NEXT SOCIAL

# *Urgent: social infrastructure investments*

For almost two decades, EU institutions have paid lip-service to capacitating welfare provision, from the idea of 'social policy as a productive factor' in the 1997 Amsterdam Treaty, to the 'social investment package', launched by Commissioner Laszlo Andor in 2013, up unto the principles laid down in the 2017 European Pillar of Social Rights. With the new legislature, it's time to ratchet up domestic social investment.

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# SOCIAL INVESTMENT IF NOT NOW, WHEN?

*by Anton Hemerijck and Robin Huguenot-Noel*

*How to establish, consolidate and expand #SocialInvestments for future generations?* ***Anton Hemerijck*** *from* ***@EuropeanUni*** *&* ***@r_huguenotnoel*** *from* ***@GIZ_gmbh***

Social investment has been on the EU-agenda for almost two decades. The core diagnosis of the social investment paradigm is that economic internationalisation, technological innovation, demographic ageing, and changing family structures in the post-industrial age increasingly harbour important implications for European welfare state futures. To sustain inclusive welfare provision, social investment scholars argue that social policy in a knowledge economy should increasingly be geared towards citizen 'capacitation'.

Social investment policies aim to sustain the 'carrying capacity' of the welfare state in the knowledge economy and ageing societies. They focus on maximising employment, employability, and productivity to help increase citizens' life-course, well-being and resilience. Social investment is anchored on three complementary objectives: (1) raising and maintaining the 'stock' (or human capital, skills, health of population); (2) facilitating 'flows' between various labour markets and (gendered) life-course transitions; and (3) using 'buffers' for social risk (unemployment, sickness) mitigation

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Anton Hemerijck's new book puts together contributions from leading figures in the field of social investment to provide a state-of-the-art interdisciplinary and comprehensive view on how social investment is employed today. It's one of the first exercises assessing the welfare states in the new post-crisis austerity context and exploring the potential of a new welfare paradigm based on protecting and capacitating.

through income protection and economic stabilisation. Pursuing these objectives in an integrated fashion is the most effective way to maximise economic and social benefits over the life cycle.

The EU has played a leading role in laying down the theoretical foundations of social investment. In the 1997 Amsterdam Treaty, EU institutions recognised the need to conceive 'social policy as a productive factor' in a knowledge economy. In 2013, Social Affairs Commissioner Laszlo Andor introduced the first 'social investment package', and after long debates within the Juncker Commission, social investment priorities were included in the 2017 European Pillar of Social Rights.

However, the Great Recession has evidenced that social investment reform was put on ice as soon as bad weather was forecast. Thus, over the crisis years, concerns about inequality, poverty and mass (youth-) unemployment, and their negative implications for employment, productivity, growth and equality of opportunity, were relegated to 'auxiliary' status to remain subordinate to the Six-Pack (2011), the Fiscal Compact (2012) and the Two-Pack (2013), prescribing balanced budgets irrespective of urgent social needs.

Now that the immediate crisis threat has subsided, the EU's austerity reflex should no longer off-hold the long-awaited social investment turn. Important changes in the EU's economic, social and political environment conspire behind a growing case for the EU to embrace social investment beyond two-decade long lip-service, however genuine in substance. This is the moment for the EU to put its money where its mouth is.

The current macroeconomic environment makes a social investment turn cheaper and more urgent at the same time. The historical collapse in interest rates provides EU governments with imminently favourable borrowing conditions – be it in Germany or in Italy. This conjures up a post-crisis opportunity not to be wasted. More concretely, investing in the EU's economic and social resilience now provides a pro-active stabilisation function for national welfare states' carrying capacity in a context where the scope for monetary policy to absorb future shocks is limited.

More and more, the European public expects political forces to invest in their societies by supporting lives worth living. 'Fair Taxation' campaigns have been flying high in recent months but raising more taxes for more redistribution alone won't per se contribute to better lives. Social investment does. Quantitatively, returns may be measured in terms of increased employment and productivity rates, reduction of gender (pay) gaps and poverty rates. Qualitatively, in terms of quality jobs, work-life balance, or progressive skill acquisition.

At a time where an entire generation still views the EU as the austerity headmaster, social investment provides an opportunity for the EU to revive its political capital. High

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*A 'golden rule': exempting investing in human capital, skills and health from the Eurozone fiscal rules.*
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rates of youth unemployment, a still unequal access to childcare, education, training and lifelong learning opportunities, and a high level of poverty and social exclusion rates across the EU are problems that demands effective and legitimate responses. Reviving the EU with an assertive 'social investment pact' (not package) would confront head-on the political vacuum between right-wing populist welfare chauvinism and the ongoing calls for overnight fiscal consolidation that has emerged at the heart of the European project in the aftermath of the crisis.

However, still today, EU fiscal rules fail to allow for productive social policies to be properly accounted for. The British Economist Tony Atkinson used to give the following example: when surgery is needed, timely intervention allows an incapacitated worker to return to work sooner, thereby saving costs over the long term – even if surgery is covered by public funds. This, however, presupposes that we account for such 'public' spending as an investment instead of current spending. Foolishly, in the rule book of the Stability and Growth Pact, public investments in lifelong education and training in the knowledge economy remain accounted for as wasteful consumptive expenditures!

In this context, the EU is faced with two options: First, business as usual. EU Member States may choose to muddle-through with the ideology of the long-term myth of unproductive social spending, instead of adapting to new realities. In this scenario, the EU will risk not only bearing the expensive economic costs of its blindness, but this would also precipitate a political backlash in undermining the resilience of the European project.

A more constructive option would be for the EU to ratchet up domestic social investment, with rules of the European Monetary Union that allow for exempting human capital 'stock' investments from the Stability and Growth Pact. Concretely, this would take the form of a 'golden rule' exempting human capital 'stock' spending from the Eurozone fiscal rule book for 1,5% of GDP for about a decade, as a flagship initiative of the new Commission. Without a stabilisation budget for the Eurozone, investing in the economic and social resilience of national welfare states is imperative.

As the economist Jean Pisani-Ferry convincingly argued in a recent article: "when Facts change, change the Pact". The time for social investment to be accounted at its just value is now. Today's favourable low interest rate environment should be put to use to establish, consolidate and expand social investments that benefit future generations and consolidate fiscal health in the face of adverse demography.

If not now, when?

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