

For a Social Investment Pact in Europe

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Three researchers react against the perspective for European countries of drastic austerity and emphasize the need, central to the Lisbon Agenda, for social investment. Investing in the skills of individuals from their early age, in adapting and securing changing professional trajectories and reconciling professional and family life is crucial for the renewal of solidarity in Europe.

The Social Investment Imperative

Social investment is not a new idea. It emerged gradually as a social policy perspective in the 1990s, in response to fundamental changes in our societies. The social investment perspective was developed with the dual ambition of i) modernizing the welfare state, so that it would better address the new social risks and needs structure of contemporary societies, and ii) ensuring the financial and political sustainability of the welfare state, while upholding a different, knowledge-based, economy. Central to the social investment perspective is the attempt to reconcile social and economic goals. In policy terms, the focus is on public policies that ‘prepare’ individuals, families and societies to adapt to various transformations, such as changing career patterns and working conditions, the emergence of new social risks, population ageing and climate change, rather than to simply generate responses aimed at ‘repairing’ any damage caused by market failure, social misfortune, poor health or prevailing policy inadequacies. By addressing problems in their infancy, the social investment paradigm stands to reduce human suffering, economic instability and environmental degradation, while enhancing social resilience.

In 2000, the Portuguese presidency of the EU raised the social and economic policy ambitions of the EU by putting forward an integrated agenda of economic, employment and social objectives, thereby committing the Union to becoming the ‘most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth

with more and better jobs and greater social cohesion'. The so-called Lisbon Strategy was strongly influenced by the social investment paradigm, although the political translation of the concept may have been more ambiguous than one might have wished. Lisbon certainly represented an attempt to re-launch the idea of the positive complementarities between equity and efficiency in the knowledge-based economy by way of "investing in people and developing an active and dynamic welfare state". In addition to the objective of raising employment rates throughout Europe, the Lisbon Agenda placed human capital, research, innovation and development explicitly at the centre of European social and economic policy. This broadened the notion of social policy as a productive factor beyond its traditional emphasis on social protection, extending it to social promotion by improving quality of training and education. The Lisbon Strategy also prefigured a re-focusing of equal opportunity policies with an explicit view to raising employment rates among women and elderly workers. The philosophy underpinning the social dimension of the Lisbon Strategy was given further substance by the publication in 2002 of a book entitled *Why We Need a New Welfare State* under the editorship of Esping-Andersen.¹ At the core of this publication lies the argument that the prevailing inertia in male-breadwinner welfare provision fosters increasingly sub-optimal life chances in labour market opportunities, income, educational attainment, and intra and intergenerational fairness, for large shares of the population. Esping-Andersen and his co-authors put it that the staying power of "passive" male breadwinner policies is frustrating more adequate responses to "new" social risks in the post-industrial economy, including rapid skill depletion, reconciling work and family life, caring for frail relatives, and inadequacy of social security coverage. These "new" social risks adversely affect low-skilled workers, youngsters, working women, immigrants, and families with small children. Most troublesome is the polarization between work-rich and work-poor families. Top-income households are increasingly distancing themselves from the middle as a result of rising returns to skills, exacerbated by marital homogamy, i.e. family formation by spouses with similar educational backgrounds. At the bottom of the pyramid, less educated couples and especially lone-mother families face (child) poverty and long-term joblessness. And as inequality widens, households' capacity to invest in their children's future will grow, consequently, increasingly unequal.

¹ Esping-Andersen, G., Gallie, D., Hemerijck, A., Myles, J., (eds.), *Why We Need a New Welfare State*, Oxford University Press, Oxford, 2002.

As the new social risks weigh most heavily on the younger cohorts, Esping-Andersen et al. explicitly advocate a reallocation of social expenditures towards family services, active labour market policy, early childhood education and vocational training, so as to ensure productivity improvement and high employment for both men and women in the knowledge-based economy. There is, however, no contradiction *per se* between an explicit welfare effort towards privileging the active phases of life and sustainable pensions: “good pension policies – like good health policies – begin at birth”. It should also be noted that Esping-Andersen et al. emphasize – *contra* the Third Way – that social investment is no substitute for social protection. Adequate minimum income protection is a critical precondition for an effective social investment strategy. In other words, “social protection” and “social promotion” should be understood as the indispensable *complementary* twin pillars of the new social investment welfare edifice.

The social investment paradigm makes a virtue of the argument that a strong economy requires a strong welfare state. In terms of substance, three areas of public policy stand out in the social investment perspective, bearing on human capital improvement, the family’s relation to the economy, and employment relations. In an ageing economy with widening inequalities, raising the quality and quantity of human capital is imperative to sustain generous and effective welfare states, beginning in early childhood. One period of education at the beginning of one’s life is no longer a good enough basis for a successful career. In economics, the case for human capital enhancement goes back to endogenous growth theory of the 1980s, suggesting that long-term growth is determined more by human capital investment decision than by external shocks and demographic change. The case of high-quality early childhood intervention is most powerfully argued by the economic Nobel laureate James Heckman. Since cognitive and non-cognitive abilities influence school success and, subsequently, adult chances in working life, the policy imperative is to ensure a “strong start”, i.e. investment in the training of young children).²

As female participation is paramount to sustainable welfare states, and parenting is crucial to child development, and thus to the shape of future life chances, policy makers have many reasons to want to support robust families, which under post-industrial economic

² Heckman, J.J., ‘Policies to foster human capital’, in: *Research in Economics*, 54 (1), 2000, 3-56; Heckman, J.J. and Lochner, L., ‘Rethinking myths about education and training: understanding the sources of skill formation in a modern economy’, in Danziger, S. and Waldfogel, J., (eds.), *Securing the Future: Investing in Children from Birth to College*, Russell Sage Foundation, New York, 2000, 47-83

conditions implies helping parents find a better balance between work and family life. The economic reasoning of the OECD in their 2007 *Babies and Bosses* studies is that when parents cannot realise their aspiration in work and family life, including the number of children they aspire to, not only is their wellbeing impaired, but also economic progress is curtailed through reduced labour supply and lower productivity, which ultimately undermine the long-term fiscal sustainability of universal welfare systems.³ To the extent that low levels of education in less well-off groups depress productivity, underinvestment in education will engender stunted economic growth and decreased tax revenue. Overinvestment by work-rich families in their offspring offers little compensation for this fundamental market failure.

In the post-industrial context of new social risks, flexible careers and life expectancy gains, the goal of full employment has come to require far more differentiated employment patterns over the life course. In the aggregate, maximising employment, rather than fighting formal unemployment, should be the prime policy objective. A new model of employment relations is in the making whereby both men and women share working time, which enable them to keep enough time for catering to their families. Higher employment of women typically raises the demand for regular jobs in the areas of care for children and other dependants as well as for consumer-oriented services in general. If part-time work is recognized as a normal job, supported by access to basic social security and allows for normal career development and basic economic independence, part-time jobs can generate gender equality and active security of working families. Accommodating critical life course transitions thus reduces the probability of being trapped into inactivity and welfare dependency and thus harbours both individual and economic gains.⁴ The issue is not maximum labour market flexibility or “making work pay”. Instead, the policy imperative is for “making transitions pay” over the life cycle through the provision of ‘active securities’ or ‘social bridges’, ensuring that non-standardised employment relations become ‘stepping stones’ to sustainable careers.

We believe that the fundamental societal trends that necessitated a social investment perspective, so conceived, are as relevant and important today as they were ten years ago.

³ OECD, *Babies and Bosses*, Paris, 2007.

⁴ Kok, W., Dell’Aringa, C., Lopez, F. D., Eckström, A., Rodrigues, M.J., Roux, A., and Schmid, G., *Jobs, jobs, jobs: Creating more employment in Europe: Report of the European Commission’s Employment Taskforce*, European Commission, Brussels, 2003; European Commission, *Implementing the Renewed Lisbon Strategy for Growth and Jobs: A Year of Delivery*, COM (2006) 816 final, Brussels, Part I; European Commission, *Renewed Social Agenda: Opportunities, Access and Solidarity in 21st Century Europe*, COM (2008), 412 final, Brussels.

Perhaps even more so because of adverse demography. With fewer active persons supporting ever more dependents, low labour market participation is simply no longer affordable with the demographic changes now taking effect across the EU. Social investments especially in older workers, that allow for combinations of flexible retirement while continuing to work, together with investments in life-long learning and continuous training, incur positive macroeconomic effects far beyond the current crisis. There is great potential for employment growth, if people are skilled for the new jobs and families can get the quality child service they need. This cannot be overstated.

What can be learned from past social investment experience? Between 2000 and 2010, the Lisbon Strategy was highly instrumental in enhancing the social dimension of EU policy and in promoting greater social and economic policy coordination. Below we examine a number of substantive issues concerning the social investment turn, followed by a short reflection on aspects of EU governance.

Substantive Policy Issues

Since the 1990s, the majority of European welfare states have – with varying success – pushed through reforms in macroeconomic policy, industrial relations, taxation, social security, labour market policy, employment protection legislation, pensions schemes, social services, welfare financing and social policy administration. Even if public social spending has been consolidated, practically all advanced European welfare states have been reconfiguring the basic policy mixes upon which they were built after 1945. It is also fair to say that, in hindsight, European welfare reforms over the past two decades have *not* singularly followed the social retrenchment and labour market deregulation recipes of the 1980s, but that they have also embraced notions such as competitive social pacts, activation, active ageing/avoidance of early retirement, part-time work, lifelong learning, parental leave, gender mainstreaming, labour market ‘flexicurity’, and the reconciliation of work and family life. In the process, innovations and additions in some policy areas have been accompanied by subtractions in others. The novelty of the recent epoch lies in the simultaneous and complementary application of both *positive* incentives of active and investment-oriented labour market policies, including employment subsidies, training measures, individualized counselling, and childcare provision, and the *negative* incentives of retrenched welfare benefits of shorter duration, increased targeting and sanctioning.

As the jury is still out, judgments on the extent to which the social investment paradigm has been put into practice diverge. The countries that display the strongest social investment profile are the Nordic countries, but we can also observe changes towards a more active welfare state in countries like the Netherlands, Germany, France, the United Kingdom, Ireland and Spain in the period leading up to the current crisis.⁵ The Southern European countries (Italy, Greece, Portugal, but not Spain), together with the East European New Member States seem to have shied away from making social investments.

With regard to the substantive issues raised by the social investment experience, we think there may nevertheless be agreement on the following points:

1) Creating virtuous circles of inclusion and emancipation presupposes that policies are sufficiently ambitious and mutually consistent. The social investment perspective is a 'package', and partial implementation may at best deliver partial success. The social investment perspective is based on a life-chance/life-course perspective, and this suggests that policies can be effective only if the whole chain is maintained, from early childhood education and care to lifelong training and active ageing.

2) Although the social investment paradigm has not "crowded out" traditional welfare programmes over the past two decades, a social investment strategy is not a cheap option that allows substantial budgetary savings, especially not in the short run. Simultaneously responding to rising needs in healthcare (and pensions) and implementing a successful transition to fully-fledged social investment strategies will require additional resources. The erosion of the tax base and the imperative of budgetary austerity in the wake of the economic crisis of 2008-2010 is a dangerous threat to the social investment strategy. Budgetary discipline must not destroy the social investment perspective: additional tax revenues may be a necessity for overcoming the current crisis without destroying social investment. Simultaneously, and for the same reason, we will have to convince public opinion that the budgetary cost of ageing must be contained, in order to retain leeway for investment in youth: working longer (combined with labour market reform) is imperative.

3) Equality and Quality. The quality of social services is part and parcel of the social investment strategy. In order for social investment to be a driver in virtuous circles of

⁵ Morel, N., Palier, B., Palme, J., 2011, *Towards a Social Investment Welfare State?*, Palgrave.

inclusion, the investment function itself should be egalitarian: rather than to exacerbate background inequalities, the impact of childcare and education should be to reduce inequality in society. Social services should be genuinely capacitating. Only high-quality childcare can produce a long-term impact on children's capacities and successes, and help reduce social inequalities. Quality of childcare is essential to making a difference and reaching the goals of social investment perspective. By the same token, activation that aims merely at driving people back to the labour market to accept 'any job' is not producing good results. Active labour market policies can be seen as elements of social investment only if conceived as an instrument of social promotion. Poor-quality activation services produce poor results. Education reform, with a view to enhancing real equality of opportunity, ought to be on the agenda in many a European Member State.

In other words, equality is both a precondition for a successful social investment welfare state and an important outcome of social investment policies. We know that egalitarian societies are more successful in implementing social investment policies. The fact that it is a precondition urges us to remember the merits of traditional social protection and anti-poverty programmes, and suggests that reducing income inequality should remain high on the social investment agenda. Hence, the need for a balanced approach, with an "investment strategy" and a "protection strategy" as complementary pillars of an active welfare state. Half-baked social investments will make it impossible to turn vicious intergenerational circles of disadvantage into virtuous circles of capacitation, inclusion and emancipation.

4) Finally – and very importantly – a social investment strategy is a (necessary) supply side strategy; it cannot be a substitute for macroeconomic governance and sound financial regulation. Considerable progress in EU employment rates has been wiped out by the crisis occasioned by financial deregulation and economic mismanagement. The social investment strategy must be embedded in macroeconomic governance and financial regulation that support durable and balanced growth in the real economy.

There is no denying that a social investment strategy generates tensions and trade-offs between various social policy goals in the short term, but most important to emphasize is that social investment is a packaged long-term strategy *par excellence* with high rates of economic

returns and social rewards. This, especially in an era where human capital is swiftly becoming a scarce resource.

Governance Issues

At EU level, the social investment perspective was associated with a specific policy methodology, known as the Open Method of Coordination (OMC). The merits and weaknesses of this approach have been the subject of debate in a vast literature, which we will not discuss further at the present moment.⁶ Very succinctly put, our viewpoint may be summarized as follows: open coordination is no doubt as weak as it is “soft”, and one should not entertain too rosy a picture of its effectiveness. On the other hand, it has been instrumental in reorienting employment policies and – albeit to a lesser extent – social policies in Europe. When it comes to steering the *overall* orientation of *social* policy in the Member States, we see no alternative to “governance by objectives”; no alternative, that is, to setting common goals and leaving the precise implementation of social and employment policy to the Member States. Hence, the crucial question that presents itself is how to make “governance by objectives” deliver more consistently in the new era of Europe 2020, as the latter was sketched in June 2010.

Addressing some of these issues will take us beyond (soft) governance by objectives (without abandoning soft governance on the overall orientation of social policies proper), as will become clear below. But before we turn to solutions, we want to highlight the risks the EU is confronted with.

Social Investment in Jeopardy?

Will the social investment paradigm, which gained credit before the onslaught of the 2007 economic crisis, carry the day, or will it revert to marginality and be left orphaned in the new epoch of austerity? While public support for the welfare state remains high across Europe, and has even grown somewhat in the immediate aftermath of the crisis, the repercussions of the financial downturn are not benign for the politics of the welfare state. Inevitably, demographic headwind and drained public finance will bring social contracts under duress, especially in countries facing high unemployment and immediate budgetary

⁶ Zeitlin, J., P. Pochet, and L. Magnusson (2005), *The Open Method of Coordination in Action. The European Employment and Social Inclusion Strategies*. New York, Peter Lang.

pressures, where long-run population ageing and the feminization of the work force were not adequately dealt with in the era prior to the crisis.

The associated political problem is that while confidence in free markets is at an all-time low, scepticism about the ability of governments to manage economies, let alone help to foster social progress, is at its peak. In many countries, the middle classes are increasingly fearful their offspring will be affected by downward mobility. At the same time, the economic position of the very rich has improved over the past two decades. Middle-class fears of falling behind have gone hand in hand with stronger electoral abstention and growing support for populist parties, particularly of the right. The overall political sentiment across Europe is conservative and creates a “double bind”: national welfare chauvinism and a belief in one-sided, short-term austerity. The internal contradictions in this double bind risk paralysing both the EU and much needed domestic social reform.

Politically, even before the 2008 financial meltdown, the EU became the scapegoat of choice for anti-immigrant and Eurosceptic voices. Although populist anti-EU as well as anti-immigrant parties may not muster the strength to take office in most countries, their growing support will put pressure on existing governments to protect national welfare programmes and limit their commitments to European integration. Mario Monti aptly speaks of “single market fatigue” in his important report on the future of European economic integration in the wake of the crisis. While populism surely fails to offer credible – future-proof – social policy alternatives, it is becoming increasingly difficult for pro-European mainstream social democratic, Christian democratic and green-left parties to support, defend and claim credit for much needed domestic welfare recalibration based on social investment alternatives, which are to be consistently anchored in pan-European macroeconomic solutions to the crisis.

Concurrently in EU economic policy circles, technocratic fiscal orthodoxy reigns supreme. Between 2008 and 2010, many European countries implemented short-term work or temporary lay-off schemes, combined with existing programmes of unemployment compensation alongside further training initiatives. The aim was to enhance the resilience and adaptability of workers and hence the competitiveness of enterprises through skills development, often based on tripartite agreements with the social partners at regional, sector or company level. It is fair to say that many of these preventive measures were consistent with both demand stabilization and new social investment priorities. Some of the most generous

welfare states, with large public sectors devoted to human capital formation and family services, have outperformed many of the most liberal political economies in the wake of the crisis. In other words, an ambitious, generous and active welfare state, with a strong social investment impetus, has proved to be an asset rather than a liability after the onslaught of the Great Recession of the early 21st century.

Notwithstanding significant social investment policy successes over the past decade, the “double bind” of welfare chauvinism and EU austerity could easily nip the social investment imperative in the bud, fuelling nationalism in macro-economic policy and xenophobia and welfare chauvinism in social policy in the coming years.

Taking EU2020 Seriously

There are grounds for scepticism towards EU2020, the successor to the Lisbon Strategy. The policy methodology may be considered as intrinsically weak, given its reliance on “governance by objectives” (or, as some would point out, given its reliance on *intergovernmental* management by objectives, rather than a more traditional “community” approach). Like its predecessor, Europe 2020 remains at the level of ‘headline targets’ with not much in the way of a policy theory underlining the importance of these targets for economic stability and social progress and the measures and policy instruments to realistically achieve them. The five headline targets are: 1) an employment rate of 75%; 2) spending on R&D amounting to 3% of GDP; 3) the reduction of greenhouse gas emissions by 20%; 4) the reduction of secondary-school drop-out rate by 10% and to achieve 40% of graduates from higher education. The fifth target, on social inclusion, is based on a combination of three indicators: the number of people at risk of financial poverty, the number suffering from severe material deprivation and the number living in jobless households. The ambition is to reduce the total living in one or more of these conditions by 20 million by 2020.

While certainly not perfect, the social objectives of EU2020 translate a social investment ambition which merits full support. For that reason, they should be taken very seriously. The question then becomes whether the National Reform Programmes of the Member States will credibly pursue *all* the integrated guidelines and headline targets of EU2020, and whether or not the European Council will be as strict in assessing the National Reform Programmes and in monitoring sustainability, education and social targets as it

promises to be strict on budgetary and competitiveness indicators. The June European Council will provide a first testing ground in this respect.

In the coming years, the credibility of the EU2020 targets and guidelines will depend on the credibility of the link between the latter and the macroeconomic and fiscal surveillance which the EU is due to launch. The quality of spending under constrained public budgets will be crucial in this respect.

We believe that the objectives formulated under the EU2020 strategy can provide a framework for reconciling those short-term and long-term considerations, *if* the social investment strategy is embedded in budgetary policy and financial regulation, i.e. if short-term macroeconomic governance serves long-term social investment. The crucial question is how long-term and short-term policy considerations will interact, both at EU level and in individual Member States. The policy conundrum is complex. On the one hand, short-term austerity pressure is intensified by the extent to which long-run societal change, ranging from population ageing, the feminization of the work force, immigration, and shifts in labour supply and demand, was not adequately dealt with in the era prior to the crisis in a number of Member States. One cannot simply wish short-term budgetary pressures away. On the other hand, the continuing pressures of those societal changes in the aftermath of the current crisis will only strengthen both the need for human capital investment and the importance of poverty relief and social insurance.

In June 2010, the EU launched its EU2020 strategy, and today it is in the process of establishing a new system of macroeconomic and budgetary surveillance. Meanwhile, the political momentum and the substantive orientation have been dominated by the so-called “Europact” or “competitiveness pact”. Wrong-headed austerity policies and a one-sided emphasis on wage-cost competitiveness (important though it is) will jeopardize the social investment perspective. In order to guide the budgetary austerity policies towards long-term ends and to frame wage-cost considerations in a broader perspective on competitiveness, the EU needs a true “Social Investment Pact”. Such a pact should, moreover, have as much bite and clout as the forthcoming macroeconomic and budgetary surveillance.

Substantiating the EU2020 Social Investment Pact

Macroeconomic growth and stability needs to be supported by productive social investments. One of the key merits of Van Rompuy's Task Force on economic governance has been to reconnect real economy competitiveness, including issues of trade imbalances, asset bubbles, oversized banks, and macroeconomic surveillance. As such, Van Rompuy's wider interpretation of macroeconomic performance creates an important window of opportunity to take real economy social investment efficiency gains seriously more than ever before.

It is crucial to articulate a political perspective on the interdependent roles that the EU and the Member States should play, combining short-term fiscal crisis management with room for domestic reform to pave the way for the longer-term social investment priorities. This should be accompanied by a strong social narrative of a 'caring Europe' as one of the founding principles of European cooperation.

The social and economic challenges out of which the social investment perspective emerged in the first place remain as relevant and important today as they were ten years ago. The aftermath of the current crisis and adverse demography can only underline the need for human capital enhancement and employment growth, as well as the importance of poverty relief and social insurance. On the other hand, short-term budgetary pressures cannot be wished away. Although the social investment paradigm promises high rates of return on investment, in terms of higher employment, rising productivity and more robust families, social investment does not come cheap. Additional tax revenues may be a necessity to overcome the current crisis without destroying long-term labour productivity and participation in ageing societies. In order to guide the budgetary austerity policies towards long-term ends and to frame wage-cost considerations in a broader perspective on competitiveness, the EU needs to supplement its strengthened budgetary and macroeconomic surveillance with an effective "Social Investment Pact". Using a life-course perspective on social progress, we can best substantiate what this means.

Child-Centred Social Investment Strategy

Since life chances are so over-determined by what happens in childhood, a comprehensive child investment strategy with a strong emphasis on early childhood development is imperative. Access to affordable quality childcare is a *sine qua non* for any workable future equilibrium. The emphasis on early-childhood education and development

goes *beyond* the idea that childcare is necessary to allow mothers and fathers to reconcile work and family life. A ‘child-centred social investment strategy’ is needed to ensure that children become lifelong learners and strong contributors to their societies. More children, educated to perform in a knowledge economy, are required in order to keep that economy going, given the demands of a retiring baby boom generation with substantial care needs. As underlined, only high quality early childhood education and care services are performing. Hence we propose to go further than the only quantitative targets of Barcelona 2002 (90 percent of children between 3 and the mandatory school age and at least 33 percent of children under 3) to add figures such as number of adult per children. Considering the return on such investments for societies, we propose that investment in early childhood education and care should not be counted as public expenditure but rather be seen as public investment, and that the overall economic governance of the EU should stimulate member states to pursue such investment.

Human Capital Investment Push

If Europe wishes to be competitive in the new, knowledge-based society, there is an urgent need for investment in human capital throughout the life course. Considering the looming demographic imbalances, we surely cannot afford large skill deficits and high educational dropout rates. As inequalities are widening in the knowledge economy, parents’ ability to invest in their children’s futures is also becoming more unequal. If social and employment policies are increasingly aimed at developing the quality of human resources for a high-skill equilibrium, surely they assume the role of a ‘productive factor’. Increased investment in education, preventing early exit from formal education and training, and facilitating the transition from school to work, in particular for school leavers with low qualifications, are imperative. Hence the crucial importance of the early school drop-out target set in the EU2020 agenda. But as important would be a focus on life-long training. A more streamlined cooperation between education and training institutions and the professional world is called for as the worlds of learning, work and leisure are increasingly overlapping and becoming much more closely integrated. Lifelong education and training are in the process of becoming regular components of gainful employment.

Reconciling work and family life

The interaction between economic performance and the welfare state is largely mediated by the labour market. Quality employment is the best guarantee against poverty and

inequality. This presupposes: enhancing the labour force participation of women and assuring enduring employment for various disadvantaged groups, including the disabled, the under skilled and the long-term unemployed; making employment attractive by fighting poverty traps; activating benefit recipients; subsidizing decent low-skilled and low-productive work; implementing active labour market policies as well as labour market reform. The majority of Europe's mature welfare states are confronted with the phenomenon of labour market segmentation between "insiders" and "outsiders". Most likely, labour markets will become ever more flexible. While the boundaries between being "in" and "out" of work have been blurred by growth in atypical work, low-wages, subsidized jobs, and training programmes, one job is no longer enough to keep low-income families out of poverty. Post-industrial job growth is highly biased in favour of high-skilled jobs. Additionally, however, increased labour market flexibility, together with the continuous rise in female employment, will also encourage sizeable growth of low-skilled and semi-skilled jobs in the social sector and in personal services. The policy challenge that presents itself is how to mitigate the emergence of new forms of labour market segmentation through what might be referred to as "preventive employability", combining increases in flexibility in labour relations by way of relaxing dismissal protection, while generating a higher level of security for employees in flexible jobs, including (un)paid (parental) leave, life-course policies, childcare, care for the frail elderly, and gender equality. Flexible working conditions are often part and parcel of family-friendly employment policy provisions. There is a clear relation between the ratio of part-time jobs and female employment growth. But the ability of part-time employment to harmonize careers with family life depends very much on employment regulation, on whether part-time work is recognized as a regular job with basic social insurance participation, and on whether it offers prospects of career mobility.

Later and Flexible Retirement

Many of the so-called 'new social risks', such as family formation, divorce, old-age care dependency, declining fertility rates, and accelerating population ageing, bear primarily on young people and young families, signifying a shift in social risks from the elderly to the young. Late entry into the labour market by youngster, early exit by older workers, combined with higher life expectancy, confronts the welfare state with a looming financing deficit. Two trends justify a change in our thinking about retirement: a) the health status of each elderly cohort is better than that of the last. And, b) the gap between old age and education is rapidly narrowing, so that, in the future, old people will be much better placed than they are today to

adapt through retraining and lifelong learning. The education gap between the old and the young will begin to close as the baby-boomers approach retirement.

In the area of *pensions policy*, the challenge lies in how to allocate the additional expenditures that inevitably accompany population ageing. Delaying retirement is necessary. This is both effective and equitable. It is effective because it impacts simultaneously on the nominator and the denominator by combining more revenue with lower spending. It is inter-generationally equitable because retirees and workers both sacrifice in equal proportions. People are getting healthier and more educated with each age cohort. Flexible retirement and the introduction of incentives to postpone retirement could greatly alleviate the old-age pensions burden. If older workers remain employed longer than they typically do today, then household incomes will increase substantially and the pensions system will be better preserved.

In order to reach this goal, one needs to go beyond changing pension calculation rules (the so-called parametric reforms) and also aim at improving working conditions and implementing lifelong training schemes for all workers. Social investment policy in this respect goes beyond capacitating public services and leave provisions. With a more active older work force and work-life reconciliation problems for younger two-job couples with children, employment relations based on dignity at work principles, fostering new combinations of security and flexibility that allow workers from all age-cohorts to make the best of their abilities and talents, recalibrated employment relations are part and parcel of the new social investment imperative.

Migration and Integration Through Education and Participation

More than before, priority should be given to the issues of participation and integration on the part of migrants and non-EU nationals, whose rates of unemployment are on average twice that of EU nationals. Integration and immigration policy should occupy a central place in the debate on the future of the welfare state, something we have failed to acknowledge in the past. In our ethnically and culturally diversified societies, the welfare state faces the major challenge of ensuring that immigrants and their children do not fall behind. Specific effort in education, training and labour market integration should be targeted towards migrants and their children in order to narrow the gaps between them and the rest of society.

Minimum Income Support and Service Provision

Social insurance guarantees are increasingly connected to *capacitating* social services, customized to individual needs caused by the new life-course contingencies of skill depletion, family breakdown, career and caring contingencies. We cannot assume that early childhood development, human capital push, together with high-quality training and activation measures will remedy current and future welfare deficiencies. Hence, in the medium term, it is impossible to avoid any form of passive minimum income support unless we are willing to accept rising household welfare inequalities. An unchecked rise in income inequality will worsen citizens' life chances and opportunities. Greater flexibility and widespread low-wage employment suggests a scenario of overall insecurity for a sizeable group. It is therefore necessary to have an even more tightly woven safety net for the truly needy.

We know that the current situations in the EU Member States, from which we have to start, are very diverse, with some Member States already experiencing dramatic budgetary pressures. Priorities may therefore diverge among Member States, and – as already mentioned – a European-wide Social Investment Pact should support Member States that wish to pursue social investment, despite their budgetary difficulties. Without being naïve, and taking into account the existing diversity, we are convinced that a Social Investment Pact will in the longer term impact positively on public finances, on the basis of the employment and productivity growth that social investment induces. Without a Social Investment Pact of growth in fairness, fiscal consolidation is unlikely, due to both wrongheaded economics and the political conflict it is bound to ultimately unleash. Let us hope that, sooner rather than later, more policy creativity and political imagination will encourage EU and national policymakers to turn the current tide of inward-looking pessimism about the EU's future and the sustainability of European welfare states into a renewed and much needed political effort at forward-looking 'social pragmatism'. Social investment means reform, and the political question finally is how the public opinion and social actors can be convinced of the necessity to reform. In order to convince, social investment strategies should not only be embedded in sound macroeconomic and budgetary policies, but also embedded in an attractive perspective of social progress, based on a shared notion of fairness and the political willingness to fight growing inequalities in our societies.

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