because (if the arguments for Asset Building are correct) fewer people would live in poverty'.

7. See: http://www.hrsdc.gc.ca/en/hip/lld/cesg/publicsection/CESP/Canada_Learning_Bond_General.shtml

Table 1. Three perspectives on the responsibility mix of the citizenship regime.

	Keynesian perspective	Neoliberal perspective	Social investment perspective
Responsibility mix principally involves:	Market, state, family	Market, family, community	Market, family, state, community
Market	Can provide well-being for all, with a few exceptions	Should provide well-being for all	May not provide sufficiently for all
Family	Children are the responsibility of the family	Families need to take responsibility and make choices for themselves	Families have primary responsibility for children, but the state has responsibility too
State	Should spend to provide protection against social risks	Spending should be limited, because the state can create the risk of dependency	Spending should be investments, such as in human capital to support labour market participation in the future as well as present or to confront new social risks and poverty
Community	Represents citizens and advocates. Provides services in the shadow of the welfare state	May serve as a cushion to spending cutbacks and market failure	Potential partner in the provision of services, and source of local as well as expert knowledge

Rights and Duties of Citizenship

Beginning in the 1940s, citizenship rights were often distributed according to one's relationship to the labour market. In European corporatist (Bismarckian) welfare regimes for example, access to social rights depended on contributions to various social security regimes. In liberal regimes access to many social benefits depended on the relationship to the labour market, in that a non-relationship, either of one's own or a family breadwinner, opened access to the programmes of the social safety net. Furthermore, while social democratic regimes provided more universal rights, the employment nexus to social policy thinking was central to shaping social rights to retraining, pensions, leaves and so on.

Neoliberalism set out to dismantle many of these rights. Nonetheless, the story ended up being one more of redesign than retrenchment. As Francis Castles' detailed quantitative data analysis of the original OECD countries shows, stability rather than decline in spending levels is the story (Castles 2005: 414–18). He documents clear shifts in the composition of spending, with cash transfers declining relative to services (Castles 2005: 419).

The social investment perspective alters thinking about social citizenship and social rights in two ways, and these intersect to shape spending patterns. The first is increasing attention to children. If the youngest are future citizens, by middle childhood and the teen years, children have gained new rights and have become a

focus of citizenship discourse (Jenson 2001). The European Union, for example, begins its action programme for the *Renewed Social Agenda* with attention to children and youth, stressing access to education and combating child poverty (European Union 2008). This followed from the 2005 *Youth Pact* which promised not only to fight child poverty by fostering social inclusion but also to promote the political participation and rights of young people.

The second alteration introduces a new risk analysis into visions of social citizenship. New social risks can be defined generally as the result of income and service gaps in post-industrial labour markets as well as demographic and social transformations. The working-age population as well as several specific categories, such as lone-parent families and those in need of social care, are at risk of social exclusion as well as low income.⁸ Compared to the labour market of the industrial era, there has been a loss of well-paid and traditionally male jobs in production and an increase in low-paid and often precarious service work that may leave people among the ‘working poor’. These labour market shifts associated with the emergence of knowledge-based as well as service-sector employment create gaps in skills and earning capabilities. There has also been an increase in the female employment rate, as the service sector balloons and wages contract, making two incomes essential to keeping a family. Socially, family transformations mean smaller families and a significant increase in lone-parent families. Demographically, there has been a decline in the fertility rate and an increase in life expectancy.

Restructuring of labour markets and transformations of family and demography bring challenges of two broad types to conceptualising social rights and duties. The first relates to the means of ensuring income security via labour market participation. In post-1945 citizenship regimes, even social democratic ones, only men had the duty to seek paid employment. If women did so, until recently, their action was treated as a ‘choice’. The male breadwinner family is not a pillar of the social investment perspective. If a single male wage supported several adults and children 50 years ago, this is less true today, both because of job losses in the industrial sector and the rise of the service sector with its traditionally lower-paying jobs. More generally, the polarisation of the post-industrial income structure in many countries has generated an increase in low-income rates among young families, whether lone-parent or couples, and therefore the appearance of what has been termed ‘child poverty’ in many policy circles.

Neoliberals treated the consequences of these restructuring as ‘private matters’ or as justification for harsh forms of workfare (Bonoli, chapter 3 this volume). Their mantra was ‘any job is a good job,’ with little attention going to needs for supports such as transportation, training or childcare in order to stay in work. Active labour market policies have replaced these harsher policies. If ALMP were familiar in Nordic countries from earlier decades, they are now found, albeit often after mutation, in all regime types. ‘Making work pay’ is the slogan of choice everywhere from the liberal regime of Tony Blair to the European Union’s Lisbon Strategy (see Bonoli, chapter 3, this volume).

Responses everywhere include not only ALMP but also the redesign of programmes that actually discourage people from taking up work because they would lose social

8. For studies relying on these definitions see Esping-Anderson et al. (2002), Jenson (2004), Bonoli (2005) and Taylor-Gooby (2004).

benefits. As Tony Blair and Gerhard Schröder (1999) put it in their manifesto: ‘A welfare system that puts limits on an individual’s ability to find a job must be reformed. Modern social democrats want to transform the safety net of entitlements into a springboard to personal responsibility’. Achieving these ends would involve income transfer to be sure, but additional services for social care as well as activation were understood to be needed as well.

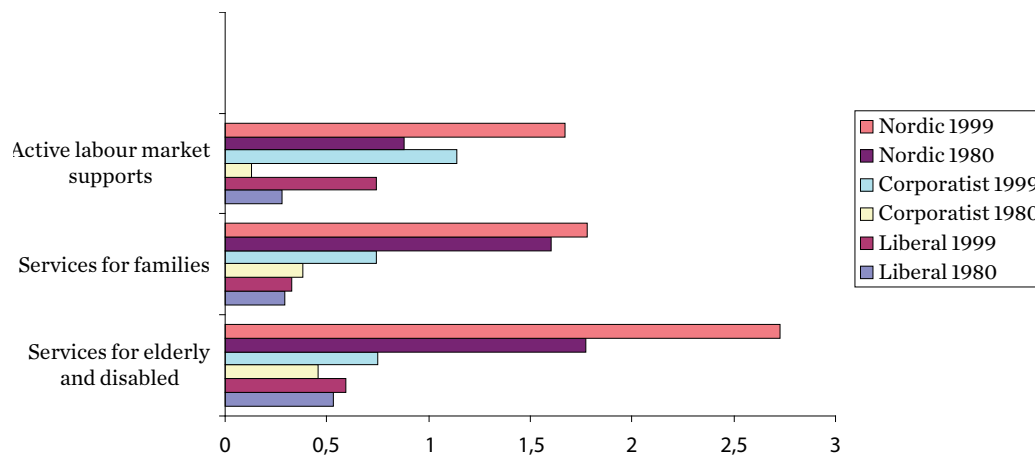
Of course social care needs are a challenge to increasing employment rates. There are now serious contradictions within the models for balancing work and family and social reproduction that were used when designing social citizenship rights after 1945. For example, women’s higher labour-force participation means reduced availability for full-time family caring while lone-parent families have only one adult to provide both income and care. Ageing populations mean more vulnerable elderly in need of social care, whether formal or informal.

Governments have responded to the new structure of risk, albeit at different rates and in different ways. For example, Germany’s improved parental leaves and childcare provision represents deployment of these instruments to respond to several new social risks such as changing family structure, women’s labour force participation and demography. Much more than in Sweden or Britain, the German programmes treat declining fertility as a social risk. The focus on children, breaking intergenerational cycles of poverty and improving the future that is the core of the social investment perspective takes this form in Germany (Huster et al. 2008: 18):

Under the guiding idea that Germany needs ‘more children in the families and more families in society’, the federal government identifies three priorities with regard to children, youths and families for the current legislative period (2005–2009): support of young parents during the family formation phase (see the Day Care Development Act and the new Parental Benefit Act), strengthening the bond between the generations (see the new federal model programme ‘multigeneration facilities’) and more attention to be paid to children ‘born on the dark side of life’ (meaning children who grow up under difficult social and economic conditions).

In a detailed analysis of spending patterns Francis Castles (2005: 420), comparing the years from 1990 to 2001 across 21 OECD countries, concludes that ‘... although the pace of structural change has not been dramatic, it has been quite consistent, suggesting a developmental tendency of precisely the kind predicted by the “new social risks” hypothesis’. Across all regime types services have gained ground in the expenditure mix. With the exception of the Bismarckian continental cases, the shift was particularly pronounced in the last period for which he has data, 1998–2001 (Castles 2005: 419). Changes in spending are the result, as Figure 2 documents. In all regime types, the 1999 numbers are higher than those of 1980, with the usual pattern of cross-regime generosity also being respected.

Figure 2. Spending trends on services for new social risks, by regime type, % GDP.



Source: developed from Taylor-Gooby, 2004:16.

The social investment perspective privileges investment in human capital and, not surprisingly, a variety of programmes seek to increase the human capital spending on children and young people. As Tony Blair, speaking in 2004 put it: ‘Together we need to build a childcare system that meets the needs of today’s family life, that is secure enough to fulfill children’s opportunities. ... We must, above all, ensure the best possible start in life for all our children who are our strength and our future’ (quoted in Dobrowolsky and Jenson 2005). Nor are these simply pious words (OECD 2006: 92):

... despite a very low base in many countries, provision for children under 3 is undergoing profound change, and receives growing government attention and funding. Since [1998] countries have introduced or made progress in policies that: introduce or improve parental leave (Canada, Italy, Norway, the United Kingdom); increase family-friendly work practices (Ireland, the Netherlands, Norway); introduce public-private partnerships into the provision of ECEC (Denmark, Sweden, Finland); and provide significantly greater access to early childhood services (e.g. Australia, Finland, Korea, Mexico, Portugal). Strategies have also been employed to address access barriers to centre-based services especially for low-income families (Belgium, France, Ireland, Korea) or to address supply-side barriers in low-income neighbourhoods (Australia, Canada, Germany, Ireland, Korea and Mexico).

While coverage rates are still not as high as demand – although Nordic countries are close to meeting demand – their change is significant.

With their emphasis on community involvement and social development, the design of ECEC often reinforces a more general shift, pioneered under neoliberalism and continued into the present, towards decentralised service delivery and sometimes design.

Table 2. Three perspectives on social rights and duties.

	Keynesian perspective	Neoliberal perspective	Social investment perspective
Social goals	Provide social protection	Avoid policy instruments that foster dependency; promote autonomy	Invest in prevention and human and social capital, in order to ensure growth and prosperity
Vision of equality	Equality of condition and equal opportunities	Inequality is inherent in markets and is necessary to motivate economic actors	Equality of opportunity
Risks to be covered by social and labour market policies	Unemployment, disability and sickness, extra costs of children, loss of income due to retirement or absence of a male breadwinner	Disability, sickness, threat of crime and social disorder, ageing	Family breakdown, low wage work or unstable work, challenge of balancing earning with social care, demography
Citizens' duties	<i>With respect to the labour market:</i> all citizens have a duty to work, but only male breadwinners must have paid work	All citizens have a duty to ensure they have sufficient income	All citizens have a duty to work but they also may have a right to adequate income, if the market does not provide
	<i>With respect to women's labour market activity:</i> 'choice'	'Choice' only for those women who can afford it	'Choice' only for those women who can afford it
	<i>With respect to education:</i> young people must remain in school until the end of mandatory schooling	Young people should remain in school until able to support oneself and one's family	Invest own human capital and that of their family members, from preschool through post-secondary education
Citizens' rights	<i>Income security</i> benefits when families fail to provide or when ill-health and age make employment impossible	A minimum of income security for the deserving poorest of the poor, with requirement of reciprocal responsibility (workfare)	Income security benefits not only when ill-health and age make employment impossible, but also when markets fail to provide sufficient income. Reciprocal responsibility applies
	<i>Publicly funded services,</i> some universally provided, some targeted	Publicly funded services only for those without adequate income or other means	Publicly funded services for those without adequate income and / or in need of support to enter employment and / or when the market fails to provide the service at an affordable price

	<i>Education</i> provided publicly from kindergarten	Education provided publicly from kindergarten to high school. Sometimes reduced support for post-secondary education institutions	Public support for early childhood education and care. Education provided publicly from kindergarten to high school. Reduced support for post-secondary education institutions and expectation of greater contribution from individuals. Expectation of individual investment in life-long learning
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Governance Arrangements and Citizenship Regimes

Instruments of governance are not neutral tools; they import objectives into a programme as much as they translate policy goals. For example, we have already seen the social investment perspective's reliance on asset-building tools as well as on promoting investments in human capital, even from the pre-school years. These instruments are a logical result of a social policy discourse constructed in terms of 'investment,' one that locates pay-offs from public spending in the medium and long-term.

This is a different notion of time than the one inscribed in the citizenship regimes associated with either Keynesianism or neoliberalism. In the Keynesian perspective the here-and-now was the most important timeframe and social citizenship focused on inequalities, inequities and challenges of the present that would be addressed in the present. The counter-cyclical economic instruments obviously supported such a notion of time.

One innovation of the neoliberal perspective was its focus on the future. As the standard analysis put it, spending in the present would risk mortgaging the well-being of future generations; it was better to keep debt low than to do that. The social investment perspective also looks to the future but in a somewhat different way. The results produced by any investment are located in the future, whereas consumption (labelled an expense by accountants) is something that occurs in the present. In this perspective then, for social spending to be effective, and therefore worthwhile, it must not simply be consumed in the present to meet current needs, but it must be an investment that will pay off and reap rewards in the future.

In this discourse, it is acceptable for the state to have a significant role, but only when it is behaving like a good business would, seeking to increase the promise of *future* profits. Spending for current needs, in contrast, must be canny and limited. There are, however, certain core costs which must be met so as to keep the enterprise solvent – that is to provide some protection against the costs of social exclusion. But such spending on items which are not really investments should be limited, directed only where it is 'needed'. The focus on the future also focuses policy attention on results (outcomes) and to life-course analyses based time-series information.

Social protection and security regimes put into place after 1945 fit well with traditional governance forms that have centralised bureaucracies, relying on hierarchical relations of accountability, focusing on different results among social groups and having concerns that spending conforms to the rules. Neoliberals prefer the privatisation of state services. They denigrate ‘bureaucrats’ and call on state employers to behave in more businesslike ways and learn how to manage as the private sector does, including by focusing on the ‘bottom line’. When proponents of social investment regrouped, they did not reject all of neoliberalism. Indeed, the very label ‘social investment’ served to project the image of the more businesslike, market-friendly and dynamic entrepreneurial state as well as one that was more responsive to community needs and concerns. It fit well with the ideology of the new public management that many governments had embraced since the 1980s as well as the shift of responsibility to other levels of government. Janet Newman and her colleagues (2004: 204) summarise changes this way:

The role of the state shifts from that of ‘governing’ through direct forms of control (hierarchical governance), to that of ‘governance’, in which the state must collaborate with a wide range of actors in networks that cut across the public, private and voluntary sectors, and operate across different levels of decision making. Public administration and social policy literatures variously describe the ways in which governments – in the UK, the USA and across much of Western Europe – have attempted to shift the focus towards various forms of co-production with other agencies and with citizens themselves through partnerships, community involvement and strategies of ‘responsibilisation’.

Beginning under neoliberalism there has been an increasing attention to the local and community levels of governance. This vision of the advantages of community and local involvement was retained in the social investment perspective. It leads to a willingness to collaborate with intermediary groups, but prefers them as partners in policy design and service delivery rather than as advocates for a constituency or as a social partner.⁹ As Tony Blair and Gerhard Schroeder put it in their 1999 manifesto: ‘Modern social democrats solve problems where they can best be solved. Some problems can now only be tackled at European level: others, such as the recent financial crises, require increased international co-operation. But, as a general principle, power should be devolved to the lowest possible level’ (Blair and Schroeder 1999). Commitment to governance practices that engage communities and NGOs is found throughout the European Union and its member states, reflected in numerous funding programmes as well as rules of engagement for the Open Method of Coordination. However, there is often a gap between commitment and practical success.

Patterns of access to political power have also altered with changing citizenship regimes. In the Keynesian world organised interests and associations were acceptable, indeed valued, parts of the representational system and this not only where corporatism was the norm. With its critiques of ‘statism’ and too much reliance on the public sector for the provision of well-being, neoliberalism assaulted existing relationships of representation, especially those involving organised labour. Beyond their attacks on trade unions, neoliberals mounted an assault on the identities of advocacy groups, labelling them ‘special interests’ and seeking to delegitimize their claims in the eyes of the public (Jenson and Phillips 1996). Neoliberals favoured forms of representation that appeared to allow ‘individuals’ and not groups to seek representation. The social investment perspective’s focus on

9. This lack of legitimacy for collective actors, especially the social partners, within the social investment perspective provided the main line of criticism of the original Third Way by Jacques Delors (2002: 12ff.).

the community demonstrates the influence of a growing belief in the advantages of ‘the local,’ of subsidiarity and of citizen engagement. The design of governance arrangements in the emerging citizenship regimes relies extensively on notions of consultation, communication and local involvement.

Table 3. Three perspectives on the governance dimension of social citizenship.

	Keynesian perspective	Neoliberal perspective	Social investment perspective
Time horizon in governance	Present, so as to avoid the past	Present, so as not to hobble the future	Future, which requires action in the present
Preferred forms of governance	Weberian hierarchical/bureaucratic	Corporate models plus privatisation	Networking and partnerships
Ideal form of intergovernmental relations	State-building via conditionality	Unilateralism and downloading	Asymmetrical collaboration via results-based co-ordination
Focus for evaluation of success	Inputs (spending)	Bottom line (costs)	Outcomes (cost-benefit)
Evidence base for policy	Cross-sectional data identifying social ‘problems’	Time-series data illustrating growing deficits	Longitudinal data identifying and tracking social investment opportunities and outcomes
Expectation of community sector	An organised expression of social needs and solidarity, meriting public support as part of the institutions of representation	Part of the private sector, often representing, a ‘special interest’. Might be harnessed by government to respond to pressing social needs	An organised expression of social needs and solidarity that requires public investment to build its capacity for partnerships
Expectation of private sector	Wealth-creating sector	Model for wealth creation and regulation	Wealth-creating partner and model for regulation

Why the Social Investment Perspective?

When these ideas about social citizenship are described together, as constituting a policy perspective, 1996 and 1997 become years of major change for social citizenship. By the mid-1990s, straightforward neoliberalism had hit an ideational, political and economic wall. There were clear signs of an organised critique of neoliberals’ premise that social policy generated negative economic outcomes. In the European Union, policy communities composed of European and national decision makers as well as academics argued that social policy provisions could be productive factors contributing to economic performance. There was a contingent convergence around ideas about a developmental welfare state, that depends in large part on a ‘child-centred social investment strategy’ and a ‘human capital investment push’ as well as pension reform (Hemerijck 2007: 12–13). Where did this come from?

The Contradictions of Neoliberalism

The promised cutbacks in state activity and massive savings in state expenditures failed to materialise, despite the insistence by neoliberals that their main goal was slashing state spending. Nonetheless, and despite the continued spending, social problems deepened and poverty rates mounted. Resistance to retrenchment and neoliberal politicians began to generate electoral successes for the political left in Europe. In 1997, the Asian crisis – a precursor of the current financial crisis and a signal that was ignored because it did not touch the United States or Europe with much force – destabilised the international economy and the international financial institutions in a frightening way.

The Asian crisis triggered fundamental reassessments of economic and social policy in much of the world. In several international organisations it finally became possible to question neoliberal analyses.¹⁰ A poverty reduction paradigm, in gestation for a number of years, took shape in the early and mid-1990s around a set of explicit and quantifiable goals for international development. They originated in agreements and resolutions of the world conferences organised by the United Nations in the first half of the 1990s, were adopted by the development ministers of the OECD in 1996, and were confirmed by the United Nations Millennium Declaration of 8 September 2000. These actions were generating social policy intended to be a sort of ‘safety net’ (Deacon 1997: ch. 3), but nonetheless they did constitute a rehabilitation of social policy as a legitimate form of state action. By 1997 the World Bank had also published its annual World Development Report with the title *The State in a Changing World*.

Another location in which the contradiction between the promises of neoliberalism and its outcomes occurred was in the OECD. In the 1980s, the OECD had been the leader of the ‘welfare as a burden’ position, diffusing the key idea among its membership and within policy communities at its 1980s conference on the welfare state in crisis, that ‘social policy in many countries creates obstacles to growth’ (quoted in Deacon 1997: 71). However, by the early 1990s concerns about stability and the limits of structural adjustment in the OECD and elsewhere, bubbled up in the idea sets of OECD officials. Social cohesion became a key word in policy discussion, and warnings appeared of the need to balance attention to economic restructuring with caution about societal cohesion, in order to sustain that very restructuring (Jenson 1998: 3, 5). This was followed by other institutions and groups noticing that neoliberalism seemed to have particularly negative effects on children and ‘child poverty’ emerged as an object of policy.

Nonetheless, identification of the contradictions can not by itself account for the emergence of a social investment perspective. That rapidly growing and entrenched poverty was identified as the key contradiction does reflect a shift away from the social citizenship paradigm of the post-1945 decades. This step was important because other diagnoses did exist, such as ‘lack of sufficient markets’ (which neoliberals continued to claim) or ‘insufficient redistribution,’ ‘too much liberalism’ and so on. But why settle on social investment?

Rallying Around Social Investment

Work on the diffusion of ideas has frequently noted that those that spread best are ones that can draw together numerous positions and sustain a moderate to high level of ambiguity. The ideas that work best are those that have scientific legitimacy, often having been generated by academic research, but that also provide a common sense meaning open to multiple interpretations. Social investment is one such quasi-concept, as was Keynesianism.¹¹

Keynesians are demand focussed, and their preferred instruments are those that create employment. The shift to supply-side analyses under neoliberalism focussed attention on ‘problems of supply’ and on solutions that called on workers to make themselves more employable. The social investment perspective retains a supply-side focus, but adds the notion that poverty and lack of access to services (including education) can hinder adequate supply.

As the OECD moved away from its classic neoliberalism it became one of the first institutional promoters of the notion of social investment for Europe and elsewhere. Social investment was considered by many more institutions than the OECD, of course, but that IO gave it an early boost as an approach to ‘modernisation’ of social policy. Ambiguous in its simultaneous backward and forward gaze, the term was useful for the OECD both to refer back to neoliberals’ preference for markets as decision locales and to make claims for new spending, all the while allowing a distinction to be made between the ‘bad old days’ of social protection and promising future of social investment. Orientations adopted in a 1992 ministerial conference included the premise that ‘non-inflationary growth of output and jobs, and political and social stability are enhanced by the role of social expenditures as investments in society’ (quoted in Deacon et al., 1997: 71). This position led to the argument that there was a need to spend rather than simply cut back in the social realm. The 1996 high-level conference, *Beyond 2000: The New Social Policy Agenda*, concluded with a call for a ‘social investment approach for a future welfare state’. OECD experts immediately began diffusing a social investment argument structured in now familiar terms: ‘Today’s labour-market, social, macro-economic and demographic realities look starkly different from those prevailing when the welfare state was constructed. Social expenditure must move towards underwriting social investment, helping recipients to get re-established in the labour market and society, instead of merely ensuring that failure to do so does not result in destitution’ (Pearson and Scherer 1997: 6, 9). Sharing the OECD’s key notion that social spending is not a burden but an investment in economic growth, the European Union also began describing *social policy as a productive factor* in 1997 (Hemerijck 2007: 2). This mixing of economic and social objectives is inherently ambiguous.

Intellectuals from a variety of milieus became the promoters of the social investment perspective, including its child-centred focus. Their contribution was often to expand the ambiguity of the concept further, however. Perhaps the best-known intellectual promoting social investment in the European context and in terms very similar to those already developed by the OECD in the mid-1990s is Gøsta Esping-Andersen. For him, a real ‘child-centred social investment strategy’ is what

11. Peter Hall’s classic collection on the diffusion of Keynesian ideas after 1945 made this point: ‘To be Keynesian bespoke a general posture rather than a specific creed. Indeed the very ambiguity of Keynesian ideas enhanced their power in the political sphere. By reading slightly different emphases into these ideas, an otherwise disparate set of groups could unite under the same banner’ (Hall in Hall 1989: 367).

the Nordic welfare states have been doing, and is done best there (Esping-Andersen et al. 2002: 51). This strategy is essentially one to ensure ‘social inclusion and a competitive knowledge economy’ via activation, making work pay and reducing workless households, the need for all of which are included in the chapter on child-centred social investment (Esping-Andersen et al. 2002: ch. 2).

His notions of social investment are quite different from those of another well-known European intellectual, Anthony Giddens (1998), who called in the mid-1990s for a ‘social investment state’ that would invest in human and social capital. His formulations were close to those of Tony Blair’s New Labour, which frequently described its actions as being social investments. In other words, Giddens’ use of the idea of social investment was more supply-side oriented and more limited in its proposed interventions than were Esping-Andersen’s proposals. It is not surprising, therefore, that the latter is critical of New Labour and calls instead for his own ‘truly effective and sustainable social investment strategy ... biased towards preventive policy’ (Esping-Andersen et al. 2002: 5). We see, in other words, not only a battle between two well-known intellectuals struggling for policy influence but also the range and ambiguity of the notion. Policy communities could appeal to one version or the other or even combine the two, as the European Union did in its preparations for the renewal of the Lisbon strategy between 2006 and 2008 (Jenson 2008).

But What about the Financial Crisis?

The social policy initiatives developed over the last decade around the goals of healthy child development, increasing human capital and activation are the result of this process of rallying around a set of ideas. But, is the social investment perspective solid? If the Asian financial crisis was a factor loosening the grip of neoliberal ideas in some of the major international organisations and if concerns about social cohesion and its risks prompted European and other governments to adjust their calculus of the ‘costs’ of social policy, this does not mean that the social investment perspective will thrive in the current financial meltdown. Enthusiasm in the United States for ‘throwing money at the problem’ as well as ‘rescuing’ industries and banks drives social policy even further into the shadows. Spending on childcare and human capital does not appear to promise fast payoffs to crisis managers. Reducing poverty by creating quality jobs does not appeal to governments driven to ‘create jobs,’ any jobs.

The challenge is, in other words, to resist falling into practices that will simply leave social policy – and the citizens who depend on it – on its own, in order to save the macro-economic infrastructure. The lesson taught by the promoters of the social investment from the years of neoliberalism is that a solid economy depends on sustainable social policy practices. Returning to neoliberals’ obsession with redesigning macro-economic and financial structures by slashing the social protections of some (autoworkers) and failing to provide for others (where have all the children gone?) is a detour Europeans must resist. There is another way.

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Child Care and the Social Investment Model: Political Conditions for Reform

Kimberly J. Morgan

After many years of neglect by policy-makers and scholars alike, the social investment approach to social policy has put the spotlight on the issue of child care. Child care is a linchpin of the social investment approach, which seeks to shift the emphasis of public spending from passive transfers towards active, human-capital boosting investments. Broadly-available, high-quality child care should achieve this by providing developmentally-stimulating programmes to young children while also enabling mothers to be in paid employment. For women, this prevents the skills degradation that accompanies time out of paid work and also helps combat child poverty by boosting household income. Another, less often noted, effect results from the fact that childcare services are a source of employment, often for lower-income women who might otherwise struggle to find a foothold in the labour market.

In short, child care embodies the multiple goals of the social investment model and it is for that reason that social investment advocates such as Gøsta Esping-Andersen have put it at the centre of their analyses, arguing that broad-based access to child care is crucial to fighting child poverty, reducing inequality, and promoting societal well-being. The need to improve childcare provision also has become increasingly prominent in European Union policy since the adoption of the European Employment Strategy in the late 1990s. As part of the strategy, the member states agreed at the 2002 European Council meeting in Barcelona that by 2010 they should provide child care for at least 90 per cent of children aged three to the mandatory school age, and 33 per cent of children below the age of three. The OECD also has been beating the drum for variants of the social investment model for years, championing active labour market policies, ‘flexicurity’, and expanded childcare provision.¹ These organisations can only plead the case for child care, however, as domestic political processes ultimately determine adoption of significant social policy reforms (Jacobsson, chapter 7 this volume).

1. See, for instance, the series of reports released by the OECD about work-family policy arrangements in different countries, titled *Babies and Bosses*. On the OECD’s role in promoting particular social policy visions, see Rianne Mahon and Stephen McBride, eds (2008), *The OECD and Transnational Governance Vancouver*: University of British Columbia Press

What then are the domestic preconditions for the adoption of a social investment model in child care? Answering this question is complex as significantly increased spending on child care does not necessarily represent an embrace of the social investment model. A further complication lies in the fact that there is no unified model of reform. The task of this chapter then is to characterise the nature of recent changes that have taken place, compare these reforms to the social investment ideals that are commonly articulated, and then probe the political forces driving these reforms.

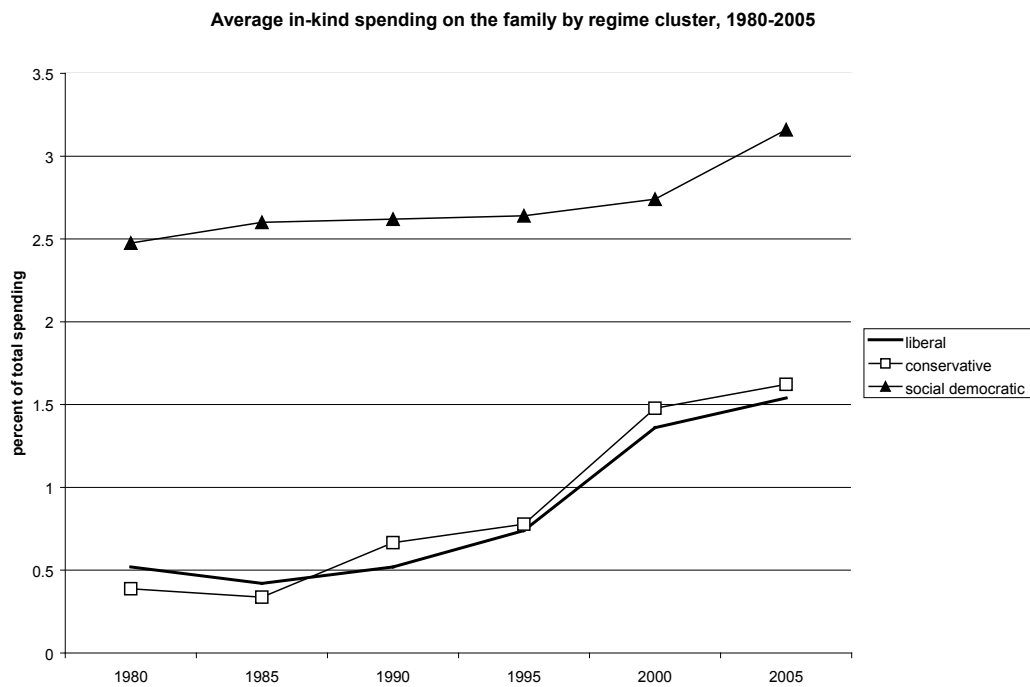
The chapter focuses on three ‘path-shifters’ – Germany, the Netherlands, and the UK – who have broken from what appeared to be entrenched immobility on childcare policy. The common conditions for reform in these three countries are a broadly-shared sense of crisis in the status quo and push for political modernisation by reform architects on either the left or the right. Although governments in these countries have adopted elements of the social investment model, both in rhetoric and in concrete policies, furthering this model has not always been the main goal of reform: often, short-term political calculations and other concerns have dominated the policymaking process. Moreover, although these path-shifters have adopted important elements of the social investment model, they fall short in their lesser commitment to gender equality and refusal to develop a ‘service state’ that would use trained, decently-paid, public sector workers to deliver high-quality services for all.

Trends in Childcare Policy

For years, policymakers paid scant attention to child care in most of Western Europe. Only a few countries began developing an infrastructure of childcare services relatively early – by the 1960s and early 1970s – that laid the foundation for the universally-available services they are today. Denmark and Sweden went the furthest in this regard, followed by Finland and Norway, and in continental Europe, France and Belgium had universal long-day preschool programmes for children above the age of 2-1/2 by the 1980s. In the rest of Western Europe, many countries developed preschool and kindergarten programmes that would become widely available but many of these programmes were open for only part of the day or part of the week and thus unhelpful for working mothers.

The period of stasis around child care started to come to an end by the mid to late 1990s. As figure 1 shows, the general trend across Western Europe has been increased spending on in-kind, family-related services, but there is still a sizeable gap between countries clustered along the conventional typology. Figure 2 singles out some of the ‘path-shifters’ who have made the most significant change in policy in recent years: the UK, the Netherlands, and, more recently Germany, with France and Sweden shown for comparison as countries that had achieved fairly high levels of spending prior to the mid-1990s. It should be noted that the data only go through 2005 and thus fail to capture recent German reforms that expand the generosity of parental leave and increase spending on child care.

Figure 1. In-kind spending on the family as percentage of total public expenditures, welfare regime clusters, 1980–2005.

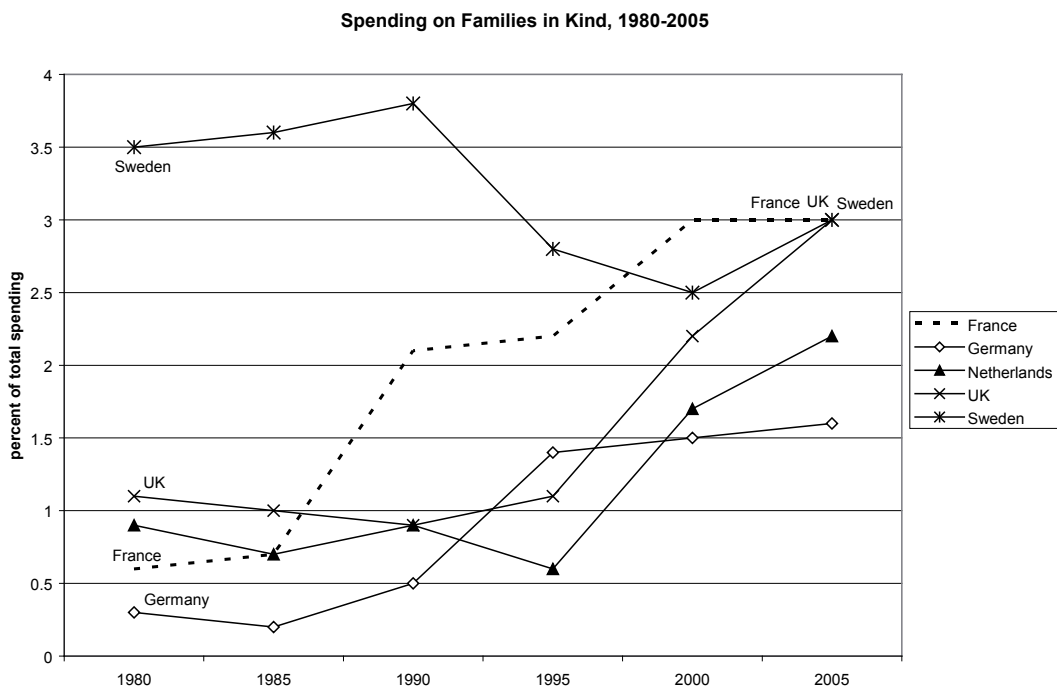


Source: OECD Social Expenditure Database.

Spending in this category includes day care, home help services, and other in-kind services.

Clusters include the following countries: Liberal: Australia, Canada, Ireland, UK, US; Conservative: Austria, Belgium, France, Germany, Greece, Italy, Netherlands, Spain, Switzerland; Social Democratic: Denmark, Finland, Iceland, Norway, Sweden.

Figure 2. In-kind spending on families as a percentage of total public expenditures, select countries, 1980–2005.



Source: OECD Social Expenditure Database.

Of course, spending trends offer an imperfect indicator, as the mere fact that countries are spending more on family-related benefits and services does not necessarily mean they are pursuing a social investment strategy. What types of childcare reforms would be congruent with such a strategy? As shown by Jane Jenson in this volume (see chapter 1), a central theme of this discourse is the need to promote women's participation in paid work. Childcare policies should therefore be structured to support and encourage mothers' employment, with appropriate schedules or after-school services that enable full-time paid work. The programmes themselves can also be a source of employment, particularly for less-educated women. Beyond this, a social investment focus should lead policymakers to pay considerable attention to the quality of services being provided. Advocates of the model often hold up child care as a way to combat child poverty, both by raising family income through mothers' employment, but also through the provision of developmentally enriching services to low-income children (Esping-Andersen 2003). More generally, early education programmes are held up as an investment in the human capital of a nation's children, so that they can be productive workers in the future. The terminology increasingly used by policymakers and advocates – early childhood *education and care* (ECEC) – encompasses the two dimensions of these programmes. Finally, in discussions over the social investment model, concern about gender equality is at times, but not consistently, raised. In EU policy papers and statements, OECD documents, and intellectual debate, there has been a growing realisation that simply increasing spending on child care is not enough to promote the integration of women into paid work: deeply-rooted inequalities in the division of unpaid work also need to be addressed. We might therefore expect that policy-makers who are fully committed to the social investment model would seek to tackle these larger issues, through the creation of daddy-only parental leave time for instance, or other measures that encourage men to take on more domestic responsibilities.

By these measures, how do our three path-shifters look in the extent of their commitment to the social investment model?

Childcare Policy in the Path-Shifters: The UK, the Netherlands, and Germany

Based on rhetoric alone, the UK appears committed to social investment-type ideals: New Labour was one of the original champions of this approach as part of its Third Way between the Old Left and New Right, and New Labour governments have repeatedly couched their proposals for expanded child care and family support in social investment language. It has taken some time for these investments to materialise, but many reforms follow a social investment logic, with an emphasis on activating women's employment and combating child poverty. Policy changes since 1997 include the gradual expansion of paid maternity leave from 14 weeks to a 12-month entitlement scheduled to come into effect in 2010, enactment of an unpaid parental leave entitlement of 13 weeks (as required by the European Union), and the creation of a right for parents of children under six to request a more flexible work schedule, which their employers must seriously consider. There also have been expanded tax subsidies for child care, obligations placed on local authorities to assure adequate access to these services, and guarantees of a certain amount of free nursery school care for all three and four year olds.

Not all elements of the social investment model have received equal weight. For instance, the concern about child poverty has been more important than the goal of assuring access to services for all working parents, as many of the subsidies have been targeted to poor families and prioritised part-day educational services. Gender equality also has not been a high priority, although the better-paid maternity leave will be of great help to many women, and, in a bow to gender equality concerns, men are entitled to take up to six months of the leave. However, the government has refused to change the name to a parental leave, perhaps because this might stoke expectations of higher remuneration and other reforms to encourage fathers to take the leave, and policy-makers seem to think few men will take up the option.

UK childcare policy also falls short of the social investment model in its often inadequate attention to both childcare quality and the quality of jobs in the childcare sector. The core problem is that reforms have encouraged a private childcare market through a combination of municipal grants and tax subsidies. The 2006 Childcare Act explicitly bars local authorities from providing child care directly as long as there are private actors willing to do so. Yet, given the personnel-intensive nature of childcare services (e.g. high staff-child ratios), private childcare markets are difficult to sustain without extensive subsidies. Indeed, such markets generally emerge in countries with a low-wage labour force, high degree of income inequality, and/or a large (and often illegal) immigrant population that can serve as household and day care centre workers. In the UK, reliance on inadequately-subsidised private providers has produced the outcome that prevails in the US: services of very irregular (and often inferior) quality that are staffed by a low-wage and unstable workforce, yet that are still expensive for parents – particularly for lower-income families (Penn 2007).

This vitiates some of the benefits of child care for social investment. The cost of care in the UK is often two to three times higher for lower-income parents, leaving these families to depend on cheaper, lower-quality care and multiple care arrangements that do little for child development. The childcare sector also generally does not offer lower-income women a pathway towards stable, trained, and decently-remunerated work: childcare workers tend to cycle in and out of the sector, often acquiring limited skills and experience, much as in the United States. To the credit of the Labour government, the quality issue has received more attention recently. However, inadequately subsidised private services are unlikely to provide the kind of stimulating care at reasonable cost that is essential for the goals of the social investment model to be met.

The Dutch reforms since the 1990s have emphasised the activation of women's employment but also paid less attention to gender equality or the quality of the services. Certainly, one should not underestimate the magnitude of the shift in Dutch policy towards working mothers and their children. For decades, the Netherlands had very limited access to full-day child care and low rates of mothers' employment. In a significant U-turn that began in the 1990s, Social Democratic-Liberal governments adopted measures to support and increase women's workforce participation, including a right of all employees to work part time and increased subsidies for child care. The proportion of children in publicly-subsidised child care has increased significantly, achieved largely through demand-side subsidies of private childcare providers.

In terms of the dominant political goals, activating women's employment in some form or other was more important than promoting gender equality in paid and unpaid work. Officially, the above reforms were supposed to promote egalitarian objectives by enabling a *combinatie scenario*, whereby each parent would work part-time and children would attend day care part-time. In practice, only about eight percent of couples with young children practice the *combinatie scenario*; in most, mothers reduce their working time, often to very short hours, while fathers' time in paid work is actually higher than that of other men. Perhaps this simply reflects parents' preferences in how to divide paid work and care, but given how costly Dutch day care is – owing to inadequate public subsidies – many parents have few options but to use day care part time. A lack of attention to gender equality also is evident in the approach to parental leave: the fairly short (four-month) and reasonably paid maternity leave was preserved, but there was no impetus towards a longer, well-paid parental leave that would encourage male participation; instead, there is an unpaid version that complies with EU requirements (as in the UK).

Finally, less attention has been paid to ensuring that all parents can access good quality care. Again, this reflects the decision to subsidise a private childcare market indirectly through demand-side subsidies. As in the UK, staff are low-paid, and there is a bifurcation between education and care, with those working in child care less educated and trained than those in the education sector. At the same time, the cost of care for parents is often quite high, including for lower-income parents, although, in contrast to the UK, costs are more successfully income-gradated so that lower-income parents are not paying relatively more of their income on day care than are higher-income parents (Adema 2007). In short, on promoting gender equality, child development, and job quality for less-educated workers, the Netherlands falls short of the social investment approach.

In Germany, we might also think that the drive to expand access to child care has followed a social investment logic, given that Social Democratic Chancellor Schroeder publicly avowed his commitment to a *Neue Mitte* in economic and social policy. Employment-activating reforms followed, but the Social Democratic-Green governments of the late 1990s and early 2000s did little to specifically promote mothers' employment. There was an important reform in childcare policy in 2004, the *Tagesbetreuungsbaugesetz*, which required local authorities to provide sufficient access to childcare for children below the age of three, supported by 1.5 billion euros that were to be saved through labour market reforms. However, this law reflected an intensifying concern about low fertility rates – some of the lowest in Western Europe – as evidenced by reports commissioned, and statements made, by the SPD Family Minister, Renate Schmidt.

Pro-natalist discourses became even more prominent around the more recent SPD-CDA reforms: a 2008 law, the *Kinderförderungsgesetz*, creates a right to child care for all children from the age of one, and in 2007 the governing coalition agreed to devote 4 billion euros over five years to expand the availability of child care. Another reform increased tax breaks for parents' childcare costs. Finally, major changes also were made to the parenting benefit and leave, which had been long (up to three years), means-tested, and poorly paid (about 500€ a month). The new leave/benefit is for 12 months and pays workers two thirds of their salary, up to a ceiling. An effort to make the leave gender egalitarian was somewhat successful: in its initial incarnation, the leave was to be 10 months with two reserved for the father (or the

parent who did not take most of the leave). When concerns were voiced that the leave time mothers likely would take would be too short, it was lengthened to 12 months, plus two extra months for the father. Although the decision to set aside a father's quota was an important one from the standpoint of gender equality principles, the Nordic experience shows that most men will take at most the two months allotted to them, and no more.

As in the UK and the Netherlands, less attention has been paid to the quality of childcare services, or the staff responsible for delivering them. This is surprising given that some claim a PISA-shock – a reaction to the low ranking German students achieved on the OECD's Programme for International Student Assessment – was one driver of the reforms (Rüling 2008). Problems in the quality of care had already been publicised: a well-publicised study of German kindergartens from the 1990s found that only one third could be considered good quality, with the rest either mediocre or poor quality. Yet, the tradition of subsidiarity, and thus deference to 'Länder', municipalities, and the voluntary sector that runs many of these programmes, impedes national efforts to impose standards or a common curriculum (Evers, Lewis and Riedel 2005).

In sum, there have been a host of reforms driven by a varying array of motivations, only some of which are congruent with the social investment model. Childcare services are expanding and more resources have gone towards maternity and parental leaves, but some services are of questionable value both for children and as a source of employment for less-skilled, female workers. In many cases, policy-makers are attempting to promote work-family 'reconciliation' but are not necessarily tackling the deeper sources of gender inequality in paid work or care.

What political, economic and social forces appear to be driving these varied reforms?

The Politics of Reform

One common factor among these three path-shifting countries is that all were extremely poor performers on the dimensions that have dominated policy debate in each country. Startlingly high rates of child poverty in the UK were the main motivating force for their reforms, as was the very low prevalence of mothers' employment in the Netherlands. Similarly, a sense of crisis over low fertility rates in Germany jumpstarted the overhaul of a conservative and passive approach to family policy. In each case, political actors from across the spectrum came to agree on the existence of the problem (even if they did not agree on how to deal with it), which catalysed political energies and enabled policymakers to overcome some of the obstacles to policy reform. Thus, the UK overcame longstanding cultural and political opposition to a government role in the family, the Dutch dropped much of their traditional antipathy to out-of-home care for young children (although use of such care only part-time helped smooth the transition), and German policymakers have been able to circumvent some of the inter-governmental obstacles that stand in the way of a national childcare policy.

A second observation to make about path-shifting countries is that in each one, the architects of the reforms were preoccupied with the need to modernise not only the welfare state but their own political parties through appeals to a valuable political

constituency – middle class couples with children in which, increasingly, mothers want or feel obliged to be in paid work. In Germany, for instance, the CDU embrace of reforms to promote mothers' employment resulted from internal party debate over the need to capture the votes of younger men and women with more gender egalitarian aspirations. In the UK, Blair's New Labour sought to revitalise the political fortunes of the party by promoting not only a new set of ideas, but by tailoring programmes and policies to meet the day to day needs of families. The resonance of these policies with the public – many of whom welcome more generous family benefits and services – helped dampen controversy around them; instead, opponents have had to basically get on board with the broad objectives of the reforms, albeit with some grumbling (e.g. the CSU in Germany, the CDA in the Netherlands, and Conservatives in Britain).

A third observation is that these two factors alone are not enough to generate a full social investment orientation in childcare policy. In fact, looking across a broader array of OECD countries makes plain how rare such an approach is. Only some of the Nordic countries have achieved this through an 'educare' approach to child care that fuses educational and care-giving motivations, but also includes a strong focus on gender equality. Even so, only Denmark and Sweden offer a sufficient supply of high-quality services staffed by skilled and decently-remunerated employees, and if one really wants to be exacting, one would remark that family day care – run by less well-trained personnel – makes up a sizable portion of the Danish childcare system. In short, only a few countries have childcare systems that embody the deeper goals of the social investment model, and countries such as Sweden and Denmark possess many attributes that are conducive to gender-egalitarian, child-oriented, and active social policy. Left political power, strong and encompassing unions, high levels of female political representation, political centralisation, social and cultural homogeneity – all of these factors likely played a role in the forging of their approach to families and working parents.

This is not to say that important elements of the social investment model have not been adopted by other countries, as in fact they have. However, observing the limitations of each country's approach does explain why they are unlikely to fully meet the goals of the social investment model in child care. The UK has made some progress in combating child poverty, but child poverty rates remain high compared to other European countries. Similarly, Dutch policies in recent years have contributed to a rapid increase in women's employment, but largely through part-time work. Gender inequality in paid and unpaid work thus remains quite significant. German fertility rates are inching up, but are unlikely to attain French or Nordic levels any time soon.

The crucial element missing from the more recent path-shifters is a commitment to what Evelyne Huber and John Stephens label a 'service state' of not only publicly-funded services, but state-provided ones. Such a system is more likely to meet the varied goals of the social investment model, not only supporting mothers' employment through access to child care, but making sure that services are high-quality and provide good jobs to their employees. Access to such programmes can be truly universal, not mediated by markets that tend to stratify access by income and education. Such a model is found most comprehensively in the Nordic countries and reflects the strength of social democratic political power, although there is a

their universal preschool systems. Probably just as important as left-wing political power is the existence of public-sector unions, either at the onset of these programmes or as a result of them, which can protect the employees who work for them.

Yet, the social investment model as advocated by New Labour and other ‘modernised’ variants of the left rejects state provision as archaic while valorising markets as a superior (and, from the standpoint of the state, cheaper) form of service delivery. In the EU proclamations about the social investment model, there are assertions that states must promote higher-quality jobs, but no discussion about how this will be achieved, whereas the OECD generally favours market-based reforms and efforts to keep down the burden of taxation. Even in the Nordic countries, public provision has come under attack, although the push for market-delivered services has had more impact on other policy areas, such as old-age care service, while the state-run childcare system has proven more resistant.

In sum, although the social investment model was inspired initially by the successes achieved by the Nordic countries in promoting women’s employment, diminishing poverty and inequality and fostering high fertility rates, a crucial lesson – about the merits of public provision and not just financing – was lost along the way. Recent reforms in Germany, the Netherlands and the UK show that left party and union power is no longer a necessary condition for the enactment of broad-based childcare programmes, but it remains essential for the achievement of the model’s deeper objectives.

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Varieties of Social Investment in Labour Market Policy

Giuliano Bonoli

The notion of ‘social investment’ makes reference to interventions that aim at helping disadvantaged people by improving their life chances, particularly their chances to enter and succeed in education and in the labour market. As stated by Jane Jenson in this volume, from an abstract point of view, they can be distinguished from both the more traditional social policy approach based on income or job protection and from the neo-liberal one based on deregulation and (re-)commodification, a concept used by sociologists which refers to the strengthening of work incentives. While these three conceptions of social policy may be easy to distinguish in the realm of principles it may be more difficult to ascribe precise policy instruments to one or the other approach. Active labour market policies, a label that can encompass an extremely broad range of interventions, are a case in point.

The objective of this chapter is to examine different types of and approaches to active labour market policy from the perspective of social investment, on the basis of the definition given above. I first develop a conceptual distinction between different types of active labour market policy, making reference to different principles that can inform labour market policy: protection, investment and re-commodification. On this basis I identify three approaches to active labour market policy that reflect the definition of social investment given above, and a fourth approach based on re-commodification only. Next, on the basis of expenditure and institutional data, I look for the different approaches in the real world. I conclude that both conceptually and empirically there are arguments for differentiating between different social investment approaches within active labour market policy.

Intuitively, active labour market policy can be seen as the locus of investment oriented social policy *par excellence*. Helping non-working individuals to find a job is a new approach to labour market policy that differs from both traditional left and right wing solutions. Yet active labour market policies in the real world display such high degree of variation, that it is difficult to formulate encompassing judgments with regard to their social investment orientation.

Active labour market policies have different origins. In Sweden, active labour market policies were developed as early as the 1950s, with the objective of improving the

match between supply and demand of labour in the context of a rapidly evolving economy, essentially by financing extensive vocational training programmes (Swenson 2002). At the opposite extreme, a different variant of active labour market policy has been developed since the 1980s in the English-speaking world. The US and the UK have seen the adoption of welfare to work policies, which combine positive and negative incentives for social assistance recipients to move into employment. Work requirements for able bodied individuals on social benefits had always existed, but were not seriously enforced. The first steps in this direction were taken by conservative governments, and the resulting policies have a distinct punitive and social control flavour. According to King, key welfare to work policies developed in the UK and in the US in the late 1980s/early 1990s 'have, at their core, the assumption that work-welfare beneficiaries have an insufficiently developed sense of their duty to the rest of society' (King 1995). At the time, welfare to work was seen by many as part of a conservative attack on the welfare state. The term 'workfare' was coined to describe what was considered to be a major shift away from postwar principles of social citizenship (Peck 2001).

Variations in terms of content are compounded by a fundamental ambiguity of active labour market policies, which in most cases, tend to combine stronger work incentives with at least some investment in human capital. The result is that most active labour market policies are difficult to classify under the traditional categories used in comparative social policy. This problem is clearly spelt out by Jochen Clasen:

[...] it is sometimes difficult to classify a particular policy as an example of either welfare retrenchment or welfare expansion. For instance, the potential expenditure involved in activation programmes is higher than in maintaining passive cash support. [...] However] from the perspective of individual claimants, obligatory activation might be seen exclusively as welfare restriction (Clasen 2000:90).

Some authors have attempted to deal with this problem by distinguishing between two types of active labour market policies, or activation: those which are about improving human capital, and those which use essentially negative incentives to move people from social assistance into employment. Examples of such classifications are found in Torfing (1999) who distinguishes between 'offensive' and 'defensive' workfare. Offensive workfare, which is the term used to describe the Danish variant of activation, relies on improving skills and empowerment rather than on sanctions and benefit reduction, as is the 'defensive' variant found in the US. In a similar vein, Barbier distinguishes between 'liberal activation', characterised by stronger work incentives, benefit conditionality and the use of sanctions, and 'universalist activation', which is found in the Nordic countries and continues to rely on extensive investment in human capital essentially through training (Barbier 2004).

Dichotomies between human investment and incentive-based approaches to activation are useful in making sense of an ambiguous concept. They are also helpful as a first attempt to operationalise the definition of social investment presented at the beginning of this paper: only active labour market policies that promote investment in human capital count as social investment. Those based on stronger work incentives do not, yet we are left with at least three problems.

stronger work incentives. This quality has been highlighted also in the governmental discourse that has been used to accompany key reforms. In Germany, for example, Gehrard Schroeder's motto in labour market policy was *fordern und foerdern* (to promote and to demand). By forcing policies into one of the two categories highlighted above, we may fail to grasp what is distinctive about them.

Second, the dichotomy highlighted above makes sense in terms of philosophies underling an active labour market policy. However, individual examples of programme activities are sometimes difficult to ascribe to one or the other approach. Supported employment and job coaching programmes are based in intensive counselling of particularly weak jobless people. They may not directly involve investment in human capital, but by supporting job seekers they increase the likelihood that these will profit from previously made investments. Job subsidies, in the same vein, can be considered as a re-commodification tool or as a help in overcoming the type of statistical discrimination to which unemployed people are subjected. Upon closer scrutiny, much of what is found in the toolbox of active labour market policy cannot easily be classified under the binary classifications mentioned above.

Third, the distinction between two types of activation depending on their preferred tools may open the way to a more value-based understanding of these policies, distinguishing between those which are in the interest of beneficiaries (by investing in their human capital) and those that have essentially a cost containment objective (pushing people into labour market regardless of job quality). The problem with such an understanding is that, as shown by the evaluation literature, in the field of active labour market policy, good intentions are not always followed by success (Martin and Grubb 2001, OECD 2006, Eichhorst et al. 2008).

Investment in training for unemployed people, for example, has often been found to be rather unhelpful in bringing them back to employment (Friedlander and Burtless 1995, Greenberg et al. 2003, Hamilton et al. 2001, Martin and Grubb 2001). Only longer training programmes leading to the acquisition of skills and titles that are recognised by employers seem to have a positive impact on jobless people's chances to re-enter employment. Similarly, work experience programmes in the public sector have had little effect in promoting labour market re-entry, especially when participation entitled participants to a new term of unemployment insurance compensation (Sianesi 2002, Martin and Grubb 2001).

On the other hand, policies that are clearly geared towards promoting quick labour market re-entry and at maximising work incentives tend to impact more positively on participants' chances to re-enter the labour market. These include work search programmes, tax credits, coaching programmes, and sanctions (Svarer 2007, Blank 2002, Hamilton et al. 2001, Martin and Grubb 2001).

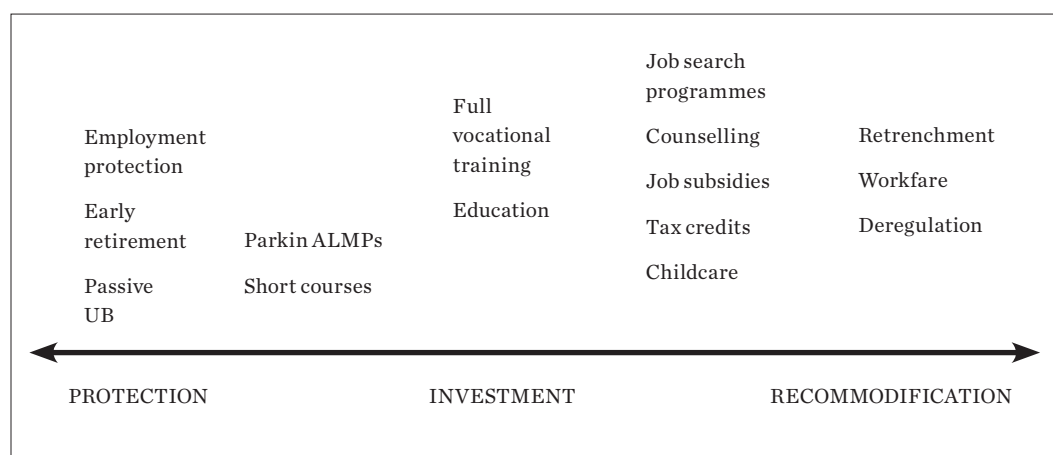
These three problems suggest that, in the real world of active labour market policy, it will be rather difficult to identify the type of interventions that fulfil the definition of social investment given at the beginning of this paper and those that do not.

Faced with the rather intractable conceptual issues mentioned above, in this section I try to develop an understanding of active labour market policy that reflects the complexity of the field. First, one needs to work with a much more fine grained distinction of the tools available to active labour market policy than is usually the case.

Second, I assume that social investment can take different forms in labour market policy. One of them is investment in human capital, but policy can also help disadvantaged people succeed in the labour market through other channels. As a result, one can identify different varieties of social investment. Third, I claim that most of the tools of active labour market policy can be characterised by a peculiar mix of the three key principles of labour market policy: income (or status) protection; social investment and (re-)commodification. The result of this analysis is shown in Figure 1.

The axis shown in figure 1 illustrates the various policy options available in the labour market field, with special attention paid to those that are commonly labelled as active. The two extremes represent, respectively, traditional social democratic¹ and liberal solutions to labour market policies. In the middle, one finds the investment option. Different tools of active labour market policy emphasise different principles.

Figure 1. Labour market policy options arranged according to three principles: protection, investment and re-commodification.



The clearest example of investment oriented labour market policy is found in the middle of the axis reproduced in Figure 1. Providing jobless people with a second chance in term of vocational training is likely to improve their chances to succeed in the labour market, as shown by several studies (OECD, 2006).

A different type of active labour market policy (ALMP) is found toward the protection end of the axis. In some cases, measures that are described as ‘active’ do not really have the objective of increasing the likelihood of labour market (re-)entry. Their goal is to keep unemployed people occupied, often in order to prevent the depletion of human capital associated with an unemployment spell. This type of ALMP sometimes referred to as ‘parking’ in the specialist literature, consist of work experience programmes in the public or non-profit sector, but also some training, typically shorter courses, which have very little impact in the chances of finding a job. These measures, insofar as they somewhat protect human capital from deteriorating during an unemployment spell, can be considered as a form of social investment.

Many tools of active labour market policy are about removing obstacles to labour market participation, without directly investing in jobless people’s human capital.

1. Given variation in Social democratic parties’ policy preferences across countries, it is difficult to identify a traditional Social democratic response to labour market problems. A preference for generous income replacement benefits that reduce workers’ dependence on labour market participation is nonetheless a common theme throughout the postwar years. In Sweden, this preference was combined with an emphasis on human capital investment, most notably through the Rehn-Meidner model.

These are found towards the ‘RECOMMODIFICATION’ end of the axis presented in Figure 1, and include job search programmes, counselling, job subsidies, tax credits, and the provision of childcare services. These tools address different obstacles to employment. Job subsidies, for example, can help long term unemployed people overcome statistical discrimination by employers. Hiring a long-term unemployed person is considered a high-risk recruitment decision by employers. A temporary job subsidy can constitute an incentive for employers to accept the additional risk and as a result increase the chances of disadvantaged jobless people to re-enter the labour market. Job search programmes can help jobless people who are unfamiliar with recruitment procedures overcome significant barriers to labour market entry. These measures have emerged as some of the most effective ways to help jobless people back into employment.

Workfare, or the implementation of benefit conditionality and sanctions, is also part of the active labour market policy toolbox. However, the mechanism used in this case is not social investment as defined above, but rather re-commodification. As seen above, these measures have been shown in the evaluation literature to be rather effective in pushing people back into employment, but the mechanism used is negative incentives rather enabling jobless people to be more successful in the labour market. Re-commodification, rather than social investment, is the key underlying principle of these active measures.

The liberal route to activation has also been questioned in relation to its longer term effects. In fact, put under pressure by sanctions and time limits on benefit reciprocity, beneficiaries may accept any kind of job, including low paid and insecure ones which do not really lift them out of poverty in a sustainable manner.

Unfortunately there are few empirical studies that have addressed the question of job quality after activation and the longer-term effects of policy. Those available concern the latter and tend to show that training programmes take longer to produce an effect. An American study comparing the impact of human capital investment and work first programmes over five years, found that work first programme perform better in the short term and that human capital development programmes catch up so that by the end of the observation period, the proportion of beneficiaries in employment is roughly the same (Friedlander and Burtless 1995).

Obviously it can be rather difficult to precisely position given labour market policy tools on the protection – investment – re-commodification axis. In this respect, Figure 1 can be seen as a tentative approach to a more fine-grained understanding of active labour market policy that allows us to identify at least three different varieties of social investment in active labour market policy. These pursue different objectives, but are consistent with the social investment definition given above: they try to help disadvantaged (in this case, jobless) people by improving their chances to succeed in the labour market.

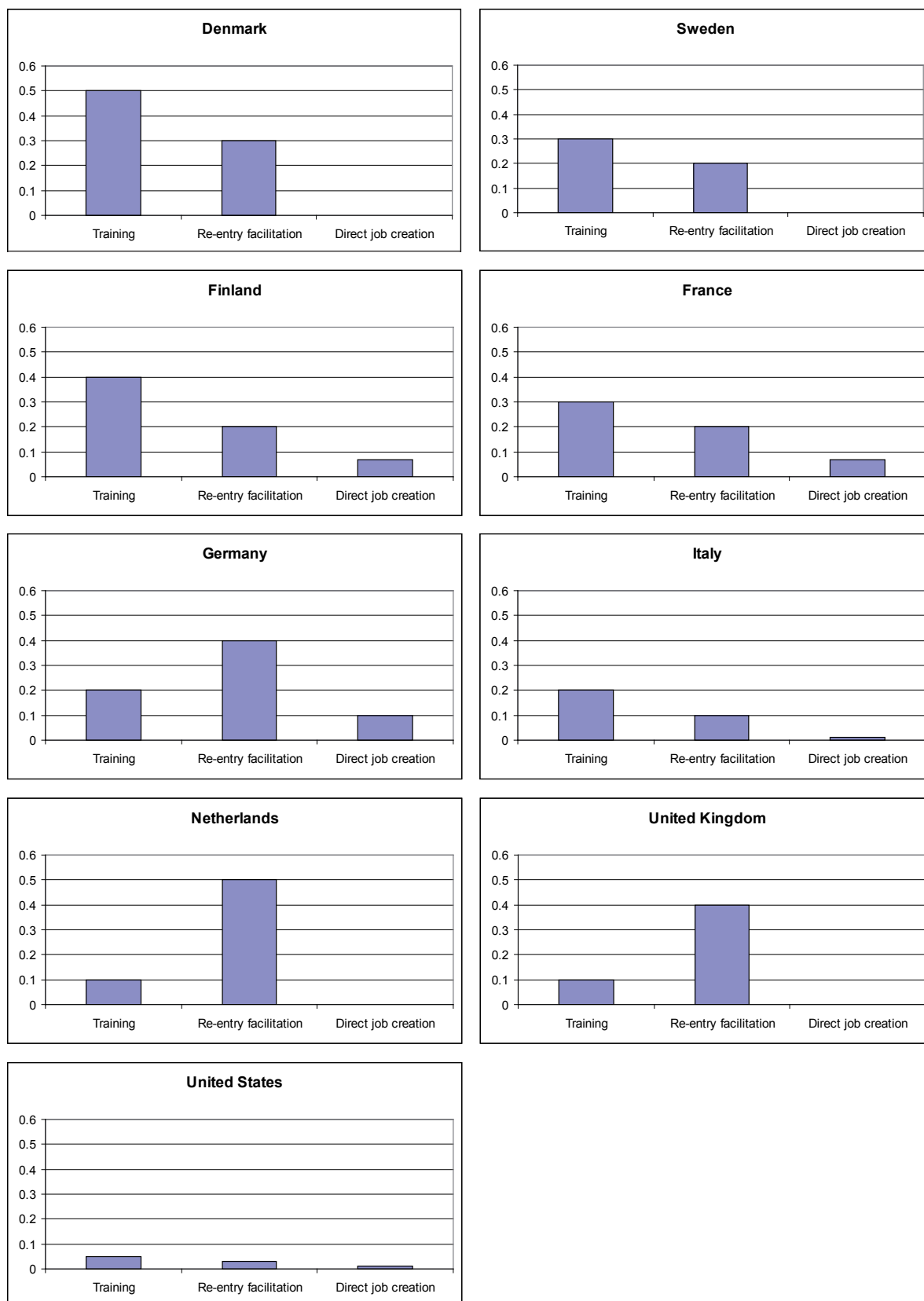
In short, the policies represented in the middle of the protection – investment – re-commodification axis, are those which are most closely related to the notion of social investment and reflect investment in human capital. A second group of policies, that make reference to both investment and re-commodification, have a more modest objective, i.e. to remove obstacles to labour market participation. In doing this, they also aim at helping disadvantaged people succeed in the labour market and hence

qualify as social investment according to the definition adopted in this paper. Finally, some active labour market policies pursue the more or less explicit objective of reducing the rate of human capital depletion that occurs during an unemployment spell. In some ways, these policies reflect the notion of social investment too, by protecting previous investments in human capital more than by making new ones.

ALMP Expenditure Profiles

The most straightforward way to describe real world policies in relation to the distinction suggested here, is by looking at expenditure data on the different types of labour market policy. Unfortunately, the available data are only partly adequate to this purpose, since the categorisation of ALMP spending used by the OECD is different from the one developed here. It is nonetheless possible to find measures that come close to each of the three varieties of active labour market policy identified above. Spending on training can be assumed to reflect the extent of investment in human capital made within the active labour market policy system in a country. This measurement is imprecise, as many ‘parking’ programmes are probably classified within training. Policies aiming at reducing obstacles to employment are reflected in the following OECD spending categories: PES (Public employment services) and administration, employment incentives, supported employment and rehabilitation, and start-up incentives. Finally, the policies aiming at reducing the rate of human capital depletion during unemployment may be captured by the item ‘direct job creation’, which includes temporary work in the public sector or in non-profit organisations, offered to unemployed persons (OECD 2009).

Figure 2. ALMP spending profiles in selected OECD countries, 2005.



Source: OECD 2007. Re-entry facilitation includes the following OECD categories: PES and administration, employment incentives, supported employment and rehabilitation, start-up incentives.

On this basis, it is possible to describe ALMP spending profiles for different countries. Figure 2 presents such profiles for selected OECD countries representing the main welfare regimes. ALMP's spending profiles only partly reflect the standard welfare regime typology. The Nordic countries clearly put most emphasis on human capital investment, somewhat less on facilitating labour market re-entry and very little on direct job creation. Continental European countries display very different profiles. France is closer to the Nordic countries, whereas Germany and the Netherlands put most emphasis on facilitating labour market re-entry. Italy, instead, is a low spender in every field of ALMP. The two liberal welfare states included also display very different spending patterns. The UK emphasises spending on re-entry facilitation, whereas the US spends very little on each category of tools. In the latter case, the key trend in labour market policy has been to strengthen work incentives by limiting eligibility in time and by enforcing benefit conditionality and sanctions.

In relation to the distinction presented above, we do find some countries that better reflect one or the other approach. Denmark and Sweden strongly emphasise training and, to a comparatively lesser extent, re-entry facilitation. A rather unusual cluster of countries: the UK, the Netherlands and to a lesser extent, Germany share a preference of re-entry facilitation. Other countries have less clearly defined ALMP spending profiles. It should also be noted that the picture presented in Figure 2 refers to 2005. A few years earlier, results would have been different, especially with regard to direct job creation. In 1995, France and Germany spent 0.3 per cent of GDP each on these programmes, and Sweden 0.4 per cent of GDP (OECD stat.). Direct job creation is clearly on the decline throughout the OECD world.

Countries have developed ALMP systems that were consistent with the overall direction of their labour market policy. As a result, Germany and France, which responded to the employment crises of the 1980s by reducing labour supply, reinforced this choice by developing an ALMP system based on measures designed to provide alternatives to market employment, such as direct job creation in the public or non profit sector. The result of this approach was a further reduction in labour supply. Sweden during the 1980s and early 1990s experienced a shift away from an ALMP system oriented towards reinforcing labour market participation to one aiming at limiting open unemployment (Anxo and Niklasson 2006).

More recently, however, one sees limited convergence towards an ALMP system geared towards market employment. This is reflected in the ALMP's spending profiles presented in Figure 2, and the emphasis placed by many countries on measures facilitating re-entry.

In addition to the spending data reviewed above, two recently assembled databases allow us to tap into cross-national differences in active labour market policy. Both of them rely on the collection of institutional information which is then coded and sometimes aggregated into indexes. The databases have been produced by the Danish Ministry of Finance (Hasselplüg 2005) and by the OECD (OECD 2007). These two data sources provide a useful overview of institutional variation in ALMPs across several countries. However, they present a number of problems. First, they report mostly information on formal rules, and little in relation to implementation. Second, the variety of policies found across the OECD makes it extremely difficult to code the information obtained. Third, many countries have different unemployment compensation regimes, typically for short and long-term

unemployed. These may be very different in relation to their activation component, but not necessarily comparable across countries.

Table 1 provides information on the intensity of work incentives. Among those available, it uses indicators that are relatively simple to collect and measure. The first column focuses on the generosity of unemployment benefit. Though not, strictly speaking, part of activation, passive benefits and their level have a big impact on work incentives. They must therefore be taken into account when describing an ALMP regime. The second indicator refers to the existence or not of a systematic activation approach, meaning that after a given duration, all unemployed persons are requested to join some labour market programme. Systematic activation arguably reinforces work incentives. By requesting participation in labour market programmes, systematic activation makes the non-employment option less attractive for at least some unemployed people. The third indicator focuses on the maintenance of work incentives during participation in a labour market programme. Finally, column 4, provides a synthetic index summing up the information contained in the previous three columns.

Table 1. Indicators of the intensity of work incentives, selected OECD countries mid 2000s

	(1) Short term unemployment benefit replacement rate	(2) Systematic activation (every beneficiary receives an offer after a given time)	(3) Continuing job search requirement and verification during participation in ALMPs	(4) Synthetic index of work incentive intensity
Denmark	63.0	1	1	6.09
Finland	54.0	0	1	4.08
Sweden	62.0	1	2	7.65
France	67.0	0	0	1.9
Germany	60.0	0.5	1	4.96
Netherlands	65.0	1	2	7.41
United Kingdom	41.0	1	0	6.39
United States	62.0	0	1	3.43
Italy	63.0	0	0	1.86

Notes :

(1) Net replacement rate of unemployment benefit at initial phase of unemployment, for single person without children, 100% of AW, year 2005 (source: OECD Benefits and Wages); (2) Indicator developed on the basis of information provided in OECD 2007, according to the following scores: 0 = no automatic activation; 0.5 = for some groups; 1 = for all; (3) indicator developed on the basis of information provided in OECD 2007 and Hasselplflug 2005, according to the following scores: 0 = no requirement; 1 = job search requirement but no verification or various requirements; 2 = Job search requirement and verification.; (4) synthetic index based on indicators presented in columns 1–3. Unweighted average of z-scores of the indicators, standardised to vary between 0 and 10.

With all the necessary caveats made above, one can see some interesting parallels between ALMP's spending profiles and the information on work incentive intensity provide in Table 1. First, the countries that emphasised re-entry facilitation the most, the UK, the Netherlands and Germany, are also those that tend to put more pressure on unemployed people. Work incentives are rather strong in the Nordic

countries as well, but much weaker in France and in Italy. The result for the US may be striking (rather low work incentives), but concerns unemployment benefit, whereas most of the debate on activation in that country has focused on social assistance (AFDC/TANF).

Conclusion

If social investment is to be the defining feature of the new welfare state, then one should certainly differentiate between varieties of social investment. Within the field of labour market policy, one can identify at least three different approaches that refer to different principles and have different objectives: investing in human capital, removing obstacles to employment and preventing the depletion of human capital during an unemployment spell. None of these three approaches can be subsumed under one of the two traditional principles in labour market policy: protection and commodification. The notion of social investment seems an adequate way to describe them.

Investment-oriented labour market policy takes different shapes in different countries. As shown in the second part of this paper, different emphases are found across countries, in a way that only partly reflects traditional welfare regime typologies. While policies geared towards preventing human capital depletion seem to have gone out of fashion, countries tend to emphasise either training or policies aiming at removing obstacles to labour market participation. Both approaches are connected to rather work incentives.

This may change if the economic crisis of the late 2000s results in a longer period of high and persistent unemployment. Strengthening work incentives may be an inadequate response in a context of sluggish economic growth and employment losses. In contrast, active labour market policies that target human capital may gain interest, including job creation programmes aiming at slowing the process of human capital depletion associated with unemployment.

The latter observation points in the direction of a link between the type of active labour market policy and the economic cycle. Ideally, in a downturn, the system should be geared towards avoiding human capital depletion and upskilling, putting emphasis on tools like job creation programmes and vocational training. In an upswing, much more emphasis should be put on re-entry facilitation, so as to make sure that obstacles to employment are removed. In reality, such adjustments are difficult. On the one hand, periods of employment growth tend to be short lived, and are more easily identified ex post than ex ante. On the other hand, when economies enter recession, ALMPs should shift to the costlier variants of training and job creation, precisely when spending on passive benefits is on the increase and concerns for public deficits tend to arise. In order to be able to respond to shifts in the economic cycle, an ALMP system would need to be able to spot changes in labour market trends, and quickly adapt the menu of available options to what fits with the particular economic situation at a given point in time.

The ideas behind the debate on social investment popularised among other by Third Way politicians and theorists seem to translate differently in different national contexts. This is not something surprising, and is reminiscent of what happened in

previous instances of spreading of influential ideas in economic and social policy. Students of social investment should take this point seriously and work with sufficiently broad and differentiated definitions so as to capture the different ways in which a set of ideas is translated into national contexts.

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Human Capital Policies and the Social Investment Perspective: Explaining the Past and Anticipating the Future

Moirra Nelson and John D. Stephens

Introduction

Human capital investment assumes pride of place within the social investment perspective. Whereas the consequences of harsher economic conditions are considered ‘private matters’ according to neo-liberals (see Jensen, chapter 1 this volume), the social investment perspective sees a central role for the state in addressing new forms of social and economic inequality, thereby clearly subsuming education and training policies within the broader category of social policies. In fact, ‘social investment’ can be understood as a concept for the integration of social and education policy (see Nikolai, chapter 6 this volume). In contrast to conventional social policies, however, human capital investment and other policy tools within the social investment perspective are future oriented (see Jensen’s chapter), anticipating impending risks and designing policies to prevent potential losses.

Since human capital investment is able to address risks to individual and national well-being, it is necessary to place education and training policies at the top of the policymaking agendas. Indeed, framing investment in human capital as a credible solution to present economic woes is vital to the success of the European Social Model (see Palme, chapter 12 this volume) and the full realisation of the Lisbon Strategy (see Lundvall and Lorenz, chapter 5 this volume). This study provides part of the answer to the question of how to place education and training policies firmly on diverse policy agendas by explaining the historical causes of variations in human capital investment across advanced industrialised countries.

In this chapter, we outline why human capital investment is so crucial to the social investment perspective. We then lay out different types of education and training policies and explain patterns of investment in these policies. The Nordic countries, owing to strong social democratic parties, the absence of entrenched Christian democratic parties, consensual decision-making institutions, and a large state

structure, exhibit high investment in education and training policies and transparent certification policies. Countries with strong Christian democratic parties invest less intensively in all forms of education except vocational education. The establishment of modern certification policies in these countries is also particularly difficult. More market-orientated countries, such as Canada or Ireland, largely lack the political consensus to establish wide-reaching state intervention in education and training to the extent of these other countries. The conclusion discusses the implications of these findings for the development of future social investment strategies.

A social investment strategy holds the potential to address new risks stemming from diverse economic and demographic transformations. Nikolai's (see chapter 6) contribution provides a useful discussion of the emergence of the concept of a 'Social Investment State' as well as the degree to which different countries exhibit policies that speak to the social investment agenda. As she mentions, the lack of a qualification is a serious risk for workers operating in a globalised and knowledge-based world. We start our analysis from this insight. Not only are low-skilled workers at risk but also the failure to address the needs of this group with public policies may result in lower economic growth and growing inequality. With these workers in mind we are particularly interested in gauging the extent to which shifts in skill needs, driven by economic changes, are met with adequate responses in the form of education and training policies.

Five interrelated economic developments fundamentally alter the skill demands of labour markets in advanced industrialised economies. Due to both high trade flows (1) and liberalised capital markets (2), low-skilled jobs have moved abroad, prompting the expansion of predominantly high-skilled industries in their place. In a similar way, technological change (3) increases skill intensity, or the application of skills in the production process, whereas the expansion of the service sector (4) calls for social skills because production today is more customer orientated. Finally, the increased rate of technological change (5) makes ongoing training a characteristic of the present economic environment rather than a passing trend. This last development has found resonance within the discussion on the knowledge economy.

This state of affairs calls for reforms in education and training policy. In the first place, the skills one learns during the stage of compulsory education are not sufficient for finding stable employment throughout the remainder of the career. At the same time, the stage of compulsory education has become more important in building cognitive skills. Therefore, high investment in education and training needs to begin with early childhood development and continue throughout the duration of one's career.

We identify at least two ways in which education policy can respond to new skill needs. First, education policy influences the acquisition of skills. The experience that early and compulsory education was effective in developing cognitive skills led to its extension in the promotion of high quality day care and primary and secondary. Since demand for higher levels of skills has also increased, investment in higher education and workplace training is also highly relevant. Access to such policies can be expanded by way of financial aid policies to low income households and sector- or economy-wide training regulations. Active labour market policies also target the needs of marginalised workers by providing them with the training or job experience

with which to find stable employment. Together, spending on various levels of education and the regulation of continuing training improve individuals' ability to adapt to new skill demands by facilitating skill acquisition.

Table 1. Human Capital Indicators by Country and Regime.

	1	2	3	4	5	6	7	8	9
	Skill Transparency Index	Skill Acquisition Index	% with Vocational Education	Public Education Spending % of GDP	Public Tertiary Education Spending	Daycare Spending % of GDP	ALMP Spending per % unemployed	% with Low Literacy	% Information Age Literate
Social Democratic Welfare States - Industry CMEs									
Sweden	0,91	1,52	36	7,7	2,2	1,2	0,24	7	74
Norway	1,32	1,77	37	7,6	2,1	1,6	0,25	8	69
Denmark	1,27	3,47	31	8,5	2,7	2,1	0,38	8	65
Finland	1,25	0,55	32	6,4	2,1	1,2	0,12	11	63
Mean	1,19	1,83	34,0	7,6	2,3	1,5	0,25	8,5	67,6
Christian Democratic Welfare States Industry Coordinated Market Economies									
Austria	-0,13	0,27	22	5,7	1,3	0,5	0,13		
Belgium	0,08	0,27	53	6,3	1,4	0,5	0,15	17	58
Netherlands	0,89	0,47	43	5,1	1,3	0,4	0,47	10	63
Germany	-0,04	-0,13	34	4,8	1,2	0,4	0,14	10	59
Switzerland	-0,29	-0,03	23	5,8	1,4	0,1	0,23	17	53
Mixed Economies									
France	1,19	0,16	28	5,6	1,0	0,6	0,13		
Italy	-1,29	0,03	35	4,8	0,9	0,1	0,04		
Mean	0,06	0,15	34,0	5,4	1,2	0,4	0,18	13,5	58,1
Liberal Welfare States - LMEs									
Australia	1,15	-0,86	9	4,9	1,2	0,2	0,06	17	56
Canada	0,07	0,39	5	5,2	1,8	0,3	0,07	17	57
Ireland	0,02	-0,61	6	4,3	1,2	0,2	0,16	24	46
New Zealand	1,27	0,26	7	6,7	1,7	0,0		20	51
UK	1,20	-0,29	11	5,3	1,1	0,1	0,07	23	49
USA	-0,58	-0,42	3	5,7	1,4	0,2	0,05	22	53
Mean	0,52	-0,26	6,8	5,4	1,4	0,2	0,08	20,5	52,0
Group Coordinated Market Economy									
Japan	-0,26	-0,92	16	3,6	0,5	0,3	0,06		

Our conceptualisation of education policy as facilitating skill acquisition resonates strongly with the contribution from Lundvall. Lundvall (see chapter 5) refers the concept of a 'learning economy' to express the centrality of learning today in replacing obsolete skills with more marketable ones. The high rate of skill obsolescence, in his view, demands not only broad changes in company organisation to facilitate the learning process but also state involvement in order to ward off polarisation. Our analysis shares the view that skill obsolescence is the defining characteristic of the current period but departs from Lundvall's study in two ways. First, by looking at education and training policies throughout the lifecourse, we choose to concentrate on the early and compulsory education in addition to continuing training policies. Second, we are primarily concerned with the spending on and regulation of education and training policies rather than the quality of

education and training that is actually provided. Both our analyses identify the Nordic model as exceptional in the provision of social investment policies, however, which suggests some level of agreement between policy inputs (such as the spending variables in our analysis) and the policy outputs (e.g. discretionary learning in Lundvall's study or the literacy outcome measures derived from the International Adult Literacy Study). In addition to acquiring new skills, however, workers also need to be able to signal their training to employers more frequently. Workers are not only acquiring new skills more often, which need to be clearly certified to retain value in the eyes of potential employers, but are also facing potential employers on a more regular basis due to company restructuring and lower job tenure. More flexible certification policies are particularly needed if workers have acquired skills informally or wish to apply their skills to industries or occupations that differ in some way from their initial qualification. Some countries have a long tradition of developing certification policies at a centralised level, a tradition that avoids problems of disjointed certification procedures across regions. More recent policy developments include accreditation of prior learning, modularisation, and the development of a national qualifications framework. Accreditation of prior learning policies provide formal recognition to skills learned informally. Modularisation refers to a method of structuring degree programmes by thematic groups, which improves completion by facilitating temporary breaks, and can provide better oversight into how the content of different degree programmes corresponds to one another. A qualifications framework provides clear information on the content of degree programmes as well as shared skill sets between different qualifications. Together, these policies improve the transparency of certifications. Indices of policies facilitating skill acquisition and skill transparency developed by Nelson (2008) are shown in the first two columns of Table 1. The third column displays an indicator of vocational education and the next four columns present various indication of spending on education and training. The final two columns display two indicators of general skill levels derived from the International Adult Literacy Survey. The countries are grouped by the type of welfare state and production regime they belong to (see below).

Table 2. Promising Educational Policies and their Determinants.

	Skill Acquisition	Skill Transparency
Social Democracy	Positive	Positive
Christian Democracy	Contingent	Negative
Conservatism	Contingent	Positive
Veto Points (referendum, strong bicameralism, parliamentarism, federalism)	Negative	Negative
Strong State	Positive	Positive
Social Partners	Contingent	Contingent
Wage Bargaining	Contingent	Contingent

Method: The results above are estimated with regression analysis (Nelson 2008).

Table 2 shows the abbreviated results of Nelson's (2008) analysis of the party-political and institutional factors that explain the cross-national differences in the indices skill acquisition and skill transparency. These factors were included because they have been shown to be strongly related to traditional measures of welfare state effort, such as total social spending (e.g. see Huber and Stephens 2001), and, more recently to educational spending, such as those in columns 4–7 of Table 1 (Iversen and Stephens 2008). What unites these studies is the view that the type(s) of political part(y)(ies) in power as well as the structure of the policymaking process matter for the generosity of public policies. Parties are distinguished according to whether they are more left (social democratic) or more right (conservative) and if they are religious (Christian democratic). Institutional structure matters as well. High numbers of veto points, or the number of points in the policymaking process at which dissenting voices can block policy (e.g. referendum, strong second chamber such as the Bundesrat or Senate), can slow down progressive public policy initiatives. The way in which the social partners (workers and employers) are organised also plays a significant role. Although accounts vary in the precise explanation for why they matter, highly centralised trade unions, employer organisations, and wage bargaining institutions are generally associated with higher levels of support for public policies.

Of the theories explaining the level of social benefits, the Power Resources (PRT) theory and the Varieties of Capitalism (VoC) approach are the most influential and, since they will be referenced later, demand a bit more elaboration here. In its original formulation, PRT argued that welfare state effort, even more so welfare state redistribution, was dependent on the 'power resources' of the working class, which was most often measured by union density and left government (Korpi 1983; Stephens 1979). It was later extended to accommodate the existence of the multi-class Christian democratic parties which have been influential in most continental European countries (Esping-Andersen 1990; Huber et al. 1993; Huber & Stephens 2001; Van Kersbergen 1995). PRT largely sees the development of social policy as an effort to reduce social inequality and increase equal opportunity, thus generous welfare state have clear winners (the less well to do) and losers (the affluent).

PRT's redistribution-based view of the welfare state can be contrasted to VoC's risk-based view of the welfare state. The VoC approach views generous social policies as resolving contracting, or trust, issues between skilled workers and their employers. This approach contends that there are two basic type of production regimes, Coordinated Market Economies (CMEs) and Liberal Market Economies (LMEs). The former rely relatively more on specific skills, which are skills that can only be used in a given firm or industry (i.e firm-specific skills and industry-specific skills). In CMEs, promoting firm-based training involving these skills entails contracting problems. Both the worker and the employer will fear that they will not benefit from apprenticeship training: the workers will fear not being able to find a job after the training is complete (since there are only limited firms that use these skills) whereas the employer will fear that other firms will steal their freshly trained apprentices on whom they have spent so much time and money training. Social policy and institutions that promote coordination help to reduce these fears and promote training. Social policy, according to the VoC approach, is therefore not about taking from one group to make another group better off, but rather about using public policies to make new forms of coordination possible by reducing the risks to cooperation faced by different actors.

The results shown in Table 2 suggest that the relationship between aspects of the policymaking arena and education policy outcomes is often dependent on the particular combination of institutions and actors that exist in arena particular country. For instance, contexts with entrenched Christian democratic government can demonstrate either a relatively strong capacity to expand educational opportunities (Netherlands) or particular difficulties in doing so (Germany). The impact of strong Christian democratic government is therefore contingent on other factors, such as the number of veto points.

For other characteristics of the policymaking arena, Table 2 shows the relationship to education policy outcomes is clearly positive or negative, independent of the remaining contextual variables. Policies that promote skill acquisition and skill transparency are abundant in countries with strong social democratic parties and a large and powerful state. Where many veto points are in place, however, these policies are relatively weak. This is also true for the case of transparent certification policies in countries with strong Christian democratic parties.

For the other indicators of educational and training effort in Table 1 (columns 3–7), one can see a clear contrast between the measure of vocational education, an indicator of specific skill training, and the educational and training spending variable which are indicators of general skill education and training effort. As VoC would predict, vocational education is strongly related to production regime type. By contrast, the measures of general skill effort cut across production regime type as they are distinctly higher in the social democratic welfare state regime.

In sum, this section has described the role of human capital policies in addressing changed economic conditions, which call for higher levels of skills as well as more cognitive and social skills. A preliminary analysis relates the expansion of these policies to the presence of social democracy, strong states, low veto points, and, in part, weak Christian democracy. The next section explores more in-depth how political parties influence investment in particular education and training policies with a focus on the policies discussed as facilitating skill acquisition.

Explaining the Development of Human Capital Investment Policies: Vocational Training and the Origins of Education and Training Systems

This section assesses more carefully the historical process through which training systems and related economic institutions developed. Table 3 summarises our explanation of cross-national differences in human capital regimes. This table essentially displays how electoral systems and the presence of a strong Christian democratic party combine to explain the tax regime and welfare regime, labour market institutions and education policy. Advanced industrialised economies tend to fall into one of the three categories in the table. These three clusters did not always exist as such but developed through a historical process. Recent research indeed suggests that the clear clustering of countries into three distinct social policies regimes did not occur until the 1970s (Danforth 2009). By this time, divisions between continental and Scandinavian countries had become clear, as the rapid expansion of public health, education and welfare services in the latter and not the former was becoming evident.

**Table 3. Synthesis of Power Resources and Varieties of Capitalism:
Political Coalitions and Education Policy.**

Pre-conditions: Production regime, representation system, and cleavage structure	Dominant Parties	Constituency	Tax Regime and Welfare State	Labor Market Institutions	Education Policy
LME with majoritarian electoral system	Secular Center and Right Parties	Upper income and middle class	Weak tax base for public policies including education policy	Weak unions and decentralised bargaining; flexible labour markets for all workers	Moderate- low public spending; in some countries, private investment in tertiary and day care
CME with PR and absence of a strong CD party	Social Democracy	Workers including 'outsiders' and middle class	Strong tax base from income and VAT taxes for universal programmes	Strong unions including 'outsiders', moderate EPL; coordinated bargaining	Strong public spending on all levels; strong vocational training
CME with PR and a strong CD party	Christian Democracy or Christian Democracy / Social Democracy Coalition	Multi-class but outsiders excluded	Contribution based financing for transfer-based programmes	Moderate strength unions excluding outsiders, coordinated bargaining, strong EPL	Moderate public education; weak day care and ALMP; strong vocational training system

The emergence of distinct skill training regimes, on the other hand, was apparent by the end of the nineteenth century and fully developed by the beginning of the post-World War II period. Some countries exhibited high rates of firm-based training whereas others relied more heavily on general school-based training. In firm-based training regimes, many skills learned through training are specific to the firm or industry, meaning that only a singular firm or those within a particular industry can make use of these skills. In countries where production relies heavily on industry-specific skills (e.g. Germany), the portability of skills within a given industry makes employers wary of investing for fear that they will lose these workers to other firms.

In countries with strong firm-based training, various institutions buttressed the continued production of these specific skills throughout the twentieth century. According to the logic of the VoC approach, strong business organisations sustain firm investment in apprentices through sanctioning, monitoring, and standard-setting practices (Culpepper 2003; Hall & Soskice 2001). Whereas organisational strength resolves collective action problems between firms, workers remain willing to invest in specific skills only in the presence of generous social policy and employment protection legislation. Coordinated market economies (CMEs); Germany, Japan, Switzerland, the Benelux countries, the Nordic countries; are characterised by the presence of these institutions. Liberal market economies (LMEs), Antipodes, Canada, Ireland, the UK, and the US; largely lack these

institutions, precluding strong firm-based training. The figures for percentage of age cohorts in vocational training in the third column of Table 2 show very large differences between LMEs and CMEs.

Proportional electoral (PR) systems also support firm-based training systems, although the mechanism is more indirect. For reasons outlined in Iversen and Soskice (2006) (see also Iversen 2005; Iversen & Stephens 2008b) PR systems favour left governments or, in polities with religious cleavages, Christian democratic/ left coalitions, while majoritarian, plurality systems are favorable to right party government. In addition, PR supports the representation of different classes within the collective bargaining arena (which is necessary for the creation of labour market regulation (Crouch 1993; Cusack et al 2007; Martin & Swank 2004). Left governments, in turn, support generous social policy, which protects workers with specific skills against relatively larger work-related risks. Thus, PR, along with strong business and labour organisation helps explain the capacity of coordinated market economies to maintain strong investment in firm- and industry-specific vocational skills.

Explaining the Development of Human Capital Investment Policies: The Development of General Skill Systems

Due to the vast economic changes that have occurred over the last few decades, studies have increasingly focused on other policies besides vocational training such as higher education and day care. Iversen and Stephens (2008a) provide a theoretical account for cross national investment in different human capital policies. For vocational education, they rely largely on the VoC approach. For general skills, however, their explanation draws primarily on PRT. Extending PRT to explain variations in education effort is not unproblematic since it would appear that education, especially tertiary education, benefits the offspring of upper income groups more than lower income groups. However, this is no different from earnings related transfers and it has been shown that earnings related transfers can be redistributive depending on the incidence of the taxes with which they are financed and the relation of the transfer amounts to pre-tax and transfer income (Korpi and Palme 1998; Stephens 1995). Based on such calculations, it appears that spending on higher education is redistributive (Iversen and Stephens 2008b: 613). Moreover, one of the main objectives of left parties in educational policy has been something other than redistribution. It has been to improve educational opportunity for the offspring of lower income groups. In the early post-war period, social democratic parties have championed universal secondary education and the reduction of early age tracking and followed this up with expansion of access to tertiary education.

The first row in Table 3 includes countries with market-orientated economies (LMEs). Production in these countries relies on general skills, and the conservative orientation of the policy-making apparatus and weak organisation of the social partners support only weak investment in education policies.

Countries conforming to the last two rows in Table 3 exhibit PR electoral systems that favor the formation of center-left coalitions (CMEs). In the first case, where Christian democratic parties are not present, workers are represented within the social democratic party. Able to rely on this strong support base and interested in addressing the needs of low-skilled workers, social democratic parties in these

countries invested strongly in public education at all levels. As we saw in Table 1, it is indeed true that for measures of general education effort; the percent of GDP devoted to public education, public higher education, and public day care (early childhood education) and active labour market policy spending; the Nordic countries stand out as devoting a high level of resources to education.

The last row in Table 3 indicates a more complex situation than the two already described. Christian democratic parties are well established but their cross-class constituent base does not include low-skilled workers. For this reason, whereas Christian democratic parties are frequently seen to support social policy more than other types of more centre and right parties, they tend to prefer occupational policies to universal ones. This trend is also evident in the education policies in countries with a strong Christian democratic party. Vocational training is well developed but public investment in education is weak. Typically, these continental European countries did not follow the Nordic path of reducing tracking in and universalising secondary education and expanding access to higher education in the first three postwar decades nor did they embrace active labor market policy or later work and family reconciliation policies, such as day care and parental leave, as the Nordic countries did.

The clusters in education policy developed in Table 3 hold salient implications for the skills and well-being of low-skilled workers. Low-skilled workers in LMEs face weak opportunities to acquire skills at every stage of their development. These workers are relegated to low-paid, residual employment. CMEs with a strong Christian democratic party demonstrate slightly stronger investment in education policies. However, to the extent that lower skilled workers in these countries rely on vocational training to secure lifelong employment, the system is under considerable strain. The state typically does not play a large role in structuring education in these countries that further frustrates efforts to reform vocational training systems to address needs for new types of skills, namely more theoretical skills provided in higher vocational and tertiary education. CMEs without a Christian democratic party not only support vocational training but also expand public employment, which helps to absorb workers who do not enter the vocational training system.

To summarise, the partisan composition of government and the reliance on general versus specific skills goes some way towards explaining how countries developed education policies during the twentieth century. A different question is how to expand educational investment today in countries where it is currently relatively low. The discussion here has suggested that partisanship and electoral institutions are highly influential in shaping reform potential, and, in the case of the Nordic countries (the middle row in Table 3), support adjustment to an information age knowledge based post industrial economy. To be sure, the economic payoffs to high educational investment in Nordic countries may have simply been fortuitous, driven foremost by concerns for equal opportunity and gender equality more than efficiency ones.

In any case, the last two columns of Table 2 which show national average percentages of the population with low literacy and information age literacy according to the International Adult Literacy Study indicate that the Nordic countries spending of education and training have resulted in high levels of general skills in the adult population. In building an over-arching social investment agenda, however, stressing the economic advantages to high educational investment may help to establish a

social investment strategy based on human capital policies in countries where the political system is more responsive to market-orientated concerns. As other countries become aware of the advantages of the Nordic education and training model for the skill levels of their work forces, they may be moved to adopt features of them. Indeed, if the Open Method of Coordination succeeds in spreading education and training best practices to European Union countries we might anticipate a reduction of differences base past patterns of partisanship. A case in point is the recent German legislation (which will give greater access to day care) passed by the Grand Coalition government in Germany and shepherded through by a Christian Democratic minister, Ursula von der Leyen. Von der Leyen was influenced by the Scandinavian model but fertility concerns and not gender equality was central to the German debate on the legislation (von Wahl 2008).

Conclusion

This chapter aimed at laying out the political logic underlying the passage of various education policies, ranging from day care to vocational training and active labour market policies. Differences in vocational education were visible by the end of the nineteenth century, when current distinctions in the nature of capitalist organisation had already been established, as demonstrated by work within the Varieties of Capitalism approach. Coordinated Market Economies, buttressed by successful left and religious parties as well as strong collective bargaining institutions, already demonstrated a competitive advantage in the production of specific skills via vocational training whereas Liberal Market Economies revealed a clear predisposition towards market-orientated modes of economic organisation and a reliance on general skills. The expansion of additional public education policies, which improves general skills in all countries, can be best explained with reference to the Power Resource Theory's emphasis on partisan alignments. Iversen and Stephens' (2008) analysis shows that spending on day care, primary, secondary and tertiary education, and active labour market policies is strongly related to social democratic government. Nelson (2008) related these and other education policies to new skill demands across advanced welfare states brought on by widespread economic change. Specifically, higher skills as well as cognitive and social skills are in high demand today, and comprehensive human capital policies are necessary to respond to these changed skill needs.

There are many implications of these findings for our understanding of the appropriate educational policies for the future. In retrospect, Social democratic parties appear to have been particularly supportive of all types of education policy. Christian democrats have been less consistent, supporting vocational training but not high spending on other types of public education policies. Left parties' disposition towards strong public financing for education abides by a political logic whereby such policies redistribute to the less-skilled workers that make up their constituency. In addition, these policies (e.g. day care, higher education and active labour market policies) help workers to adjust their skills to match market needs, a mechanism which illuminates an economic logic explaining why parties may support their expansion.

The potential societal economic benefits to public education policies, however, raise questions about why some countries lack them. Following Power Resource Theory

and the study of Iversen and Stephens, one might explain the relative absence of these policies in Coordinated Market Economies with strong Christian democratic incumbency as well as LMEs by the availability of private alternatives for the wealthy constituents that are well represented in these contexts and the relative unwillingness of these individuals to fund education policies, through taxes, for less well-off parts of the population. Then again, to the extent that the low level of education of these less well-off groups depresses productivity, there may be a trade-off between low taxes and economic growth. Particularly since higher levels of general skills are demanded at greater rates across advanced welfare states in today's knowledge economy, the costs of low expenditure on education policy are rising. The literature and findings discussed here suggest that a strong state supports the passage of public education policies and that the presence of many veto points hinders them. The findings presented here suggest that despite general increases in all countries Christian democratic parties have been distinctively less supportive than left parties. It remains an empirical question if and how Christian democratic and right parties alter their preferences over education given the increased salience of skills in the production process. Recent developments in continental Europe indicate that a partisan realignment on education and training policies and working and family reconciliation policies may be underway as Christian democratic parties have shown more interest in expanding policies traditional associated with social democrats.

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On the Role of Social Investment in the Learning Economy: A European Perspective

Bengt-Åke Lundvall and Edward Lorenz

Introduction

The Lisbon strategy was initiated under the Portuguese Presidency and enacted by the European Council 2000. Early on the Lisbon strategy gave strong emphasis to the role of knowledge in the economy. ‘The knowledge-based economy’ concept was developed in the 1990s by OECD (see Foray and Lundvall 1996). This concept gave a specific direction for the Lisbon strategy with emphasis on investment in research and education (Rodrigues 2002).

From the very beginning we have proposed a different terminology. Given the new features of the economy we strongly prefer the concept ‘the learning economy’ (Lundvall and Johnson 1994; Lorenz and Lundvall 2006). This change in perspective leads to a different agenda for public policy and it helps understanding the importance of social investments for sustainable economic growth.

The Learning Economy

The concept ‘the learning economy’ refers to a specific phase of capitalist development where globalisation, deregulation and information and communication technologies speed up the rate of change in different dimensions (on the demand side user needs change rapidly and on the supply side there is rapid change in the development, diffusion and use of new technology). The learning economy concept thus signals that the most important change is that knowledge becomes obsolete more rapidly than before; therefore it is imperative for firms to engage in organisational learning and for workers to engage constantly in attaining new competencies.¹

1. This can be illustrated by an extreme case referred to in a recent report from the Danish Ministry for Education. Here it is claimed that, on average, half the skills a computer engineer has obtained during his or her training will be obsolete one year after the exam has been passed, while the ‘halving period’ for all educated wage earners is estimated to be eight years (Ministry of Education 1997, p. 56).

We see the growing emphasis on ‘learning organisations’ as reflecting the new context. In a context of rapid change flat organisations with functional flexibility are more efficient than hierarchical organisations with barriers between functions (Drucker 1993; Senge 1990). In a rapidly changing environment it is not efficient to operate in a hierarchical organisation with many vertical layers. It takes too long to respond if the information obtained at the lower levels first needs to be transmitted to the top of the organisation and then, in the form of directives, back down to the bottom of the pyramid.

We see references to ‘the network society’ (Castells 2000) as capturing another important dimension of the learning economy. In the current era of growing complexity and rapid change it becomes increasingly difficult to establish all relevant competences inside the organisation. To solve this problem firms engage in networking and alliances. Relational contracting and networking is used to enhance functional flexibility.

The learning economy is characterised by cumulative circular causation. The selection by employers of more learning oriented employees and the market selection in favour of change-oriented firms accelerate further innovation and change. In this context the key to economic success – or to use the Lisbon vocabulary to ‘competitiveness’ – is the capacity to transform or substitute the activities most exposed to global competition.

Market based competition is an important driver of change. But it needs support from state intervention. And, as we shall see, in the learning economy it is not sufficient for governments to promote R and D efforts and the training of scientists and engineers. More important is to design institutions in such a way that they support organisational and individual learning. In this chapter we argue that education systems open for career shifts combining and giving equal weight to academic and practical training, and together with labour markets characterised by flexicurity (flexible security), constitute institutional settings that support the learning economy.

Social Investment in the Learning Economy

The learning economy needs the support from an active welfare state. The most fundamental contradiction in the learning economy has to do with the fact that while it thrives on the basis of social cohesion if left to itself, mechanisms operating within the learning economy tend to undermine social cohesion.

Without intervention the increase in the rate of change would make it more difficult for low-skilled workers to find employment, while the demand for skilled workers would grow. The OECD (1994) Job’s Study demonstrated a tendency toward polarisation of labour markets operating in *all* OECD member countries between 1985 and 1995. In the US the polarisation increased in terms of income differentials, while in European countries it took the form of growing differences in access to employment between high-skilled and low-skilled workers. The UK combined the two forms of polarisation.

accelerating change following different strategies. One strategy is to protect existing structures and slow down the rate of change. But neo-protectionism is difficult to sustain for longer periods since in the long run it tends to erode the dynamic efficiency of the economy. An alternative neo-liberal strategy is to let market forces play freely and leave it to the individual (or family) to carry the costs and benefits. Many small countries have developed a third strategy that combines a broad acceptance of rapid change with public policies that redistribute costs and benefits of change. This goes hand in hand with a 'social investment' strategy where public sector activities are designed to promote economic growth.

As we shall see below some of the countries most successful in global competition have been able to counteract polarisation both in terms of income and in terms of access to jobs. In these countries, characterised by small income gaps and low social distance, we find high levels of trust and wide use of participatory organisations, factors that make firms well adapted to operate in the learning economy.

Therefore investments in skills – especially those that enhance the capacity to learn – for the part of the adult population that has the weakest starting point are crucial for the social sustainability of the learning economy. They are necessary to avoid polarisation undermining the social cohesion that supports the learning economy. In a long-term perspective, such social investments may contribute more to 'competitiveness' in the narrow sense than investment in R and D or science.

In the learning economy it is also important to establish labour market institutions that support the formation of learning organisations. *Flexicurity* – where mobility within and across organisational borders is combined with income security for those who become unemployed – is an especially attractive institutional set-up. Flexibility makes it possible continuously to reshape the capability profile of organisations, while high rates of substitution and reasonable length of the period of support make employees less risk averse and more willing to take part in and contribute to change.

Social investments may be defined as public expenditure that combines the solution of social problems with enhancing economic performance. Seen from the perspective of the learning economy there is certainly a need for this kind of investment in education and in lifelong learning as well as in active labour markets and unemployment support. Inequality does not promote economic growth in the learning economy. Big gaps among citizens in terms of social status, culture and skill endowments make it more difficult to establish participatory learning in society and not least in business organisations. Therefore there is a special need to focus on social investment for those who have weak learning capabilities and limited learning opportunities and this is what was referred to as 'new new deal' in Lundvall (1996).

But it is also important to redesign institutions related to education and labour markets so that they promote learning and the formation of learning organisations more generally. In this chapter we argue that education systems open for career shifts combining and giving equal weight to academic and practical training and labour markets characterised by flexicurity constitute institutional settings supporting the learning economy.

It is of obvious interest to relate social investment to *social capital*. Social capital is a multi-dimensional concept difficult to define and measure. It has to do with

generalised trust and with the orderliness and predictability of co-citizens' behaviour. Here we define it as 'the willingness and capability of citizens to make commitments to each other, collaborate with each other and trust each other in processes of exchange and interactive learning across class and family boundaries'. Social capital may be enhanced by social investment in a narrow sense but it also reflects institutional set ups.

Robert Putnam (1995) presents activities in civic organisations as the most important source of social capital and he actually assumes that public sector activities may undermine and substitute for such activities. This has been challenged by Nordic scholars such as Rothstein (2001). The ensuing debate seems to conclude that while different welfare state regimes may have a different impact the general assumption that social investment undermines social capital is wrong (van Oorschot 2005; van Oorschot 2006). For instance Knack and Keefer (1997) show that investment in secondary education is positively correlated with social capital.

Within the perspective of the learning economy the impact of social investment on social capital will depend both on political culture and what is regarded as fair, as legitimate forms of government intervention in a specific country is path dependent. But strategies that aim at building and redistributing skills and access to learning may be less controversial in most national systems as compared to passive income support. The fact that the Lisbon strategy could be accepted by both governments tending toward neo-liberalism and governments tending toward neo-protectionism may be explained by the reference to the knowledge based economy as a kind of common 'neutral' objective to be aimed at.

Mapping Forms of Work Organisation for the EU-15

Lorenz and Valeyre (2005) develop an EU-wide mapping of the adoption of different types of work organisation. Drawing on the results of the Third European Survey on Working Conditions,² cluster analysis is used to identify four different systems of work organisation: the discretionary learning (DL), lean, Taylorist and traditional forms. The two most important dimensions used to distinguish between them are respectively problem solving and learning on the job on the one hand, and the degree of freedom that the worker has to organise his work activities, on the other. Discretionary learning involves complex problem solving and freedom to choose or change one's work methods and pace of work. A typical example would be managers, experts or skilled workers with great autonomy.

The principal difference between the discretionary learning and the lean clusters is the relatively high levels of discretion or autonomy in work exercised by employees grouped in the former. Over 85 per cent of the employees grouped in the DL cluster affirm that they have control over their work pace and work methods whereas only slightly over 50 per cent of the employees grouped in the lean cluster affirm this. Another difference is that such core 'lean' or 'high performance' work practices as team work, job rotation and the use of quality norms are at average, or below average

2. The Third European Survey of Working Conditions on which the mapping is based was directed to approximately 1500 active persons in each country with the exception of Luxembourg with only 500 respondents. The total survey population is 21,703 people, of which 17,910 are salaried employees. The analysis presented here is based on the responses of the 8081 salaried employees working in establishments with at least 10 people in both industry and services, but excluding agriculture and fishing; public administration and social security; education; health and social work and private domestic employees.

levels in the DL cluster, whereas they are considerably above average in the lean cluster. Task complexity also is higher in the DL cluster than it is in the lean cluster. Workers in automobile factories where modern management techniques are applied would typically fall into the lean category.

Discretionary learning thus refers to work settings where a lot of responsibility is allocated to the employee who is expected to solve problems on his or her own. Business services are a typical example where many jobs involve a continuous confrontation with new and complex problems. Although some of the tasks take place in a team, teamwork is not seen as imposing narrow constraints on the work. Rather, teamwork may involve brainstorming by professional experts as much as collectively solving narrowly defined problems.

Lean production also involves problem solving and learning but here the problems appear to be more narrowly defined and the scale of possible solutions less broad. The work is highly constrained, notably by constraints linked to the use of numerical production targets or performance targets and this points to a more structured or bureaucratic style of organisational learning that corresponds rather closely to the characteristics of the Japanese or 'lean production' model.

The other two clusters are both characterised by relatively low levels of learning and problem solving. Taylorism offers the employee very limited access to learning and almost no autonomy when it comes to organising daily work. This is a kind of work that is widely used in textile factories in the South of Europe. In the traditional cluster task complexity is the lowest among the four types of work organisation while, at the same time constraints on work rate are relatively low. This class groups traditional forms of work organisation where methods are for the most part informal and non-codified. This kind of work may be found in small shops and in paid domestic work.

Table 1. National Differences in Forms of Work Organisation.

	Percent of employees by country in each organisational class				
	Discretionary learning	Lean production	Taylorist organisation	Traditional organisation	Exposure Index
Austria	47.5	21.5	13.1	18.0	96.7
Belgium	38.9	25.1	13.9	22.1	101.2
Denmark	60.0	21.9	6.8	11.3	87.9
Finland	47.8	27.6	12.5	12.1	94.6
France	38.0	33.3	11.1	17.7	99.2
Germany	44.3	19.6	14.3	21.9	99.5
Greece	18.7	25.6	28.0	27.7	114.8
Italy	30.0	23.6	20.9	25.4	107.6
Ireland	24.0	37.8	20.7	17.6	106.5
Luxembourg	42.8	25.4	11.9	20.0	98.6
Netherlands	64.0	17.2	5.3	13.5	86.8
Portugal	26.1	28.1	23.0	22.8	109.6
Spain	20.1	38.8	18.5	22.5	109.2
Sweden	52.6	18.5	7.1	21.7	94.0
UK	34.8	40.6	10.9	13.7	98.7
EU-15	39.1	28.2	13.6	19.1	100.0

Source: Third Working Condition survey. European Foundation for the Improvement of Living and Working Conditions.

Table 1 shows that DL-forms of work organisation are most widely diffused in the Netherlands, the Nordic countries and to a lesser extent in Germany and Austria, while they are little diffused in Ireland and the southern European nations. The lean model is most in evidence in the UK, Ireland, and Spain and to a lesser extent in France, while it is little developed in the Nordic countries or in Germany, Austria and the Netherlands. The Taylorist forms are more present in Portugal, Spain, Greece and Italy, while similarly, the traditional forms are more in evidence in these four southern European nations as well as in Germany, Belgium and Luxembourg.³

Globalisation, Transformation of Work and International Competitiveness

In the last column in table 1 we have presented an ‘exposure index’. The basic idea behind it is that different types of jobs are more or less exposed to global competition – exposure might take the form of a high probability for outsourcing or it may be that jobs will not be viable when confronted with competition from low cost countries such as China and India. We assume that exposure increases with the degree of standardisation of the job and with the intensity of use of low-skilled labour.

3. In Lorenz and Valeyre (2005) logit regression analysis is used to control for differences in sector, occupation and establishment size when estimating the impact of nation on the likelihood of employees being grouped in the various forms of work organisation. The results also show statistically significant ‘national effect’ when controlling for the structural variables, thus pointing to considerable latitude in how work is organised for the same occupation or within the same industrial sector.

Therefore we assume that the least exposed jobs are jobs involving discretionary learning while Taylorist jobs and Traditional Organisation are the most exposed and Lean Production falls in between. We have calculated the index using the following formula:

$$\text{Exposure Index} = 1.0\text{DL} + 1.5\text{LP} + 2.0(\text{TAY} + \text{TRAD})$$

In the last column the index has been normalised so that the unweighted average equals 100.

A low value for the index indicates that the economy is less exposed to low wage competition from outside Europe. Greece, Portugal and Spain are most exposed while the transformation of working life has gone far in Netherlands and in the Nordic countries.⁴

It might be argued that *the inverse* of the exposure index gives a good indicator for long term sustainable competitiveness.⁵ Analysis including all of the EU-27 plus Norway and covering a more recent period gives a similar pattern; it shows that the majority of the new member countries have a structure similar to the one found in the south of Europe (Holm et al, forthcoming).⁶ On this basis it may be argued that a strategy aiming at making Europe the most competitive region in the world, with social cohesion, should focus upon enhancing the competitiveness in Greece, Portugal, Ireland, Italy as well as in the new member countries in Eastern Europe through social investment and institutional reform. The current Lisbon Strategy is complex with many specific sub-objectives. To focus efforts on strengthening the weakest of Europe's learning economies would set clear objectives and easier to implement and explain. It would also give the European project a strongly needed legitimacy that goes beyond exploiting scale economies through the single market.

Education and Training for Learning Organisations

Since the discretionary learning forms of work organisation depend on the capacity of employees to undertake complex problem-solving tasks in relatively unconstrained or 'organic' work settings, it can be expected that nations with a high frequency of these forms will have made substantial investments in the development of the knowledge and skills of their labour forces. Investments in education and training take various forms and in what follows we focus first on tertiary or third-level

4. While a low value on the exposure index indicates that the economy is less vulnerable to 'globalisation' it also may be seen as explaining difficulties with absorbing low-skilled labour and not least labour with a different ethnical background. Workplaces with Taylorist and traditional work organisation may be seen as 'entrance points' for immigrants with low skills since they offer jobs where workers with limited communication skills can operate efficiently. It means that the integration effort in order to be successful needs to be massive and focused upon upgrading skills, including communication skills, in the Nordic countries. The current high rates of unemployment among certain ethnical groups in these countries illustrates that this has not yet been fully understood among policy makers.

5. The current situation of Ireland indicates that its 'strong competitiveness' based mainly upon low costs and low tax regimes is not sustainable.

6. The analysis of 2005 data for EU-27 and Norway also results in four clusters with similar characteristics as the ones referred to in this chapter. The Nordic nations (now including Norway) and the Netherlands stand out for their high use of the DL forms of work organisation and low levels of use of Taylorism. The lean forms are most present in the UK and Portugal amongst the EU-15 and Estonia, Slovenia, Latvia, Lithuania, Poland and Romania amongst the new member nations. The Taylorist forms are relatively developed in all of the southern nations amongst the EU-15 and in a number of the new member nations including the Czech Republic, Cyprus, Hungary, Bulgaria, Slovakia and Romania. The simple forms are relatively frequent in Spain, Greece and Ireland amongst the EU-15 and in Hungary, Bulgaria, Lithuania, Cyprus and the Czech Republic amongst the new member nations (Holm et al, forthcoming). This implies that most of the new member countries are at least as exposed to globalisation as the countries in southern Europe.

education and second on the continuing vocational training offered by enterprises both through external and internal courses.

While most of the qualifications acquired through third-level education will be relatively general and hence transferable on the labour market, the qualifications an employee acquires through continuing vocational training will be more firm-specific. Some of this training will be designed to renew employees' technical skills and knowledge in order to respond to the firm's requirements in terms of ongoing product and process innovation. Other parts of continuing vocational training, notably the provision of in-house courses, will be more organisationally focused and designed to develop employee competence in the firm-specific routines and operating procedures that are required for daily production activities. This latter kind of vocational training will be highly complementary to the more informal forms of learning that occur on the job, as employees seek solutions to the problems they confront in their daily work.

There is a common understanding in most European countries that it is important to promote academic training and scientific research. The Framework programmes and the Bologna-process are examples of efforts aiming at promoting and coordinating such activities. The weaker emphasis on vocational training and programmes for training adult workers reflects that in parts of Europe 'codified knowledge' carries much more status than experience-based knowledge. As we shall see below, this bias may be problematic since it neglects the close connection between adult vocational training and the creation of jobs characterised by discretionary learning.

Figure 1 below shows the correlations between the frequency of the DL forms and two of the four measures of human resources for innovation used in Trendchart's innovation benchmarking exercise: the proportion of the population with third-level education and the number of science and engineering graduate since 1993 as a percentage of the population aged 20–29 years in 2000. The results show a modest positive correlation ($R\text{-squared} = 0.26$) between the DL forms and the percent of the population with third level education, and no discernible correlation between the DL forms and the measure of the importance of new science and engineering graduates.

Figure 1. Formal education and discretionary learning.

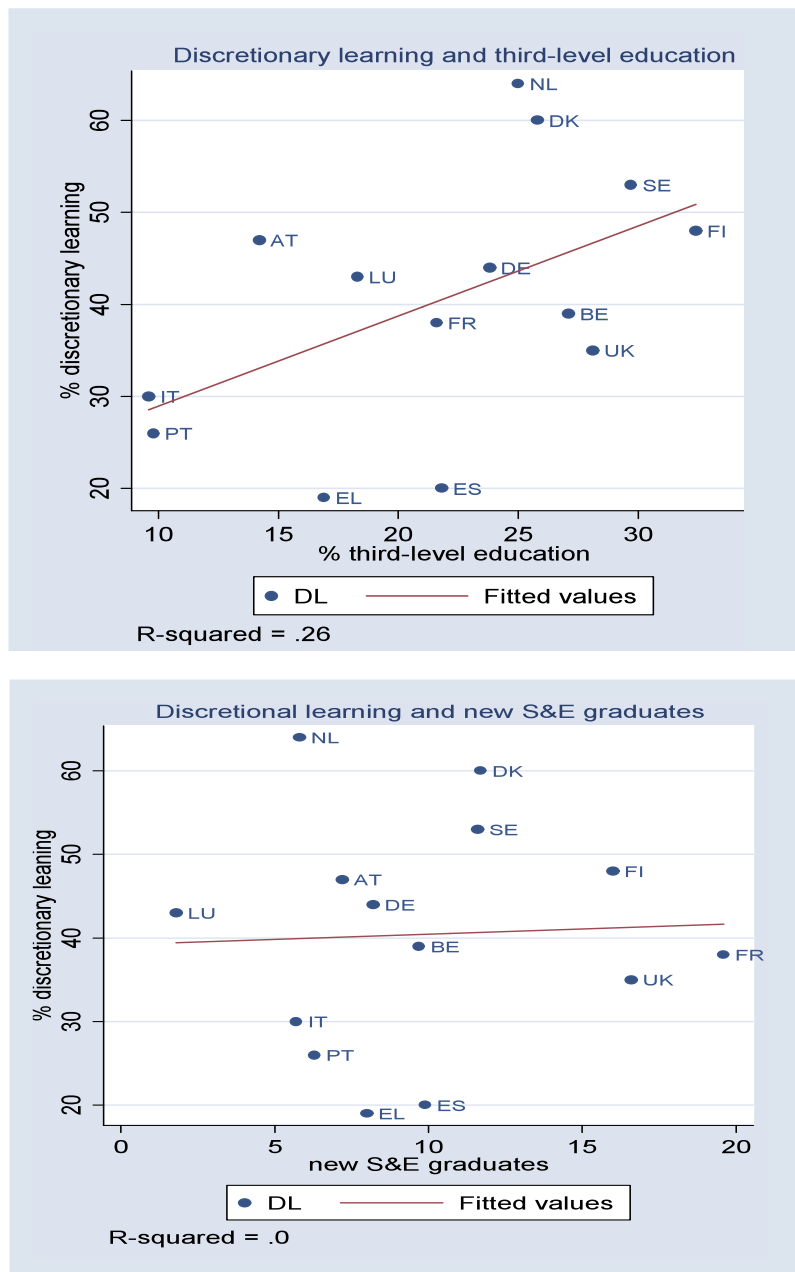
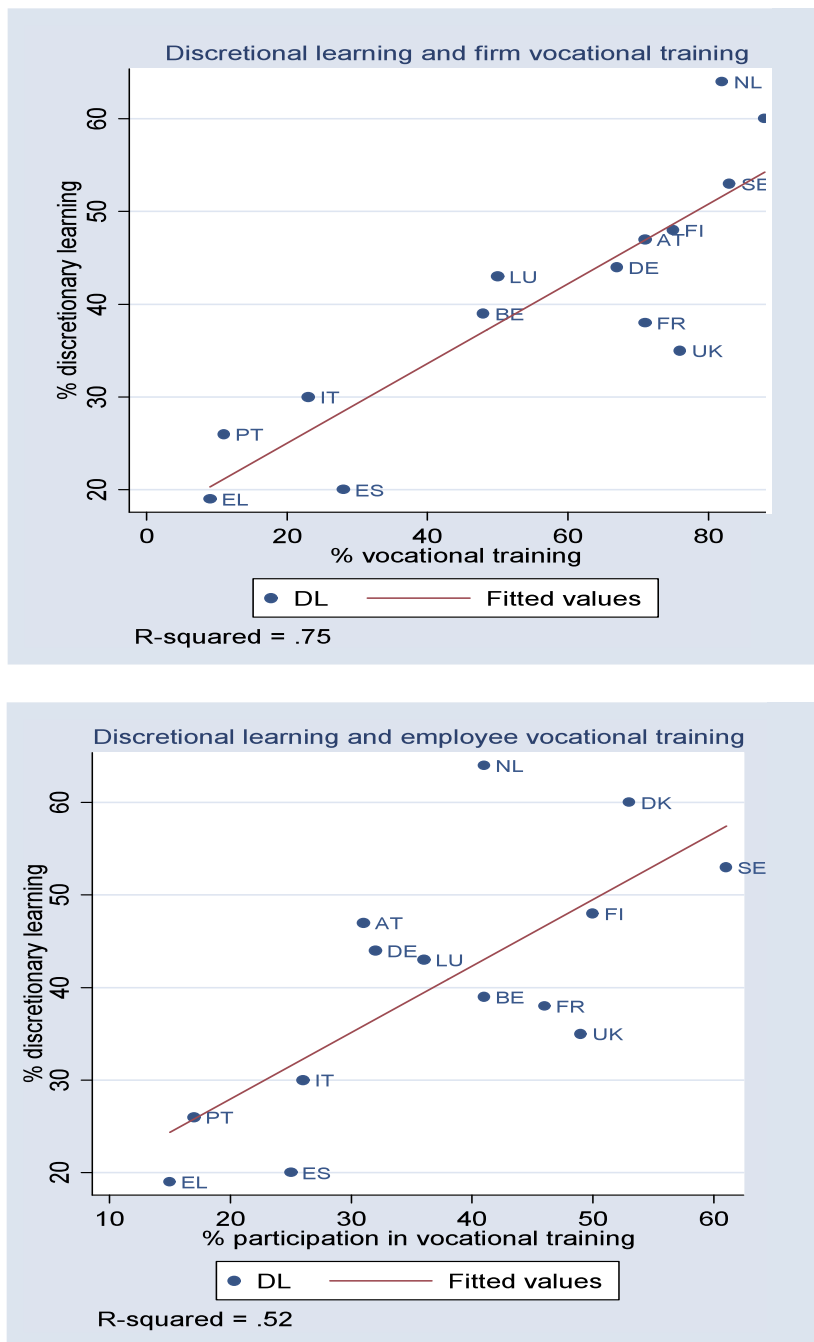


Figure 2 shows that there are fairly strong positive correlations (R-squared = 0.75 and 0.52 respectively) between the frequency of the DL forms and two measures of firms' investments in continuing vocational training: the percentage of all firms offering such training and the participants in continuing vocational education as a percent of employees in all enterprises.

Figure 2 also points to the north/south divide within Europe. The four less technologically developed southern nations are characterised by both low levels of enterprise continuing vocational training and low use of discretionary learning, while the more developed northern and central European nations are characterised by relatively high levels of vocational training and by high level use of the discretionary learning forms.

Figure 2. Enterprise continuing vocational training and discretionary learning.



In order to approach an understanding of the underlying structural characteristics that are reflected in high levels of discretionary learning we will take a closer look at how social equality is linked to equality in access to learning in the Nordic countries.

Social Capital, Trust and the Egalitarian Nordic Model

According to standard economic analysis Nordic countries should not perform very well in a global context where knowledge and innovation is a key to economic success. One of the few clear conclusions of new growth theory is that a small-scale system should be a handicap and it is only recently that firms in Denmark, Finland and Norway have increased the R and D effort to international level. The small scale should be a handicap because there are scale economies in the production of new

knowledge in some of the so-called high technology fields. It should also be a handicap because it is so much less expensive to apply and use knowledge than it is to create knowledge. In this section we use the conceptual ideas developed above to demystify this paradox.

At the core of our analysis is the importance of tacit knowledge and experience based learning. Most interesting forms of learning take place as an interaction between people. Scholars interact with colleagues, firms with customers and the master interacts with the apprentice. Within the business organisation interaction among specialised experts and across departments is a prerequisite for successful innovation. When it comes to implement innovation a close interaction between workers and managers is crucial for success. Firms that interact with customers, suppliers and knowledge institutions are more successful in terms of innovation than those that operate in isolation (Rothwell 1977; Rosenberg 1982; Lundvall 1985).

How people interact and with whom will reflect the society they live in and the education systems that has shaped them. We will argue that in the Nordic countries social capital and trust are fundamental resources that make national systems strong in terms of incremental innovation, absorption of knowledge produced elsewhere and rapid adaptation (Lundvall 2002; Lundvall 2006). First we demonstrate that both the level of trust and the level of income equality are high in the Nordic countries. Second we show that a fundamental and dynamic indicator of equality – equality in access to learning at the workplace – is also strongest in the Nordic countries and Netherlands.

Social Capital and Trust as Key Elements in the Nordic Model

In the US-dominated literature social capital has been presented as rooted in civil society and the frequency of participation in civic activities has been used as indicator of 'social capital' (Woolcock 1998). It has been argued that big government undermine civil society and thereby also social capital. The Scandinavian experience shows that the growth in the welfare state has not reduced the participation in civic organisations and that levels of trust are higher in the Scandinavian countries than in countries with small government. There seems, especially, to be correlation between general (rather than selective) social welfare programmes and generalised trust.⁷

According to the European Social Survey trust among agents seems to be consistently higher in the Nordic countries than in most other countries and combined with the small size of the system it results in dense interaction among agents both within and across organisations.

This gives rise not only to low transaction costs but more importantly, it facilitates processes of interactive learning where new insights about technologies and good organisational practices are diffused rapidly both within organisations and across organisational borders. The most important impact of high degrees of trust is *high learning benefits*. Low social distance between managers and workers and willingness to trust partners are key elements behind the relative success of the Nordic countries.

7. Social capital is a somewhat amorphous concept and it has referred both to individual access to social resources and to societal characteristics affecting social interaction. Here we define it as 'the willingness and capability of citizens to make commitments to each other, collaborate with each others and trust each other in processes of exchange *and* interactive learning'.

While the innovation systems in the Nordic countries may be handicapped in the production of codified knowledge especially in certain scale-intensive science based sectors they have been highly successful in terms of learning by doing, learning by using and learning by interacting.

Degree of Inequality in Access to Organisational Learning in Europe

An egalitarian income distribution might not be the most important dimension of social equality. If it is combined with growing gaps in competence between the skilled and the low-skilled workers it might result in high rates of underemployment and long term unemployment for the low-skilled. The data referred to above on organisational models of learning in different European countries makes it possible to develop a more dynamic and adequate indicator of inequality.

Table 2. National Differences in Organisational Models
(per cent of employees by organisational class).

	Discretionary learning	Share of managers in discretionary learning	Share of workers in discretionary learning	Learning Inequality index*
North				
Netherlands	64,0	81.6	51.1	37.3
Denmark	60,0	85.0	56.2	35.9
Sweden	52,6	76.4	38.2	50.3
Finland	47,8	62.0	38.5	37.9
Austria	47,5	74.1	44.6	39.9
Centre				
Germany	44,3	65.4	36.8	43.8
Luxembourg	42,8	70.3	33.1	52.9
Belgium	38,9	65.7	30.8	53.1
France	38,0	66.5	25.4	61.9
West				
UK	34,8	58.9	20.1	65.9
Ireland	24,0	46.7	16.4	64.9
South				
Italy	30,0	63.7	20.8	67.3
Portugal	26,1	59.0	18.2	69.2
Spain	20,1	52.4	19.1	63.5
Greece	18,7	40.4	17.0	57.9

Source: Lundvall, Rasmussen and Lorenz (2008).

* The index is constructed by dividing the share of 'workers' engaged in discretionary learning by the share of 'managers' engaged in discretionary learning and subtracting the resulting percentage from 100. If the share of workers and managers were the same, the index would equal 0, and if the share of workers was 0 the index would equal 100.

In table 2 we present an indicator for the social distribution of workplace learning opportunities. We distinguish between ‘workers’ and ‘managers’ and we compare their access to discretionary learning in different national systems.⁸ Table 2 shows that employees everywhere at the high end of the professional hierarchy have more easy access to jobs involving discretionary learning.

But it is also noteworthy that the data indicate that the inequality in access to learning is quite different in different countries. In the Nordic countries and Netherlands the inequality in the distribution of learning opportunities is moderate while it is very substantial in the less developed south. For instance, the proportion of the management category engaged in discretionary learning in Portugal is almost as high as in Finland (62 per cent in Finland and 59 per cent in Portugal), but the proportion of workers engaged in discretionary learning is much lower in Portugal (18.2 per cent versus 38.2 per cent).

This pattern indicates the Nordic countries are egalitarian not only in terms of income distribution. Also when it comes to access to learning the distribution is more equal than elsewhere. The combination of welfare states offering some kind of basic security, equal income distribution and low social distance is reflected in high degrees of trust and in a broad participation in change. While there are tendencies toward polarisation in the current context also in the Nordic countries they still benefit from a kind of social capital that supports dynamic economic efficiency. To build a capacity to upgrade skills of the low-skilled workers with different cultural backgrounds, and to avoid a populist backlash against immigration are major challenges for the Nordic countries. This is where the Nordic model, so far, has been the least successful. The dimension of the challenge has been underestimated and as a result efforts have been too modest.

Linking Modes of Learning to Measures of Employment and Unemployment Security

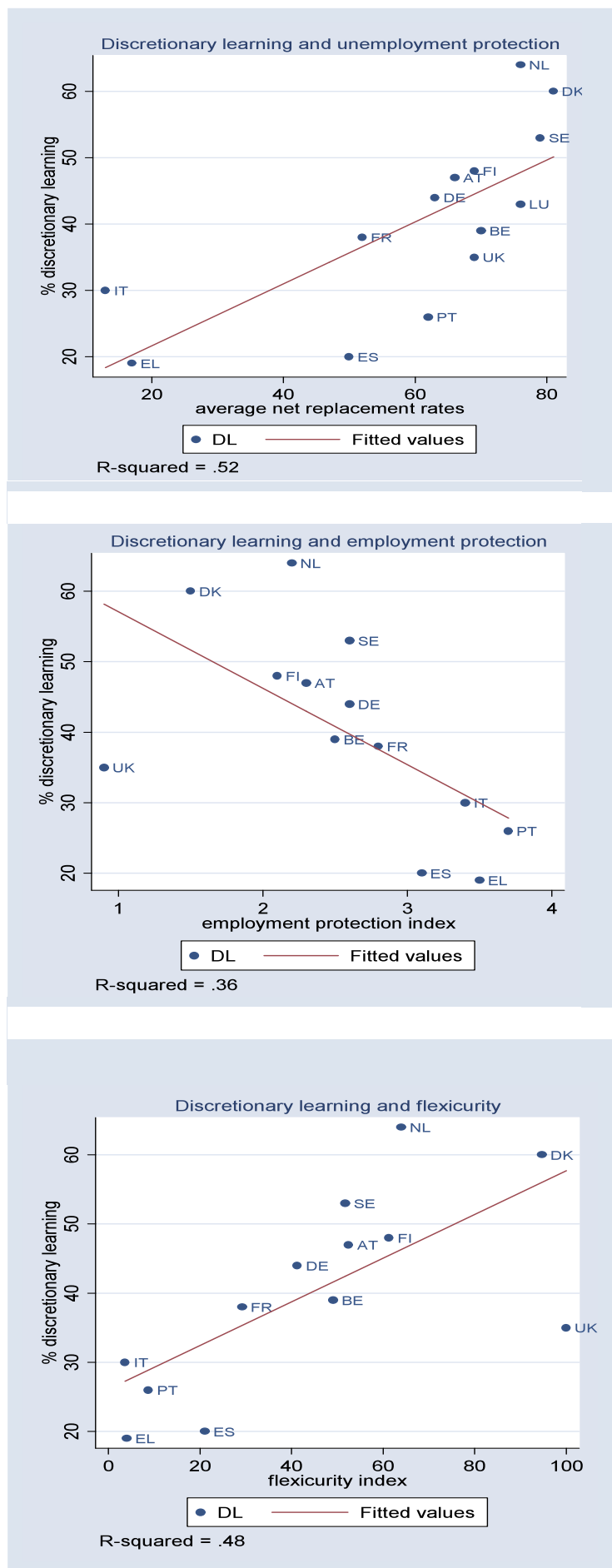
EU member nations display large differences in systems of employment and unemployment protection. Systems combining high levels of unemployment protection with relatively low levels of employment protection may have an advantage in terms of the adoption of the forms of work organisation that promote learning and ‘new to the market’ innovation. Organisations which compete on the basis of strategies of continuous knowledge exploration tend to have relatively porous organisational boundaries so as to permit the insertion of new knowledge and ideas from the outside. Job tenures tend to be short as careers are often structured around a series of discrete projects rather than advancing within an intra-firm hierarchy (Lam 2005; Lam and Lundvall 2006).

While absence of legal restrictions on hiring and firing will not necessarily result in the forms of labour market mobility that contribute to a continuous evolution of the firm’s knowledge base, strong systems of employment protection may prove to be an obstacle. Well developed systems of unemployment protection, on the other hand, may contribute to the development of fluid labour markets. The security of such

8. The class of managers includes not only top and middle management but also professionals and technicians (ISCO major groups 1, 2 and 3) The worker category includes clerks, service and sales workers as well as craft, plant and machine operators and unskilled occupations (ISCO major groups 4 through 9).

systems provides encourages individuals to commit themselves to what would otherwise be perceived as unacceptably risky forms of employment and career paths and such forms of protection contribute to accumulation of knowledge for particular sectors or regions since in their absence unemployed workers would be under greater pressure to relocate.

Figure 3. Correlations between discretionary learning and systems of social protection.



Evidence in support of the view that systems of flexicurity promote the DL forms of work organisation is provided in Figure 3 above.⁹ The top graph shows that there is a fairly strong positive relation ($R\text{-squared} = 0.52$) between a measure of the level of unemployment protection in a nation and the frequency of discretionary learning. The middle graph shows a negative relation ($R\text{-squared} = 0.36$) between a measure of the level of employment protection and the frequency of the DL forms.

The bottom graph in Figure 3 shows an index of flexicurity constructed from the measures of employment and unemployment protection. The index is constructed so that a nation combining intermediate levels of both unemployment and employment security will score higher than a nation combining a high level of unemployment security with a high level of employment security, or a nation combining a low level employment security with a low level of unemployment security.¹⁰ The assumption is that the positive effects of a high level of unemployment protection (low level of employment protection) cannot compensate for the negative effects of a high level of employment protection (low level of unemployment protection). Rather, as the literature on flexicurity suggests, what's required is getting the right mix of flexibility and security. The index is positively correlated ($R\text{-squared} = 0.48$) with the frequency of the DL forms of work organisation.

In a paper still in process, 'Organisational Learning and Systems of Labour Market Regulation in Europe' (Holm et al, forthcoming), we have taken one further step towards addressing this research agenda by using multi-level logistic regression to explore the relation between individual level outcomes and national systems of labour market flexibility and regulation. The analysis provides support for the view that the way work is organised is nation-specific and that it varies with the degree of labour market mobility and with the way labour markets are regulated.

This perspective has important implications for European policy and in particular for the current situation where there is a strong need to face the economic crisis and to revitalise the Lisbon agenda. It is true that the Lisbon process set the focus not only on economic growth but also on social cohesion. But it appears as if, for the Commission, the social dimension has been added as something outside the innovation process sometimes seen as a kind of historical burden that Europe is obliged to carry when competing with the US, Japan, and China.

Revitalising the Lisbon Agenda

A revitalisation of the Lisbon process should take national learning systems and their interrelations with systems of labour market regulation as the point of departure for defining a new set of policy strategies. Our results indicate that a movement toward a learning economy where a growing proportion of the citizens are engaged in jobs offering both learning and a delegation of responsibility can be promoted by developing more active and more ambitious labour market policies that combine mobility in the labour market with income security and access to training

9. The unemployment protection measure in Figure 5 is the average net replacement rate of in-work income over 60 months averaged across four family types and two income levels including social assistance in 1999. See OECD, *Benefits and Wages*, 2002, p. 40. The employment protection measure is the OECD's overall employment protection index for the late 1990s. See OECD *Employment Outlook*, 1999, Ch. 2.

10. The index is constructed by reversing the scoring on the employment protection index such that high values correspond to low levels of protection and multiplying this reversed score by the unemployment index. The resulting flexicurity index has then been rescaled so that the maximum score is 100.

for workers. In the current crisis, establishing flexible security or 'flexicurity' in labour markets may be seen as a long-term supplement to short-term attempts that try to save existing jobs.

Finally, a major challenge in the learning economy is to establish links between and reduce barriers between those who operate on the basis of formal codified academic knowledge and those who operate on the basis of experience-based and practical knowledge. While science and codified knowledge becomes increasingly important it is only when it is linked and combined with tacit and experience-based knowledge that it may become transformed into economic and social values (Jensen et al. 2007).

Education and training systems therefore need to be designed so that they lower such barriers. This implies a need to make education systems more broad based so that they give more equal weight to academic training and to vocational training. Academic training needs to be connected to the solution of practical problems and vocational training needs to demystify science and prepare workers for the use of advanced technologies (Lundvall et al. 2008).

In the learning economy strong competitiveness will emanate from the dynamic interaction between research- and experience-based forms of knowledge and this requires that all kinds of barriers between those with practical skills and those with theoretical skills are reduced. Again we see this as a challenge especially for the South and East of Europe. But also in France, Germany and the UK there might be a need for radical reforms in this respect (Lam and Lundvall 2006; Lorenz and Lundvall 2006).

Summing Up

The Lisbon strategy aims at making Europe the most competitive region in the world and at Social cohesion. A radical new element in the Lisbon Strategy was its emphasis on the knowledge-based economy. In this chapter we have proposed a shift in perspective where the focus is upon how learning takes place in different parts of Europe.

Seen in this light there is a need to focus and to revitalise the Lisbon strategy. The focus should be upon social investments and institutional change related to the organisation of work and learning especially in the South and East of Europe. We see three tasks as especially important:

- expanding systems of vocational training and aiming at new combinations of theory and practice in the overall education systems;
- developing active labour market policies and institutions that support flexicurity;
- reducing inequality in income and in access to learning.

Such a programme would increase 'social cohesion' both at the level of the single nation and for Europe as a whole since it would help reducing the big gaps in income between the different parts of Europe. And it would certainly strengthen the 'competitiveness' of the region as a whole. It is of course a problem that education, labour market and social policy remain the responsibility of national governments

and seem therefore to be outside the reach of the European Commission. Therefore, it might be considered to combine the efforts towards acceptance of the Lisbon Treaty with a redefinition of the Economic and Monetary Union (EMU) so that it gives a 'social dimension'; transforming it into an Economic and Social Union (ESU). This is not very realistic however and therefore more limited efforts need to be considered. A strengthening and redefinition of the role of the regional funds that links economic contributions to institutional reforms in the South and East of Europe seems to be a possible way ahead.

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Towards Social Investment? Patterns of Public Policy in the OECD World

Rita Nikolai

I Introduction

The sort of welfare state thinking has changed. Mounting demands on the traditional welfare state – such as shifts in the world of employment, demographic change, the increasing internationalisation of markets for commodities and markets for services as well as processes of societal changes – challenge welfare policy. Action is compelled by ideas for a “Third Way” – a social investment state – first broached by Giddens (1998) and quickly embraced by the policy- and decision-making community. That kind of state is not remedial. It moves away from classic compensatory social benefits, which come into play only after the damage has already occurred. It changes the system to favour family and active labour market policy as also education and training as preventive social investments. For comparative public policy research such a change in paradigm necessarily means to discuss, how we can identify social investment states and which states has already implemented a social investment strategy?

The contribution traces the development of welfare-state change in the established¹ OECD member states, which for the most part of the states offer more than a 100-year old tradition of welfare policy. By using disaggregated programme expenditure, this chapter will identify diverse spending priorities and will relate expenditures for investment measures and compensation expenditures on the basis of the OECD Social Expenditure Database and the Education Spending Database. By doing this, we can distinct between investment and compensatory social spending as a tool to identify social investment states and to compare the diversity of countries approach. We are also asking to what extent we can observe a convergence of welfare policy. The analysis will take into account expenditures for families, active labour market policies, education, old-age and passive labour market policies. The data embrace 21 OECD member states beginning with the midst of the 1980s up to the

1. Comparable data for the 30 OECD states are only available since the beginning of the 1990s, so the data availability limits the investigation period and the selection of cases. The “established” OECD states are the following: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom and the United States.

year 2005.² The contribution analyse, in how far the OECD-member states pursue a social investment policy. Do the welfare states follow the paradigm of activation in the same way and is there a convergence of welfare-state development? Due to the increasing international interdependence of states and their societies, one might argue for an increasing convergence of national policies, institutions and cultures. So the question is, whether the welfare policies in the OECD world are becoming more similar over the years and to what extent the paradigm of the social investment state finds expression in the social expenditure profile?

Due to their strong orientation on investments in human capital and provision for the future, policy fields like education policy, family policy and active labour market policy are understood as action fields of the social investment state, (Allmendinger and Leibfried, 2003, Nikolai, 2007). In contrast the policy fields of old age insurance and passive labour market policies are understood as the classic fields of a compensatory welfare state, which is characterised by a generous compensation of social risk such as unemployment and ageing. The focus lies rather on the outcomes and less on the processes and causes underlying the results. The approach of this chapter can help us to understand how different types of social programmes contribute to the attainment of particular welfare state goals and to gain a more differentiated picture of the factors shaping national welfare state spending profiles than has been previously possible on the basis of aggregate spending data alone. With disaggregated programme expenditure data we are able to figure out which welfare states focus more on prevention and social investment than on compensating for immediate problems. The chapter begins with a short overview of the discussion of welfare state change towards the social investment state and the role of different social policies. In the section following we analyse to what extent convergent developments in the social expenditures can be observed and in how far the welfare states follow up the paradigm of social investment state in their spending profile. The last section summarises the findings.

II Identification of Social Investment States

Since the year 2000, a new agenda has been defined for the European welfare state under the now common title Social Investment State (SIS). The SIS displays a revamped view on social policies. It promotes 3 main mechanisms to address new social risks: Activation, individualisation and human capital investment over the life course. The SIS has been promoted by the EU and has fostered a rescaling process of welfare states. The Social Investment Strategy is based on the idea that social policy has to become a productive factor which enhances growth and employment. In brief, the state has to enable citizens to care for themselves rather than caring for them (Häusermann and Palier, 2008). Since the launch of the Lisbon Strategy, the EU has officially adopted this policy orientation (Jenson and Saint-Martin, 2006). The Lisbon strategy is aimed at boosting growth and jobs, notably through the measures which invest in people's capacities and provide equal opportunities.

Discourse on the welfare state has changed gradually since the late 1990s. Due to changing economic and social contexts as well as tight financing constraints: A more active social policy has developed based on a social investment strategy. The idea of

the active social state is rooted in the neo-liberal critique of the welfare state that the latter is cumbersome, badly designed and incorporates false incentive structures. This critique was taken up by the OECD in its influential report of 1994 (OECD, 1994) which stressed the opposition between passive and active social expenses. The new paradigm was further supported by three other ideas: “Making work pay”, a new role for the individual, and a mix between rights and duties (Dean et al., 2005). In his book “The Third Way: The Renewal of Social Democracy”, Anthony Giddens introduced the notion of social investment as a normative concept (Giddens, 1998). He called for a “new partnership” in the assignment of the welfare function to families, markets and states and challenged the state to develop an entrepreneurial culture. The goal was to “shift the responsibility between risks and security involved in the welfare state, to develop a society of responsible risks takers” (Giddens, 1998: 100). This approach implies several changes: firstly, the shift of focus on the main risks the welfare state has to deal with, secondly, more emphasis on the individual responsibility at stake, thirdly, a new kind of wealth redistribution as well as a renewed role for social policy, and lastly a rethinking of the aims, instruments and main fields of welfare policies (see Jenson chapter 1 this volume).

Deindustrialization and the tertiarisation of employment, massive entry of women into the labour force, increased instability of family structures, destandardization of employment form in the words of Giuliano Bonoli in new social risks (Bonoli, 2007). In response to new risks, the social investment strategy (SIS) aims at facilitating the integration of people into the labour market. The need for old forms of social protection is of course not eliminated; pensions are still important to protect against income insecurity in old age; health services are needed, and so on. But for the promoters of the SIS, new risks must also be taken in hand. The aim is to produce an adaptable, skilled and educated workforce through welfare policies encouraging active participation (primarily in the labour market) and equipping people to face these new risks. Citizens should be empowered through public policies to be flexible to changing demands of knowledge-based (labour-) markets and to organise their integration into society. In contrast to the redistributive welfare state paradigm, the social investment state aims at redeploying public spending from passive social transfers to investments in education and training, labour market activation measures, promotion of lifelong learning and other measures to reconcile work and family. But how can we identify social investment states? Alternatively to Jenson’s social rights of citizenship approach (see Jenson chapter 1 this volume), we compare the welfare states by using disaggregated programme expenditure. We could also identify diverse spending priorities by relating expenditures for investment measures and compensation expenditures on the basis of the OECD Social Expenditure Database and the Education Spending Database.

In welfare politics we can differentiate between investment-related and compensatory welfare policies (Allmendinger and Leibfried, 2003, Nikolai, 2007). Compensatory social policies set against on the generous compensation of social risks such as unemployment and age. These policies are mainly based on a contribution-financed social security with supplementing systems on supply and welfare service basis, and with the goal of maintaining in the old-age pension the status differences of the insurants. As compensatory social policies we understand passive labour market policies and old age insurance.

in old age, to secure the continuity of living standards and reduce income inequalities. Expenditures for this field include spending on old-age and survivors' pension. Passive labour market policy regulates the compensatory allowances for the loss of income due to unemployment. Expenditures for this field include expenditure on unemployment benefits for unemployment and early retirement funds.

Investment-related social policies align their expenditure fields more strongly to provision for the future and needs of the younger generations. We understand active labour market policy, family policy and education and training as fields of social investment.

Family policies have several objectives: It aims (1) to keep the birth rate, at least at a level that ensures the reproduction of the population, (2) to ensure that more women can reconcile work and family, (3) to reduce child poverty, (4) to promote the development of children by providing support services (see Morgan chapter 2 this volume) and (5) to bridge the gap between the incomes of men and women. The commitment of a country's family policy can be described with the level of public expenditure in this area.

Active labour market policy aims to promote labour mobility and the adaptation of citizens to changing labour markets (Armingeon, 2007, Bonoli chapter 3 this volume). By means of active labour market policies people should quickly be reintegrated into the labour market and the economic loss due to repeated unemployment should be minimized. The expenditures for this field include expenditure on active labour market programs, training, training for young people, employment services, career guidance as well programmes for long-term unemployed, low skilled and disabled persons.

Education enjoys a pivotal role in the Social Investment Strategy (Giddens, 2000, Lewis and Surrender, 2004, Nelson and Stephens chapter 4 this volume). "The key force in human capital development obviously has to be education. It is the main public investment that can foster both economic and civic cohesion" (Giddens, 2000: 73). The changes in society over the previous century are testing all welfare states, albeit to different extents. Profound processes of deindustrialization have subjected the labour markets of developed societies to lasting change. Labour based on materials and physical work is no longer the determining variable in value creation. The distinguishing features of the present knowledge society are skills in dealing with information and communications technologies and meta-knowledge for acquiring, using, and producing information (Rohrbach, 2007). The education level of the broad population is thus a crucial competitive factor – all the more so because demographic developments in many countries are leading to population decreases that cannot sustain the absolute number of well-educated people unless the size of that group expands proportionately. Moreover, today's longer life expectancy and the ever-shorter half-life of knowledge mean that one phase of education early in life no longer suffices and that phases of additional education and training are more necessary than ever. Spending for education covers expenditures on schools, universities and other public involved in delivering or supporting educational services from primary to tertiary education.

III Analysis

3.1. The Development of Total Social Expenditures

We will first look at the development of social expenditures since 1960 (table 1). On average, in 2005 the OECD states spent 22 per cent of the Gross Domestic Product for welfare policies. The spending levels in Sweden, France, Denmark and Germany are higher than the OECD-average whereas Japan, the Anglo-Saxon states and also economically less developed countries are characterized by social expenditures rates below average. Altogether the welfare state is not on the retreat and there does not seem to be a “race to the bottom” (Pierson, 2001) scenario. In almost all OECD states (with exception of the Netherlands and Ireland) the level of public social expenditures as a percentage of the GDP increased between 1960 and 2005. The social expenditure rate increased particularly in the 1960s and 1970s and also at the beginning of the 1990s. The salience of the welfare state has also increased relative to other state functions (Obinger and Starke, 2008). The majority of the OECD-states spend more than half of total government outlays (not reported here) for social policy. In regard to social expenditure as a percentage of total government outlays, the welfare state has crowded out public expenditures devoted to other purposes over the years (Castles, 2007). The statistic measures of dispersion in the lower part of table 1 inform to what extent the social expenditure rates converge over the years since 1980. Measures such as the range, the standard deviation and the coefficient of variation are denoted as σ -convergence (sigma-convergence). Sigma-convergence is understood as the increase of similarity between countries over the years. The rise in public social expenditure goes hand in hand with a strong convergence as indicated by the declining measures of dispersion. There is also evidence for β -convergence. The concept of β -convergence is understood as a catching-up by policy laggards. In the last row we report the correlation (Pearson’s r) between the starting value 1980 and the annual growth rate (1980–2005). The correlation is negative and statistically significant, so the cross-national variation in social spending growth is driven by catch-up process by welfare policy laggards.

The one-sided view of the public social expenditures covers the division of labour between state, market and family. That’s why we also report the private social expenditures in table 1. We find high private expenditures in the USA, Switzerland and in the Netherlands, due to their high private expenditures for old-age insurance (and not least health expenditures). But also in countries such as Belgium, Japan or France the welfare production is not any longer based solely on public income transfers and social safety nets, but also on privately generated social security benefits.

Table 1. Public and Private Social Expenditure as a Percentage of GDP, 1960–2005.

	Public Social Expenditures					Private (mandatory and voluntary) Social Expenditures			Public and Private Social Expenditures		
	1960	1970	1980	1990	2005	1980	1990	2005	1980	1990	2005
Australia	10,6	11,5	10,9	13,6	17,1	1	0,9	2,6	11,6	14,5	20,8
Austria	22,5	21,6	22,6	23,9	27,2	1,1	1,1	1	25,0	26,1	29,1
Belgium	23,5	25,3	23,5	24,9	26,4	0,9	1,6	4,5	24,5	26,5	30,9
Canada	13,7	18,7	14,1	18,1	16,5	1,6	3,3	5,5	15,3	21,4	22,0
Denmark	24,8	26,2	25,2	25,1	26,9	1,4	1,6	2,4	26,2	27,2	29,5
Finland	18	19,9	18,4	24,2	26,1	0,9	1,1	1,1	18,9	25,3	27,2
France	20,8	m	20,8	25,1	29,2	0,6	1,7	2,6	21,4	27,0	32,1
Germany	22,7	23,5	23,0	22,3	26,7	1,1	1,5	1,9	25,8	25,4	29,8
Greece	10,2	10,9	11,5	16,5	20,5	m	2,1	1,7	10,2	18,6	22,2
Ireland	16,7	17,1	16,8	14,9	16,7	1,3	1,4	1,3	18,0	16,3	18,0
Italy	18	21,4	18,0	19,9	25,0	m	0,5	0,6	18,8	23,9	27,1
Japan	10,6	9,3	10,3	11,4	18,6	m	m	3,3	10,9	11,8	22,4
Netherlands	24,8	29,1	24,1	25,6	20,9	3,6	5,6	7,6	28,8	31,6	29,2
New Zealand	17,2	12,7	17,1	21,8	18,5	0,1	0,2	0,4	17,3	22,0	18,9
Norway	16,9	22,5	16,9	22,3	21,6	0,6	0,7	0,8	17,7	24,1	23,7
Portugal	10,2	m	10,8	12,9	23,11	0,4	0,7	1,51	10,9	13,8	25,01
Spain	15,5	m	15,5	19,9	21,2	0,2	0,2	0,5	15,7	20,1	21,7
Sweden	27,1	23,0	28,6	30,2	29,4	1,1	1,2	2,4	28,2	31,4	32,2
Switzerland	13,5	12,6	13,9	13,4	20,3	m	1	1,1	15,4	18,7	28,7
United Kingdom	16,7	18,5	16,6	17,0	21,3	3,4	4,8	6,3	20,3	22,1	28,4
United States	13,1	15,7	13,3	13,4	15,9	4,2	7,1	9,8	17,7	21,0	26,1
Mean (OECD-21)	17,5	18,9	17,7	19,8	22,3	1,6	2,5	3,6	19,2	22,3	26,0
Range	16,9	19,8	18,3	18,8	13,5	4,5	7,4	9,7	19,1	19,9	14,2
Standard Deviation	5,3	5,8	5,3	5,3	4,3	1,3	2,0	2,8	5,7	5,4	4,3
Variation Coefficient	0,30	0,31	0,30	0,27	0,18	0,83	0,82	0,77	0,3	0,24	0,17
Catch-Up (1980–2005)	r = 0.578**					r = 0.482**			r = -0.653**		

Source: for the years 1960 and 1970 OECD (1985) Social Expenditure 1960–1990. Problems of Growth and Control, Paris, OECD; for the years 1980–2005 retrieved April 2, 2009, from OECD, Social Expenditure Database.
Annotation: *p< 0.05, ** p< 0.01; Portugal 2005 = 2004.

3.2. Programme-related Spending Categories

We get a more nuanced picture of welfare state spending when we break down the total social expenditure into programme-related spending. Table 2 shows in how far the dynamic of social expenditures is driven by the restructuring of social spending patterns and not just simply by retrenchment.³ For contrasting redistributive and investment-related expenditures we refer to the spending categories of active labour market policies, families, education, old age insurance and passive labour market policies. The breakdown by programme-related spending categories points out different developments in the single spending programmes and uncovers substantial asymmetries between the countries.

Since the 1980s mainly the expenditures for old-age insurance increased. Austria, Greece, Germany, Poland and Italy spend a bulk of their financial resources for old-age insurances. In the Anglo-Saxon states and in the economically less developed countries the expenditures are relatively low in this program area. We can also observe increased levels of spending for families. In contrast, the expenditures for active and passive labour market policies remain stable. In the majority of the countries the weights between the spending categories changed in favour of the expenditures for transfer-intensive social politics. Thus the Continental and Southern European countries' expenditures for old-age insurance and passive labour market policy are much higher than those of – for instance – the Scandinavian welfare states, and much higher than the expenditures for active labour market policies, families and educational policy. High expenditures for families we find in the Scandinavian states and in some Anglo-Saxon States as in Australia and the United Kingdom, but also in France. A similar expenditure pattern as in family policy we find in the field of active labour market policy: here the Scandinavian States are also taking over top positions. However the expenditures are also very high in this field in the Netherlands, France, Germany and Belgium.

We find evidence for σ -convergence for the fields of active and passive labour market policies, family policy and education policy, as the measures of dispersion are decreasing between 1980 and 2005. But there is no evidence for catch-up-process in these fields. The spending pattern for old-age insurance is quite different. The indicators for σ -convergence are increasing, so the expenditure levels between the countries are not converging and the difference between the countries are still significant.

3. Here only data since 1980 are reported, because data are not available for all spending categories before 1980.

Table 2. Public Expenditures as a Percentage of GDP for different fields of social policy, 1980–2005.

	Active Labour Market Policy		Family		Education		Passive Labour Market Policy		Old Age (including Expenditures for Survivors)	
	1985	2005	1980	2005	1980	2006	1980	2005	1980	2005
Australia	0,4	0,4	1,0	2,8	5,6	4,1	0,7	0,5	3,8	4,6
Austria	0,3	0,6	3,2	2,8	5,6	5,2	0,4	1,1	10,7	13,0
Belgium	1,2	1,1	3,0	2,6	5,7	5,9	2,4	3,3	8,9	9,2
Canada	0,6	0,3	0,7	1,0	7,7	4,8	1,2	0,6	3,0	4,1
Denmark	0,8	1,7	2,8	3,2	m	6,7	4,8	2,8	7,1	7,2
Finland	0,7	0,9	1,8	3,0	5,8	5,7	0,6	2,0	5,9	9,4
France	0,6	0,9	2,4	3,0	5,1	5,5	2,31	1,7	9,5	12,7
Germany	0,5	1,0	2,1	2,2	4,6	4,1	0,5	1,7	10,9	11,6
Greece	0,2	0,1	0,3	1,1	3,2	4,0	0,2	0,4	5,4	11,6
Ireland	1,1	0,6	1,1	2,5	6,4	4,4	3,31	0,9	5,7	3,7
Italy		0,6	1,1	1,3	4,5	4,6	0,6	0,5	8,9	14,1
Japan		0,3	0,5	0,8	5,9	3,3	0,5	0,3	4,1	9,9
Netherlands	1,3	1,3	2,5	1,6	7,1	4,8	1,6	1,5	6,9	5,8
New Zealand	0,9	0,4	2,2	2,6	6,7	5,0	0,5	0,4	7,2	4,3
Norway	0,6	0,7	1,8	2,8	5,8	5,4	0,4	0,5	5,7	6,6
Portugal	0,2	0,7	0,7	1,2	3,7	5,1	0,3	1,2	3,9	10,3
Spain	0,3	0,8	0,5	1,1	m	4,2	2,0	2,2	6,3	8,4
Sweden	2,1	1,3	3,9	3,2	8,5	6,2	0,4	1,2	8,3	10,2
Switzerland	0,2	0,7	1,0	1,3	5,2	5,4	0,1	0,9	5,8	7,0
UK	0,7	0,5	2,3	3,2	5,7	5,2	1,2	0,3	5,9	6,3
United States	0,3	0,1	0,8	0,6	4,9	5,0	0,7	0,3	6,3	6,1
Mean	0,7	0,7	1,7	2,1	5,7	5,0	1,2	1,2	6,7	8,4
Range	1,9	1,6	3,6	2,6	5,3	3,4	4,7	3,0	7,9	10,4
Standard Deviation	0,48	0,41	1,03	0,92	1,28	0,81	1,19	0,86	2,2	3,1
Variation Coefficient	0,7	0,59	0,61	0,44	0,22	0,16	0,99	0,72	0,31	0,37
Catch-Up (1980–2005)	r = 0.355		r = 0.192		r = - 0.837		r = 0.147		r = 0.721**	

Source: data for active labour market policies, passive labour market policies, families and old age are retrieved April 2, 2009, from OECD, Social Expenditure Database; data for education from OECD (1992), Public Educational Expenditure, Costs and Financing: An Analysis of Trends 1970–1988, Paris, OECD, and OECD (2009), Education at a Glance, Paris: OECD. ** p< 0,01 ; Portugal 2005 = 2004. 1 = 1985.

3.3. Spending for Education and Training

In table 3, data on private and public education spending (as percentages of GDP) are presented.⁴ Several things can be seen from this table: first, there is substantial variation in spending among OECD countries and on average the OECD states spent less public resources as a percentage of GDP for education in 2006 than in 1980.⁵ As indicated in table 3, a weak state, as we find in the Anglo-Saxon countries, and public expenditures for education are not contradictory. In 2006 Denmark and the United States were taking over the top positions for public and private expenditures in education. At the end of the spectrum we find Greece. Germany's public and private investment in educational institutions amounts to 4.8 percent of the GDP – a share far from the OECD-average of 5.7 percent. The percentage of public investment in education is particularly high in Denmark and Sweden, amounting to over 6 percent, whereas private expenditure constitutes a relatively small share of the GDP in these countries. Denmark's leading position in regard to overall educational expenditure rates can be attributed to a comparatively high share of public investment. The United States devote 5.0 percent of their GDP to public educational expenditure – a share in line with the OECD-average of 5.0 percent. However, private educational expenditure is comparatively high, so that the United States unlike other Anglo-Saxon countries belongs to the top flight of overall educational expenditure rates along with Denmark. High private educational expenditure rates are also displayed by Australia, Canada and Japan. Concerning the public-private mix in education funding we find evidence for a growing weight of private financial contributions (Wolf, 2009). The continental European countries are quite heterogeneous in regard to their educational spending: France and Switzerland show high rates of public educational investment by international comparison. In contrast, in Germany the public educational expenditure as a share of the GDP is below average and in the Netherlands it is barely average. In the southern European countries (with the exception of Portugal) public educational expenditure is below OECD-average. The contrast between public and private educational spending shows that in the sphere of education some of the welfare states put more emphasis on private funding and less on public spending, whereas in other welfare states public finance still plays an essential role for the education sector. All in all the examination of individual welfare state programs shows that an analysis based on overall social spending tends to overestimate the coherence of welfare state regimes (Kasza, 2002) and that the architecture of individual welfare states is much more complex.

4. Comparable data for the 21 OECD states for private education expenditures are only available since the beginning of 2000. That's why we skip in this section the discussion of measures of convergence for public and private education expenditures.

5. This might be influenced by demographic shifts, which resulted in declining share of pupils.

Table 3. Public and Private Expenditures for Education in per cent of GDP 1980–2006.

	Public Expenditures				Private Expenditures				Public and Private Expenditures			
	1980	1991	2000	2006	1991	1995	2000	2006	1991	1995	2000	2006
Australia	5,6	4,7	4,4	4,1	0,8	1,0	1,4	1,6	5,5	5,5	5,8	5,7
Austria	5,6	5,4	5,3	5,2		0,3	0,3	0,4		6,1	5,6	5,5
Belgium	5,7	5,4	0,7	5,9				0,2				6,1
Canada	7,7	6,7	5,1	4,8	0,7	0,8	1,2	1,7	7,4	7,0	6,4	6,5
Denmark	m	6,1	6,4	6,7		0,2	0,3	0,6	6,1	6,2	6,6	7,3
Finland	5,8	6,1	5,6	5,7	0,5	0,1	0,1	0,1	6,6	6,3	5,7	5,8
France	5,1	5,4	5,7	5,5	0,6	0,5	0,4	0,4	6,0	6,2	6,1	5,9
Germany	4,6	4,0	4,2	4,1	1,5	0,9	1,0	0,7	5,4	5,4	5,2	4,8
Greece	3,2	5,4	3,7	4,0			0,2	0,3		3,0	4,0	4,3
Ireland	6,4	5,5	4,1	4,4	0,4	0,5	0,4	0,3	5,9	5,2	4,5	4,7
Italy	4,5	5,0	4,5	4,6			0,4	0,3			4,9	4,9
Japan	5,9	3,7	3,5	3,3	1,3	1,1	1,2	1,7	5	4,7	4,7	5,0
Netherlands	7,1	5,6	4,2	4,8	0,1	0,2	0,4	0,8	5,8	4,7	4,5	5,6
New Zealand	6,7	5,6	5,6	5,0				1,3				6,3
Norway	5,8	6,8	6,5	5,4		0,4	m	m		7,1	m	m
Portugal	3,7	5,5	5,6	5,1			0,1	0,4		5,3	5,7	5,6
Spain	m	4,4	4,2	4,2	1,1	0,8	0,6	0,5	5,6	5,3	4,8	4,7
Sweden	8,5	6,5	6,2	6,2			0,2	0,2	6,5	6,2	6,4	6,3
Switzerland	5,2	5,4	5,2	5,4			0,4	0,7			5,6	m
UK	5,7	5,3	4,5	5,2		0,7	0,7	0,7		5,5	5,2	5,9
US	4,9	5,5	4,8	5,0	1,5	2,2	2,2	2,4	7,0	7,2	7,0	7,4
Mean	5,7	5,4	4,8	5,0	0,9	0,7	0,6	0,8	6,1	5,7	5,5	5,7

Source: OECD (1992), Public Educational Expenditure, Costs and Financing: An Analysis of Trends 1970–1988, Paris, OECD; OECD, Education at a Glance, Paris: OECD, different volumes. ** p< 0,01 ; Greece 2006 = 2005.

3.4. Compensatory and Investment Related Policies

In regard of their public performance structure and spending profiles, the different welfare states are usually differentiated in social democratic, liberal and conservative welfare states (Esping-Andersen, 1990). Usually, the main distinction emphasised is that between the generous and universal social democratic welfare states and the weakly developed social security systems of the liberal states. As measured by the social expenditure rate the conservative continental European welfare states stand between. The contribution choose however another perspective. The welfare states are in such a way regarded, to what extent they practice an investment-related welfare politics, which are of crucial importance for the sustainability of welfare states.

The predominating priorities of countries in their social and education politics are also reflected in their expenditure pattern. Therefore figure 1 compares investment-

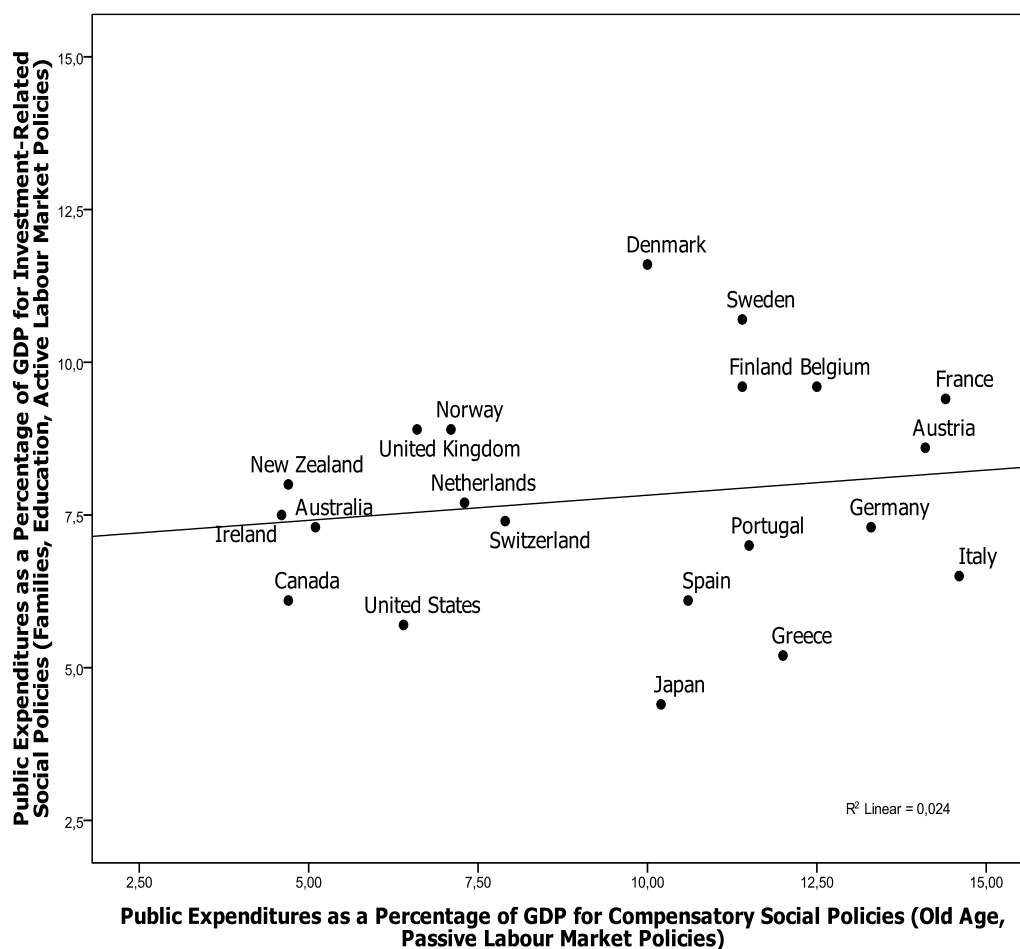
related and compensatory social politics in the OECD countries for 2005. The nexus between for investment-related and compensatory social policies is not a strong one, but the regression line in figure 1 is to be understood as a helpful tool for interpretation. However, by looking at the distance of countries or country groups from the regression line, we gain insights about the relative importance of investment-related vs. compensatory social spending. We can identify three groups of countries:

1. Within the Northern European grouping, Denmark, Finland and Sweden have a quite distinct profile. These countries are characterised by high spending for investment-related and compensatory social policies. In the Scandinavian countries the welfare state secures on a high level against existential life risks such as age or unemployment, but without neglecting however the investment-related policies.
2. The Anglo-Saxon countries, Switzerland and Norway form the second group. These countries are characterised by low spending for age and unemployment and low spending for investment-related social policies. With the exception of Switzerland and the United States all countries in this group spend more for investment-related compared to spending for compensatory social policies.
3. The third group is formed by the continental countries, Japan and the southern countries. These countries spend higher levels for compensatory social policies by neglecting investment-related social policies. For instance, Germany, Greece, Japan, Spain and Italy exhibit far lower levels of education spending than one might expect on the basis of their levels of social spending.

Countries which spend more for investment-related social politics are the Scandinavian and at a lower spending level some Anglo-Saxon countries such New Zealand or the United Kingdom. In the Scandinavian countries education is, as similarly to Anglo-Saxon countries, regarded as part of welfare politics. In the Scandinavian countries the welfare state secures on a high level against existential life risks such as age or unemployment, but without neglecting however the investment-related policies.

The Anglo-Saxon and Scandinavian countries, which understand education as an integral component of the welfare politics, set more strongly on investment-related social politics, while the Continental European countries pursue more strongly compensatory social politics. In the sense of path dependence Heidenheimer argues (Heidenheimer, 1981: 269–271) that in the Anglo-Saxon countries the development of the education services was advanced in place of the development of the social security systems. Thus educational policy is seen as a “kind welfare state replacement” (Allmendinger and Leibfried, 2003). As a consequence the constraint in welfare politics is compensated by the expansion of educational facilities. The welfare state in the Scandinavian countries in combination with broad learning opportunities is traced back by Jens Alber (1986: 6) to demands by the working class, which did not neglect the need of education contrary to their Continental European colleagues.

Figure 1. The nexus between the public expenditures for investment-related and compensatory social policies as a percentage of GDP 2005.



Source: retrieved April 2, 2009, from OECD, Social Expenditure Database and OECD (2009), Education at a Glance, Paris: OECD.

3.5. Social Expenditures in cash and in kind

For the expenditure profile of the welfare states the distinction between cash benefits (as for example via income transfers) and benefits in kind (as for example in the form of services) is crucial (Castles, 1998, Kohl, 1980: 313). In the welfare state literature the continental European welfare states are characterised as transfer-heavy and the Scandinavian countries as service-oriented. The role of services is often emphasised in the literature of the social investment state and of welfare reforms (Kautto, 2002, Daly and Lewis, 2000, Castles, 1998). A developed service infrastructure could better deal with the “new” challenges (Bonoli, 2007) such as new forms of employment and family structures, declining birth rates and long-term care.

Table 4 informs to what extent the expenditures for cash and benefits in kind developed since the 1980s and whether catch-up processes for policy laggards can be identified. For investigating the public role in providing services to the elderly, the disabled and families, we exclude the expenditures for health, because health expenditure accounts for a large share of service investments (Kautto, 2002, OECD, 2007: 20).⁶

6. The expenditures for cash benefits and benefits in kind include to the following categories: old age, survivors, incapacity related, family, active labour market programmes, unemployment, housing and other social policy areas.

**Table 4. Public Social Expenditures as cash and as kind benefits (without health)
in per cent of GDP, 1980–2005.**

	Public Expenditures as Cash Benefits		Public Expenditures as Benefits in Kind	
	1980	2005	1980	2005
Australia	6,2	8,1	0,5	2,8
Austria	16,4	18,4	0,9	1,4
Belgium	18,0	16,2	0,3	1,8
Canada	5,7	6,8	2,9	2,6
Denmark	14,5	13,6	4,8	5,7
Finland	10,4	15,3	1,9	3,7
France	13,8	17,5	1,3	3,0
Germany	15,2	15,9	0,8	2,2
Greece	6,9	13,4	0,1	1,5
Ireland	8,6	8,4	1,2	1,2
Italy	12,2	16,7	0,3	0,9
Japan	5,5	10,2	0,5	1,8
Netherlands	17,8	11,1	1,4	2,5
New Zealand	11,3	9,7	0,1	1,5
Norway	9,6	10,9	2,4	4,3
Portugal	6,8	14,6	,0	0,6
Spain	11,0	13,1	0,2	1,6
Sweden	13,9	14,5	5,0	6,8
Switzerland	9,5	11,8	0,5	1,7
United Kingdom	10,0	10,3	1,2	3,5
United States	8,5	8,0	0,9	0,8
Mean	11,04	12,6	1,3	2,47
Range	12,5	11,6	5,0	6,2
Standard Deviation	3,91	3,41	1,42	1,60
Variation Coefficient	0,35	0,27	1,09	0,65V
Catch-Up (1980–2005)	r = -0.554**		r = 0.001	

Source: Retrieved April 2, 2009, from OECD, Social Expenditure Database.

On average the levels of income transfers and as benefits in kind have increased since 1980s – by 1.6 (cash benefits) and 1.2 (benefits in kind) percentage point of GDP. The average service/cash ratio (not shown in the table) increased from 0.11 to 0.2 and so the ratio shifted slightly towards services.

First of all, there is no evidence for a “race to the bottom”. Only the Netherlands, New Zealand, Belgium, Denmark and the United States have reduced marginally their expenditures for cash benefits. In some countries the cash benefits have increased more than five percentage point as in Finland, France, Greece, Italy or

Japan. The last row in table 4 indicates a strong β -convergence. The correlation is negative and statistically significant, so the cross-national variation in spending growth for cash benefits is driven by catch-up process. The indicators for σ -convergence (range, standard deviation, variation coefficient) diminished for cash expenditures, but not for the benefits in kind. In the case of cash benefits the spending levels of the OECD countries have converged over the years, but for benefits in kind we have to consider a divergence of spending patterns.

Compared to the OECD countries the traditional service oriented Scandinavian countries still spend the most for benefits in kind in 2005. But also the transfer-heavy Continental and the Southern European States expanded their expenditures for benefits in kind. With the exception of Canada and the United States, in some of the Anglo-Saxon States such as Australia, New Zealand and the United Kingdom the expenditures for in-kind expenditures have increased since 1980. The finding by Kautto, who state “that with few exceptions relative service investments increased in Western Europe in the 1990s, contrary to the talk of welfare state retrenchment” (Kautto, 2002: 63) holds true for the whole period of 1980 to 2005.

In contrast to cash benefits, there is no evidence for a β -convergence for the benefits in kind. The correlation in the last row is positive and statistically insignificant, so the cross-national variation in spending growth for benefits in kind is not driven by catch-up process by policy laggards in services. Service laggards as in Continental and Southern Europe have expanded their spending for benefits in kind, but couldn't close the gap to the Service oriented Scandinavian countries.

In sum, the levels of income transfers increased since 1980. Only a few countries have frozen or reduced their transfer expenditure. But an ageing population, an emphasis on active rather than passive measures, increased labour-force participation among women and calls for gender equality have also resulted in more investment in services in the majority of the OECD member states.

IV Conclusion

For answering the question to what extent the welfare states in the OECD world have actually implement the social agenda of a “Social Investment State“, the chapter analysed in how far the paradigm of the social investment state find its expression in the social expenditure profile. Our findings are ambiguous. We find evidence for increasing levels for the public social expenditure rate and convergence processes. A “race to the bottom” in social expenditures cannot be confirmed. This holds also true for some of the various indicators of social expenditure. Since the 1980s mainly the expenditures for old-age insurances increased. On a lower initial spending level, the welfare states also expanded their public resources for families. In contrast to old-age insurance and families, the expenditures for active and passive labour market policies remain stable.

The results for education spending are puzzling. Although education plays in the debate of the Social Investment State an important role, on average public expenditures for education decreased since 1980. The perspective, that social policies should focus more on prevention and social investment than on compensating for social risks, find not its expression in increasing levels of education

spending. But here the division of labour between the state and the private sector in education funding is crucial. We have to consider a growing weight of private financial contributions. As the cases of Denmark, Sweden and Norway in comparisons with New Zealand and the United States demonstrate, a high level of total investment in education is not only possible with almost complete public education funding, but also under condition of substantial private engagement.

We also identify diverse spending priorities of different types of welfare states. The differences between the transfer-heavy Continental European welfare states and the service-oriented Scandinavian countries still holds true. But in sum, an ageing population, an emphasis on active rather than passive measures, increased labour-force participation among women and calls for gender equality have resulted in more investment in services in the majority of the OECD member states since the 1980s. And here the traditional service-oriented Scandinavian countries are still the countries which spent most for benefits in kind. But Continental and Southern European countries have slightly caught up. There are still existence and continuity of qualitative differences between the OECD member states in their compensatory strategies and social investment strategies during the 1980s and 1990s, when comparing investment-related and compensatory social policies. We find mixed evidence to support claims, that welfare states are moving away from compensatory social policies towards a “rechannel of social expenditures toward social investment” (Palier, 2006: 114). Countries which spend more for investment-related social politics are the Scandinavian and at a lower spending level most of the Anglo-Saxon countries. The Continental and Southern European Countries are still characterized by spending more for compensatory and less for investment-related social politics especially for the sphere of education.

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Part II.

The Future of the Social Investment Strategy. Challenges for Europe in the Context of the Current Crisis

Achievements and Non-achievements of the European Employment Strategy

Kerstin Jacobsson

The Lisbon Strategy as a Social Investment Strategy

The last decade has seen a new approach to social policy making in the EU. It has been novel both in its content and methodology. Arguably, we have seen the rise of a social investment perspective in EU social policy.

The challenge for EU social policy has been, all along to try to ‘call the tune without paying the piper’ (Laura Cram). In addition to having very limited resources to spend on social initiatives, the EU has to respect the member state competence in the social field. The EU has only had the competence to make binding legislation in areas directly related to the market-making project, such as labour mobility, health and safety, and gender equality (non-discrimination). In other areas, the EU has been confined to soft policy instruments.

The Lisbon strategy from 2000 (and its predecessor the European Employment Strategy from 1997) includes a continuity that builds on soft policy instruments but change in that it attempts a ‘positive’ social agenda (not only as a side-effect of the market-building project) and a central guidance through the setting of EU objectives in a wide range of areas. The methodology is called open coordination, the main policy instruments being: setting of common objectives, national target-setting, progress reports, and country-specific recommendations in cyclical processes, sometimes coupled with financial incentive through the use of EU funds.

The Lisbon strategy aims to achieve the three objectives concurrently: growth, employment and social cohesion. A key notion has been the need to defend but renew the ‘European social model’ by investing in people and activating social policies. Another key idea has been to integrate social, employment and economic policy to be mutually reinforcing. Social policy is here seen as potentially ‘productive’ and positive synergies are emphasised. Social reforms can improve the dynamics of the economy by assisting in managing change while minimising negative social consequences. Investments in education and lifelong learning increase labour

mobility and thus flexibility. Active inclusion can reduce poverty as well as improve labour supply. Good healthcare systems are not only good for individuals' well-being but can also improve labour supply and productivity etc. The role of labour market policy is to equip the labour force to face change, which requires active measures rather than passive maintenance support. The role of the state is to support the adjustment process (the enabling state). In its view on positive synergies and the need for investment in people, the Lisbon strategy qualifies as a social investment strategy (see Jenson chapter 1 this volume), although it also encompasses a deregulation agenda in its economic pillar.

The relaunch of the Lisbon strategy in 2005 explicitly gave primacy to job creation and growth while talking less of combating social exclusion. It also placed emphasis on knowledge, innovation, optimisation of human capital, and enhanced skills of the labour force. The rationale seems again to have been a traditional trickle-down perspective, i.e. that growth will solve poverty and social exclusion. However, since the European Spring Council 2007, the social objectives have come to the front again and European Commission has launched a new social agenda (CEC 2008b). The Commission admitted that 'Higher growth and more jobs have in themselves not been sufficient to achieve the hoped-for results in terms of poverty-reduction and improvement of the circumstances of the most vulnerable'(CEC 2008a: 4).

In order to discuss the future of a social investment strategy in Europe, it is necessary to take stock of what has been achieved so far. This paper assesses the achievements and non-achievements of the European Employment Strategy (EES), with a particular focus on active labour market policy and 'social investment'. Hence, it is necessary not only to look at the main policy ideas of Europe's social investment strategy but also to assess its feasibility by looking at the concrete implementation in diverse country contexts (see also other chapters in this volume).

Towards a Policy Consensus ...

There is an increasing consensus in research literature that the impact of the Open Method of Coordination (OMC)/EES on concrete policy reforms is limited. The type of impact the OMC/EES has had is of a rather discursive or cognitive kind, shifting policy discourse and policy thinking, i.e. affecting problem perceptions, policy orientations and attention given to certain problems. The EES has helped to establish a wider notion of employment policy in member states with other policy traditions. Employment, after all, is not the sole concern of the labour market or even social ministry. Notably, the EES has contributed to shifts in policy orientation from a curative to an active and preventive approach, emphasising the need for active labour market measures, giving increased attention to female labour force participation as well as that of other groups who are not well-integrated into the labour market (young people, disabled, immigrants). The increased attention to employment rates, rather than levels of unemployment, has helped to widen the policy agenda in order to achieve higher levels of labour market participation, to include measures to reconcile work life and family life, such as improved childcare facilities. It has also placed other key issues on the agenda at EU level as well as in all member states: the need for pension reform and avoiding early retirement (active aging), tax reform to strengthen work incentives, measures to reconcile work and family life, lifelong learning, improved integration of education and employment

policy, gender mainstreaming, flexicurity (combining and balancing flexibility with security). The social OMC has helped to establish social exclusion as a multi-dimensional concept (not just a matter of income poverty), emphasised 'active inclusion' and helped to place child poverty as an issue on the agenda in all member states. These changes are well in line with a social investment strategy (see Jenson chapter 1 this volume).

... Including also the OECD ...

There is now a broad policy consensus around these concepts and policy orientations, even if there are differences in the way they are operationalised. Also, the OECD has increasingly embraced a social investment perspective in its social policy, family policy (see Jenson chapter 1 this volume; Deacon and Kaasch 2008, Mahon 2008) and most recently, labour market policy. In its restated Jobs Strategy of 2006 (OECD 2006a, 2006b), the OECD has moved along way from deregulation towards flexicurity, as compared to the initial Jobs Strategy based on the Jobs Study of 1994 (Jacobsson and Noaksson 2009). The OECD has reconsidered the role of active labour market policies (ALMP), claiming that properly designed policies can reduce unemployment, that ALMP cushions the income losses from unemployment and facilitates efficient job matching. Previously, ALMP was often seen as a waste of resources. (Put in OECD wording, the 1994 Jobs Study 'de-emphasised resource shifts from passive to active measures as an indicator of reform'.) The OECD now says that relatively high employment benefits can work if the obligations for active job search for the unemployed also increase. ALMP is said to provide work experience and enhance the skills of the participants and trained workers benefit from more secure employment prospects. The OECD has also made a u-turn concerning its views on collective bargaining and minimum wages. Moreover, the OECD notes that the effect of Employment Protection Legislation on overall unemployment is probably small. In the Jobs Study of 1994, EPL was supposed to be a source of unemployment. Moreover, the OECD now wishes to see flexible and family-friendly working time arrangements, acknowledging evidence that there is significantly less conflict between work and family life if workers have some control over their working hours. The Jobs Study of 1994 promoted flexible working time arrangements adapted primarily to the needs of companies. (The ambition to find ways to promote a reconciliation of work and family life is even more explicit in OECD's Babies and Bosses project, see Mahon 2008). The real continuity between the Jobs Study of 1994 and the restated strategy of 2006 is on labour taxation. The discourse change on labour market policy can be explained by the larger role played by DELSA (Directorate for Employment, Labour and Social Affairs) and not the Economics Department at OECD as compared to the Jobs Study of 1994, but also by the fact that the review of existing research did not support the deregulation agenda that the OECD had pursued for decades. The OECD has explicitly abandoned the one size fits all approach and argues that any reform strategy must depart from the institutional context in the country as well as the predominant social and political values there.

... While not a Total Consensus ...

The restated OECD Jobs Strategy even makes references to demand-side aspects, such as noting that relatively high levels of benefits help maintaining consumer demand. But basically, it is a supply-side perspective, albeit one that is broader than the traditional 'make work pay' logic. There are many factors that can improve labour supply, such as good family policies. In the research literature, this perspective is sometimes called 'inclusive liberalism' (Craig and Porter 2004; Mahon 2008) a perspective coming close to what is here called a social investment agenda. 'Inclusive liberalism' aims at equality of opportunity over a life-course cycle, and optimisation of individual capacities. It differs from traditional Social Democratic politics, which stress equality of income, redistribution policies, and places less responsibility on the individual for her unemployment. 'Inclusive liberalism' sees public spending as acceptable but it should be designed as to 'pay off' later on. It is usually not connected to an increase in public spending, but rather redirection and increased efficiency.

The EU discourse has arguably also entailed redefinitions of key concepts, such as security, flexibility, employability. Shifts in problem understandings have been noted 'from lack of employment to lack of employability', 'from job security to employability security', 'security through skills' rather than security from job protection legislation, a redefinition of equality into 'dynamic equality' or 'equality through mobility', etc. (Jacobsson 2004). How the balance between flexibility and security should be struck is open for contestation. Different member governments may place themselves differently on the scale social democracy – 'inclusive liberalism'. With the emphasis in the relaunched Lisbon strategy of 2005 on 'national ownership' and given that the national context should be taken into account and a one size fits all approach avoided, it is clear that the EES/Lisbon strategy is not one reform agenda but many.

Impact on Governance and Policymaking Arrangements

Apart from placing issues on the agenda, the EES has institutionalised a reflective element in employment policy, as well as added a European dimension to the previously national policymaking. Member governments continuously have to reflect on their policies in the light of the common framework. Shortcomings in current policy are collectively identified and awareness of policy options increased. At a minimum, governments must be prepared to argue for, and try to explain to others, their own policy line.

The impact of the EES in the member states is most obvious on governance and policymaking arrangements:

- The EES has generally improved inter-ministerial coordination and facilitated links between related policy areas at both European and national level.
- The EES has fostered vertical coordination, even if the integration of lower levels of governance still can be improved in many countries. This is particularly important in systems with a considerable autonomy for lower levels. Lack of systematic integration of lower levels is a severe limitation, since municipalities and/or local state agencies often

are instrumental in labour market policy implementation, which is decentralized in many countries. The same is true for social inclusion policies.

- The EES has largely developed as a trans-governmental process, sometimes ‘insulated’ and detached from the day to day domestic labour market policymaking. Transnational exchanges between national administrations have intensified and are reported to be valuable. However, this network-building is mostly limited to small sections of national ministries and governmental agencies. Knowledge about the EES is not always well diffused in the national or sub-national labour market administration. There are not effective mechanisms for spreading learning within expert networks to the domestic policymaking and implementation.
- There have been calls for better involvement of national parliaments in the EES/Lisbon strategy, but so far the role of national parliaments is formal and passive. The reform programs need to be coordinated with the budgetary processes, and national target-setting needs to be combined with budgetary allocations.
- The action plans or strategy reports seldom play an operational and guiding role in domestic policymaking but are governments’ reports for an international audience.
- The low policy relevance of these documents has also reduced the interest of the social partners in continuing to participate actively in their production. Often understaffed, they have to economize their resources and may choose to give priority to national policy initiatives, which are perceived to be more important. Nevertheless, the EES has helped to encourage social partnership in countries where this tradition was not so strong. Moreover, the OMC on social inclusion has provided avenues of access to policymaking and voice for social NGOs.
- The EES has contributed to the professionalisation of labour market administration, by initiating reform of Public Employment Services as well as emphasising the need for performance indicators and improved statistics. There is an increased emphasis on monitoring and evaluation of policies.

The EES Has not (Yet) Achieved its Goals

While there are examples of policy change (equal gender opportunities, abandonment of early retirement schemes, prevention and activation policies, a better work/family balance, employment-friendly taxation, more child care facilities), few scholars would claim that the EES/OMC has been very effective in driving policy reform. It has encouraged reforms that were already under way or well in line with present policy rather than led to reforms that would break with the policy past.

As to outcomes, the EES/Lisbon strategy has not achieved its goals. There has been an increase in the overall employment rate, from 63.4 per cent in 2000 to 67 per cent in 2007, and a decline in unemployment rate (from 3.4 per cent in 2000 to 2.8 per cent in 2007). However, the higher employment rates have not had a significant impact on poverty. There has been no significant decline in people living at risk of poverty in the Union since 2000. There has been an increase in income inequality in many countries. In 2005, 16 per cent of the EU-25 citizens lived under the poverty line threshold defined as 60 per cent of their country’s median income. For children, the rate living under the risk of poverty is 19 per cent. In 2007, 9.3 per cent of the EU-27 working age adults (aged 18–59, not students) lived in jobless households.

The rate has not improved since 2000, despite the general increase in employment rate. Moreover, in-work poverty has increased over the last ten years, as a result of factors such as an increase in precarious employment, low wages and low work intensity of families (8 per cent of those working count as working poor). In many countries, the general increase in employment rates has not benefitted those families furthest away from the labour market. Inequalities in health also persist as do regional disparities (EAPN 2007; CEC 2008c).

Some observers, like the European Anti Poverty Network (2007), conclude that governments still see spending on social protection as ‘unproductive’, while seeing spending on R&D, physical infrastructure, environmentally friendly technologies, human capital and technologies as ‘productive’. While both the EU and the OECD nowadays acknowledge that providing decent incomes for people outside of work enables them to participate as consumers as well as active citizens, this is not how governments prioritize.

Moreover, the discourse of activation is not reflected in the actual expenditure patterns. Active labour market policy spending has decreased since 2000 in many countries, like France, Sweden and Britain, and in others there has not been a substantive increase in active spending. There has been a general increase in employment rates but seemingly mostly due to other factors than activation policies (in some countries, i.e. Southern Europe, enhanced labour market flexibility through increase in precarious contracts). There has, however, been a general increase in adults participating in lifelong learning since 2000.

In a recent review of the implementation of the EES, Caroline de la Porte (2008) concluded that domestic policy processes, based on past legacies, is what determine policy decisions. The OMC by itself is too weak an instrument to have a real impact. Even if the OMC has been used to extend key notions of employment and anti-poverty policy, it has not induced major reform programmes. Reform agendas are more likely to have a substantial impact when they are designed to respond to major problems or crises (e.g. economic recessions: Netherlands, Finland, Ireland, and Spain). It seems that reform and learning tend to be driven by policy failure and encompassing reforms tend to be easier to implement in times of crisis. (Maybe even the current economic crisis will be such a ‘window of opportunity’?) It is probably also true that we can expect incremental change from the EES as a consequence of the impact on policy perceptions and discourses above.

EES and Enlargement

With the EU now consisting of 27 member states, it is also necessary to look at the feasibility of a social investment strategy in the new member states. So far, this has been given little scholarly attention. I will assess here the implementation of the EES in new member states.¹

With regard to content the EES is highly appropriate also for the newcomers, as many of the labour market challenges there are the same as in EU-15, such as the need to increase activity rates, deal with ageing populations (and low birth rates),

1. I draw here mainly on my own research on the Baltics States and a colleague's work on Poland (see our chapters in Heidenreich and Zeitlin 2009).

integrate ethnic minorities, and to foster lifelong learning. In addition, worker skills are often outdated, resulting in a mismatch between labour supply and demand. The low level of entrepreneurship and individual initiative, particularly among older workers, is also a problem. The problem is sometimes compounded by the fact that the vocational education systems are in need of reform.

In the new member states the EES has to be implemented in a very different context than in the EU-15:

- A general problem is the weakness of industrial relations: While the legislative framework and tripartite structures for social dialogue are in place, the social partners' weak organizational capabilities are a factor constraining the development of real social dialogue. In particular, bipartite dialogue is very weak. (Social dialogue is particularly weak on sectoral and workplace levels.) The trade unions lack the ability to actively negotiate, both due to lack of resources and to the fact that they represent a minority of workers, partly due to the illegitimacy of the trade unions from the state socialist time. (For instance, the level of trade union membership in the Baltic States is 10–15 per cent of workers.) Also the employers' organisations suffer from low membership. Coverage of collective agreements is low in many countries. (For instance, some years ago less than 20 per cent of workers in Latvia and Lithuania were covered by collective agreements. In Estonia, such agreements were almost nonexistent.) The social partners in the new member states are not 'fit' or likely to play an active role in implementing the EES agenda, for instance concerning lifelong learning/vocational training (Woolfson 2008). The general imbalance of power between trade unions and employers in the new member states just adds to this.
- The social partners have other priorities than being engaged in the EES. The trade unions are mainly concerned with salaries. The employers tend to have a short-term perspective or feel that their interests are already taken care of by the governments. Contrary to the EU-15, the social partners in the new member states have mostly not used the EES as a bargaining chip to gain more say in labour market affairs.
- In some of the new member states, such as the Baltic States, there has been little domestic pressure for active labour market policy and social policy in general. An individualised problem perception has been prevalent saying basically that individuals should be able to solve their own problems. 'The general conception was that there are enough job vacancies, everyone should be able to fill the vacancies or get the job without any mediation. So it was more like one has to survive on one's own' (interview, Estonian Labour Market Board, 2004). An interviewed official at the Office of the Prime Minister in Lithuania wondered whether or not 'we have enough national capacity to [make additional reforms] without pressure from Brussels ... and whether or not social policy can be reformed without additional external pressure' (interview, 2004). Possibly the current economic crisis has changed that, with more public pressure for improved life-conditions for those worst-off. However, in order to transform social concerns of people into policy decisions, political parties are needed, which are responsive to such issues. Political parties in many of the new member states represent a different cleavage structure than parties in Western Europe, and are not as likely to actively pursue the social investment agenda (i.e. are organised around other dimensions than class and the left/-right distinction, such as rural/urban, religious/secular, nationalism/internationalism, the ethnic cleavage, etc.) It is hard to fulfil European objectives if domestic actors are not prepared to make active use of the European strategy in the national context. Woolfson (2006) points to a lack of policy 'reform fit' between a 'European social model' and the domestic agendas dominated by 'business friendly' free market considerations in many of the new member states. He draws the conclusion that even the support for health and safety and a good working environment among political elites is limited.

- The levels of social and unemployment benefits are extremely low in many countries. For example, Estonia's main unemployment benefit is the state unemployment allowance, which is available to all registered unemployed people.² In 2004, the allowance was only approximately 16 per cent of the minimum wage (EEK 400/EUR 26), actually lower than the state subsistence benefit of EEK 500/EUR 32. Because the allowance is so small, most recipients must also apply for the state subsistence benefit. Extremely low benefit levels discourage individuals from registering at public employment offices, contributing to the persistence of a shadow economy, which in turn reduces state revenues.
- The new member states suffer from poor working conditions, low wages, regional disparities (between urban and rural areas) and income inequalities.
- While the new member states still were candidate countries there was a chronic underfunding of labour market programmes, which was a priority of policymakers. Public resources to spend have been, and still are, limited. Access to the ESF and other EU funds has been a watershed for the new member states, and has increased the amount spent on active labour market policy. A civil servant in the Estonian Labour Market Board stated that they meet whatever regulations they have to 'because we desperately need the money' (interview, 2004). The ESF has also increased the interest of the ministries of finance. Nevertheless, the active spending is still very low in many countries for instance in Estonia (0.05 per cent of GDP as compared to the EU-27 average of 0.51 per cent in 2006).
- My study of the Baltic States showed that soft governance mechanisms, such as advice and monitoring, are most effective when systematically coupled with harder incentives. The prospect of full membership combined with the opportunity of funding through the ESF provided the motivation to build up the institutional capacity necessary to implement the EES (forthcoming, Jacobsson and West 2010). Economic dependence increases the likelihood of impact from the EES, as is clear also from Spain and Portugal. More resources from EU funds are needed for the new member states, coupled with co-funding requirement.
- The impact of the EES in the new member states is visible at the level of public administration. For many of the post-socialist countries labour market policy was an entirely new field at the beginning of the 1990s, since unemployment did not officially exist under the former regime and the state guaranteed all citizens a job. When the post-independence social security systems were built, employment policy was often placed under large social ministries, responsible for everything from welfare to health. Health and pensions generally received priority, while employment policy was often the last item on the social 'to do' list. Gradually, labour market policy has gained more autonomy as a policy field. Although struggling with lack of experience in the policy field, understaffing, staff retention etc, administrative competence has gradually been built up (thanks to EU support).
- Although there have been programs against unemployment since mid-1990s in, for instance, the Baltic States and Poland, these were mostly declarations of intent, with measures poorly developed and underfinanced. Decisions were often based on political priorities, with little focus on implementation and follow-up. There is, as a consequence of the EES, an increased emphasis on monitoring, evaluation, and implementation, including the use of indicators and targets. The EU has also helped to modernise the public employment services. Moreover, the EES has led to an increased focus on active labour market policies and reform of vocational education and systems of lifelong learning; as well as moves to decentralise at least some elements of employment policy making.
- Municipalities and local authorities, which are strategic actors in the work against unemployment and social exclusion, are little involved and are not well equipped for the task. (The build up of administrative competence has been done mainly at the central level although there have also been initiatives to increase local administrative capacity

2. The state unemployment allowance was introduced in 1999. A second, contribution-based, unemployment insurance was introduced in 2003, but many of the unemployed lack the necessary insurance eligibility period for that benefit.

to prepare local agencies for ESF funding.) In general, local authorities lack time and necessary resources to participate actively in the EES. Most efforts are focused on day to day tasks (including basic education, social services, primary health care, housing, utilities such as water supply and sewage, public transport and road maintenance). There are examples though, of the production of local and regional employment plans.

In summary the model inherent in the EES, where social partners and also local authorities are expected to play an important role in implementation, does not fit well with the situation in the new member states, due to the weakness of the social partners and the lack of resources at a local level. Add to this political elites that do not prioritise 'social investments' nor feel the need to handle short-term issues rather than making long-term investments. For candidate countries the membership conditionality guaranteed giving some attention towards implementing the social *acquis*. This pressure is no longer there ... given the low political support and the weakness of industrial relations, pressure from the EU, coupled with financial incentives, is probably necessary for any substantive change to come about. With the financial crisis of 2008-9, there are reverse tendencies with cuts in social spending, for instance in the Baltic States. (This has even been encouraged by IMF and foreign governments.)

An Implementation Deficit ...

The EES suffers from an implementation deficit as do other organisations working with soft governance instruments. The OECD Jobs Strategy has been even less effective when it comes to inducing concrete policy reform even if the OECD has no doubt been an important developer and diffuser of policy discourse. Compared to the OECD Jobs Strategy the EES/Lisbon strategy has some important advantages: 1) it encompasses a strategy for implementation while the OECD leaves 'politics'/implementation to the member states and 2) involvement of, and negotiation with, stakeholders. The EU should use its 'comparative advantage' and improve integration of the EU processes in the member states (in relation to parliaments, political parties, social partners, local authorities etc). Since governments can take the role as 'gatekeepers' playing a two-level game (one in relation to Brussels, one in relation to the domestic audience), it is essential that the EU strategies reach out to domestic actors and publics. Contrary to the OECD, the EU also has financial incentives in its arsenal of policy instrument, although its resources are limited.

Tensions in the OMC Approach

Soft governance methods presume a 'community of the willing'. Arguably, the Lisbon approach and its belief in positive synergies underestimates the conflicts of interests involved: short-term vs. long-term interests, finance vs. social ministries, employers vs. employees, etc. Moreover, investment requires money. Who is to pay? For the individual company it may seem more rational to improve competitiveness by dismissals than by investments in the labour force. Pressure on the unemployed to accept unskilled and unrewarding jobs in the short term may be detrimental to productivity in the longer run. Should resources and efforts go equally to achieving economic dynamisms and social justice, or does one achieve the other? Harmonious relationships between macro-economic, fiscal and social policy are postulated. Arguably, the Lisbon strategy seeks to formulate a social policy vision, which does

not compete with economic policy aims. But do current macro-economic and fiscal policy frameworks sufficiently allow for productive spending? The current crisis may also cast doubt that governments really see social spending as productive, relative to other investments.

Moreover, there are a number of inherent tensions and ambiguities in the OMC approach. 1) A tension between the OMC as a transgovernmental process, with governments as the relevant actors and gatekeepers in relation to other interests, and the OMC as a wider mobilisation process. 2) A tension between employment and social policy as a matter of national concern and the perceived need to develop a joint and coordinated strategy. 3) A tension between market making (deregulation) vs. social investment and between competition enhancing actions vs. social rights. (While the market can provide chances it does not guarantee effective opportunities or rights.) 4) A tension between a top-down type of learning and a voluntary lesson-drawing type of learning plus the related tension between the striving for convergence vs. acknowledgement of diversity and an acceptance of national differences and priorities (this is sometimes framed as decontextualised vs. contextualised learning). 5) A tension between the OMC as a technocratic top-down strategy, where policy is made at European level and supposed to be implemented by actors in the member states and the OMC as a process of political opinion-formation, where support must be built up from within the member states. Related to this is the role of other actors: constructive contributors to, or mere implementers of, EU policy? National competence as well as the autonomy of the social partners and sometimes autonomy of local and regional levels of governance set limits for a top-down strategy. The OMC cannot force but have to mobilise domestic actors.

How to Improve Implementation of the EES?

- Allocate more funding from the EU structural funds, for instance to innovative ALMP. Use the EU programs strategically to reach the Lisbon goals.
- Reallocate funding from the structural funds to member states that comply with country-specific recommendations.
- Require participants in learning networks to present strategies for diffusion of acquired knowledge and experiences to the regular work at agencies, municipalities, PES etc. EU-funded projects risk being 'islands' in relation to the regular work.
- Improve mobilisation and integration of domestic actors, not least municipalities and local authorities. Strengthen incentives for them to participate in the EES. In the new member states, make resources available for their participation. Provide financial support for local networks and exchanges.
- Improve consultation with social partners and other stakeholders. Increase incentives for social partners in countries where social partnership is weak.
- Involve national parliaments actively and encourage coordination of budgetary processes and EU processes.
- Encourage national target-setting and specification of budgetary allocations for implementation.

For the EES/OMC to have any impact it must be actively used by domestic actors.

In the relaunched Lisbon strategy, the different national contexts are emphasised and national target-setting is encouraged. The idea is also presented that national targets can be part of a differentiation along pathways, making it possible for groups of countries with a similar situation and problems, to work together. That might be a good idea given the differences in context, not only between different welfare models but also between Eastern and Western Europe.

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The Future Needs for Social Investment in Ageing Populations: Sweden as a Pilot Case

Thomas Lindh

‘There is a time to sow and there is a time to reap. There is a time to store and there is a time to eat the stores. Now is the time to sow and eat.’

European Diversity and Opportunities for Social Investment

Ageing European populations have raised concerns about the sustainability of current welfare systems. While the concern is well motivated, the doomsday prophecies predicting an end to social welfare as we know it are vastly exaggerated. True enough, economic growth will wane and the support ratio for elderly care and welfare will diminish. But most of the pressure from an elderly population will not come within the next decade and for most European countries not until well into the 2030s or even the 2040s. There is plenty of time to prepare for a rational adaptation to the situation. Some adaptations require very long run investments, however, that have to be financed right now. But even with growth rates of the real economy of a paltry one percent per capita this means an increase of more than 22 per cent in an already comfortable standard of living after 20 years. To make such a figure comprehensible, consider that such an increase in GDP/capita in, for example, Germany represents more than the total GDP/capita of Albania 2008 or of West Germany and Finland in 1950. It is a quite substantial increase in resources per capita and far from any catastrophe scenario. Starting from a rather comfortable level of income per capita today the problem of ageing is not the average level of income. Nor is it a problem of lack of resources, but of the fact that there will be fewer active income earners relative to the non-active population, hence a need for increased redistribution of resources across generations. This will be further discussed in the first section below.

The current crisis tends to make policy makers even more myopic than they normally are and may very well lead to short-sighted decisions that undermine the opportunities to safeguard the welfare systems by a well informed productive social policy. As underlined by Joakim Palme in the last chapter, massive investment in the future tax base of the European Union is needed and the financial crisis risk to divert

substantial resources to emergency support for banks and automobile industries. Sweden has operated a pilot case of policy around ageing resulting in, for example, the early pension reform in 1994, although not because the baby boomers of the 1940s have retired. In fact, many of them are still working and labour force participation between 60–65 years old is among the highest in the world. But the boomers came onto the labour market as the large cohorts born before World War I were retiring. That made Sweden the country with the largest proportion of 65+ in the world for much of the 1960s up to the 1980s. The boomers helped not only to support this ageing population but to substantially increase the welfare for it by contributing to the then new ATP system both for themselves and their parents. Extensive labour immigration in the 1950s and 1960s with labour force participation rates that exceeded even those of the native population added to the tax base, making it possible to substantially increase social welfare in many different dimensions in the 1960s and early 1970s. In particular, education was reformed and made accessible to many more people than before.

Later in the 1970s and 1980s a vast expansion of health care and elderly care also became possible within the tax revenue generated by the much better educated cohorts which were born in the 1940s and greatly aided by a quick expansion of female labour supply. Without the expansion of the education system to harbour the boomers the tax revenue would have been substantially less. Thus the investment in the boomers was crucial to the welfare enhancement for the elderly. This view of the historical experience will be elaborated in section two.

As the boomers now retire, Sweden and its social policy must again adapt to a similar situation as in the early 1970s. Although the concept of social investment, as elaborated by Jane Jensen in the first chapter, was not defined in the 1970s many of the aims and actions of that time were in the same vein. After the deregulation of the economy in the 1980s and 1990s, it is now up to our Swedish politicians whether we act as warning beacon for other European countries or serve as an example. Will Sweden be an example of how a productive social policy can not only avoid future problems but at the same time solve a number of current social problems like the integration of immigrants, gender discrimination and youth unemployment?

The celebrated pension reform, seen as a model for many other countries, is now facing its first serious crisis by releasing the ‘brake’, i.e. the financial solvency rule guaranteeing the financial integrity of the system. The buffer funds in the system have suffered depletion in the financial crisis such that lowering pensions has become necessary to preserve long-run financial sustainability. Next year, 2010, is election year and there is now frantic activity to redesign the system in order to avoid a cut in pension benefits of around 4–5 per cent. As the brake was introduced everybody was assured that the likelihood of such an event was so highly improbable as to be negligible. But financial crises occur now and then within the lifespan of a generation and serve as a warning on relying too heavily on capital markets to transfer resources across the life cycle.

At the same time the young boomers born around 1990 are starting to fill up a higher education system that has been shrinking and where large amounts of staff are on the verge of retirement. Other boomers try to become established in a labour market where both public and private employers are cutting back and are unlikely to be recruiting again any time soon. The age at which 75 per cent of a cohort has become

established in the labour market increased over the 1990s from 23 years to 28 or 29. This was partly due to higher enrolment in higher education, an investment for the future, but also partly due to a swelling of the ranks of long-term unemployed youngsters, undermining the future impact of the investment by marginalising large groups early in life, especially second generation immigrants.

A new baby boom has been taking place since 2000 and now fills the day-care centres and will soon require expansion of the school system again. The strain on the government budget would be hard even within normal economic activity. Starting from budget deficits in the wake of the financial crisis there is clearly a danger that short-sightedness will drain the resources needed for aiding young people's education, labour market experience and most likely also loom large over their housing prospects and family formation ambitions. The retirement of the baby boomers is at the same time slowly draining the tax base for state income taxes and capital taxes. The current demographic situation and its likely repercussions on the economy will be the subject of the third section.

Further on the horizon looms the need for elderly care and health care for the now-retiring boomers some time in the 2020s. The intergenerational transfer and care systems for the elderly are in Sweden almost exclusively administered through the public welfare institutions. It is of paramount importance for the future welfare state in Sweden that the social investment is not forgetting the generation who is expected to finance the elderly care and the pay-as-you-go pension system in the 2020s and onwards. In other European systems the strain of elderly will also increase but depending on the design the pressure may be hidden. In family reliance systems it is often assumed that one child can take care of elderly parents as well as two or more could in the old days, but the resource base for family care has eroded heavily in almost all countries. The repercussions on the female labour supply, because it will be females mainly who provide family care, will then further undermine the tax base for other social policies. In funded systems long-run returns within the country will wither as the labour force shrinks and domestic asset demand falters with diminishing aggregate saving. Only risky investment in developing countries provides a vent for these systems.

Sweden has now, somewhat ahead of other European nations, come to a critical juncture where competing resource demands must reach a new balance in the midst of crisis. The current government has learned from the crisis in the 1990s and their Social Democrat predecessor to be cautious with the public budget. Former Prime Minister Göran Persson's dictum 'Whoever is in debt is not free' has become the creed of the new right-wing government also.

Unfortunately that is exactly the wrong lesson for the current crisis. The crisis in the beginning of the 1990s was a home brewed crisis in a more favourable demographic situation. Yet it turned out that the burden of establishing a working balance again was borne mainly by young adults, low-skilled labour, immigrants and families with children. In a situation where a baby boom is entering the labour market and another is withdrawing tight fiscal policies is a recipe that jeopardises our welfare for decades to come; increasing inequality, decreasing potential future growth and undermining the sustainability of both the pension system and the public budget by shrinking the future tax base. In the fourth and concluding section some of the crucial policy choices to be made will be discussed.

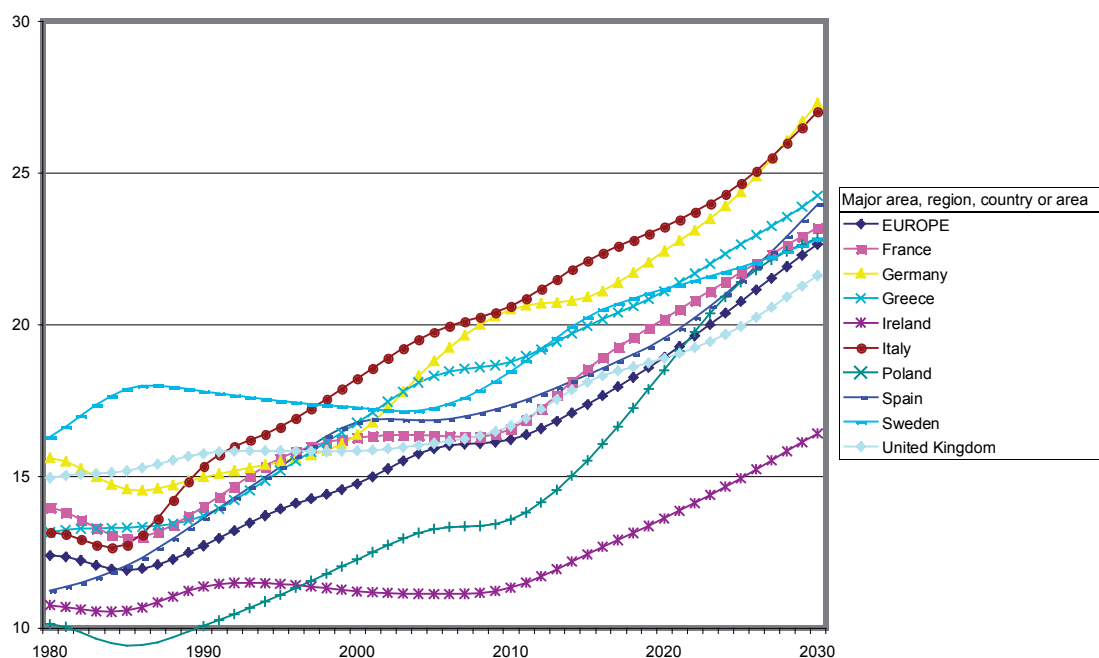
European Ageing and Prospects

There is a general awareness now, both within the EU Commission and most of its member states as well as in the Russian Federation and other countries outside the Union, that Europe is ageing and that this will put pressure on pension systems, elderly care, and in general the social welfare system. In the media this is frequently turned into a major catastrophe that makes the dismantling of the welfare state a historic necessity, a conclusion that for ideological reasons sounds quite sympathetic to the ears of some people. In evaluating these claims we should first of all recall that ‘crying wolf’ in order to obtain a short-run benefit before the wolf has actually shown up is in general a very dangerous strategy. In this particular case it is important to make three observations:

- (1) In fact, ageing is a slow inertial process which we can predict much better than we can predict, for example, climate change. It does not require hasty panic measures but well debated, deliberated and contemplated long-run reforms of social policies. At the same time some windows of opportunity have already opened and others will open in the future while others have already closed. So focus must be on the windows that are currently open.
- (2) While all of Europe is ageing, it is ageing at different rates. This is due partly to different institutions and partly to demographic path dependence. Maximum pressures as well as windows of opportunity will come at different times for the European countries and the mix of measures required to adapt will be institution-specific and thus must necessarily differ across countries.
- (3) Any ageing country will need to adapt its transfer system no matter whether this today relies on public intergenerational transfers, private family transfers or transfers mediated by the capital markets. The set of adaptations that is appropriate and permissible will differ but keeping status quo is in no case an option that is available.

In Figure 1 below, the ageing of Europe is illustrated in some EU countries by the development since 1980 of the population share above 64. This is commonly taken as the definition of how old a country is. According to this definition Sweden ranked oldest in the late part of the past century but has been replaced by Italy which is currently being caught up by Germany. According to the UN forecasts Italy will, however, take the lead again until caught up by Germany again in the late 2030s. Most other countries are projected to converge to a share of 65+ between 20 and 25 per cent of the population around 2030, except Ireland who is way behind in its ageing process. It is easy to see that although all countries are ageing, the speed and variation in the process is quite considerable, suggesting that different countries will tend to feel the need for action at rather different points in time. Their fiscal resources will also vary in an uncoordinated way.

Figure 1. Estimates and projections of the population share 65 years old and above.



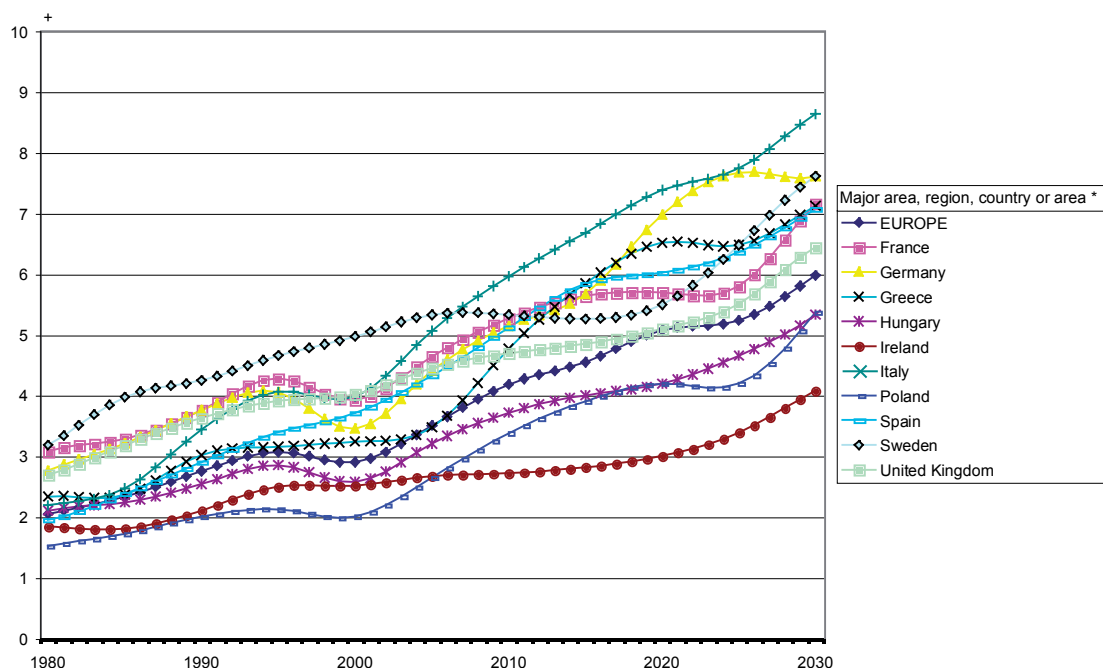
Source: UN World Population Projections 2007.

While 65 and above is a conventional marker of retirement ages, the average age of retirement in fact varies quite a lot, being in general lower in the countries of Southern Europe. In an international project to map the intergenerational transfer flows (National Transfer Accounts, see www.ntaccounts.org to get more information) it is measured whether the average individual in an age class is receiving or giving net transfers to other age groups. The project is still developing but comparisons across countries show considerable differences in the crossover ages. For example the crossover from young receiver takes place somewhere between 20 and 30 while the crossover to elderly recipient varies between 55 and 65.

We know that statistically morbidity and mortality accelerates somewhere around 80 and that much of the total care expenditure during life is concentrated into the last few years of life. Often these groups are referred to as the 'oldest old'. Here the per capita transfers often reach very high amounts.

In Figure 2 the 80 and above population is depicted for the same EU countries as above. In this sense Sweden is still the oldest European country with Italy just catching up. According to the UN projections Germany will be catching up with Italy around 2020 but then Italy takes the lead again. For this oldest old we see no tendency to convergence around 2030 but rather increased dispersion.

Figure 2. Estimates and projections of the population share 80 years old and above.



Source: UN World Population Projections 2007.

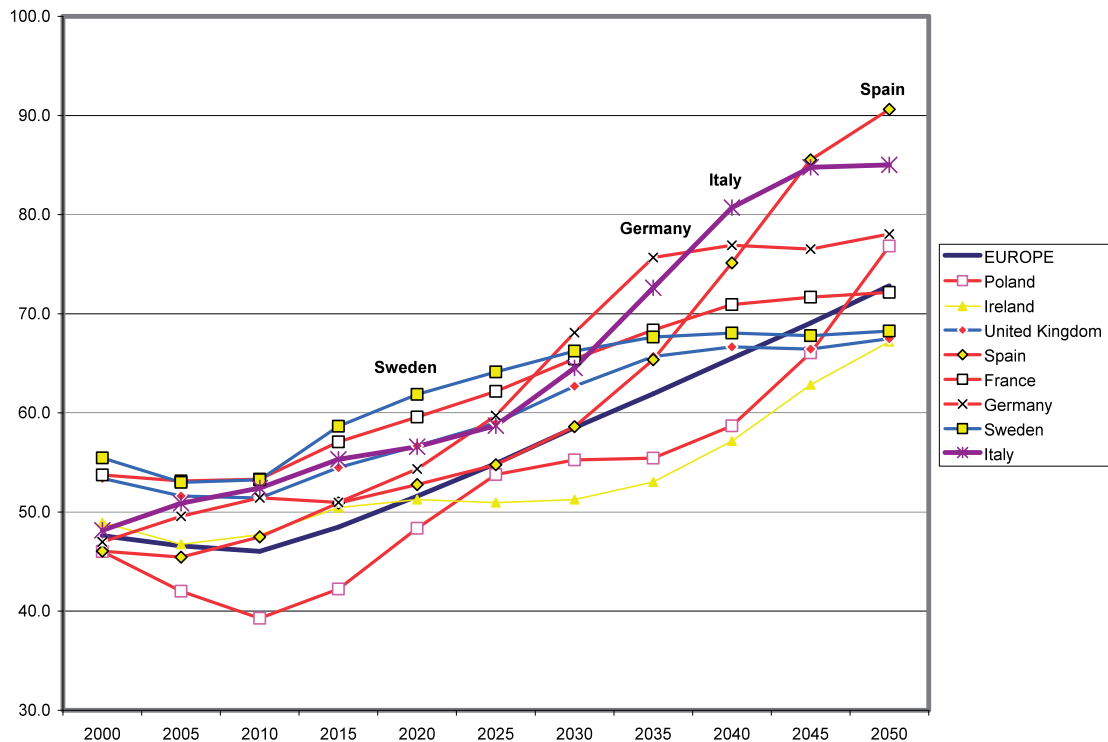
While increasing life expectancy plays a role in this ageing process, it is not at all the main factor shaping the ups and downs that we see in the ageing trends. In Table 1 current life expectancy for both sexes (2000–2005) in the countries in the graphs is listed and it is quite clear that current accelerations in the age share measures has little or nothing to do with life expectancy. It is differences in the fertility rates both currently and historically that provide the main explanation of these patterns.

Table 1. Life expectancy in 2005.

Sweden	80.09
Spain	79.99
Italy	79.93
France	79.60
Germany	78.73
United Kingdom	78.47
Greece	78.26
Ireland	77.78

Source: UN World Population Projections 2007.

Figure 3. Estimates and projections of the dependency rate: population 0–14 and 65+ divided with the population 15–64.



Source: UN World Population Projections 2007.

In spite of small cohorts of children, the predicted total dependency rates of our country sample rises much more steeply in low-fertility countries as Germany, Italy, Spain than in countries with more moderate fertility trends like France, Sweden and United Kingdom. For these countries fertility is a problem they will have to deal with. While Sweden, and maybe France, need to focus on young people in their 20s for investment in education and labour market entry, the low-fertility countries need to consider their family policies as a main priority.

At this point it is prudent to note that there is a tendency to take demographic projections far too seriously, and the development may look very different than these graphs suggest. Although the general age structure projections are highly reliable for a decade or two and for the older population for many more years, the uncertainty surrounding the projections for the young population increases strongly as time goes by. It is the inertia of demographic change that makes projections reliable and not any deep knowledge about what drives demographic change. Inflows and outflows into the population are very hard to predict with any reasonable degree of accuracy, and the smaller the country the harder it gets. The more borders are open for migration the more difficult it becomes, and so forth. Having pointed this out it is obvious that demographic change, at least in part, is susceptible to policy interventions both in terms of actions to make it easier for people to achieve their desired fertility and in terms of migration policies. In an ageing Europe it is, of course, the question of immigrant integration into the labour force that must be in focus.

The ageing problem is neither new (in Sweden the main thrust actually came in the 1960s and 1970s) nor unavoidable in the very long run. Demography is not fate incarnate but a reaction, a kind of memory resulting from social and economic

dynamics. An unfavourable ageing trend often has its roots in baby busts generations ago. Such a trend and its economic consequences may not be entirely avoidable but it can be substantially ameliorated by political action. Immigration and fertility can be affected by political measures and current status of these variables is, among other things, also a result of the current social policy regime. Labour force participation and education can, at different time horizons, economically shore up shortages of people in active ages. Even the age boundaries themselves can be changed.

Policies that make society a nicer place to have babies in will decelerate the ageing trends in the long run. In the short run, integration of immigrants also helps.

In either case it is no universal panacea to rejuvenate the population. Sooner (immigrants) or later (babies) the groups who make up the 'solution' also grow old. There are other adaptations that will help to sustain social welfare. We can work longer, a reasonable proposition if we live longer and healthier lives. Current workplaces and work life demands may not today be consistent with that but this can change too. In Sweden the prime factor at this time may be to speed up education in order to prolong work life by starting it earlier. In Austria it may be more important to offer more higher education and instead improve incentives to work longer. Although a common EU policy against this background seems rather unrealistic there is clearly scope for learning between the EU countries about how to deal with ageing problems. Policies have to be adapted to the specific timing of demographic change and the institutional setup in different countries because transition problems will arise in the adaptations that are idiosyncratic to each country. Nevertheless it is clear that youth unemployment and difficulties in integrating immigrants on the labour market are common stumbling blocks in preparing for the ageing society.

That does not in any way prevent the European community from learning from each other the adaptations that are successful and under what conditions they are so. Simple best-practice reasoning should, however, be avoided with great emphasis. The ageing challenge is common to all industrialised societies. It is a challenge with no simple solutions but there is a wealth of adaptations available with the common denominator that a society has to reproduce itself in order not to encounter increasing needs for intergenerational redistribution. Whether through native fertility or foreign immigration is not the crucial issue but different strategies in social policy will tend to force either the one or the other to dominate.

Swedish Post-War Social Investment in Human Capital

Sweden was ageing faster than other countries in the post-war period mainly because of the very low fertility experienced in the 1930s. The 'Swedish model' is a somewhat amorphous concept that is differently defined in different contexts and has evolved quite a lot over time, but however defined much of its Swedish character derives from compromises made in the 1930s against the background of the Great Depression and the perceived fertility crisis most famously described in Alva and Gunnar Myrdal's book 'Kris i befolkningsfrågan' (1934).¹ This provided a platform for agreeing on social policy as a matter of investing in the productivity of the population not as an alternative but as a complement to a social rights perspective.

1. Kris i befolkningsfrågan (Crisis in the Population Question) (1934) by Alva and Gunnar Myrdal. The book discussed the declining birthrate in Sweden and proposed possible solutions.

Without a healthy and educated population that also reproduced itself, the protection of social rights as well as the productivity of the economy could not be sustained. Providing good health care, healthy housing and expanding the investment in education of children were important parts in this endeavour that have survived as mainstays in Swedish political debate notwithstanding that a more individualistic policy perspective has become dominant. It should, perhaps, not be forgotten that there were also some very dubious policies inspired by these goals such as sterilisation campaigns ‘to keep the gene pool healthy’ and other similar trends that have been abandoned.

Fertility had already started to rise in Sweden by the end of the 1930s and in the midst of World War II a baby boom occurred that peaked in 1945. This is due, in no small part, to the fact that Sweden kept out of the war. This baby boom substantially increased the demand for welfare services and family transfers. As the large cohorts born in the beginning of the twentieth century started ageing towards retirement, demands for pension reform grew and were satisfied at the end of the 1950s by a prosperous economy.

When the large cohorts born in the 1940s started to enter the labour market in the 1960s and onwards, the education system was expanded in several dimensions. The consequence of this was that the Swedish boomers (unlike American baby boomers), were not at all or to a much smaller extent victims of cohort-crowding due to explicit education policies as emphasised by Nelson and Stephens in chapter 4. Expansion of the care and education systems in turn provided females with labour market opportunities. This set off a demand for childcare facilities that was met with a heavily subsidised public system of high quality day care much along the lines advocated by Kimberly Morgan in the second chapter of this volume.

As fertility then again fell to low levels towards the end of the 1970s due to factors such as increased higher education for females, higher female labour force participation and economic crisis, the parental leave system was reformed and extended. In 1980 parental leave was further extended to nine months with income replacement at 90 per cent and three months at a flat rate. At the same time a speed premium on having the next child within 24 months was introduced together with two months of paid leave to attend to sick children and some other minor changes. In the mid 1980s a new baby boom wave started and peaked in 1990 (TFR 2.1). After the 1993 collapse of the Swedish economy, benefit levels were first limited to 80 percent of income in 1995 and 1996 to 75 per cent. TFR fell dramatically over the 1990s and although the 80 percent level was restored in 1998 fertility hit an all time low (TFR 1.5) in 1999 when recruiting to the public sector had almost ground to a halt. Then came a resurgence in birth rates concurrent with further improvements in family policy. In 2002 two months were reserved for each parent, paid leave was extended to 13 months and a special child allowance for parents in higher education was added to the system. In the childcare sector unemployed parents in 2001 achieved the right to have children in day care. In 2002 parents on parental leave were also awarded that right, and a ceiling on day care fees (previously income related) was introduced. In 2003 a universal preschool from four years was introduced. The levels now, in 2008, are almost the same as in 1990 (TFR 1.9).

This short story of the Swedish fertility ‘roller-coaster’ omits a lot of details (e.g. housing subsidies) but illustrates my argument that fertility in Sweden has been

shaped by a number of social policy responses to circumstances making it harder to achieve the desired norm of at least two children per woman. Desired fertility in Sweden has been firmly anchored around two children for a very long time (and cohort fertility actually close to two for all cohorts born since 1900).

It is, however, easy to understand why a forward-looking government wanting to preserve welfare for the elderly would also like to keep fertility not too far from the reproduction rate. I will not argue that the policies I describe were fully premeditated and implemented for rational reasons of slowing down ageing. That was certainly not the case, and the roller-coaster variation is per se not a very rational response because it causes excessive variation in public budgets as well as public employment. I do believe that it was a long-term ingrained political tradition in Sweden to see fertility falling below reproduction rates as a symptom of social problems, and not without good reasons.

It is now the case that although Sweden still has a very old population compared to most other countries and in spite of massive immigration (13 per cent of the population is currently foreign-born). Nevertheless, our demographic projections look much less dramatic and much less worrisome than those of countries that have viewed fertility as a completely private issue.

Deliberate or not, the policy reactions to Swedish ageing in the past has been to invest in the young. That does not involve only fertility, of course, it was also a matter of expanding health care and education for the young, allowing labour immigration in the 1950s and 1960s, and in the 1960s and 1970s providing good housing opportunities, study loans, pensions etc. Sometimes this was carried out at ridiculously high costs that could not be sustained in the long run. Many policies were later abolished such as most of the housing subsidies but many are still very much with us like the child care system and the parental leave transfers.

Although these investments in both the human and social capital of the young baby boomers from the 1940s caused temporary costs in terms of the GDP level – as the ageing burden increased in the 1970s – they are also a very important factor behind the recovery of the economy in the late 1990s. I suggest that this is a much more important lesson to learn than budgetary caution in the present situation.

Most of these investments in the young generation are not generally recognised since they go under the headings of public consumption or government transfers. This terminology is grossly misleading. No farmer would fail to differentiate what he can eat from the harvest from that which he must sow in the spring. Such mistakes would put his survival at stake.

Where Does Sweden Stand Today?

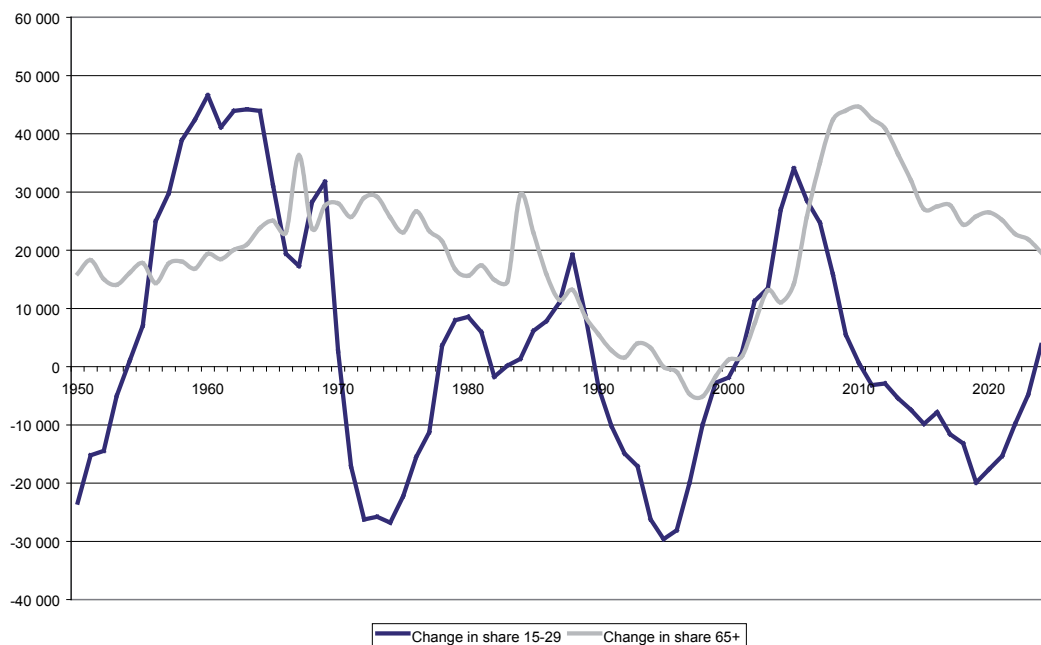
Sweden is now in the middle of a generational shift. A large chunk of the working population is retiring from work life while another large chunk of the population is entering adulthood. If the entrants could simply enter into the vacancies created by retirement there would not be much of a problem to discuss. In reality this will, however, set in motion a very complex chain of promotions, new vacancies and closing of some of the old job slots. Not least will it deepen the regional disparities

discussed by Erik Westholm in chapter 9. Thus, in Sweden today demography will further contribute to the factors, mentioned by Bengt-Åke Lundvall and Edward Lorenz in chapter 5, which speed up the rate of change in different social and economic dimensions.

From a long-term perspective we know that an older population will require more services and less goods production. Globalisation implies the same pattern of replacing labour-intensive low skilled non-place-dependent jobs through import substitution and replacing the lost jobs with specialised services and skill-intensive production to pay for the imports. For example the Swedish private (although publicly financed) schools are now following the banks into the international market. Structural change is therefore implied both by domestic demographic change and global competition. The re-matching of the labour force needed in order to implement this change could be favoured by the generational shift providing lots of mobile and well educated labour to help it along. In chapter 3 Giuliano Bonoli gives reason to question much of the traditional thinking regarding labour market policies in this new situation, in particular the failure to integrate immigrants should lead to deep reflection.

In Figure 4 below the annual changes in the number of people in age group 15–29 and 65+ are displayed. As in 1970 there is now a group of young adults that has been increasing in numbers and at the same time strongly increasing numbers of retirees. This was not the case in the 1990s. Although there was an increase in young adults it was not as strong and the increase in the 65+ group was slow and even decreased towards the end of the decade.

Figure 4. Changes in the number share of young adults (15–29) and in the elderly (65+).



Estimates and projections from Statistics Sweden.

An opportunity to renew and prepare the care and education sector for the future has now opened. The return from investments in human capital is likely to be vast, borrowing is cheap, and a less painful structural adjustment of the economy than in the 1990s is possible.

Conclusion

I have argued that the investment in future human capital is crucial for the sustainability of elderly welfare. I have also argued that the European welfare states are at very different stages in their cycles for human capital investment. The human capital life cycle do look different in the European countries. Rational strategies must be formed according to these differences and must be formed with respect for different histories, preferences and institutions.

Productive social policies have to be designed to fit current demographic structures, taking into account their consequences for future demographics and the repercussions the population structure has on both economics and the sustainability of social welfare. This requires long-term perspectives as well as an integrated view of the policy system. Rita Nikolai's and Kerstin Jacobson's chapters (see chapter 6 and 7) imply that the European Union has a long way to go before achieving such an integrated view on social investment.

Further reading

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Macunovich, D. J. (2002) *Birth Quake*. University of Chicago Press.

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A Territorial Approach to the Politics of Climate Change

Erik Westholm

Introduction

This chapter raises some questions about the future role of politics in Europe at a national level. What future do nation states have if (when) the politics of climate change become the dominating project? The answer requires a territorial perspective on the changing welfare states. The development of the various welfare models in Europe has shaped the political organisation and established powerful municipalities and regional authorities able to secure the interests of the state.

From the 1980s the idea of distributing prosperity to all localities and regions has been gradually replaced by an awareness of the increasing global competition, calling for efforts to develop the most competitive regions in a knowledge-based economy. In order to defend the national territory, the welfare states had to adapt to the varying specific local and regional contexts. National policies also became increasingly linked to supra-national institutions such as the EU and institutions for global agreements on trade, carbon emissions, migration regulations etc. The nation states developed a diverse and spatially flexible political organisation.

The chapter addresses a possible third era of spatial politics within the welfare model. It is based on: 1) an anticipated deepening of economic and political globalisation and 2) an increasingly urgent need to address issues related to land use/climate change. The two processes are already transforming the agenda for the EU and the Member States. In this chapter it is argued that territorial control will be increasingly important and that the nation states are likely to continue to be the key institutions in an era marked by increased needs for cross-border collaboration in order to dramatically reduce the greenhouse gas emissions. In these efforts the nation states will have to strengthen international institutions and collaborations while at the same time using the specific capabilities of the regions and local communities.

Spatial Implications of Welfare Policies

Basically, the establishment of the welfare model was a modernisation project linked to the transformation from the primary sector to industry from the 1930s and onwards. As the industry expanded and demanded labour in certain regions, others experienced increasing unemployment and declining populations. The primary role for the welfare institutions was to make the economic restructuring possible while securing welfare with social insurance programmes, other cash benefits and welfare services at household level. This is an early 'social investment strategy'. One ambition was to provide more equal conditions to all households in terms of income, access to the labour market, access to education, health care, communications, etc. This redistribution of income had a strong spatial implication with a number of political means to reduce uneven spatial development.

In the Nordic countries, a specific regional policy framework was established during the 1950s and 1960s. Resources were, basically, re-allocated from urban centres to the rural periphery. The arguments were both social and economical. They were also related to defence interests. The nation state project, as such, also required a dispersed population and equal conditions in all parts of the country. The economic aim was to diffuse industrialisation so that labour leaving the primary sector in rural regions could enter industrial jobs locally, adding to the national growth. The social aim for spatial redistributive policies was based on the universal concept of welfare provision: equal conditions could only be achieved if they reached all of the country. A universal welfare model should also increase the economic demand of households and thus be a driver for economic growth (Andersson, 2003).

A relatively uniform, standardised administrative structure was used to implement and supervise these spatial policies throughout the territory.

The Recognition of Uneven Development

During the 1980s, the importance of international competitiveness became an issue in spatial planning across Europe. It had been increasingly recognised that the policies for spatial redistribution were insufficient for preventing an uneven development. The idea of a balanced regional development gave way to politics for intensified modernisation and economic competitiveness. Similar efforts to extend urban industrial growth into underdeveloped peripheral regions have been used in most western economies. During the 1990s, a comprehensive framework (structural funds) was implemented in the EU and gradually developed in the direction of competition policies.

As competition policies and politics are strongly connected to urban space and to the knowledge-based economy developed in and around universities, these changes produced both political asymmetry and spatially uneven economic and social development. Regions and localities were increasingly found to have their own specific problems and relative advantages. The competitiveness of cities and regions was also dependent on regional competencies, social capital and trust in addition to distinctive and attractive local amenities and culture. The promotion by the state of technological change, innovations and entrepreneurship must be executed on a sub-national level. Therefore, a decentralisation of regional/industrial policy was a

key element of this emerging competition policy. The discourse of the importance of the regions, the idea of the Europe of Regions was coinciding with the increasing aims of integration within the EU framework. The regions became an object of governance for the EU, creating links to regions and localities, so by-passing the nation states.

The Changing Geography of State Activity

The two ideas of increased competition as the main task and the regions as the main agents formed the basis for an institutional reform of the regional level in Sweden. Increased independence for the regions resulted in the fragmentation of political institutions. Since 1995, the relatively standardised spatial organisation has been replaced by a situation with various solutions in various parts of the country. The specific local and regional contexts are strongly affecting the role of local authorities, county councils and regions. While, for instance, some regions have directly elected assemblies responsible for the development of the region, other regions are based on the traditional regional authority, legitimated by the national parliament. The development towards a more asymmetric political organisation should not be seen as a withdrawal of the state but rather as a response by the state to increasingly uneven regional development.

Another form of spatial transformation of the state is the changing regionalisation of state authorities. There are more than 300 authorities for the implementation of sector policies (such as Forestry Commission, National Agency for the Environment etc.). Many of these have regional and/or local representation. For instance the national Employment Agency has representation in all 290 local authorities and also a regional organisation. During the last decade there has been a fast spatial reorganisation within the state apparatus. Local offices are closing down or are merged with others to cover larger areas and there is a rapid process of enlargement of the regions by the authorities. This process follows the internal rationality of each authority and is not co-ordinated by the state. There is also a merging of the levels within the various authorities so that the local service centre is connected with all the functions via the internet. The geography of state authorities has been developed through a mix of everyday decisions and strategic action to optimise efficiency within each authority. The total picture of the state geography has been described as based on the 'logic of a drunken spider who has been drawing the borders on the map'.

A Landscape of 'thin regions'

At a municipal level the standardised political organisation is also challenged. In Sweden, the 290 local authorities have wide ranging self-governance based on local tax raising and responsibilities covering the school system, child and elderly care, spatial planning, local culture etc. The political mandate of the local authorities is territorially fixed and based on direct elections.

The local authorities have played a major role in the expansion of welfare services during the post - war era. The local authorities are powerful in an international comparison and their activity corresponds to a substantial share of the GDP. The relatively strong position of local authorities as political and administrative units

is a result of their importance for the welfare project. The expansion of social policy demanded strength, especially at a local level and the system of local authorities was reformed 1952 and 1970 in order to fulfil the ambitions of the welfare state.

In order to increase cost efficiency and economies of scale and also to boost their developmental efforts through participation in regional development projects, in EU-programmes, in lobbying towards other levels in the political system etc, the local authorities are increasingly involved in a complex pattern of intra-local co-operations covering all fields of local politics and planning. We can imagine a landscape of numerous, overlapping regions each based on a single project or collaboration. This project-based landscape of 'thin regions' (Westholm 2001) is continuously changing.

At a quick glance it seems as if the state has withdrawn from governing at a local level by increasing the freedom for local authorities to self organise local politics. However, the territorial flux can also be described as a state-led reform in which the state chose to reorganise the local level into a more flexible politics of networking. Alongside these changes in the form of political organisation there is also a decentralisation of the traditional welfare functions. In the light of New Public Management, welfare states have adopted values such as user's choice, quality, effectiveness and efficiency (Giddens 2003).

A 'Relativisation' of State Spaces

Altogether these changes describe the development of a more diverse and spatially flexible political organisation at regional and local levels. Demographic changes, economic restructuring and increased international competition has forced the state to engage in competition politics, to accept and handle an increasingly uneven development within the national territory. The states had to respond in different ways at different levels, from the local to the global, in order to achieve both economic growth and a distributed welfare. These changes have been described by the political scientist, Bob Jessop, as a 'relativisation' of the national territory as the basis for state activity. It is a process of both increased involvement in international relations and a decentralisation of the functions of regions and localities that has traditionally been executed on the national level (Jessop 2002).

In a broader sense, the redistribution of state power to diverse arenas should be seen as a reflection of the complex mix of interests that modern politics at the national level has to accommodate. In order to sustain itself as the primary institution for organising economic growth and welfare distribution, the state must operate in various ways and at various levels, from local to global.

Jessop describes the state that aims to secure economic growth within its borders and to secure competitive advantages for nationally based capital. Empirical studies indicate that a development towards a competition state has taken place in many European countries. In small economies this means an orientation towards the supply-side of the economy, in order to identify the knowledge-based niches in expanding sectors of the economy.

traditional welfare model towards the international awareness reflected in the succeeding competition regimes. In the following section, I shall discuss a possible third major era of challenges for the welfare states. My argument is based on both an anticipated continuing globalisation and an increasingly urgent need to address issues related to natural resources shortages/climate change. These two processes are already at work and have altered the agenda for the EU as well as its member states. I will conclude that territorial control will be increasingly important and that the nation state will continue to be the key institution in a possible era of continued political globalisation marked by increased needs for cross-border collaboration.

New Spaces – Still Based on Nation States

The Common Agricultural Policy (the CAP) of the EU provides a good example of the importance of national politics. This is often considered to be the most integrated policy field and has been spending more than 2/3 of the total EU budget, yet it is based on the territorial control of the member states and the regulations are continually adapted to national contexts. In fact, it has often been questioned whether there is a common agricultural policy at all since it is adapted, in detail, to the specific needs of the various states.

The implementation of the CAP provides an example of the diverse arenas that the state must explore in order to implement the policies. The CAP still dominates the EU budget and affects the structure of agriculture, living environments, biological diversity, etc. The CAP is gradually transformed towards a rural policy, something which has contributed to renewed interest in local development (Ray 2000; Brouwer & Straaten 2002; Shucksmith et al. 2005). Partnership, approaches across sectors and administrative borders as well as technical and institutional renewal are examples of phenomena which often are described as results of endogenous processes, even though there are clear political/ideological intentions and concrete development programmes that have been launched at the national or EU level to enhance them. The change from productivist subsidies towards rural development is a response to both needs in the member states and demands from the WTO.

Territorial policy strategies for rural development are implemented, on the initiative of the EU. The European cohesion policy has put a new emphasis on the characteristics of the different rural areas. Social relations, local culture and corporate climate may vary widely between localities and regions. In a territorially oriented policy, the unique set of assets, problems and potentials are at the core of rural policy. On that basis, attempts are made to support general processes that contribute to better conditions for regional development and to liberate and develop local resources characteristic for the area. Policy is used to strengthen social processes and relations that may create synergies and economic growth in the territory. Cross-sectoral partnerships, networks and joint projects are recommended as policy instruments and there are expectations that partnerships and networks will lead to development, synergies and learning (Moseley 2003). Territorial initiatives are ideally based on the assumption that local contexts can be linked up with regional, national and global levels. Thus, both sectorial initiatives that increase regional unevenness and territorial initiatives are handled within the framework of the EU regional development policy.

These efforts are heavily dependent on nation state institutions and policies. At least in Sweden, the local authorities play a key role in implementing planning that reflects politics on the national level. One success story relating to both the utilisation of natural resources and climate change is the establishment of district heating and combined district heating in Swedish towns and cities. Within a period of 15–20 years the Swedish local authorities reduced carbon emissions from heating by 60% in the municipalities. This success can be explained by a mix of access to biological resources, mainly forest residues, traditions of using bio-energy and developed planning procedures linking local action to the aims of national politics.

Climate Change and Natural Resource Shortages

Existing forecasts for demographic change and economic growth in regions of the world until 2050 foresee a critical demand for growth in biological resources such as food, bio-energy, fresh water and forest products. Such a Natural Resource Turn (NRT) including increased competition over land will intensify the need for political intervention (Waldenström and Westholm 2009). Public choice issues, issues of property rights and problems connected to externalisation of costs in relation to biological resources are likely to grow in importance.

Perhaps the most pressing issue related to the future of the nation states is the emerging politics for climate change. Climate change is one of the most significant challenges of our time and is now reaching the top of the political agenda. It is increasingly recognised that climate change affects nearly every sector of the world's economy and is intricately intertwined with other major environmental threats such as population growth, desertification and land degradation, air and water pollution, loss of biodiversity and deforestation (Streck et al. 2008).

Climate change provides a fundamental contest for the democracies of the nation states. Costly actions must be taken at the present time to prevent a problem in the remote future – beyond the time horizon that citizens normally overlook. The spatial dimension may be even more problematic from a nation state perspective. Arguments for free riding, for not taking further action on a national basis, are frequently employed by governments. The free riding argument varies from the claim of the European countries that they have already taken their share of the burden, to the claims of the BRIC countries and countries in the south that they must be given a chance to develop their economies. Although international agreements are an essential ingredient of an effective global response to climate change, there is a need to focus on urgent national action (Giddens 2009).

The complexities of time and space are driving politics to the supra-national level. The agreement that is now being prepared to succeed the Kyoto protocol after its first commitment period expires in 2012 can only be successful if it is ratified by the major economies in the world. However, the key institutions to make sure the agreement is transformed into actual carbon reductions are the nation states:

- the arrangements are set up in negotiations between nation states;
- the commitments are highly based on national contexts and national data;

- the implementation of the measures is heavily dependent on the national governments' and parliaments' ability to transfer them into laws and regulations;
- national institutions play a key role in the monitoring and supervising of the agreements.

The territoriality of a low-carbon transition

Any attempt to achieve an effective post-Kyoto agreement must include a comprehensive system of incentives directed towards land-use and spatial planning. Not only the nation states, but also the regions and communities will have vital roles in a low carbon transition. Three main types of policy transformations can be identified:

- 'Greening' of the economy: This refers to a necessary redirection of competition policy towards low-energy technologies. The competition regions developed during the last decades must now take into account increasing energy costs as a starting point, offering a number of threats and opportunities. The regions, in the broad sense of territories as well as part of the political structure, are vital in this transformation.
- Implementation/adaptation to structural changes imposed by distant markets and international/national policies: Regions and localities must prepare to adapt to international agreements, conventions as well as changing taxation in a low carbon direction.
- Protection measures for the effects of climate change: Whether it is measures to prevent flooding in the cities or long term planning for the built-up infrastructure this is already becoming central issues for spatial planning at regional and local levels.

Conclusion

In this chapter I have discussed, from a spatial perspective, the transformation over time of the major agenda for the European welfare states. During many decades, the dominating project was to institutionalise the welfare state itself. Politically, most countries established symmetric organisations of local authorities and regions/counties in order to safeguard equal conditions in all of the country. The focus was clearly national. State intervention increased gradually and issues of the spatial distribution of welfare and economic growth was dominating the agenda. The process of shaping the welfare states dominated the twentieth century until around the 1970s, when direct state intervention was peaking in a number of political fields. The political priorities started to change from the national focus of the traditional welfare model towards the international awareness reflected in the succeeding competition regime. The states responded to a perceived international competition which appeared to threaten the welfare. Competitiveness became the driving principle of political fields such as education, labour market, regional development and R&D.

These changes did not only involve politics at a national level. The Lisbon Strategy is a manifestation of these changes at the European level. A general observation on the development of welfare states in Western economies has been that there is no longer a single privileged scale for economic and political organisation around which other

scales are being organised (Jessop 2002, Brenner 2004). Local and regional administrations are designed to meet problems and opportunities as they appear in the various regions and national policies are linked to supra-national institutions such as the EU and institutions for global agreements on trade, carbon emissions, migration regulations etc. Thus, the nation states in Europe are already prepared for an era of politics of co-operation on global issues.

The competition-orientation of the last decades has equipped European welfare states with the dynamics necessary to handle the complexities of climate politics. The EU itself provides an example on how states are becoming increasingly integrated and able to formulate political frameworks. The nation states have also developed a diverse and spatially-flexible, political organisation at regional and local levels. Demographic changes, economic restructuring and increased international competition have forced the states to engage in competition politics and to both accept and counteract increasingly uneven development within the national territory. The modern state has to respond in different ways at different levels, from the local to the global, in order to achieve both economic growth and a distributed welfare.

I have anticipated a third major era of challenges for the welfare states. It is based on 1) an anticipated deepening of the economic and political globalisation and 2) an increasingly urgent need for a low carbon transition. These two processes are already at work and have altered the agenda for the EU as well as its Member States. In the light of these changes, territorial control will be increasingly important and the nation state will continue to be the key institution, also in an era marked by increased needs for cross-border collaboration in order to dramatically reduce the greenhouse gas emissions.

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The European Employment Strategy in the Tempest: Restoring a Long-Term Perspective

Bernard Gazier

Introduction

In the domain of employment and social policies, important changes have appeared since the turn of the century: Europe is exploring a new paradigm, ‘Social Investment’ (SI), putting emphasis on the ability of everybody to accumulate skills and to find one’s way on the labour market. In her contribution, Jane Jenson (chapter 1 this volume) insists on the still controversial and quite diverse aspects of SI, and she worries about possible detrimental consequences of the present crisis on social spending, even the fraction of it considered as an investment. Similarly, Giuliano Bonoli (chapter 3 this volume) distinguishes various versions of social investment in the domain of Labour Market Policies (LMP): centered on protection (where the investment protects the work capacity), on investment strictly speaking (through training and placement policies), or on re-commodification (strengthening of work incentives). He too, wonders about the possible business cycle dimension of such spending.

In this chapter, we shall focus on a domain intermediary between Jenson’s wide ‘citizenship’ approach and Bonoli’s more specific analysis of LMP: the domain of labour market reforms. It obviously includes LMP, but also wages differentiation, employment norms ... This includes the European Employment Strategy; in the forefront the ‘Flexicurity’ policies proposed by the EU since 2006, together with the evolution of labour market institutions. We shall try to restore some long term perspective, using the SI point of view.

We shall proceed in three steps. First, relying on a previous work (Auer and Gazier 2008), we shall propose a framework situating the ‘Flexicurity’ prescriptions within a wider set of policy agendas currently explored or implemented regarding the dynamic adaptation of labour markets to the globalized world. The second step will consist of using this framework for understanding the present and possible position of ‘Flexicurity’ in our world to cope with the crisis. In our third step, we shall try to sketch what could be a renewed agenda for the EES and a new component of the wider Lisbon Strategy. We shall propose a collective and structured version of the ‘social

investment' paradigm, connected to the 'Transitional Labour Market' approach, which aims at developing a 're-embedded' version of the European labour markets.

Labour Market Reforms: Four Agendas Compared

Our starting point is quite close to Bonoli's analysis. As argued in Auer and Gazier (2008), it is interesting to situate the EES and the Lisbon Strategy as a specific agenda in the field of labour market reforms and social policies, between two extreme options: 'Flexibility' (close to Bonoli's 'De-commodification') and 'Capabilities' (close to Bonoli's 'Protection'). However a fourth agenda may be considered: 'Transitional Labour Markets'.

'Flexibility'

'Flexibility' remained the dominating reform agenda until the crisis. Since the eighties, the claim is that, in a period where all other markets (goods, services and financial) are increasingly liberalized, the labour markets cannot remain regulated as changes in the other three spill over to them. For this reform stream and notably for the OECD and the World Bank, markets (workers) have to adapt and the preferred adaptation channel, in the absence of total wage flexibility, is (external) mobility of workers and smooth worker's reallocation preferably unhindered by government intervention.

In 2009, the OECD kept this view, although albeit more moderately. For example, in its 2009 review of France getting to grips with the present crisis (OECD 2009), it admits that re-launching measures and budget deficit may constitute an appropriate answer but maintains that in the middle term, 'structural reforms' should be pursued in favour of less regulation.

The 'Flexibility' reform agenda is treating the goods exchanged on the labour market just as any other good. Therefore, this agenda is not concerned about workers' employment security or any (wage) distribution policies as they would distort the market. The proponents of the 'flexibility' agenda might not be particularly anti-workers (but anti-union, certainly) as in their equations more flexibility equals increased welfare for workers: benefits will simply trickle down from improved economic and labour market performance due to enhanced adjustment capacities of labour markets. A short formula is 'Easier firing brings about easier hiring'. The market will bring the best of all worlds, whereas interventions to correct market failures will not work and thus there is little space for polity, policy and ethics. Surely this picture is a caricature of the complexities of thoughts and methods that this stream has developed, but at the core, such thinking prevails.

'Capabilities'

The 'Flexibility' agenda ignores the particular 'good or service' that is exchanged on labour markets, which cannot be isolated from the individuals that offer their services for money on which their livelihood and more generally their psychological, social and economic well being is depending. This leads us to the second reform agenda: 'Capabilities' which appears as very different and quite the opposite. It has a developing country focus, although the concept claims universal application as can be seen in

Human Development Indicators that are also relevant for developed countries. It appears less anchored in labour market studies, and much more in ethics.

It sets a list of priorities established independently from the labour market functioning: health (life expectancy), wealth (per capita income in PPPs), education (enrolment and literacy rates) but also others like housing, literacy, access to water and schooling, active participation in political and social life, taking gender into account ... All these dimensions may be seen as preconditions for a sustainable social and economic life. In every country, these priorities are of course separately developed by specialised agencies and government departments, and appear as the objectives of actors such as social workers. One can speak of an agenda, when these elements are combined in an integrated way. While being much more centred on the world of work, the 'decent work' agenda of the ILO (ILO 1999) often refers to this approach.

The theoretical reference is the 'basic need' concept originated from the ILO, which has given way to a 'Capabilities' theory. At the centre lies a specific kind of which includes using both resources and capacities according to physical and cultural conditions. Capacities using substantive freedom for achieving welfare states (status) are at the core of this doctrine (Sen 1985). The human development indicators that have been developed following the ideas of Armatya Sen are based on the three main areas evoked above: health, wealth and wisdom: wealth, health and education.

'Flexicurity'

'Flexicurity' was originally developed in the EU countries as an alternative concept to the 'flexibility only' mantra of many stakeholders, in parallel with other concepts such as Transitional Labour Markets. Dating back to Dutch debates about temporary work (1997), it starts from a concern that flexibility could undermine security if institutions are not made compatible with changes in the labour market. Changes towards more flexibility, which are either deliberately sought or already existing, should be compensated or accompanied by better (new or reformed) security devices inside and outside firms. The concrete forms of the institutions outside firm's internal labour markets are subject to debate, but there is a certain agreement that unemployment benefit schemes, education and training, work and training schemes, job counselling and worker's accompaniment and placement, workers reallocation in restructuring situations, etc. are the core providers of this external form of security. The concept gives also a large place to negotiations between the social partners as the main avenue to manage change.

There are more or less encompassing concepts of 'Flexicurity' (Gazier 2008). Sometimes the concept is of 'reduced form' comprising a 'golden triangle' of external adjustment between (lose) employment protection, generous unemployment benefits and active labour market policies, whose congruence is negotiated by the social partners (e.g. the Danish model). Sometimes it includes a whole array of institutions and social rights (EU Commission 2007). The common principles comprise new contractual arrangements, active labour market policies, lifelong learning and a modern social protection system (which in itself is composed of an array of policies) and the preferred way to arrive at positive and congruent policy combinations and outcomes is the social dialogue between the social partners. It includes internal and external flexibility; it concerns workers inside firms as well as the unemployed, and should be gender sensitive and cost effective.

Economically and ethically, allowing for adjustment, while giving security to workers, is interpreted as a win-win game. Another important ethical dimension consists of rights and duties and therefore individual responsibility. Economics needs politics for equitable outcomes and there is a belief in correcting or at least accompanying the market.

‘Transitional Labour Markets’

First formulated in 1995, ‘Transitional Labour Markets’ (TLM) propose to develop a systematic and negotiated management of ‘transitions’ in and around the labour market. ‘Transitions’ are understood as sequences of changes in a personal and professional career (Schmid and Gazier 2002). The perception of ‘transitions’ in and around the labour market as a system, typical of TLM, implies insisting on the interdependency between broad activity spheres such as education, job search, domestic and benevolent tasks and retirement. The perspective has recently been grounded on a more micro approach: social risk management (Schmid 2006), focusing on the different ‘framing’ of risks’ perception by actors. The macro counterpart is the quest for a balanced power in the economy and especially in the labour market, as it can be derived from the first management principle of TLM: ‘empowerment’ of people, i.e. enabling them to take long-term decisions. Such an emphasis may constitute the key difference between ‘Flexicurity’ and TLM. Both agendas share the idea of negotiating changes and shifting from job protection to employment and employability security, but TLM crucially insist on the need for deliberately restoring a right balance between stakeholders and shareholders while ‘Flexicurity’ prescriptions seem to take the market conditions as given.

It leads to put a specific emphasis on two aspects: the TLM approach takes into account the *domestic sphere* as a major component of the system of interdependent transitions. Hence the stronger emphasis put on *equality*, and on gender equality, as a central goal and on the long-term consequences of transitions. The relevant indicators include many of the preceding indicators assessing workers’ security as well as the labour market adaptability, but also transition indicators such as transition matrixes, showing whether individuals are trapped into dominated and precarious positions, or benefit from opportunities to reach better jobs and to perform chosen activities.

Two main policy consequences stem from this approach. First, the TLM suggest substituting the motto ‘Making *Transitions* Pay’ to the motto ‘Making Work Pay’, which has been developed first by the OECD and second by the EES in a rather apparent convergence (Gazier 2007). ‘Making Work Pay’ allows quite different ways of pushing people into jobs, one being the lowering of social benefits; while ‘Making Transitions Pay’ excludes this outcome and suggests a long-term commitment in favour of the development of autonomy and employability. The second consequence lies in another policy motto: combining ‘equipping people for the market’ with ‘equipping markets for the people’. The first principle, which focuses on the supply-side policy and the individual adaptation, is of course of paramount importance; but it should be completed by other interventions which avoid putting excessive weight on the shoulders of individuals and consider the organisation and proper functioning of markets as an equal priority. To summarise, one may conclude that TLM are somehow intermediate between ‘Flexicurity’ and ‘Capabilities’, trying to develop what could be termed ‘labour market capabilities’.

‘Flexicurity’ and the Swing of the Pendulum

Of course, these agendas have been elaborated before the crisis opened in the autumn 2008, and the common perception has clearly changed since (see Palme chapter 12 this volume). ‘Flexicurity’ is now superseded by macro-economic policies (re-launching budgets) and financial reforms (restoring trust and creating new rules for the financial markets). But regarding labour market reforms themselves, the main change is more profound than a simple pause due to shifts in concerns and lack of means, or than a cyclical setback; it entails a rapid and radical swing of pendulum in the hierarchy of agendas.

The ‘Flexibility’ agenda was the dominating one, this position coming either from genuine conviction of dominant actors based on principles or from adaptation behaviour of less convinced but realistic policymakers. Taking the development of the interaction of markets as a matter of fact, this agenda was also shared by an influent social group: the more skilled workers, confident in the positive outcomes of globalisation. Symmetrically, at the other end of the span, ‘Capabilities’ was mainly perceived as a protest agenda. Some political groups (mainly from the left, but also from the traditional right), wary from globalisation and also often opposed to the European construction (as driven by market integration), could find in it a source for systematising policy claims. An influent social group potentially interested by the agenda is social workers and all persons dealing on a daily basis with the social problems stemming from unemployment and poverty.

The intermediate position of ‘Flexicurity’ as a compromise in favour of a negotiated and compensated management of globalisation and the integration of labour markets, probably played a major role in its success in Europe before the crisis. The equilibrium between market development and social protection was explicitly presented as an objective, this fostered political compromises in the line of the European ‘social’ tradition. Another strength of this agenda stems from its explicit bargaining and operational stance: there is something to exchange, with the hope of a positive-sum outcome. However, it should also be observed that this prioritising agenda is not grounded in social forces as deeply as the two preceding ones. If we look at social groups supporting this approach, we only find a small group of policy makers and of social partners’ leaders. Unions and employers’ representatives could find food for thought and action here; the rank and file remained most often hostile to this perspective.

Lastly, TLM as an agenda has often been confused with ‘Flexicurity’ and remained more discrete, at the rear of the scene, although it has directly inspired a new language for policymakers and social actors. It is now common to speak of ‘transitions’, for measuring and organising them. From a sociological point of view, the main social group interested by this specific agenda is again a rather small one, mainly composed of union leaders and Human Resources managers. For good reasons as well as for bad, these managers are often happy to speak of ‘organising transitions’ rather than of ‘firing’ workers. Sometimes it could be lip service or even a cynical reference, but such an attitude is made possible precisely because other managers really do organise transitions. Regarding politicians, the very term seems too abstract and with little appeal, except those involved in ‘local’ responsibilities, e.g. a municipality or a region.

Things are, however, changing. Since the beginning of the present crisis, 'Flexicurity' has been perceived as undue concessions made to the flexibility agenda, which dramatically demonstrated its failure. The dominant agenda is now preserving 'Capabilities', perceived as commonsense in a troubled period. However, this state of affairs may not be durable. This agenda says nothing, or very little, about the way one should immediately manage existing markets, except that their detrimental consequences should be avoided. Furthermore, one may wonder what will happen when the economy starts anew. We should expect the pendulum to swing back, towards giving more importance to the functioning of interrelated markets.

Will the pendulum return to the 'Flexicurity' compromise? It seems likely that things will move in this direction, but a deepening is obviously in order, for two main reasons. The first is that we obviously need at least to 'revitalise' the Lisbon strategy and the EES, which have not proved successful enough. The second is because some versions of 'Flexicurity' have revealed important and probably durable difficulties in the crisis. This is, in particular, the case of the often praised 'Anglo-Saxon' versions of 'Flexicurity'. A clear assessment from inside is made by Roger Liddle (see chapter 11 this volume). Remarking first that the economic crisis has exposed significant structural weaknesses in the UK's 'Anglo-social' model, the author discusses what remains relevant in the New Labour/Lisbon paradigm and what needs to be rethought. According to Liddle, the main successes of this version have been the high activity rates and a bettering in schooling and health expenditures and performances. But the 'work first' strategy as developed has many drawbacks. He mentions first the inadequate childcare support for dual earners and a school system that leaves many young people without skills or employment prospects. Another key limit is the existence of low quality and low-paid jobs which are unable to lift poor families out of poverty and unattractive in the care domain. Finally, despite the apparent priority given to training, a skills gap persists and hinders the competitiveness of the country. All in all, Liddle suggests that the EU should ensure better regulation of markets, develop tax co-ordination and even harmonisation. This should be accompanied by new forms of 'Flexicurity' but which ones?

Collective Social Investment, Job Quality and Transitional Labour Markets

The Lisbon Strategy has been submitted to intensive scrutiny and many proposals have been made for 'revitalising' it (for example, Rodrigues 2009, or Lundvall and Lorenz chapter 5 this volume). Our perspective will take stock of these contributions and with their help, we will try to go 'beyond Flexicurity' (Gazier 2007). We observe that the SI commitment is at the roots of the 'European social model', stating that social expenditures should be not only compatible with growth but should contribute to it. We shall advocate a convergence between a renewed, collective version of this SI perspective and TLM.

The ambiguity of SI has already been analysed, and Jane Jenson provides a very useful synthesis on this point. Some versions, as developed by Giddens (1998) are restrictive and centered on individual responsibility, while other versions such as Esping-Andersen (Esping-Andersen et al. 2002) insist more on collective commitments regarding child-centered social expenditures, gender equality and social inclusion. Both versions were present in the EU preparations for the renewal

of the Lisbon strategy between 2006 and 2008, and Jenson wonders which combination of both will emerge.

From our point of view, several arguments lead to favouring the second version. First, one needs to take seriously the implications of the 'Capability' agenda and to extend its consequences to labour market organisation. One way of doing so is to explore what could be the policy meaning of developing 'labour market capabilities'. This is precisely one point made by TLM authors, which have made, since their first works, multiple references to A. Sen on the topic of employability. Many versions of employability have been developed (Gazier 1999), some of them individualistic and other involving collective responsibilities. With regard to policy outcomes, a useful opposition can be drawn between 'access – employability', stemming from policies lowering barriers to work and pushing people into jobs whatever their quality, and 'performance – employability', sometimes differing the access to work and looking for long-term development of skills and personal autonomy. This converges with Bonoli's distinction between human capital centered SI versus re-commodification.

The connection is straightforward with an important and still under-exploited field of policy objectives, statistics and indicators, developed by the EU over ten years, sometimes put forward, and sometimes left aside: work and employment quality (Davoine et al. 2008; Employment in Europe 2008). This constitutes a second reason justifying the priority given to the second version of social investment. The 'Laeken indicators' include flexibility and security, but together with many other aspects contributing to what is to become 'sustainable' work and employment.¹ They remain incomplete (for example there is, up to now, nothing on wage level and wage inequality) and sometimes deserve improvement and complementary indicators (especially in training and working conditions). They do, however, illustrate the multi-dimensional aspect of job quality and their analysis shows that there is no necessary dilemma between job quantity and job quality, rather the contrary – even for UK – whose place is rather favourable in the international rankings. As Davoine, Erhel and Guergoat (2008) show, developing job quality appears as a good policy goal. First, theoretical literature suggests that there is a positive relationship between job quality and economic growth/ employment growth, and their results tend to validate this positive view of the link between job quality and quantity.² There is no apparent trade-off between work quality and a dynamic labour market; Second, job quality matters for workers' satisfaction and citizens' well being; Third, a good job quality may be achieved through different pathways and is consistent with the existence of heterogeneous institutions and policy models in Europe and in the OECD; Fourth, existing differences between EU 27 (and OECD) countries are important and so there is wide room for policy initiatives.

It means that Europe, when emphasising the importance of job quality, has already developed an important and future-oriented perspective, much in line with the extended version of SI. Of course, one needs an integrating perspective in order to use them as policy guides. Here TLM, together with a collective social investment perspective, may help. We can start from a long-term attempt at illustrating what could become a full-employment norm for the 21st century, as opposed to the

1. They include the following fields: 1. Intrinsic quality of job; 2. Education, training, career development; 3. Gender equality; 4. Health and security at work; 5. Flexibility and security; 6. Inclusion and access to labour markets; 7. Work organisation and work/family conciliation; 8. Social dialogue and works participation; 9. Diversity and non-discrimination; 10. Work global performance.

2. They find a correlation rate between their job quality index and employment rates = 0.74 (LFS database, 138 observations).

traditional norm. A norm can be understood as a set of interrelated principles indicating what should be considered as ‘normal’, that is desirable and possible for all in a given domain. As regards full employment, it is useful to combine the point of view of the worker with the point of view of society and to deal with the central content before looking at its possible evolution as times passes and the society develops. Last we may connect this norm to other related social fields, here the unpaid work, either domestic, or benevolent / militant.

The contrast is great between Tables 1 and 2. The first norm, as a retrospective construction, appears to be gender – biased and at best indifferent to environmental stakes. However its collective dimension should be stressed: first, qualification appears to increase mainly through collective work experience, and second there is a conspicuous responsibility of the (Keynesian) state as regards employment matters.

Table 1. The traditional full employment norm.

Point of view Content of the norm	Worker as family member	Society and natural environment
Central norm	Stabilised full time job, with a guaranteed minimum wage, for the (male) breadwinner	Integration of the working class through the access to market production and to the progress of national growth
Dynamic content	Collective skills acquisition through a stable working group	National growth ensured through state – Keynesian policies
Connection with other useful activities and other social systems	Division of work inside the family, limiting women’s role to domestic work	No environmental concerns No consideration of militant / benevolent activities

Table 2. A provisional norm of sustainable full employment, according to ‘Transitional Labour Markets’.

Point of view Content of the norm	Worker as individual	Society and natural environment
Central norm	Individual financial autonomy, mid-term period, gained either through paid employment, or through participation to social useful activities. Weekly hours modulated according to age. Retraining and leaves	National / regional autonomy, gained in the International Division of Labour
Dynamic content	Maintenance and accumulation of competences through networks	Collective employability inside the International Division of Labour
Connection with other useful activities and other social systems	Lifecycle compatibility of family life, personal and professional life; Gender equality; Crossable and negotiated borderline between different forms of activities	Sustainable development, from a social and environmental point of view

The possible emerging norm is quite different: no more family-centered (which does not mean that the family constraints are not taken into account, rather the contrary)

but organised around the individual and based upon collective employability. Three traits seem characteristic of this norm. First, it could be termed a Schumpeterian one, putting the emphasis on competences accumulation through networks, innovation and risk taking. Second, the gender and care concerns are now put to the forefront, because there is no more unequal and gender-biased division of domestic labour. Third, as a consequence, the norm becomes sequential and does not contain the same rights and duties set for all ages. An important application is the number of hours to be normally worked during one week. As G. Schmid (2006) remarks, a young woman (or a young man) has at least five key choices to make within a short time span at the beginning of her career: an occupation, a job, a home, a mate and lastly, to have children. Accordingly, he proposes that during such a critical period of the life the social institutions governing employment norms leave some room for making these choices. It may seem odd, because the idea that young people start working intensively full time for gaining their autonomy is dominant. However, in a perspective of long-term equilibrium between professional and personal life, shorter workweeks at the beginning of a career may constitute a useful social investment. The same reasoning holds for 'senior' workers, often confronted to the problem of very old and dependent parents and looking for a better compatibility between their work and their family duties. This leads to the proposal that the typical 35-hour work week applies mainly for workers between 30 and 50.

The priority given to learning, of course well inline with the 'knowledge based society' as emphasised by the Lisbon Strategy, illustrates quite well how the Social Investment and the TLM perspective may be complementary and can enrich each other in the present context. As it has been observed, training and life-long learning seem a consensual objective. As a matter of fact, they are often a conflict or indifference-reluctance area. This is so firstly because it is often unclear who (the firm, the worker, the state) has to pay, and sometimes clear that nobody wants to pay. Secondly, the gains from training are often ill identified; and thirdly, the people more in need for training, the less skilled workers, are discouraged to say the least. They face high opportunity costs and do not see what could be gained from their participating in a training program. The TLM perspective, together with other analyses aiming at identifying a more realistic process (see Lundvall and Lorenz chapter 5), help to overcome these major obstacles. They do so by connecting training programmes to wider 'transition' sets, and by showing how training should be combined to other securing measures in order to overcome the so-called 'Matthew effect'.³

A concrete illustration of this type of concern in our present crisis phase is the generalisation in the EU of measures combining short-term working and intensive re-training, either by law or by collective agreement. The underlying idea is first that people should be kept into jobs each time it is possible, and second that we should prepare workers for the new challenges ahead. The ageing process opens here a window of opportunity in many countries: retiring workers will leave jobs to younger ones, but the new jobs will be more qualified. Of course, this emergency answer, even if it is future-oriented, will not suffice, especially if the EU stays too long in depression. However, it shows how some ideas mixing collective guarantees and collective efforts are now spreading and becoming evidences. Collective Social Investment, with Job Quality and TLM simply systematise and further this commitment.

3. Adapted from the Gospel dictum 'The one who has nothing will lose even what he has, while the other who has already all will be given even more'.

Conclusion

There is no space in this short contribution for exposing in detail the differences and commonalities of the 'Flexicurity' and the TLM agendas, nor for connecting a labour market and social policy agenda to wider policy agendas (cf Boyer's contribution in Rodrigues 2009). We have simply tried to show that 'Flexicurity' will probably remain a focal point in the (incomplete) European construction, whatever the much needed speeding up of European integration brings with it; but this focal point will probably become less and less satisfying. We also hope to have suggested some of the ways that may help to revitalise the Lisbon Strategy and to go 'beyond Flexicurity'. Of course, the question of the political acceptance of these new orientations is not yet solved. In our tempest, one priority is to show to everybody, especially the less favoured, that nobody will be left without protection and a future-oriented perspective. This could foster a wide support to a structured and collective version of social investment and career management.

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Social Investment after the Crisis: Political Choices for Britain and their Implications for the European Union

Roger Liddle

Introduction

This chapter is about the broad choices of socio-economic governing strategy that will confront the EU and its Member States in the period of recovery from the current global recession and the prospects for the ‘social investment’ model.¹ It focuses on Britain but attempts to draw lessons of wider application to the whole EU. Will the ‘reform’ consensus about labour markets and welfare states that many experts, like Anton Hemerijck (2006) agree has grown among national policymakers in the last decade and a half be sustained, re-cast or break apart? And to the (limited) extent that the EU has developed common policies in these areas, what will the impact of the crisis be on UK attitudes, given that Britain is perceived by many as one the most critical brakes on the pace and content of European integration?

The 1990s saw a period of ‘reform convergence’ in the old EU 15 based around the twin (and complementary) ideas that labour market policy should be focused on the promotion of high employment participation and public expenditure oriented towards a broad concept of social investment. This new EU consensus was encapsulated in the Lisbon Strategy promulgated by the European Council in March 2000: a new synthesis of competitive markets, knowledge based investment and strategies for social inclusion (Rodrigues 2009). This new concept of the European social dimension was further developed in a landmark Belgian Presidency in the second half of 2001 over which the ideas of social scientists such as Gøsta Esping-Andersen (2002) had a considerable intellectual influence.

In 2010, the EU will fall short of its ambitious targets for the decade, but the global financial crisis and recession adds a new urgency to the debate about its future: whereas before it, most discussion centred on implementation, and whether the

1. I would like to thank Simon Latham, my Principal Adviser at Policy Network, for his excellent assistance with this paper.

Lisbon strategy was *effective* in promoting reform at Member State level, the issue now is whether strategy itself remains *right* for a new age.

The UK government has been a great enthusiast of the Lisbon strategy, having played an active role with the Portuguese Presidency of the time of its conception. Although this did not translate to any meaningful degree into a framing of socio-economic choices for Britain in a specifically Lisbon or EU context, that has been the position in most big Member States. To the extent that the Lisbon Strategy has been an effective influencer of policy change and reform, it has been as a result of a subtle impact on the policy and intellectual consensus. In the UK, the New Labour government imagined that it had ‘got to Lisbon’ well in advance of many Member States. In Downing St, Lisbon was seen as the rest of the EU ‘buying in’ to the ‘third way’ ideas that the UK Prime Minister, Tony Blair, espoused.²

In this context, this chapter is about the politics of social investment strategies in the aftermath of the most serious global recession since the 1930s and the wider implications of the supposed collapse of the ‘third way’ model. The first section of the chapter discusses the UK’s claim to see itself as a successful exemplar of the social investment model in the past decade. The second section considers the impact of the global financial crisis and recession on the UK, and argues that we are at a critical juncture for social investment strategies. The long-term consequences of the global financial crisis are such that they will impose severe constraints on both the scope and volume of public expenditure over the next decade. In an environment of ‘tough choices’ and spending discipline, the future of the third way social investment model depends not only on whether and how public investment is targeted and maximised within the overall resources available, but also on the success of more activist policies to promote a return to sustainable economic growth. The final section of the chapter reviews the implications for the EU and the future of the Lisbon strategy or whatever replaces it.

New Labour, New Dawn: The Third Way Social Investment Model

Before the outbreak of the ‘credit crunch’ in the autumn of 2007, New Labour genuinely believed it had conceived and entrenched a new, successful, and progressive social investment model. From 1997 to 2007, UK public spending grew *by 42 per cent in real terms*; this was in stark contrast to a meagre 15 per cent growth in the preceding decade (1987–1997) and despite a real-terms freeze in spending in Labour’s initial couple of years in office. In particular, spending on the NHS more than doubled in real terms from £35 billion to £89 billion; the transport budget increased by over 70 per cent in real terms, from £8.7 billion to £20.7 billion; and public spending on education as a proportion of GDP rose from 4.8 per cent to 5.5 per cent, with support for schools increasing in real terms by 60 per cent (Emmerson 2009).

The political logic of these massive increases in spending was in New Labour eyes, a necessary ‘catch-up’ after a generation of chronic neglect of the public services by two decades of Conservatism – though this period of ‘public’ austerity had, to be fair, started under the previous Labour government with the ‘IMF cuts’ forced on Britain in 1976 in the wake of the oil crisis. However, this catch-up appeared less of a

2. It was preceded by the controversial Blair Schroeder Declaration in June 1999 and a UK-Spanish Declaration on Economic Reform in April 1999.

dramatic break with the past as it was complemented by an acceptance of neoliberal tenets that had been ingrained in public policy by the Thatcher and Major governments. The main characteristics of Britain's third way model was an attempt to embed macro stability both through Bank of England independence over monetary policy, as well as the proclamation of new fiscal rules that applied the 'golden rule' to public borrowing 'over the economic cycle' and limited the stock of public debt to 40 per cent of GDP. A clear motive here was one of credibility, not just in the financial markets but politically too. New Labour was anxious not to repeat the mistakes of previous Labour governments which had collapsed variously under the weight of overambitious spending plans, out of control public sector deficits, sterling crises and spending cuts (Mandelson and Liddle 1996).

Labour's assertion of macro-economic discipline went along with the promotion of open markets to induce innovation, growth and efficiency; but with market flexibility supplemented by higher public investment in infrastructure, skills and research – addressing the perceived principal shortcomings of the Thatcher model. At the same time New Labour's social policies emphasised the critical role of active labour market policy ('welfare to work') and a range of government initiatives to tackle social exclusion and child poverty, rather than the traditional social democratic goal of reducing inequality. Crucial to New Labour's initial framing of its governing strategy was the proposition that the fruits of growth were to be redistributed to the bottom without damaging incentives at the top. The essence of the New Labour model, therefore, was one of market flexibility combined with social investment, *not* blanket social spending.

The framing of Labour's fiscal rules, given the decline in public sector debt as a proportion of GDP which Labour inherited and then initially built upon, allowed for spectacular growth in *public sector net investment*, in contrast to the less flexible 3 per cent deficit limits of the Maastricht criteria and Stability Pact. As a share of GDP, public investment grew from 0.6 per cent in 1997–98 to 2.1 per cent in 2007–08, and is forecast to rise to a peak of 3.1 per cent in 2009–10. Capital spending rose dramatically from 1998–99 onwards so that by 2007–08, the NHS had enjoyed an annual average real growth rate of 10 per cent; education 14 per cent; transport 13 per cent; and local authorities 8 per cent. This wholesale renewal of the public realm is visible to the eye in most British cities.

However because of the scale of increased public spending, physical capital did not crowd out social investment. The government framed its increases in current spending under the all-embracing mantra of 'investment and reform'. This approach was applied across a wide field: the extension of active labour market policies and work-first welfare reforms; new initiatives in early years provision, for instance widening access to childcare provision and building basic skill-sets for the socially disadvantaged through *SureStart*; targeted, not universal benefits to attack child and old-age poverty; and in public services, investment was concomitantly accompanied by a plethora of 'reform' initiatives. These were not always coherent and well thought through, for example a greater emphasis on national targets was combined with attempts to promote quasi markets, diversity of provision, and increased consumer choice. However the totality of this activism led to social advances over an impressive range:

- progress towards universal nursery provision and early years' Surestart and children's centres;
- active labour market policy: Job Centre Plus integrating unemployment benefits and job search with a mix of 'carrot and stick' approaches;
- welfare to work: success in increasing employment participation among lone parents and latterly older workers;
- education policy: more money for schools leading to better exam and test results at all levels and a big expansion of higher education;
- NHS: better health outcomes with mortality rates for patients under 75 reduced by 20 per cent for cancer and by 40 per cent for heart disease and with waiting times for treatment greatly reduced;
- tax credits: successful in focusing limited resources on making significant reductions in child and pensioner poverty, rather than relying on more thinly spread increases in universal benefit.

Such was the success and entrenchment of the New Labour model that, prior to the 'credit crunch', an embryonic political consensus had been conceived behind its volume of investments and social priorities. Though politicians in all parties rarely spelled it out it seemed that the 'Anglo-Saxon' model of neo-liberal Thatcherism had been significantly *Europeanised* in the decade from 1997 to 2007.

In retrospect the New Labour decade is bound to be seen as an exceptional period of plenty for the public realm. The public finances benefited from a one-off bounty of a fall in interest rates on government debt and steadily increasing employment. At the same time the apparent success of the City of London's 'masters of the universe' and a debt-financed explosion in property prices, filled the public sector coffers with tax revenues. For a time it almost seemed that the New Labour model could make significant progress towards building a Nordic social model in the UK without the handicap of Nordic tax rates (though the government did modestly increase taxes in 2002 to pay for increased spending on the NHS). Whether it was sensible to increase spending as fast as New Labour did, many will now doubt – though at the time the public pressure to 'transform' public services was felt to be intense.

Broken Britain: Third Way Model at a Dead End?

The global crisis has exposed significant structural weaknesses in the UK's 'Anglo-Social' model, outlined by Nick Pearce (Dixon and Pearce 2005). The gloomy outlook for the public finances is breaking what had been an emerging, albeit embryonic, political consensus behind social investment and will severely limit the public spending ambitions of any British government for the next 5–10 years. As a result of the fiscal cost of rescuing the UK's large (and, in the words of the UK Financial Services Authority chairman, Adair Turner, 'overblown'³) financial sector and the dramatic collapse of tax revenues from financial services, housing and commercial property sectors, the impact of recession has been and will continue to be bigger on British public finances than in most of rest of EU.

While there has been palpable sense of rejoicing in some quarters at the nemesis of the City of London and the collapse of the Anglo-Saxon model which it supposedly represents, the UK government response to the financial crisis has been bold and strong. Gordon Brown must be commended for his rapid response to the crisis. By prioritising and promoting bank recapitalisation and rescue, leading efforts to galvanise international financial coordination through the G20 and implementing a modest domestic fiscal stimulus, Brown appears to have ensured that the global recession has not tuned into a 1930s style Depression. At same time the British government has announced new but limited public interventions to cope with the consequences of the crisis: an employment 'guarantee' for young people; greater 'industrial activism' to create new sources of UK competitive strength; and measures to speed low-carbon transition. As a result, public spending is still growing rapidly – at a forecast of *4.7 per cent real* from 2008/9 to 2010/11, a short term speed up from the 4 per cent real growth before the economic crisis hit. By contrast the Conservatives now say that they would start to cut public spending and debt from their first day in office, regardless of the economic circumstances.

However, the fiscal consequences of the global economic shock are dire. The UK's 2009 Budget debt is now rising at a faster rate than in many other countries, though the total stock of debt as a proportion of GDP is not forecast to be out of line with the United States, Germany and France since the UK started from a low-debt base. Meanwhile the *public sector deficit* (on a Maastricht basis) is forecast by the UK Treasury to rise from 2.8 per cent in 07/08, to 7.1 per cent in 08/09, and to a peak of 12.6 per cent in 09/10. On the Treasury's forecasts, the *debt to GDP* ratio will escalate from 43.2 per cent in 07/08 to 82.1 per cent in 10/11, including a (possibly too low) estimate of a 3.5 per cent GDP one off cost of bank rescues.

To restore fiscal prudence, Gordon Brown's government has announced plans to halve the public sector deficit by 2013/14. These plans have been criticised for both lack of ambition – in 2013/14 the deficit would still be over 5.5 per cent of GDP – as well as over-optimism in assuming three good years of buoyant recovery. Much press and public attention has focused on the government's *increase in the top income tax rate* from 40 per cent to 50 per cent for those earning over £150k p.a., combined with a sharp cut back in tax incentives for pension savings by the better off – in breach of New Labour's longstanding commitment not to raise the top tax rate. But in terms of revenue raising, this measure is more about symbolism than substance. At present the government's plans assume that most of the discretionary fiscal adjustment will result from a *fierce squeeze on public spending* in about a 4 to 1 ratio. Consequently, *growth in current public expenditure* from 2010/11, will be constrained to an *annual 0.7 per cent in real terms*. Total spending is forecast to remain broadly static in real terms when one allows for the sharp contraction that is planned in public sector capital investment from nearly 3 per cent to 1.1 per cent of GDP.

The Institute for Fiscal Studies (IFS) argues that after allowances for rising debt interest, higher social security payments and other spending increases caused by the recession and higher unemployment, mainstream programme expenditure could need to be cut significantly in real terms: they argue by an *annual average of 2.3 per cent*. More challenging still, the process of fiscal adjustment will need to continue beyond 2013/14 with a Treasury forecast of a need for a *further 3.2 per cent fiscal tightening* from 2014/15 to 2017/18.

On HMT published assumptions, therefore, UK public spending is likely to experience seven years of historically unprecedented dearth. At the time of writing there has so far been little clarity from both the Labour and Conservative parties about how in practice they will address this looming public spending squeeze. At present, government policy has yet to move from saving money through ‘efficiencies’ (which are being sought in education and health as well as other programmes) to a serious examination of ‘priorities’ in an environment where sizeable cuts will be required in some government programmes. The Conservatives have pledged to exempt the NHS and international development from real cuts in their first term, without being at all specific about where cuts would fall.

This absence of clarity on all sides is perhaps understandable in advance of a General Election, but there is a need for sensible debate about the available options, not least if an attempt is to be made to sustain a genuine ‘social investment’ governing strategy. In the past sharp squeezes on public spending have been achievable in periods of economic recovery – most recently, for instance, in the mid to late 1990s – but they have proved to be sustainable politically for no more than 3-4 years. One reason is that if economic growth resumes on previous trends, the growth in private sector earnings will tend to match it. It is implausible that public sector pay could be frozen for long in real terms while private sector earnings race ahead. Yet the public sector wage bill tends to account for at least half of public service costs. Certainly there is scope for significant increases in public sector productivity, especially after such a big growth in spending in recent years. But is it realistic to think that productivity could rise so fast as to both achieve the efficiencies that the government is currently now seeking and meet, in some years hence, the additional costs of a rising public sector pay bill?

There are also considerable pressures for increased spending that will not go away. Demographic pressures are already causing strains in NHS and social care. And somewhere in the government’s view, new resources need to be identified for industrial policies to rebuild the competitive strength of the British economy and invest in low carbon transition. As its over-heated debt-financed financial and housing sectors contract, the UK economy is increasingly dependent on building new sources of competitive strength: hence the present government’s move towards a more assertive ‘industrial activism’.⁴ For this to materialise, at the very least spending on research and innovation will need to be maintained, as will investment in skills, the lack thereof being a major impediment to the development of new sectors of competitive strength such as life sciences, nuclear power and renewable energy. There are also new labour market challenges emerging, particularly the sharp rise in youth unemployment and the lack of job opportunities for young people including recent graduates.

Where then does this leave the prospects for social investment? Outside a narrow circle of academic and policy experts, the notion of a ‘social investment strategy’ has not entered the bloodstream of political debate. The tendency for all public spending to be loosely described as ‘investment’ by those favourable to it induces lack of necessary rigour. Indeed, over the past decade debate has largely revolved more around questions of how public services should be delivered (i.e. the merits of increased patient and parental choice; quasi-markets; diversity of providers) rather than which programmes

should receive the fastest rate of increase. Many Labour spending ‘flagships’ draw heavily from the experiences and innovations of the Nordic model which, interestingly for a Conservative Leader, David Cameron has associated himself with. His critique of the government has rested more on a questioning of effectiveness of particular interventions rather than a disagreement with their aims. For example the Conservatives express commitment to tackling inter-generational poverty and the problems of ‘Broken Britain’ (for a more comprehensive discussion of this concept and usage by the Conservative Party see Liddle and Latham 2009), putting the emphasis on less centralist and top down and more ‘voluntarist’ driven initiatives.

Britain needs a much deeper debate about the choices ahead. One key issue is whether, when the government is forced to make tough choices, this leads to a policy of retrenchment of what might now be seen as ‘marginal’ social investment programmes – tackling child poverty; investing in early years provision; pursuing activation strategies in labour markets – in order to protect what is perceived to be the welfare state’s mainstream: ‘core’ public services such as the National Health Service and schools. Also there is a key strategic choice about how far to maintain transfer payments to the electorally significant elderly or invest in future-oriented programmes.

How can social investment strategies be maintained and developed against this dismal background, – and what political choices might this involve? First it is necessary to draw attention to the scale of unsolved challenges and unmet needs:

- the UK is still a long way from the Nordic model of social sustainability in terms of childcare support for dual earner couple;
- the school system is still suffering from a large tail of underperformance: inadequate vocational options at secondary level and stubbornly high number of 16/17 year old leavers not in education, employment or training (NEETS);
- the existing strategy for tackling child poverty based on incentivising households to get a job is constrained by the return of high unemployment and the increasing evidence that for many families as a result of low pay, work is not the route out of poverty;
- active labour market policy has so far made little impression in denting the numbers of workless households;
- a social care crisis for the elderly is looming as demands grow on an existing system that at present offers poorly paid, badly regulated job opportunities mainly for women;
- housing has re-emerged as a social issue given the likelihood in the medium term of reduced access for the less well off to a ready supply of cheap mortgage finance.

The limits to date of the policy successes of the New Labour model demonstrate that Britain needs more of a ‘social investment’ strategy not less. Tough choices will now need to be made if ‘social investment’ programmes are to grow over the coming decade. No single approach will be sufficient. An incoming government is likely to consider a combination of the following policy options:

- sharper targeting of the present wide array of universal benefits;
- expansion of co-payment frameworks such as university tuition fees and some NHS charges as well as road tolls and congestion charging;

- a further raising of the retirement age: this can be objectively justified in terms of expectancy of 'healthy life years' by comparison with the time of the Beveridge report in the 1940s but could be seen as unfair by manual workers as class inequalities of life expectancy have widened.

Debate about how public services are managed is likely to revolve around four principal issues:

- first, whether a sharp reduction in the number of centrally driven targets can significantly reduce bureaucracy;
- second, whether new freedoms should be devolved to public sector managers to determine pay locally, manage assets, enter into commercial arrangements with the private sector, contract-out services and take over failing public sector institutions;
- third, whether 'freeing-up' quasi-markets in public service provision will increase costs or reduce them;
- fourth, whether more localised planning of public services on an across the board basis can deliver better designed services at lower cost.

It is far better to consider such radical options than simply 'cash limit' existing programmes. Cash limits may be effective in the short term but lead to demoralisation in the medium term as 'vacancy freezes' lead to gaps in staffing and inadequate service cover; essential planned maintenance is cut; and delivery structures remain frozen because no money is freed up to finance innovation and policy change.

The great unmentionable in British politics is of course the possibility of discretionary tax increases beyond those already announced. The government's published plans presently assume a policy choice that *tax as a proportion of GDP stabilises around 35 per cent* (up from 33 per cent in the current year but below the 36 per cent plus raised from 2004–7). It is worth remembering that at the height of Thatcherism in the first half of the 1980s the tax/GDP ratio was regularly above 38 per cent. There is a therefore significant possibility that taxes will rise further whichever party is in power after the next UK general election. But this would be unlikely to avert the need for a determined public expenditure squeeze and a much clearer focus on social and economic priorities. In the UK, governments will have to rediscover the political toughness that enabled Labour successfully to freeze public spending from 1997–2000.

In Sickness and in Health: Choices and Implications for UK and her European Partners

This final section considers the implications of what is happening in the UK for the rest of the EU and particularly the framing of the next stage Lisbon strategy or its successor. Other commentators have noted that the global crisis has both emphasised the degree of interdependence between the Member States of the EU, yet underlined the incompleteness and fragility of the European integration's capacities to manage that interdependence successfully. The latter is demonstrated in the imperfections of cross-border financial regulation, the inability of the EU institutions to resolve the economic crises facing some of its newer Member States

and consequent reliance on the IMF, and the limitations of policy coordination both in terms of the EU's internal response to the crisis and its ability to get its act together to exert effective global influence.

The crisis has not fundamentally altered the big long-term challenges facing the Union and its Member States which the European Commission in 2005 defined as globalisation and demography.⁵ The crisis has not swept away the need to build competitive knowledge economies as the response to the economic challenges of globalisation, to tackle climate change, to make welfare states more sustainable in the light of demographic change and to manage more successfully migration and integration. It is on these long-term issues that public policy should focus: the crisis should be seized as the opportunity to do this better, rather than this necessary future orientation get lost in short term crisis management. It is in this context that the need to sustain a 'social investment strategy' in tough times for public expenditure is a real concern.

Two observations are however extremely pertinent: first the need to develop more robust criteria for reconciling vital social investment with necessary fiscal consolidation in order to better define and as a result protect what counts as social investment 'goods' as against other public spending (if not 'bads', at least lower priority); second, a recognition that the faster the rate of recovery across the EU economy as a whole, the less of a problem sustaining social investment and future-oriented expenditures will be.

The EU needs to establish a new consensus on what should be the sound principles of public finance for the period ahead. To say that there is no need for fundamental change in the EU's Growth and Stability Pact is to argue that the EU should take no effective position at all. The key requirement is to agree on rules whereby an adequate portion of the proceeds of growth is steadily devoted to reducing national debt, without attempting a fiscal consolidation at such speed that growth itself is stifled. The position of Germany is crucial. With its strong balance of payments and dominant position as the motor of the European economy, Germany needs to be persuaded that a prudent decision to expand its own economy without significant inflationary risk will not lead to profligacy elsewhere or increase the chances that the German taxpayer will be expected to bail out others' mistakes.

Berating the Germans about their failure to take the expansionary steps that they could afford is unlikely to yield much success. However a grand bargain at EU level is possible whereby other Member States agree reforms that Germany is arguing for. This package would certainly include tougher common rules for financial regulation. It might also include greater tax coordination, if not harmonisation in certain exceptional circumstances. In order to bring down fiscal deficits and public debt, Member States need to protect and restore their tax base. In a situation where public finances are generally weak, it does not make sense to allow business to play off one Member State against another or allow blatant tax competition. It may also be necessary to implement an EU-wide carbon tax to supplement the operation of the European emissions trading in order to ensure that the correct market signals are in place to promote a new wave of low carbon investment.

5. European Commission, *Global Europe: Competing in the World*
http://ec.europa.eu/trade/issues/sectoral/competitiveness/global_europe_en.htm

Another possible reform is to make payments under the EU Budget conditional on benchmarks of progress that would need to be agreed individually with Member States: these benchmarks could include quality of governance as well as progress towards Lisbon-type reforms. Germany as the largest contributor to the EU budget stands to gain from such an approach.

In judging progress towards Member State compliance with a revised set of fiscal rules, the question of the quality as well as the quantum of public expenditure needs to become a guiding principle. This raises the issue of whether it would be possible to arrive at an operational definition of what constitutes 'social investment' on which Member State policies could be compared and judged. The EU has gone a long way to develop statistically robust measurements of social inclusion that allow meaningful comparison between Member States. A similar exercise should now be undertaken to measure Member State performance on indicators of social investment.

More effective coordination of the EU internal economy is the key both to a stronger economic recovery and to more European clout on the global stage. The EU needs to become the strongest advocate of greater international policy coordination and macro-economic global governance. This requires taking the bold step where the EU must speak with a single voice in the international financial institutions.

There can be no return to business as usual after the global recession runs its course: public policy cannot and will, in any case, be unable to return to 'how it was'. Instead, MS need to focus on the new economic paradigms of the twenty-first century: economic globalisation, low-carbon transition and the ageing society. Overcoming these immense challenges, in tandem coping with the long-term impact of the current recession, will require a greater steering role for government. At the same time, this must happen within a strong and credible EU framework, otherwise the EU will succumb to 'beggar my neighbour' policies.

The European Commission has so far been slow in thinking through the longer term implications of the economic crisis for EU policies. But to the extent UK experience is typical or at least half-typical, the following general observations hold:

- EU fiscal rules will have to be re-written: steady consolidation is essential in order to reduce public debt, but not on too rapid timetable, that would threaten recovery;
- in revising the rules, MS need an operational definition of social investment in order to highlight the need to protect it as much as possible in an environment of fiscal constraint;
- a revised Lisbon strategy should give the concept of social investment pride of place and EU Budget funding should be made conditional on benchmarks of progress by MS towards Lisbon-type reforms;
- the Single Market will have to adjust to a greater level of Member State industrial activism but within a robust EU framework that prevents the emergence of 'beggar my neighbour' policies;
- more effective EU policy coordination is a 'sine qua non' of Europe's recovery from the financial crisis and influence on the world stage. If such coordination is effective, as a result of its contribution to faster growth, this will do more than any other policy to help maintain essential public expenditures;

- Germany is both the biggest player in the European economy and the likeliest obstacle to more effective cooperation. The EU should attempt to devise a package deal that meets German concerns. This would include a recognition that the Anglo American model of financial deregulation was seriously flawed and the need now for Europe wide regulation of markets. Also the case for greater tax coordination now needs to be examined seriously both to protect the business tax base and to ensure that carbon prices are set at levels that promote a wave of new low carbon investment to lead economic recovery.

This is a package of policies that a British Government should now be prepared to buy into. The global crisis has swept away the assumptions that have shaped British policy and attitudes towards the EU since Britain's withdrawal from the European exchange rate mechanism in 1992. Britain can no longer boast a superior economic model or particularly superior performance. We are landed in pretty much the same boat as our principal EU partners. We need them to grow if we are to grow and to prove capable of sustaining essential social investment. We need to be rowing in the same broad direction if we wish to weather the storm.

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The Quest for Sustainable Social Policies in the EU: Ageing, Crisis, and Beyond

Joakim Palme

Quest, denotes an undertaking, an exploit, or an experience involving hazards and requiring boldness. (Webster's Dictionary)

Introduction

The development of the 'social dimension' of European integration is a long story with unclear consequences for the Member States of the EU. From time to time, it also appears to have got lost on the political agenda. I would argue that the various documents and proposals associated with the 'modernisation of social protection' (e.g. European Commission 1997) have, in several ways, succeeded in bringing back the social dimension of the economic and political integration of the EU, and contributed to a more future-oriented discussion of how to organise policies. Its basic message to the Member States is: adapt the system of social protection to socio-economic change. Three key areas are identified; the new gender balance, the ageing of populations, and the changing nature of work.

Why is modernisation necessary? One reason is that the system of social protection, designed decades ago, is no longer an effective means to, for example, fight poverty. Another reason is that the system is overburdened financially and cannot be fully financed, read: taxes cannot be raised without jeopardising competitiveness on the global market. It was further argued that policies have to be seen also as a productive factor, they have to be made employment friendly and they have to be financially stable when needs grow stronger as populations are ageing. Modernising the European welfare states has gradually been incorporated within a broader economic and social strategy, as claimed during the Lisbon Summit in 2000. The Lisbon Agenda can be seen as a social investment strategy that promotes the competitiveness and growth with employment and quality of jobs simultaneously.

The emergence of this 'social investment strategy' a decade ago can be seen partly as a response to the pressure for more redistribution by the European welfare states as a result of ageing populations. Moreover, the need to establish a new gender balance

and a flexible working life was seen as critical for sustaining the welfare states in the context of deregulated financial markets and mobile global capital.

It seems that, so far, social policy with few exceptions is still referred to at national level. However, following the Lisbon Agenda, the Open Method of Coordination (OMC) has been launched as a way of promoting common objectives in the social policy area. The OMC is about the goals and hence about common European values that deserve to be taken seriously. Furthermore, the President of the European Commission, José Manuel Barroso, declared that the European Social Model (ESM) is about 'social inclusion and equality of opportunity'. The question is whether our social policy institutions are adequate for the defined goals. With regard to the OMC indicators, the poor performance of many countries casts serious doubts on their adequacy.

The notion of a European Social Model should, of course, also be seen as a response to the political crisis of European integration. It appears that further economic and political integration can only be successful if the European populations support it. This will only happen if there is trust in governments to handle the social consequences of production and service markets being exposed to competition. The 'destructive' forces of market competition have simply to be met by 'constructive' and investment oriented social policies (cf. Kangas and Palme 2005). In other words, the sophisticated market-making policies of the EU have to be matched with policies and mechanisms that deal with market imperfections.

The European Union has been extended to now encompass 500 million people and 27 Member States. What is the role of the EU in this new context? One challenge is to handle the increased diversity coming from the New Member States. The increased diversity is there along a number of dimensions, including social, economic and political factors. There appears to be a fear among the Old Member States that the more difficult social challenges, the severe economic constraints and the lack of political commitment to the social dimension are making it more difficult to promote social cohesion in Old and New Member States. Hence, the strong emphasis on these issues from several, if not all, corners of the EU Commission.

The setting has also changed in other ways as the global financial crisis has turned into a crisis of the 'real' economy, resulting in rapidly falling growth rates and increasing unemployment. The current global economic crisis is increasing uncertainties and pressures on governments as well as ordinary people. The consequences are difficult to overestimate, which makes it urgent to address the social agenda. The difficulties of raising new resources for long-term spending purposes are obvious. We can be sure that it will become more difficult, because not only will the tax bases be eroded and the public debt be huge but the expenditures on the systems of social protection, notably unemployment insurance, will also increase automatically and massively. In the absence of adequate social insurance programmes, some government have found themselves forced to launch additional spending programmes in order to deliver an adequate counter-cyclical macroeconomic response.

The threat of a continued and aggravated downturn will hopefully force, or at least offer an opportunity for, governments to rethink past policy paradigms, though I must admit that the indications are very weak that they are actually doing this. An

views on what is possible. In our recent history we find other interesting examples of how big changes suddenly may appear possible, or even inevitable. The unification of Germany is one example; the enlargement of the EU is another. How can we rethink the European future; beyond the Lisbon Agenda, beyond the big spending on the Common Agricultural Policy, and with the time horizon being prolonged by the issue of climate change? Whereas investment in physical capital, such as infrastructure, has figured quite prominently as a policy instrument, human capital investments have perhaps received less attention in the debate. There are good reasons to change that.

Hence, the time has come to reflect on how the various components of the ‘social investment’ strategy fit this new setting. Where are the most important policy gaps to be found and how can they be filled? This chapter argues that the political and social sustainability of the European Social Model is dependent on how credible policies can be formulated and delivered. The future economic sustainability of the Model hinges, of course, on the number of taxpayers that can be mobilised and how productive they are. The chapter discusses policy dilemmas and gives examples of good policies for further reflection.

Education, Growth and the Challenge of Interdependencies

A few years ago, the Institute for Futures Studies published a report entitled: *Sustainable Policies in an Ageing Europe A Human Capital Response*, which was based on a study we had carried out for the European Commission (Institute for Futures Studies 2006). Our primary policy recommendation – to invest heavily in the future tax payers – was based on our observation of a causal structure where education is the central driving variable for GDP increases in Europe. It appears relevant to highlight some of the results from that study in the following.

The analysis of the statistical relations between GDP per capita, fertility and education produced the following results: the link between GDP per capita and fertility is rather weak while education and GDP have the expected positive association. On the other hand, there is a negative relation between fertility and education. As income rises we can afford more education and as education rises the work force becomes more efficient and our economies can produce more. This virtuous circle has been emphasised in the discourse on growth and development for several decades. However, the empirical growth literature has had some problems with actually establishing that this relation still holds for developed economies. The negative relation between fertility and education is not unexpected either. Increasing tertiary education intrudes on the prime reproductive ages, and unless it is offset by accommodating policies, will make it advantageous to delay fertility or even to decrease fertility aspirations. In the European societies, this mechanism is almost certainly behind some of the fertility drops. To the extent that it does not result in permanent decreases in cohort fertility it is not very problematic but there are reasons to fear that it might develop into such decreases.

To establish the quantitative relations we estimated simple linear regression models, conditional on the age structure, because in all three cases there are strong reasons to expect that the variables are influenced both directly and indirectly as the age structure changes. We used data from New Cronos data set (Eurostat), as far as possible, and complemented them with other sources when necessary. We use the

total fertility rate (TFR) as the measure for fertility and average years of schooling as a proxy for the human capital stock. TFR is a measure of the number of children an average woman will have over her fertile period given the number of children born in each age group of women in the year that the number refers to. Due to data limitations and comparability issues, only 14 old EU countries were included: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Portugal, Spain, Sweden and the United Kingdom. Luxembourg was dropped since it appeared as a consistent outlier in test regressions.

Table 1 reports the basic patterns in the data for our benchmark models. To simplify the presentation the table includes neither the control variables relating to the age structure nor the age specific participation rates. Yet, it is important to underline that these factors are important for understanding differences in growth rates. The regression model does not report the country-specific constants that have been estimated for each equation either; the patterns of these constants are neither informative nor stable over different specifications. All variables reported are in logarithms so the coefficients can then be interpreted as elasticities: a percentage change in the explanatory variable times the coefficient equals the corresponding percentage change in the variable explained by the regression.

Table 1. Benchmark regression results: GDP/capita, total fertility rate and years of schooling.

Dependent variable	Log of GDP per capita	Log of total fertility rate	Log of average years of schooling
Log TFR	-0,46		-0,065
Log GDP/capita		-0,013	0,032
Log years schooling	0,13	-0,69	

Source: PcGive regressions on New Cronos data.

Notes: Bold coefficients statistically significant at least at the 5% level.

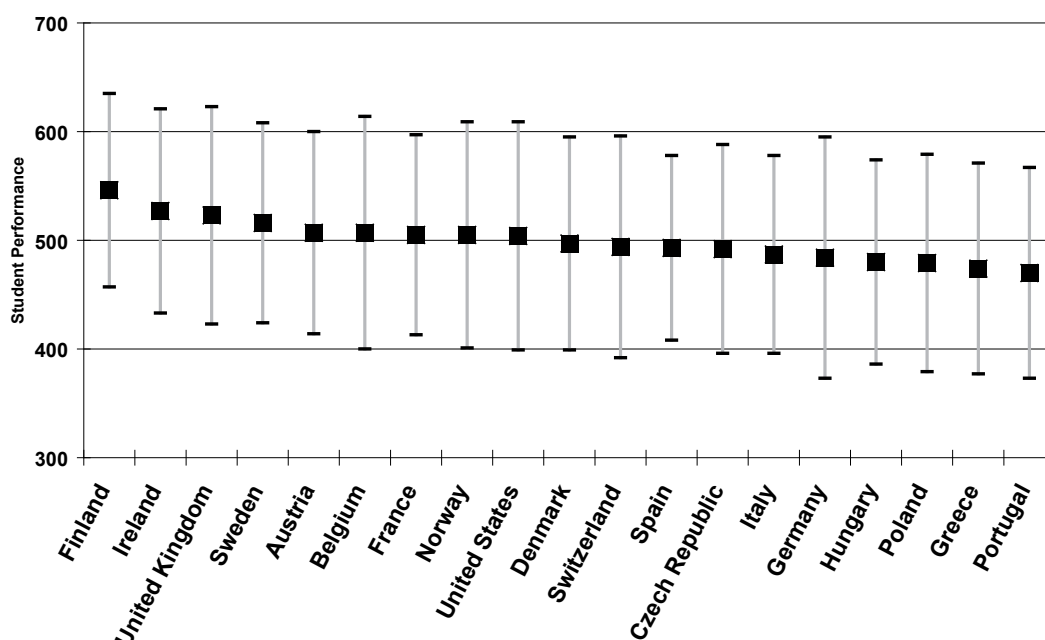
Taken at face value, without worrying about the direction of causality, the results thus indicate the following relations between the three main variables: (i) GDP per capita has a positive effect on average years of schooling and average years of schooling may have a positive effect on income per capita (if fertility is excluded it increases and becomes significant). Thus we have a positive reinforcing feedback loop between education and GDP; (ii) fertility is negatively affected by average years of schooling but is not affected by GDP/capita. Although the latter coefficient is negative it is not statistically different from zero, and even if it were the effect would be exceedingly weak. However, fertility appears to have a strong negative effect on GDP per capita. This is, however, a statistical artefact mediated through the correlation between education and fertility. If we remove education, fertility loses its statistical significance and thus has no explanatory value on its own; (iii) there is a strong negative feedback loop between education and fertility. In sum, as the results stand, and with the appropriate caveats, we concluded that we observe a causal structure, where education is the central driving variable for GDP increases while fertility interacts mainly with education.

Thus, our estimates of the statistical macro relations between income, education and fertility further illuminate the quantitative trade-offs that need to be taken into

account when designing sustainable social policies for Europe. We have to combine different policies in order to avoid trade-off when it comes to the expansion of education and fertility. Furthermore, there are reasons not to expect that success is automatic from high expenditures and high enrolment as such. More attention deserves to be given to the ways money is spent on education. Best practice can be found in the Finnish education system, which delivers world-class student performance when it comes to both levels and distribution.

As a starting point for discussing educational attainment and social background it is of interest to first briefly review the available evidence on educational performance. According to an OECD-report about the results of a literacy test given to 15-year-olds in 25 countries (PISA 2000)¹ educational performance varies across countries and correlates with several family background variables, such as occupational status, family wealth, parental education, possessions of items related to 'classical' culture, communication at home on social and cultural issues and immigrant status (especially language spoken at home). The strength of these correlations varies across countries as well, indicating that different education systems compensate for background disadvantages with varying success. Figure 1 shows that some countries have both more equal outcomes and average higher performance. In Finland and Sweden, the student performance in reading literacy is above the OECD average and at the same time less influenced by economic, social and cultural status than the OECD average. On the other hand, in for example the Czech Republic, Germany and Hungary the average performance is below the OECD average while the impact of socio-economic background results in much more variation in outcomes.

Figure 1. Variation in student performance on the combined reading literacy scale, mean score and standard deviation.



Source: PISA (2000), see footnote 1.

However, according to the OECD report, there are other factors that in most countries are more important than family background for explaining the socio-economic disparities in education. Those factors are schools' socio-economic intake and the fact that advantaged students tend to go to schools with other advantages, such as more resources and policies and practices associated with better student performance. Wössman (2003) has conducted a study using TIMSS data for 39 countries and finds that international differences in student performance are not due to resource differences but are related to institutional differences. Institutions which yield positive results on student performance are centralised examinations and control mechanisms, school autonomy in personnel and process decisions, individual teacher influence over teaching methods, limits to teacher unions' influence on curriculum scope, scrutiny of students' achievement and competition from private schools. But it should be noted that these results are still contentious in the research.

Moreover, evidence on educational performance indicates that educational attainment of mothers is important (for their own working opportunities as well as for their children's development) and possibly increases in importance over time (Institute for Futures Studies 2006). And we cannot find any detrimental effects from maternal labour force participation in the data from the PISA study (Esping-Andersen 2005; Institute for Futures Studies 2006). Combined, those two pieces of evidence give reason to believe that the need to enrol more women in the labour force in the future need not have negative effects on the cognitive development of children. Rather, it is likely to yield positive effects on educational attainment by reducing the risks of child poverty.

Attitudes to Life-long Learning

We turn briefly to the attitudes of Europeans in relation to the important area of life-long learning. Life-long learning is related to questions of human capital formation and maintenance even if the focus here is exclusively on the population in working ages. The EU has pointed out life-long learning as a core element of the Lisbon strategy, central not only to competitiveness and employability but also to social inclusion, active citizenship and personal development. In our perspective on sustainable social policy, this part of human capital formation is of course of central importance. To explore the views of European citizens is highly relevant for the design of appropriate policy programmes along the lines of the Lisbon strategy.

The results from our study (Institute for Futures Studies 2006) made a clear distinction between some Northern European countries, above all the Nordic countries and the Netherlands, and several countries in southern Europe – above all Italy, Greece, Spain and Portugal – as regards attitudes related to participation in, experiences of and motivations for learning. Even if these clusters are not definite, and there are important deviations, the following main characteristics can be ascribed to the 'Northern European cluster':

- a small 'skills gap'; a low proportion of individuals stating that they do not possess the skills that are important for them in working life;
- a small 'credentials gap'; a low proportion of individuals stating that they do possess the

skills that are important for them in working life, but that they can not provide concrete evidence to support this;

- a high proportion of individuals have recently taken part in studies or training;
- a high proportion of individuals stating that there would be no obstacles to them taking part in training or studies;
- a small proportion of individuals stating that there is nothing that could encourage them to take up studies or training.

The ‘Southern European cluster’ can be regarded as a mirror image of the characteristics outlined above.

We also found important differences between occupational groups as well as between men and women as regards the dimensions of life-long learning. The most important findings are that individuals working in occupations classified as ‘unskilled manual’ and ‘skilled manual’ are more likely to experience a ‘skills gap’ as well as a ‘credentials gap’ than respondents working in occupations classified as ‘management/professional’. Moreover, individuals in the former occupations are more likely to say that they have not participated in training or studies recently, and that there are obstacles to them taking part in such activities. The results hence indicate the importance of what can be called ‘socio-economic position’ for many of the dimensions of life-long learning and human capital formation examined in this chapter. This calls for a more socially justifiable investment approach to life-long learning.

There are also important differences between men and women, although these results are complex. Thus, whereas women are more likely to experience a ‘skills gap’, there is no such effect for the existence of a ‘credentials gap’. And whereas women are more likely to have participated in studies or training recently, women are also more likely to say that there are important obstacles to them taking part in such activities. This conclusion is further reinforced by the importance attached to educational attainment. In relation to the uneven burden of unpaid work, it is warranted to emphasise that women see family commitments and lack of family support as important obstacles to their participation in further education and training.

The Dual-earner Approach as Best Practice

The coming fiscal problems in ageing societies are likely to require increased rates of labour force participation. As argued above, this particularly concerns female employment, which needs to be increased if one wants to reap the full benefits of the large increases in female education that have been achieved all over Europe. But if, due to lack of appropriate social policies, this leads to inability to achieve the desired fertility levels, the future sustainability of social and health security arrangements will be compromised. The main challenge here seems to be that policies in different areas are not fully integrated and may sometimes induce undesirable counteracting forces. The example we gave above indicates an interaction of education investment and family policies where insufficient attention has been paid to the fact that tertiary education and prime reproduction periods have begun to overlap for ever larger shares of the young cohorts with detrimental effects both for fertility and the young families that nevertheless still chose to have children.

Raising children in modern societies is linked to a social dilemma since children impose a costly economic burden on parents but are very valuable to society as a whole. While children are a source of profound happiness for their parents, the economic benefits of having children are small at the household level and, if provided with efficient means of controlling their fertility, it appears that many parents will restrict their fertility in a way leading to population decline unless there are mechanisms introduced for some kind of substantial cost sharing (Lindh, Malmberg and Palme 2005). Governments have an interest in supporting family formation. But then they have to recognise another dilemma; modern women want to be engaged in paid employment and not just carry on unpaid reproductive work. Welfare state programmes can hence be seen as attempts to solve different kinds of collective action problems, the increasing costs of raising children in modern societies being one obvious example.

Within the EU there are very different approaches to social policy in general and family policy in particular, with deep historical roots, often manifested in the attitudes of the respective populations. Our surveys and analyses of European attitudes as they are manifested in the Eurobarometers (Institute for Futures Studies 2006), however, emphasise that there seems to be a broad European common ground to go forward and implement many of the suggested policies that could ease the future fiscal burden of an ageing Europe.

The notion of a sustainable social policy needs to be linked to the welfare of individuals, in order not only to have a meaning, but also to provide a firm basis for benchmarking and policy evaluation. Since children cannot choose their parents, they constitute a particularly vulnerable but also strategically important group for the future, for which there ought to be special policy concerns, both from a social and economic perspective. This appears to be a fruitful starting point for identifying a sustainable family policy. A sustainable welfare policy for the elderly simply demands sustainable policy for the reproduction of the tax base. This means first and foremost a requirement for designing a sustainable family policy to ensure the welfare of the children who will bear the future.

Gender inequality in family-oriented institutions and outcomes show large cross-national differences, something that has been related to the family policy models that have been developed in different welfare states. Several studies have also shown strong links between policies and various demographic and socio-economic factors. Family policy design has been linked to fertility and female labour-force participation as well as to socio-economic outcomes in terms of poverty and income inequality. Female labour force participation has furthermore been related to childbearing patterns (Ferrarini 2006). It has also been argued that family policy has a bearing on the formation of human capital in society. A family policy that enables women to participate in the labour market on equal terms with men is said not only to decrease gender inequality but also to improve the cognitive development of children (Esping-Andersen et al. 2002).

In the analysis of different welfare states, we apply a typology based on social policy legislation, which is a useful tool when focusing on links between driving forces, policy institutions and policy outcomes. Based on the institutional typology, originally developed by Korpi (2000), we can categorise the family policy in different countries. A clear advance for this typology compared to several of its predecessors

is that it is explicitly based on indicators of national family policy legislations of direct relevance for the structuring of behavioural outcomes regarding labour market participation, particularly in care work and childbearing decisions.

Figure 2 illustrates the ordering of family policies along the two underlying analytical dimensions (cf. Ferrarini 2006). Welfare states with highly developed support for the traditional family are grouped within a male breadwinner family support cluster, corresponding to cell A in the figure (typically the continental European countries). Countries with generous dual earner support are grouped as adhering to a dual earner model of family policy, illustrated by cell D in the figure (typically the Nordic countries), while the policy model in market-oriented economies (cell C) is followed by welfare states with smaller scope of family policy transfers and services along both dimensions (typically the Anglo-American countries). As is evident from the figure, a fourth model of family policy could exist, characterised by the criteria of the top right cell (B). This model would correspond to a situation of institutional pluralism, where family policies have high scores on support for both the traditional and the dual earner family. Such a combination of family policy is perhaps best described as contradictory, since the two dimensions reflect different underlying family ideologies. A highly developed support for the traditional family of course entails a strengthened housewife role, which seems to contradict motives of dual earner family support to increase female labour force participation. Empirically, the broad family policy indicators do not take on values corresponding to clear cases of such a contradictory model. However, several countries do have tendencies in this direction (Belgium and France, for example, in addition have relatively well developed dual earner support, and Norway also has relatively high support for traditional family patterns).

Figure 2. Models of Family Policy.

		Dual earner support	
Male breadwinner support	High	A <i>Male breadwinner family policy model</i>	B <i>Contradictory family policy model*</i>
	Low	C <i>Market-oriented family policy model</i>	D <i>Dual earner family policy model</i>
		Low	High

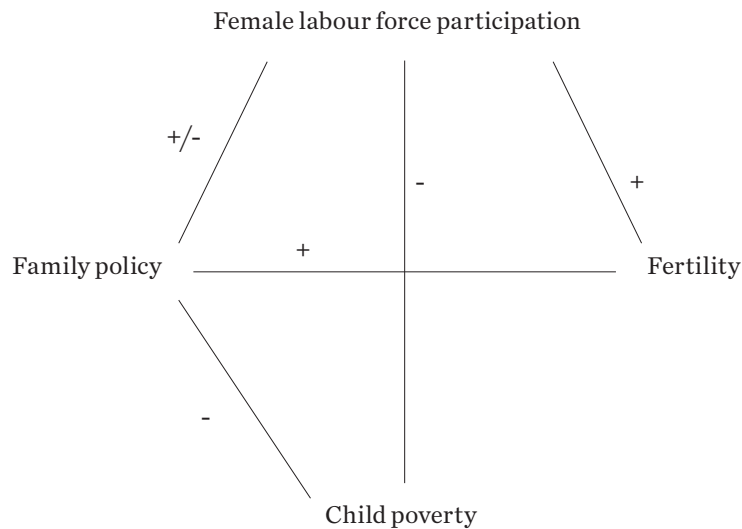
The substantial changes in family patterns in all our family-policy models have been linked to women's increasing economic independence as well as to ideational changes as the main factors in the demographic literature. The relationship between female labour force participation and fertility has received special attention in the

scholarly debate for decades, but the knowledge about any causal links between these variables is still rather limited. However, as mentioned earlier, ample evidence shows that family policy arrangements are important when explaining cross-national patterns of both labour market behaviour and childbearing. Furthermore, family policy also has a potential to structure patterns of child poverty both directly and via the labour market behaviour of parents. For example, countries where family policy promotes dual earner family patterns have the lowest levels of poverty among families with children, both among two-parent households and single-parent households (Ferrarini 2006).

As for patterns of poverty in European welfare states, poverty risks among households with children seem to have several consequences for the well-being and choice-capacity of individuals. What appears to be an important emphasis in this chapter is that early childhood poverty may have substantial long-run life-course effects. It has been argued that the risk of poverty and social exclusion for an adult in large part originates in early childhood, when cognitive resources are acquired (Esping-Andersen et al. 2002). A lack of such resources among other things increases the risk of a precarious labour market position, which in turn is closely related to experienced poverty risks (for a review of previous research, see Haveman and Wolfe 1995). Duncan et al. (1998) show that the economic living conditions during the first years of a child's life are strong determinants of school completion, in particular among children growing up in households with the lowest incomes.

Figure 3 sums up the macro relationships between the socio-political, socio-economic and demographic factors in the European countries by the end of the twentieth century (cf. Ferrarini 2006). Whereas increased family policy generosity overall seems to decrease poverty and facilitate childbearing, it appears to have a more ambiguous relationship to female labour force participation. This is due to family policy in continental European countries being developed to support traditional family patterns, thereby holding female economic activity at lower levels, whereas female labour force participation is supported in countries with dual earner models of family policy. High female labour force participation is in turn related to both higher fertility levels and lower child poverty. No macro-link between child poverty and childbearing has been found, even though the existence that such a relationship may exist within different particular countries or population subgroups should not be ruled out.

Figure 3. Relationships between family policy, female economic activity, child poverty and fertility.



In the EU, increasing female labour force participation without providing possibilities to reconcile paid and unpaid work is likely to further decrease birth rates, since a large proportion of women opt for a career before having children, with those ending up childless becoming more numerous. Even if family support for a traditional gendered division of labour may increase the number of births, it is likely also to decrease both female involvement in paid work as well as male involvement in care work. Improving parents' possibilities to reconcile paid and unpaid work, in particular family policies supportive of the dual earner family, might, besides maintaining childbearing at sufficient levels, have the benefit of improving family income and preventing poverty. This could indicate that efforts to improve gender equality through social policy can be combined with a stable social and economic social development in the European welfare states.

A striking result in our analysis of Eurobarometer data (Institute for Futures Studies 2006) is the large difference between men and women in the perceived consequences of having children. This is less of a surprise when we see the large differences in unpaid household work, where women tend to do much more than men. Yet this is an area where the cross-national differences are substantial and policy related. Exploring the differences between the family policy regimes, we find that dual-earner oriented programmes seem more successful in resolving these conflicts.

Fertility is obviously the basis for human capital formation. A number of studies have demonstrated that attitudes towards childbearing are related to actual fertility behaviour and fertility patterns. Bearing in mind that, firstly, research on cross-national differences in attitudes have demonstrated that such differences can be linked to differences in institutional settings, and secondly, that low fertility exists in countries with widely differing institutional structures, this would suggest that the question of how institutional contexts influence attitudes towards childbearing is important for understanding cross-national differences in actual fertility behaviour and patterns. The existence of a perceived conflict between levels of equality in individual-oriented social and family-oriented institutions can be seen

as an important factor affecting childbearing behaviour. Table 2 depicts how household and childcare tasks are divided between men and women, and for a few comparable childcare tasks (those available in the EB data), and also how women and men think that these tasks should be divided between men and women.

Table 2. Percentage respondents (currently living with a partner) saying that the woman is primarily responsible for household tasks among couples with and without children, EU 15 (except Luxembourg).

	<i>Household tasks</i> Couples without children	<i>Household tasks</i> Couples with children
Cleaning	81,8	90,0
Preparing breakfast	66,4	81,2
Preparing dinner	80,3	88,9
Shopping	68,3	76,3
Doing the dishes	63,8	79,3
Gardening/painting	20,4	23,6
Ironing	87,2	93,0
Paying bills/paperwork	40,1	42,0

Source: EB 59.2 (2003).

The most striking piece of information in this table is the highly unequal division of both household tasks and the care of children, but also how this sharply contrasts against the attitudes individuals hold regarding how some central childcare tasks should be divided between the sexes. This picture of a highly unequal distribution of unpaid work is somewhat, but not in essence, altered when we look at household tasks. Disregarding the items ‘paying bills/paperwork’ and ‘gardening/painting’, about 75 per cent of the couples without children say that the woman has the primary responsibility for central household tasks. It is also worth noting that the responsibility for household tasks is more unevenly distributed among couples with children than among couples without children. The basic pattern of women doing the overwhelming majority of both household work and, for families with children, childcare tasks is the same in all countries (data not shown here). However, there are nevertheless some interesting cross-national patterns and differences. Among couples with children, men do more of both household work and childcare tasks in the Nordic countries and the Netherlands.

Pensions, Quality of Jobs and Retirement

The ageing of our modern societies has focused a lot of attention on pension systems. Partly this is also a result of the way institutions were built with mandatory or at least common retirement ages and strong disincentives for continuing work above these ages. All countries in the advanced industrial world have been affected by what the World Bank (1994) labelled the ‘old-age crisis’, and many of the countries have taken action. Some countries have acted promptly by shifting from defined benefit (DB) formulae to defined contribution (DC) formulae. Other countries have made

changes that in other ways have been aimed at improving the economic incentives for people to work longer.

The Swedish pension reform is a case in point (Palme 2003). The reform, as all pension reforms in mature welfare states, can be seen as a reaction to the problems and achievements of the existing systems of old-age security, as well as to the different interests generated by them. The design of the benefit formula follows the principle of making lifetime earnings the basis for determining the size of the future pension. A strong motive here is to provide a good incentive structure to increase labour supply. The Swedish pension reform can be seen as response to the pressures and constraints imposed by an ageing society, as well as to the critique of the welfare state of eroded incentive structures and poor cost control. In terms of both putting pensions on a financially stable ground in the longer run and improving incentives, there is little doubt that the reform has been successful.

Population ageing will continue to put pressure on current institutions for the support of the elderly, even if changes such as DC-based pension reforms succeed in considerably dampening its fiscal impact. However, most of the discussion of these issues tends to avoid the real issue. No matter what we do about our institutions, the central economic problem is that the output produced by a smaller share of the population will have to be distributed to a greater share of dependents. This is the case whether or not we have public redistribution, private family responsibility or mandatory/voluntary pension saving. Hence, if the relative consumption level of dependents is to remain the same, the working population will have to consume a smaller share of what they produce. While this is obvious in the case of public transfers and not difficult to understand in the case of family responsibility, many people tend to overlook it when pensions rely on funded assets.

We also need to acknowledge that incentives are not enough. Our analysis of Eurobarometer data provides some insights (Institute for Futures Studies 2006). In the analysis of attitudes towards retirement there was an interesting change over the 1990s with regard to the fact that Europeans in 2003 expected to retire about one year later than they did in 1992. We can also conclude that the statutory retirement age has a normative effect on both when individual Europeans expect and when they prefer to retire.

The strategy of increasing the retirement age is, however, not without problems in terms of the distributional concerns it raises. The concern is that the large number of people who suffer from health problems, often work-related, in the pre-retirement aged, actually do not have a real choice to continue to work. What is also striking here is the importance attributed to working conditions for the way people think about retirement. The analysis of Eurobarometer data clearly indicated that good working conditions was the single most important motive when respondents were asked what could make them work longer (Esser 2005, Institute for Futures Studies 2006). The Lisbon strategy, with its emphasis on high-quality jobs, appears appropriate in terms of responding to the concerns of European citizens. It should also be emphasised here that adequate statutory pensions per se do not discourage people to retire later.

Why do people retire earlier? Recent trends may be accounted for by both supply- and demand-side factors. Although the largest variation in individuals' retirement-age preferences depends on individual factors, significant country-level differences

were observed. At the individual level preference for later retirement was clearly related to higher age. The presence of a dependent child was found to have clear significant negative effects among women. Clear gendered effects were also found in relation to health status and workplace characteristics. At the country-level, effects of both welfare regime generosity and production regime coordination were found to be positive and significantly related to a higher preferred retirement age. This suggests that earnings-related pensions, which as such might constitute a pull factor into retirement, in reality create incentives for continued labour force participation (and thus higher benefits) which are stronger. More regulated production regimes also appear to foster a positive attitude to continued work, which could be interpreted as a result of the higher quality of jobs offered in such labour markets.

The results indicate that retirement preferences are affected by both individual and country-level factors. However, policy challenges posed by population ageing may not be first and foremost of demographic or even of economic kind, but rather distributional, as proposed by Myles in Esping-Andersen (2002: 134). According to this proposition, policy changes need also to take into consideration how we see to it that the least advantaged are not disproportionately affected in relation to implementing policy changes, such as, for example, higher retirement ages. In view of the broad support for alternative pathways into retirement (Esser 2005, Institute for Futures Studies 2006), the opportunities for phased retirement deserve to be further evaluated. The search for sustainable policies hence faces challenges to incorporate adequate pensions for all with incentives for high levels of employment and also flexibility and predictability of pension benefits.

The findings are helpful in terms of giving insights about issues of central importance in ageing societies. When it comes to designing sustainable social policy programmes that are also politically viable in Europe, we can actually gain additional information for discussing alternatives.

Social Investment and Learning

There is no way around the fact that investment today means fewer resources for immediate consumption. It may be that we can afford the systems of social investment if we design the various programmes in an adequate fashion. The desirability of this is partly a question of value judgements. Whether or not it is possible to extract the necessary taxes now and in the future will depend on what people want, and probably on international cooperation. This makes the modernisation of our social and economic policies a democratic problem with national as well as international dimensions. Each and every step in the expansion of social policies in Europe has been subject to political conflicts and controversies. In the late 1990s, to mention increased taxes was somewhat of a ‘third rail’ in European politics. More recent trends and events suggested that there was room for change – that it was possible to think the unthinkable. But the global economic crisis is again putting the public finances in dire straits.

The important phases in this development have involved clear elements of learning and diffusion. With the kinds of challenges that we are facing, we have to try harder and act wiser. ‘Learning’ as a part of European integration carries a great – but largely under-utilised – potential. Good intentions and political commitments are

not enough to make the reform work successful. This warrants a re-examination of our social and economic policies. What is required to succeed in this endeavour is a balanced approach: a synthesis involving a concern with the way that the social investment supports different groups in society on the one hand, and a realistic view of how society works on the other hand. Such an approach could cast new light on an issue that is likely to be confused by zero-sum perceptions of social and economic development in ageing societies.

How, then, can social science make a contribution to the discussion and reform of social policy programmes? Here it is important to sort out the normative and positive arguments for and against various approaches. The study of how institutions affect the conditions and behaviour of individuals lies at the heart of social science research. This makes it highly relevant for examining both the intended and unintended consequences of welfare state institutions. Comparative institutional research can contribute by contrasting different policy interventions in order to assess the impact of different kinds of policy programmes. This report gives number of examples; Bonoli, Lundvall and Lorenz, Morgan, Nelson and Stephens, and Nikolai.

I would argue for a research and policy agenda that goes beyond the concept of models of social policy and simple clustering of nations, and for an institutional perspective that is more specifically focused on program design. The use of broad typologies for classifying countries has proved to be a useful tool for simplifying complex patterns of differences and similarities. Yet, for the purpose of examining various consequences of welfare states, the advantage of such typologies becomes problematic insofar as it mixes causes, mediating variables and outcomes. Instead, we should use welfare state institutional structures as intermediary variables, which have the advantage of lending themselves to analytical purposes (cf. Palme 2006).

It also appears warranted to develop a wider approach to what a social model is all about; we also have to study labour market, education and migration policies in addition to the welfare programmes that we usually associate with the concept of 'social models' and we have, as we have tried in this volume, to study how these policy programmes interact. I would, moreover, argue that it is not enough to analyse how the world works. What is demanded is political courage and leadership. We are in dire need of intellectual courage to critically examine the existing institutions. We further need political courage to deal with the political economy of reform, political courage to levy taxes high enough for ensuring insurance and investment with middle-class inclusion and political leadership to engage in global governance.

There are good reasons to – again – point to the common concerns generated by our common futures of ageing populations for the macroeconomic development. Weak growth of the European Single Market has repercussions for all countries. Hence, a more balanced population development in Europe should be a common concern. Moreover, within the OMC framework, the Member States of the EU have agreed on common objectives when it comes to employment, pensions, health care and social inclusion. There is very little to suggest that these objectives can be reached without a deeper and at the same time explicit concern with human capital formation (Institute for Futures Studies 2006). This is in congruence with the work in the Commission on Modernising Social Protection but would also benefit from being operationalised within the OMC framework. Human capital formation ought to be an integral part of the thinking also around other common objectives of the Member

States. The gap in the OMC process needs to be filled; the situation of children, youth and their families should be a new domain. The social deficits of the Member States need to be addressed promptly. This is not done overnight but Europe has to try harder and act more wisely.

Epilogue

Quest, is used chiefly in poetry or elevated phrases to suggest days of chivalry and romantic adventure and implies a search or pursuit, always of something elusive and often unattainable. <the quest of the Holy Grail> Webster

History shows that the reforms of social policy programmes are responses to changing economic and social structures, but that they never occur without political mobilisation. The history of the various European social models is about social democracy's, Christian democracy's and social liberalism's attempts to apply 'a strategy of cooperation'. The rise of neo-liberalism and the fall of the Iron Curtain shifted that balance. The previous ideological accords were challenged by neo-liberalism for more than two decades. Yet that rhetoric appears to have lost steam. But the tilt of power in favour of 'capital', as a result of the exit options offered to capital in the wake of the deregulation of financial markets over the past decades, might be here to stay. The exit option offered to capital puts the question to the employers if they want to cooperate in a different light. Are they still interested to foster cooperation as way of achieving positive sum solutions for conflicting interests? What are the implications of the global financial crisis in this context?

The debate about the future of the European welfare state has highlighted pension reforms and savings to ensure future living standards for the elderly. This chapter has put focus on how social policy interacts with education, fertility and other fundamental determinants of the future tax base. In order to design sustainable social policies for the future we need to put our children and youth first (cf. Esping-Andersen et al. 2002). The reason is simply that without massive attention to the future tax base in terms of both the number of tax payers and their productivity, there will be little left worth labelling sustainable pensions and health care systems, not to speak about social inclusion. At the heart of this is the urgent need to find new ways to reconcile production and reproduction. This is what the new gender balance is about. Working life needs to be made more flexible also when it comes to the needs of families to balance the two spheres. Moreover, given that a declining size of the labour force is problematic in a growth perspective, there are hence good reasons to suggest that a more balanced population development in Europe should be a common concern.

For those of us who believe that change bears the potential for betterment there is always hope. Improvement is badly needed when it comes to 'Social Europe' as we know it. European leaders should join forces to make the necessary investments in human capital. This also applies to the fact that even if the ESM is about our self-interests as European citizens, in the end it is also about our moral obligations towards our children. The efforts will, however, have to be very strong if Europeans are to put enough trust in the further and future European integration. Policy change may be coming late but it should not be too little.

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In the 2000 Lisbon Agenda, the EU expressed its intention of making Europe become 'the most dynamic and competitive knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion, and respect for the environment by 2010'. With less than one year left until the deadline, it seems that these goals will be hard to meet, even more so with the current global crisis.

Yet thinking has to go beyond immediate responses to the current crisis to discuss the kind of strategy that should be implemented in the medium to long term in order not to reproduce the failures of the recent past. In this respect, the 'social investment' paradigm that emerged in the mid-1990s may provide governments and the EU with some guidelines for the macro-economic and social policies that need to be implemented in order to promote sustainable economic growth and ensure the political and social sustainability of the European Social Model.

This report assesses the diversity feasibility, but also the relevance of the social investment strategy in Europe. What policies have been implemented in different countries, with what success? What have been the key drivers of change or impeding factors in pursuing a social investment strategy? The report also questions whether the goals defined in 2000 are still relevant, and whether the social investment strategy can help face not only traditional European problems but also new issues created by the current crisis.

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