European welfare states have been put, once again, under a serious stress test. The COVID-19 crisis has obviously pushed many European national healthcare systems to the limit. Beyond that, lockdowns have had far-reaching social and economic consequences, which will continue to unfold in the months to come. Social protection policies to help workers retain their jobs and to provide income-support to the unemployed have been crucial to buffer the immediate social consequences of the COVID crisis. In this light, national short-time work schemes have recently been granted support from the European Commission, which put in place a new loan-based instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE). Together with unemployment risks, other social needs have also come to the fore. The wide use of smart working during the quarantine, and the closure of schools and childcare facilities, brought to light many dilemmas related to work-family reconciliation and educational inequalities, as well as to the need to upgrade educational systems in the digital age (see, for example, this reflection on the Italian case). In other words, 'social investments'—policies to prepare, maintain and mobilise human capital in today's economies—will also play a lead role in the recovery from the COVID crisis.
Social investment has been high on the EU agenda over the last two decades. In a previous policy focus we showed, however, that since the outbreak of the sovereign debt crisis many member states lost track of it due to fiscal consolidation priorities. This article turns attention to the outcomes of social investment reform. Based on recent empirical findings, it draws some lessons on the strengths and weaknesses of social investment, and on the policy complementarities that seem able to mitigate its shortcomings.

Reconciling economic competitiveness and social inclusion

The social investment strategy pursues the ambitious aim of making EU welfare states both economically sustainable and socially inclusive. As for the former objective, social investment stresses the role of social policy as a productive factor, capable of boosting economic competitiveness through bolstering employment, thus ensuring a broader tax base to sustain generous yet expensive social protection programmes. Supply-side social policies, typically services geared at fostering people's human capital and labour market opportunities, are key to this aim. Education and training, as well as publicly financed R&D, enhance citizens' social and human capital, and promote job creation in the higher end of the labour market. Leave and care policies serve to reconcile work and family life, allowing people—most importantly working women—to stay in (or enter) employment, particularly when they have children or

frail relatives at home. Active labour market policies (ALMP) help the unemployed to get back into work, either through training programmes and job-matching services, or through employment incentives of various kinds.

The social-inclusion objective of social investment welfare states should be pursued through maintaining comprehensive social protection 'buffers', especially in terms of minimum income guarantees for all (Esping-Andersen et al. 2002; Hemerijck 2015). The importance of social investment and social protection working in tandem has been recognised by the European Commission in the 2013 Social Investment Package, which lays down that: '*Well-designed welfare systems combining a strong social investment dimension with the other two functions, protection and [economic] stabilisation, increase the effectiveness and efficiency of social policies, whilst ensuring continued support for a fairer and more inclusive society*'.

The employment outcomes of social investment

The employment potential of social investment policies finds broad support in welfare research. Aggregate evidence based on country-level employment performance testifies that, indeed, social investment policies are associated with higher employment levels (among others, see Ahn and Kim, 2015; Hemerijck et al., 2016, and our previous policy focus), especially in the high-skill end of the labour market (Nelson and Stephens, 2012). In a recent work I tried to inspect the microfoundations of the relationship between social investment and employment in the years of the economic crisis by using survey data from the EU Statistics on Income and Living Conditions (EU-SILC; technical details can be found here). The findings brought to light a picture that reminds one of the proverbial glass half-full half-empty.

he capacity of social investment to limit the employment shocks ex ante—before the need for unemployment benefits to come into action—may entail an important lesson for EU leaders that have to now work on a joint Recovery Plan for the COVID crisis.

The glass appears half full when considering, in the first place, that citizens of countries

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which spend more on social investment policies have better employment prospects (more specifically, higher chances of being employed from one year to the next, controlling for starting employment status and for a number of individual characteristics). Good news also comes from the empirical observation of the relevant employment shock-absorption capacity of social investment. As illustrated in figure 1 below, even when controlling for country-specific macroeconomic conditions, one sees that with the crisis outbreak the individual likelihood of being in employment dropped only in countries with comparatively low social investment scores, but not in those which put an above-EU-average financial effort into social investment policies. ***T***he capacity of social investment to limit the employment shocks ex ante—before the need for unemployment benefits to come into action—may entail an important lesson for EU leaders that have to now work on a joint Recovery Plan for the COVID crisis.To wit, it would make sense to allow for more fiscal flexibility, at least for work-enhancing social investment reforms, to relaunch employment in those countries that were not only hit the most by the sovereign debt crisis (which surely also had homegrown roots), but that have also been most affected today by the COVID crisis (the nature of which is undoubtedly exogenous).

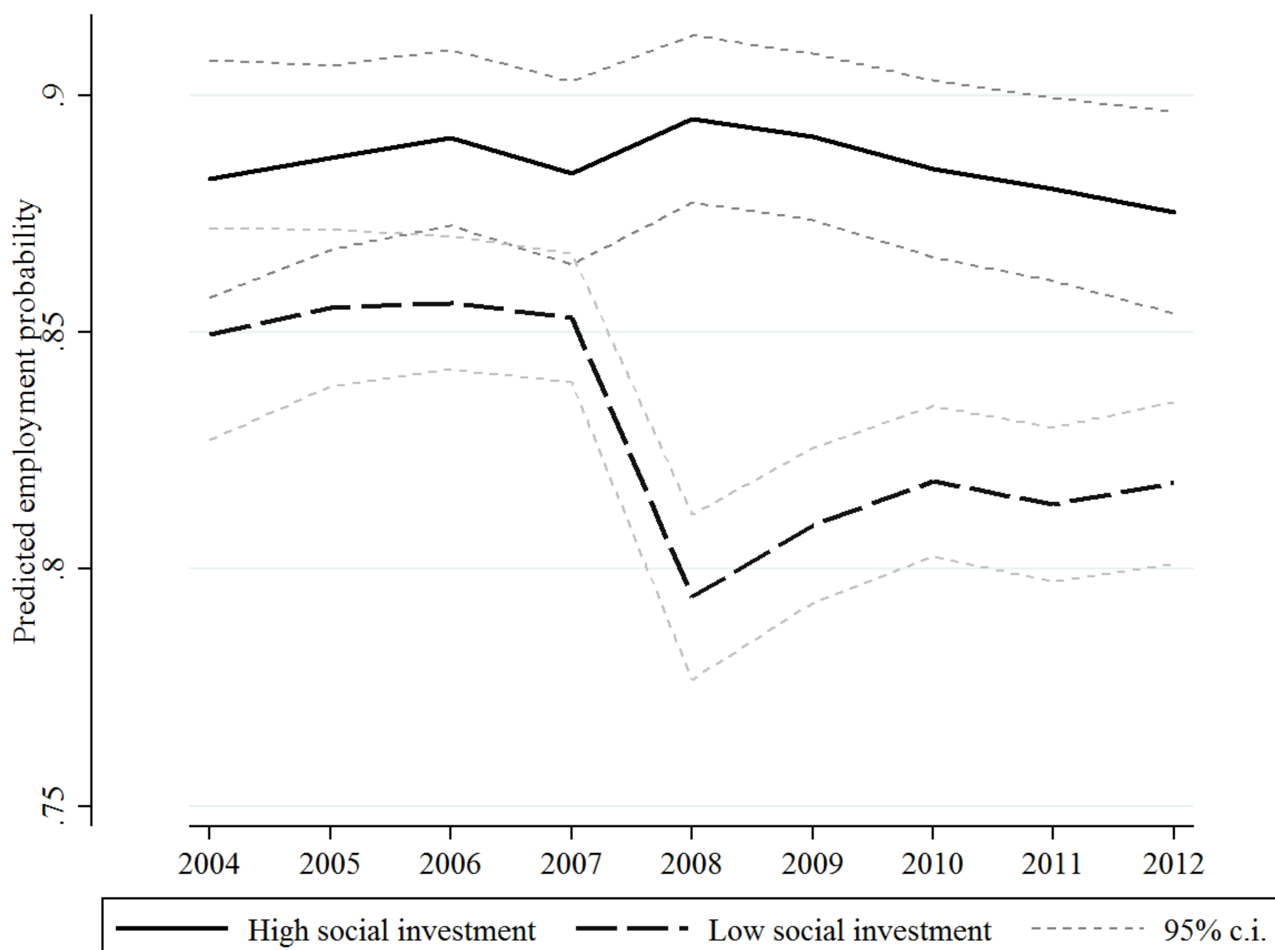

Figure 1. Time trends of predicted individual employment probabilities in countries that put above- and below-EU average financial efforts into social investment policies. *Source*: Ronchi (2018), estimates based on EU-SILC micro data.

Another positive finding regards an example of 'complementarity' between social investment and protection policies. Social investment policies seem able to mitigate the employment-disincentive effect that sometimes comes attached to the receipt of cash transfers like unemployment benefits (Ronchi 2018: chapter 4). Moreover, it should be noted that generous social benefits do not always disincentivise job search and, in any case, they do that to a limited extent, whereby income support gives jobseekers more leeway to wait for more adequate job offers or engage in further training (Lehwess-Litzmann and Nicaise, 2019).

The 'social investment glass' instead seems half-empty if one focuses on whether and how

the effect of social investment policies unfold over time within a country. The positive impact of social investment on people's employment prospects seems to be associated to enduring institutional legacies—the general orientation of the welfare state in which a person lives—rather than to increases in the resources that a government puts into social investments over time. This suggests that a catch-up process would be harder than one could wish for 'laggards' of social investment. Countries with welfare arrangements that fall short of social investment would have to strive hard to invest in new social policies without visible (employment) improvements over time, at least not in the short-to-medium-term that is, on the other hand, crucial to politicians concerned with increasing their consensus in the here-and-now. Within the set of 'social investment' policies, the only short-term over-time effect that is empirically discernible is that of ALMP—a kind of policy that is indeed expected to directly (re-)insert beneficiaries into work in a shorter time-frame, especially when compared to future-oriented policies like education. Moreover, given the wide cross-country disparity in the development of social investment (see the previous policy focus), positive policy complementarities would be less likely to be activated in low-social investment member states. For example, if on the one hand it is true that a consistent financial effort put into social investment policies appears able to mitigate crisis-employment shocks and employment disincentives possibly linked to social benefits, on the other hand, in low-social investment countries these predicaments persist.

Making social investment more inclusive

The employment-goal of social investment should be ideally pursued in a socially fair way, that is, to the benefit of all, no matter from which social class, and without jeopardising the social inclusion potential of redistributive policies. In this respect, criticism has been raised regarding the social investment spirit that undergirds the EU's social initiatives since the launch of the Lisbon Strategy, where the inclusion-through-employment focus favoured economic over social objectives. Two main explanations have been put forward for this 'paradox of social investment' (Cantillon 2011). First, not all people enjoy the employment gains of social investment equally. In socially stratified societies and labour markets, such gains tend to be unfairly distributed.

The 'Matthew effect' is not intrinsic per se in social investment. By fine-tuning social protection and investment-oriented measures, policy makers can

plausibly mitigate unintended inequality in the distributive effects of social policy.

Unsurprisingly, people who are already better-off in terms of labour market-attachment, education and the like, benefit the most from social investment measures, while those worse-off remain excluded. This constitutes the so called 'Matthew effect' critique of social investment (among others, see Cantillon and Van Lancker, 2013; Bonoli et al., 2017), labelled as such after the parable of talents in the Gospel of Matthew (25: 29), where it states: 'For unto every one that hath shall be given, and he shall have abundance: but from him that hath not shall be taken even that which he hath'. Second, inclusion into work does not necessarily imply good employment conditions and income security, at least not for all citizens (on in-work poverty see, for example, Marx and Nolan, 2012). Although much lip service has been paid to 'quality jobs' in EU employment and social cohesion strategies, that of drifting into 'workfare'—inclusion into any job, even low-paid, low-quality—has always been a threat for real-world activation and, in general, employment-centred policy strategies.

The 'Matthew effect', however, is not intrinsic per se in social investment. By fine-tuning social protection and investment-oriented measures, policy makers can plausibly mitigate unintended inequality in the distributive effects of social policy. Again based on multilevel analysis on EU-SILC micro data, figure 2 reveals a very interesting pattern: it shows how social investment outcomes are more or less unequal for households with different labour-market attachment, based on the generosity of the social protection-side of diverse European welfare states. On the left-hand graph, we see how social investment seems to be of help to (re-)enter employment only for those living alone or in households where other people also work; by contrast, jobless households remain more disadvantaged, since social investment does not seem to have any significant impact in their case (the dashed lines indicate 'no statistically significant effect'). The right-hand graph uncovers relevant differences across welfare states. In countries that devote high effort to social investment policies (for example, Denmark), the latter also seems to play a role in helping people living in jobless households to get (back) into employment. This is not the case, however, in welfare states with lower social investment 'scores', such as in the case of Spain and Lithuania. Apparently, being able to rely on generous, inclusive income-buffers from social protection (the case of Denmark in the example) also contributes to making investment-oriented policies like activation or childcare facilities more meaningful for work-poor families, partly countering undesirable

Matthew effects.

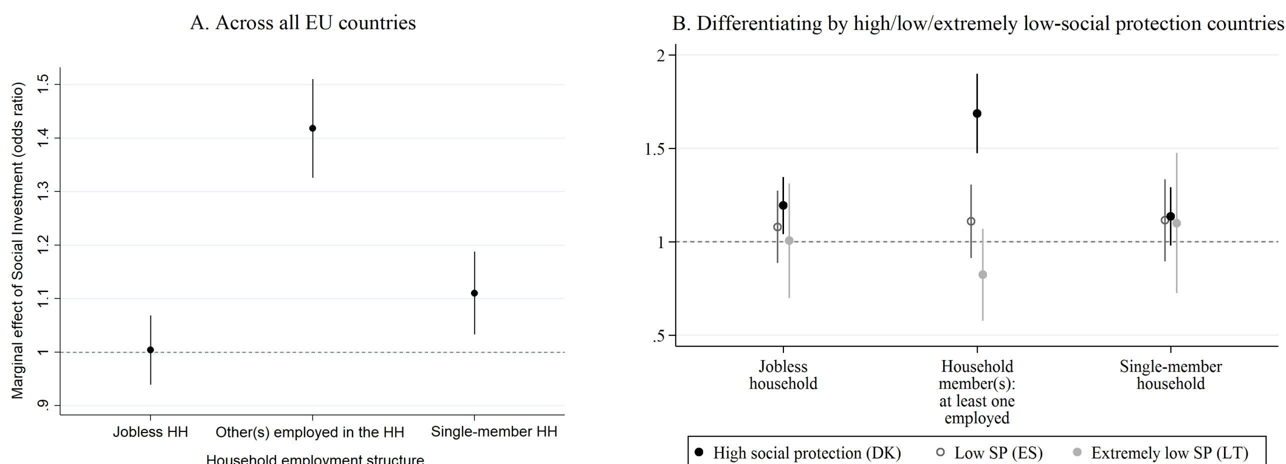

Figure 2. Estimated effect of the financial effort put by governments into social investment policies on the likelihood of being in employment for people who were not employed in the previous year (95% confidence intervals). *Source*: Ronchi (2018), estimates based on EU-SILC micro data.

The inequality in the distributive effects of social investment does not only depend on policy complementarities. Most intuitively, Matthew effects can be avoided, or at least reduced, through carefully designing investment-oriented policies. For example, progressive enrolment-fees can make childcare affordable to low-income families, so as to make it possible for more women to participate in the labour market. When, by contrast, childcare is expensive, and thus is skewed towards high-income middle-class families, the opportunity-cost for mothers with lower education to enter (potentially less rewarding) employment while having to pay for childcare remains too high to allow them to abandon the traditional male-breadwinner/female-carer model, thus potentially trapping their households into a low-work low-income status (and leaving many women dependent on the partner's income).

Learning from the past: social policy synergies for a truly inclusive recovery

Overall, social investment seems to lead to the desired economic *and* social outcomes when its work-enhancing action is buttressed by the income-buffer function of social protection. The combination of the two fundamental welfare dimensions—investment and protection—allows inclusion into employment to stay aligned with social inclusion, at least in principle, thus keeping the inequalities intrinsic in the (labour) market under control. In this

light, it is positive to see how both social protection and investment principles were taken together to form part of the European Pillar of Social Rights. However, this consideration of policy complementarities brings us to more negative perspectives on the extent to which social investment works in the real-world of deeply different European welfare states.

Through providing the most vulnerable individuals with both income and employment support, more generous social protection systems not only help mitigate unintended inequality in social investment outcomes, but also tend to fend off the risk of workfare for those who enter employment.

The inequalities we observe in the outcomes of social investment are more or less marked based on the policy mixes found in diverse countries. Notably, through providing the most vulnerable individuals with both income and employment support, more generous social protection systems not only help mitigate unintended inequality in social investment outcomes, but also tend to fend off the risk of workfare for those who enter employment. By contrast, Matthew effects and workfare can be more of a problem in those welfare states where social protection lags behind. If EU leaders want to find a socially fair way out of the COVID crisis, they have to acknowledge that the inequalities that exist in today's multi-tiered EU constitute a serious hurdle for the development of 'Social Europe'. The reflections included in this policy focus offer some empirical evidence for EU policy makers to see social policy complementaries as an occasion to boost the recovery (and, in general, the catch-up) of Southern European peripheries. An occasion that would need fiscal flexibility to be retained, so as to allow the crisis-ridden economy the financial leeway to put into practice growth-friendly social investments. If, on the other hand, this occasion is downplayed by the fear of moral hazard from high-debt member states, some 'social' Europes will continue to be more equal than others, if at all.

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