

In the midst of the economic crisis, the European Commission launched a [Social Investment Package](#), calling on member states to invest in social policies to support citizens' inclusion in society and in the labour market. On the other hand, the euro crisis resulted in an austerity reflex. The tightening of EMU economic governance squeezed the fiscal space available for welfare innovation, especially in those countries that were hardest hit by the recession. Ten years after the outbreak of the crisis, it is time to take stock of the developments of social investment in this turbulent decade.

Social investment and the EU

Since 2000, well before the crisis struck, the notion of social investment gained considerable purchase as a novel welfare blueprint to reconcile the economic and social objectives of modern welfare states. The social investment perspective shifts the focus of welfare provision from the protection of people from market risks, the linchpin of the post-war welfare state, to the empowerment of citizens within labour markets in today's knowledge economy.

The capacity of social investment to reconcile economic competition with social inclusion finds support in the good performance of the most investment-oriented welfare states in Europe.

The former objective is served by long-established social programmes such as unemployment benefits and pensions: cash transfers that provide income compensation to those out of work. A more recent wave of welfare programmes aims instead at preparing and enhancing human capital throughout the life course, so as to foster labour market participation for both men and women and address new social risks. Public investments in day care services and work-life reconciliation policies, active labour market policies (ALMP), education and lifelong training all follow this 'social investment' logic. By promoting high levels of employment, which, in turn, bolsters tax revenues, the ultimate objective of the social investment strategy is to shore up the financial sustainability of inclusive welfare states.

The capacity of social investment to reconcile economic competition with social inclusion finds support in the good performance of the most investment-oriented welfare states in Europe. Figure 1 plots a selection of OECD countries according to their employment rates and levels of equality after taxes and transfers (reverse Gini index), while also giving a bird's eye view of the size and composition of their welfare states (for more details, see the chapter by Hemerijck and Ronchi in the 2020 Oxford Handbook of the Welfare State). Those countries in continental and northern Europe that are able to reconcile the world's highest employment rates with low levels of inequality are all 'big', expensive welfare states that devote a high share of social spending to in-kind benefits (which include investment-oriented welfare services). To be sure, the employment-equity success does not hold for all European welfare states. Some big welfare spenders, such as France and Belgium, do well in terms of redistribution but have failed to raise employment rates above the Lisbon employment target of 70 per cent. More worryingly, cash transfer-based Southern European welfare states fall short of both objectives: they face low employment and high levels of inequality despite sizable social spending. Outside the EU, Anglophone welfare states attain relatively high employment levels only at the cost of high inequality, given their lean welfare states.

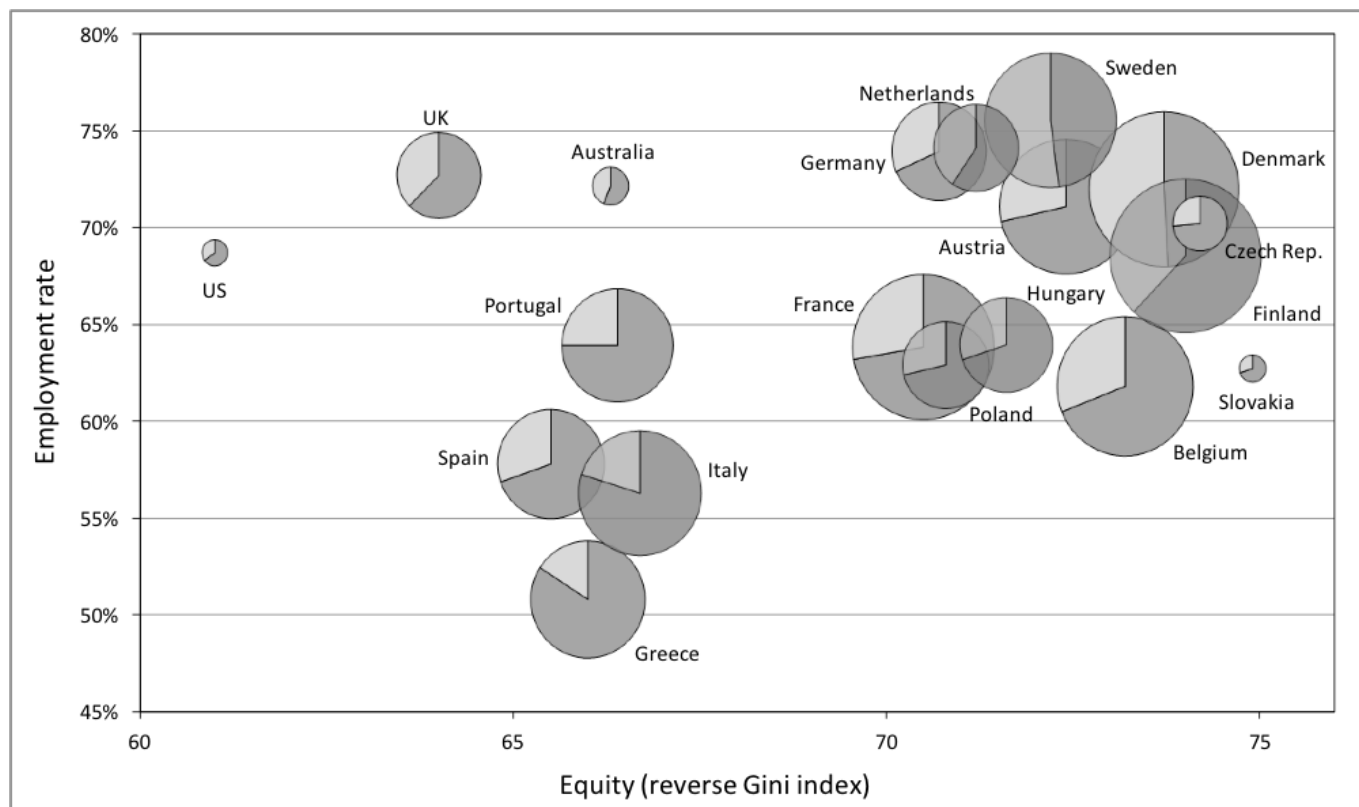


Figure 1. Employment rate, equality and welfare spending (the size of the pie charts) in selected OECD countries (averages 2010–2015). *Source*: Hemerijck and Ronchi (2020)

The success of social investment welfare states has caught the interest of EU institutions ever since the Amsterdam Summit of 1997. The European Commission has proactively helped translate social investment into a concrete welfare reform strategy, from the stepping stones in the Lisbon Agenda of 2000 to a full endorsement with the publication of the Social Investment Package in 2013, many recommendations of which have been codified in the 2017 Pillar of Social Rights.

In the years since the economic crisis, however, the road to social investment has not been an easy one to take. European welfare states found themselves between a rock and a hard place. For the bulk of member states, whose established welfare arrangements fall short of the ideal-type of social investment, hard-to-reform institutional *status quo* are the ‘hard place’. Established social protection programmes such as, notably, pensions take the lion’s share of social expenditures and are firmly anchored in vested interests, so that they leave little resources for investment in new social policies. On the other side, the ‘rock’ corresponds to mounting fiscal pressures. After the outbreak of the euro crisis, austerity tightened the constraints on national economic policies, further reducing the budgetary space available for welfare state recalibration. In this regard, the EU took a somewhat schizophrenic posture that has been keenly portrayed by Anton Hemerijck (2017): on the one hand, it acted as the world’s ‘social investment cheerleader’, while on the other remained stuck in the role of ‘fiscal austerity headmaster’. Overall, the crisis context of scarcer resources, together with the short-term horizons dictated by austerity, made it harder to pursue welfare innovation in EMU countries.

The rise and fall of social investment in EU welfare states’ budgets

In a recent empirical work, I have traced the developments of social investment in EU welfare states’ budgets over the period ranging from the launch of the Lisbon Agenda in 2000 to the aftermath of the crisis (Ronchi, 2018). The remainder of this policy focus gives a summary of the main results. The analyses are based on synthetic indicators of the ‘budgetary welfare effort’ (BWE) that governments put into two analytical dimensions of the welfare state: ‘social protection’, which includes cash transfers to the unemployed, family and old-age cash benefits; and ‘social investment’, comprising ALMP, care services for families with children and for the aged, public spending for all levels of education, and research and development. BWE indicators are obtained by dividing the resources spent on given social programmes by the number of potential beneficiaries of those programmes. This is preferred to spending-

over-the-GDP data, since the latter are highly sensible to business cycle oscillation and unemployment levels and tend, therefore, to overestimate governments' social policy efforts in times of recession, when GDP (the denominator) goes down and spending on cash transfers (the numerator) automatically increases as the number of unemployed grows (methodological details can be found in [Ronchi, 2016](#)).

Figure 2 summarises the developments of the budgetary efforts put into social protection and investment over the period 2000-2014. The markers show the average pre-crisis levels (2000-2008; expressed in standardised scores, where 0 is the mean level across countries), and the arrows indicate the change from the pre-crisis average to that of the crisis aftermath (2009-2014). The year 2009 is taken as the watershed between the period of overall economic growth (and cheap borrowing) in the early days of the euro and the 'rainy days' following the contagion from the US-born financial crisis. After 2009, the bulk of EU countries turned to pro-cyclical fiscal consolidation ([European Commission, 2013](#)).

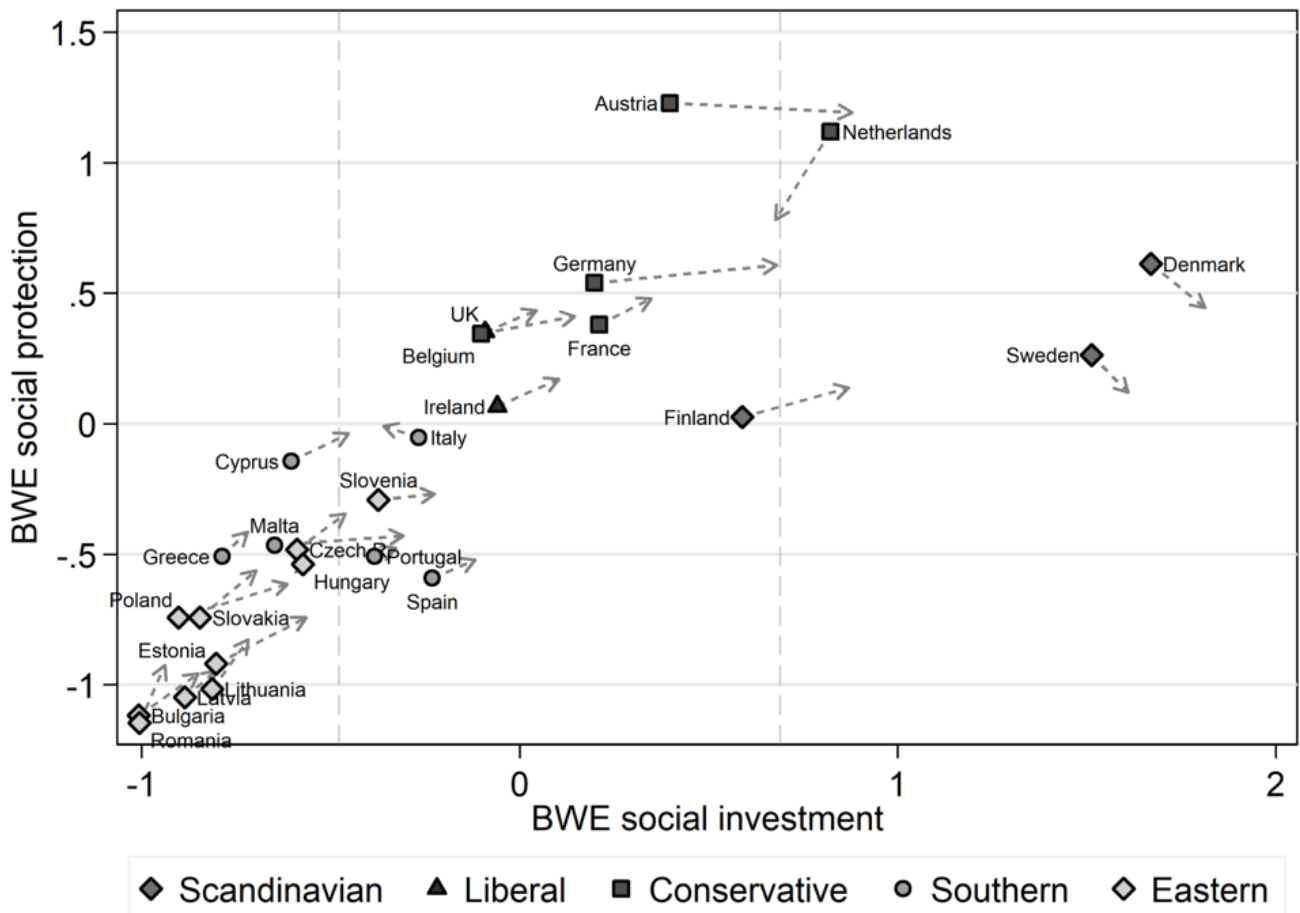


Figure 2. Developments of budgetary efforts put by member states' governments into social protection and social investment programmes: pre-crisis levels (dots) and directions of change (arrows). *Source: Ronchi (2018)*

A quick glance at pre-crisis levels confirms the vast heterogeneity that exists among European welfare states. Scandinavian countries and the Netherlands show record scores on social investment while also being generous in terms of social protection. Liberal and continental 'conservative' welfare states take the middle part of the plot, joined by Finland. The bottom-left part of the plot includes the laggards of social investment in Southern and Eastern Europe, the latter showing the lowest scores on both welfare dimensions. The arrows in Figure 2 show the direction of change from the pre- to the post-crisis period. Almost all arrows point towards an expansion of welfare efforts, especially on the social investment dimension. With the exception of Italy, going against the social investment tide of the Lisbon decade, Southern and Eastern laggards seem to have undergone a moderate catch-up process. The more spectacular catch-ups are nevertheless found among those welfare states which already fell closer to the Nordic champions of social investment: Austria, Germany and Finland have reduced the gap with Denmark and Sweden. By contrast, the Netherlands have retrenched, although starting from comparatively very high levels of both social investment and protection. What emerges, overall, is a positive picture: almost all member states successfully increased the financial effort put into social investment over the period examined, in spite of having had to cope with the crisis.

After the outbreak of the crisis, the progress of both social protection and social investment came to a halt, and even reversed in some countries.

In the light of the austerity turn that followed the euro crisis, however, it makes sense to narrow the focus to the post-crisis period only. This is done in Figure 3, which highlights the post-crisis scenarios of welfare recalibration by plotting countries according to the difference

between levels of BWE in 2014 and 2009.

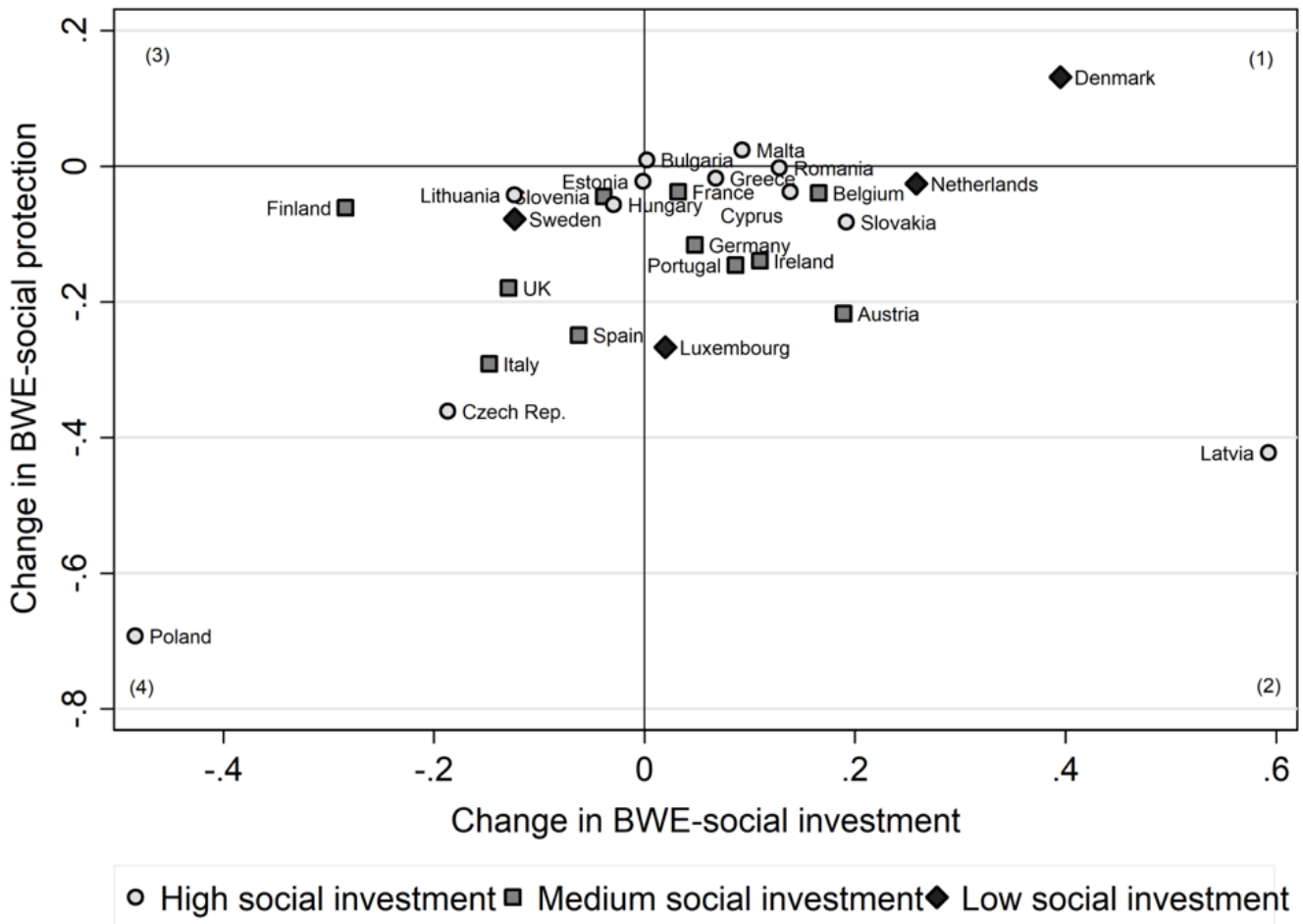


Figure 3. Post-crisis scenarios of welfare recalibration: difference between BWE levels in 2014 and 2009. *Source: Ronchi (2018)*

After the outbreak of the crisis, the progress of both social protection and social investment came to a halt, and even reversed in some countries. With the exception of Denmark—which expanded on both dimensions; see quadrant (1) in Figure 3—all countries slipped towards a scenario of resource competition (2), whereby social investment effort could be increased only to the detriment of social protection, and social retrenchment (4), where both dimensions fell prey to cutbacks. While during the Lisbon years, only the most generous welfare states reduced their effort in the social protection dimension (Figure 2), retrenching such programmes became the rule after the crisis, regardless of starting levels and despite the vast constituencies that make cutbacks politically difficult. Since they notably take the

largest share of public budgets, social protection programmes like pensions became the primary target for cuts aimed at reducing the deficits that exploded during the financial crisis. Austerity not only hit social protection, but also made it harder to invest in new policies. In the aftermath of the crisis, social retrenchment rather than investment became an option, as a number of EU policy studies have documented (see, for example, [Bouget et al., 2015](#); [Natali and Vanhercke, 2015](#)):

A more assertive EU social investment agenda to stem growing welfare divergence

Despite the progress made in the years of the Lisbon Agenda, after the outbreak of the economic crisis EU welfare states had a hard time reconciling austerity and social investment. The increase of social investment spending stopped when the economic crisis broke. Bleaker scenarios materialised, whereby most European welfare states turned to retrenchment rather than investment, or expanded social investment while rolling back spending on more traditional social protection programmes. To wit, the crisis has brought a widespread slowdown of social investment reform. Whether this was just a temporary shock or the start of a slow decline for the European social investment strategy remains to be seen. For the time being, it seems reasonable to raise doubts regarding the fiscal viability of social investment reform for crisis-ridden member states. The fiscal consolidation imperatives of the EMU do not leave much budgetary space for welfare innovation in countries in dire fiscal straits, where social investment is needed the most. As a consequence, further divergence between already unequal welfare states may emerge.

In today's EU context of deep economic, social and—not least—political crisis, this is hardly sustainable. It is not only the austerity-induced setback of social investment that adds up to pre-existing 'social imbalances' in the EU (Vandenbroucke, Diris and Verbist, 2013). By doing that, it also seriously risks fuelling the political cleavage between the 'good' and the 'bad' member states (the 'ugly' arguably being rising xenophobic populism), a divide that has made the European integration project drift into reciprocal finger-pointing between core and peripheral member states in the years of the euro crisis. In the face of this predicament, calls for a more assertive EU social (investment) agenda have been raised. Among them, Anton Hemerijck's proposal to exempt human capital investments from the Stability and Growth Pact for eurozone members seems a reasonable option for helping the E(M)U 'deliver on the promise of the 2017 European Pillar of Social Rights and recoup its existentially important future-oriented upward convergence momentum' ([Hemerijck, 2019](#)).

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