Journal of European Public Policy

ISSN: 1350-1763 (Print) 1466-4429 (Online) Journal homepage: http://www.tandfonline.com/loi/rjpp20

Social investment as a policy paradigm

Anton Hemerijck

To cite this article: Anton Hemerijck (2018) Social investment as a policy paradigm, Journal of European Public Policy, 25:6, 810-827, DOI: 10.1080/13501763.2017.1401111

To link to this article: https://doi.org/10.1080/13501763.2017.1401111

Published online: 22 Mar 2018.

Submit your article to this journal

View related articles

View Crossmark data

Full Terms & Conditions of access and use can be found at
http://www.tandfonline.com/action/journalInformation?journalCode=rjpp20

JOURNAL OF EUROPEAN PUBLIC POLICY, 2018
VOL. 25, NO. 6, 810–827
https://doi.org/10.1080/13501763.2017.1401111

Social investment as a policy paradigm

Anton Hemerijck

Department of Political and Social Sciences, European University Institute, San Domenico di Fiesole, Italy

ABSTRACT
This contribution delineates the *sui generis* paradigmatic portent of the social investment perspective. After theoretically defining the notion of a policy paradigm in welfare state analysis, the substantive core of the social investment paradigm is presented in two consecutive steps. First, the substantive core of the social investment policy paradigm is exemplified in terms of three core policy functions, relating to: raising and maintaining human capital 'stock' throughout the life course; easing the 'flow' of contemporary labour market transitions; and upkeeping strong minimum-income universal safety nets as social protection and economic stabilization 'buffers'. To drive home the conjecture of social investment as a policy paradigm in its own right, this will, in the final section, be compared with two preceding hegemonic ideal-typical policy paradigms: the demand-oriented Keynesian-Beveridgean welfare compromise of the post-war era; and its anti-thesis, the neoliberal supply-side critique of the welfare state of the 1980s, along a number of institutionally relevant dimensions.

KEYWORDS Demographic aging; family-life course; institutional complementarity; knowledge economy; social investment; welfare state

1. Taking social investment seriously

More than a quarter century ago, in the early 1990s, the Organisation for Economic Co-operation and Development (OECD) received a mandate to examine the labour market performance of its member countries. The *OECD Jobs Study*, published in 1994, exposed the 'dark side' of double-digit unemployment of many of its West European members (OECD 1994, 1997). Hovering around 10 per cent, with few signs of improvement, unemployment rates in France, Germany and Italy were twice as high as in the United States of America (US), while their employment rates were about 12 points below that of the US. The Paris-based think tank argued that Europe's comprehensive welfare states faced a dire trade-off between equity and employment. The central policy recommendations that followed for the *OECD Jobs Study* included wage bargaining decentralization, lowering minimum wages, reducing non-

CONTACT Anton Hemerijck Anton.hemerijck@eui.eu
© 2017 Informa UK Limited, trading as Taylor & Francis Group

wage labour costs, restricting the duration of unemployment insurance, lower taxes and loosening employment protection to allow for an expansion of fixed-term contracts. By so doing, West European countries would be able to raise employment figures to American levels. The price to be paid was to lessen the generosity of the welfare state and thus allow for greater wage and income inequality in order to improve effective labour market allocation by 'making work pay' (OECD 1997).

Fast forward 20 years to the 2015 OECD report on inequality, *In It Together. Why Less Inequality Benefits All*, and we are confronted with a sea change in perspective. The imperative of 'making work pay' by social retrenchment and market deregulation is replaced by a 'capacitating' approach, whereby activating poverty relief, family and gender policy, education, training and employment services and public health, are understood to 'crowd in', rather than 'crowd out', private economic initiative, productivity, employment and growth, while containing inequality much better than the retrenchment-deregulation recipe of the earlier *Jobs Study*. The reappraisal of social policy as contributing to higher employment levels in a more inclusive labour market is strongly echoed in the 2017 edition of the OECD Employment Outlook (2017).

As quite a few European countries, including Denmark, Finland, Sweden, Austria, Germany and the Netherlands, at far higher rates of employment today than the US, feature prominently in OECD studies as the closest approximations of the new 'goodness of fit' between efficiency, employment and equity, it is no surprise that the European Union has been championing the new welfare edifice, most assertively in the *Social Investment Package for Growth and Social Cohesion*, published in February 2013, urging member states to advance post-crisis welfare reform strategies that help 'prepare' individuals, families and societies to respond to the changing nature of social risks in advanced economies, by investing in human capabilities from early childhood through old age, rather than pursuing policies that merely 'repair' social misfortune after moments of economic or personal crisis (European Commission 2013).

The EU's turn to social investment and the OECD's departure from a 'one-size-fits-all' welfare retrenchment and labour market deregulation drive toward an agenda of 'inclusive growth', begs the question of whether we are seeing the emergence of a distinctly novel welfare paradigm. I believe we are. But in spite of the strong lip-service given to social investment by the European Commission, the 'default' neoliberal paradigm of market liberalization, balanced budgets, hard currency and welfare retrenchment also remains with us. As the Single European Act (SEA) of 1986 and the Economic and Monetary Union (EMU) of 1999 were negotiated at a time when the 'supply side' revolution in economic theory was riding high, the architects of the single market and the single currency believed that the Maastricht

Treaty would discipline member states to keep their 'wasteful' welfare states in check. The consequence under current EMU rules is that social investment reform has yet to live up to its full potential (see De la Porte and Natali 2018).

The purpose of this contribution to this collection is to provide a conceptual reflection of the social investment perspective as a distinct policy paradigm, anchored in: (1) politically salient policy objectives; (2) a causal policy theory, specifying in how social risks impact on citizen life-chances; (3) expedient policy instruments mitigating social vulnerability in the knowledge economy under conditions of adverse demography; (4) governance prerequisites for effective implementation; in correspondence with (5) more overriding normative convictions.

The remainder of this contribution proceeds in three steps. Section 2 theoretically delineates the notion of a policy paradigm in comparative welfare state analysis. Section 3 presents the core of the social investment paradigm in terms of three complementary policy functions, relating to: (1) raising and maintaining human capital 'stock' throughout the life course; (2) easing the 'flow' of contemporary labor market transitions; and (3) the upkeeping strong minimum-income universal safety nets as social protection and economic stabilization 'buffers'. To drive home the conjecture of social investment as a welfare paradigm in its own right, Section 4 expounds a typological comparion with the two earlier, more widely accepted, policy paradigms of the Keynesian–Beveridgean welfare state and the neoliberal critique of the welfare state. Section 5 concludes.

2. Policy paradigms in motion

Boundedly rational' authorities, steering through complex and ambiguous and – at times – turbulent environments, rely on 'cognitive maps', 'interpretive frames', 'causal beliefs', 'common understandings' or 'worldviews' and 'rules of thumb' in their policy-making endeavours (Blyth 2002; Fleckenstein 2011; Hall 1989; Hemerijck and Schludi 2000; Simon 1957). Once cognitive templates align with normative beliefs, they amass paradigmatic portent by transforming understandings into 'taken-for-granted' mindsets through policy makers make sense of inherently ambiguous policy environments, and help guide them to attain political goals through the policy process (Beland and Cox2010). Inevitably, when policy paradigms gain general currency, they bolster and entrench policy routines in a path-dependent fashion.

In the world of welfare provision, policy paradigms are ever present. Notwithstanding, they are notoriously difficult to observe, precisely because of their 'taken-for-granted' properties. An exemplary case of the staying power of the ordo-liberal idea of the welfare state as a burden on economic growth can be found in the speech of German Chancellor Angela Merkel rendered at the World Economic Forum on 5 January 2013, held in Davos. In her

address, Merkel dramatized the European predicament by underscoring that the crisis-prone continent 'has around 7% of the world population … almost 25% of global [gross domestic product (GDP)]. Yet Europe also accounts for nearly 50% of global social spending', intimating that Europe's generous welfare provision undermines competitiveness (Merkel 2013). On closer inspection, the EU's share of global welfare spending is a little less than 40 per cent and broadly in synch with the US and Japan in the OECD area (Begg *et al*. 2015). More erroneous is that Merkel's conjecture of generous welfare provision as hampering growth does not stand up to empirical scrutiny. Four out of the ten most successful economies around the globe, according to the Global Competitiveness Index of the World Economic Forum (2014), are European high-spending welfare states, including Germany, with levels of social spending hovering around 20 per cent of GDP. Should we therefore not consider the causal arrow running in reverse with high-spending – social-investment-oriented – welfare states contributing to the long-run economic prowess of Finland, Sweden, the Netherlands and Germany, with above average spending levels on child and family policy, female-friendly parental leave, good education and high-quality training systems and pro-active labour market policies (Hemerijck 2013; Morel *et al*. 2012)? At a minimum, the finding that high social spending does not *per se* hurt competitiveness presses us to consider the *quality* rather than the *quantity* of social spending for a better understanding of the relation between welfare provision and economic prosperity in rich democracies.

Hegemonic paradigms inadvertently expose themselves when established policy routines in line with prevailing doctrines are no longer fully consistent with empirical indicators and observations. Observed discrepancies can trigger – with delay – a process of rethinking and re-imagining policy by seeing policy prolems in a 'new light' and solutions in 'new ways'. Questioning taken-for-granted assumptions and biases is at the heart of paradigm change. Protracted policy failures often politicize the policy process. Seeing problems in a 'new light' is a painful process, as it destabilizes revered causal beliefs, normative convictions and policy-making routines. Policy-makers, socialized by extant paradigms are, initially, likely to resist new evidence, alternative explanations and novel justifications for policy reform that challenge the validity of cherished assumptions. This is what Peter Hall observed in his seminal 1993 article on macroeconomic policy paradigm change in Britain in the late 1970s. The disruptive political U-turn from Keynesian policy priorities to monetarism in British macroeconomic management was galvanized by a severe crisis of stagflation, which could not be adequately explained, nor resolved, within the prevailing Keynesian framework. Labour and the Conservative Party, led by Margaret Thatcher, entered an virulent struggle over policty objectives and substance. This ultimately opened up the discursive space for a novel, or perhaps forgotten, (neo)classical supply-side macro- and

microeconomic ideas to compete for public attention. For his magistral analysis of macroeconomic paradigm change in Britain, Hall theoretically distinguished, between three key constitutive variables: (1) the principal political goals that guide policy; (2) the policy instruments employed to attain privileged goals; and (3) the precise settings of instruments. Together these three components add up to a policy paradigm, defined by Hall as the 'overarching set of ideas specifying how the problems facing (policy-makers) are to be perceived, which goals must be attained through policy and what sort of techniques can be used to reach those goals' (Hall 1993: 279).

A distinct welfare policy paradigm, it should be emphasized, is more than a competing macroeconomic belief system. Welfare states are made up of normatively charged portfolios of interdependent policy areas, including social security, wage bargaining, labour market policy and regulation, family benefits and services, public health, education and training, and also macroeconomic policy, which jointly affect of citizen life chances, (un-)employment, (in-)equality, relative poverty, gender (im-)balance, social mobility and stratification. A welfare policy paradigm is therefore best understood as a common cognitive and normative frame of reference, shared by boundedly rational policy-makers, that informs their understandings of salient policy problems, guides policy prescription and reform, across a range of range interdependent social policy provisions, in relatively coherent directions.

3. The theoretical core of the social investment paradigm

At the heart of a policy paradigm lies a problem-oriented *policy theory* that can serve as an explanation of past policy experience and as a compass for selecting policy instruments and their governance prerequisites. The *policy theory* of the social investment paradigm was given explicit impetus with the publication of the collective book, directed by Gøsta Esping-Andersen, *Why We Need a New Welfare State* (Esping-Andersen *et al*. 2002), commissioned by the Belgian Presidency of the European Union in 2001. The core empirical diagnosis of *Why We Need a New Welfare State* is that economic internationalization, technological innovation, demographic ageing and changing family structures in the post-industrial age increasingly foster suboptimal life chances for large parts of the population. Esping-Andersen *et al*. not only took issue with the neoliberal axioma that generous welfare provision inevitably implies a loss of economic efficiency. Perhaps, the volume was even more critical about the staying power of male-breadwinner, pension-heavy and insider-biased welfare provision in many European countries, reinforcing stagnant employment and long-term unemployment, in-work poverty, labour market exclusion, family instability, high dependency ratios and below-replacement fertility rates. Four core features stand out in the policy theory of social investment, bearing on the question of 'redistribution', the welfare state's

'carrying capacity', the 'gendered family life-course', and the critical importance of aligning 'institutional complementaries' across in-kind capacitating and income-benefit compensating policies in practical delivery.

3.1. Beyond redistribution and social insurance

Social policy scholars from various disciplines conventially analyse welfare provision through the (re-) distributive lense of 'decommodifying' taxes and transfers. By so doing, they easily overlook the increasing importance of in-kind benefits in the areas of childcare and family policy, training and education and active labour market policies, and such 'capacitating social services', a term coined by Sabel (2012), contribute to the resilience – both in terms of employment and poverty relief – of the welfare state. Because social risks of the life course and the labour market are increasingly difficult to predict, they are in the process of becoming uninsurable in actuarially neutral terms through ex-post *compensating* social insurance. As such, there is an obvious need to introduce cost-efficient ex-ante *preventive* capacitating interventions, alongside traditional social security. This is not to replace the insurance logic *per se*, but rather to complement and bolster the effectiveness of passive social security in the competitive knowledge-economy (see also Schmid 2017). Thus, by reframing the welfare conundrum away from a redistributive bargain in the 'here and now', and by conceptualizing how popular benefits and services can be sustained for future generations under more adverse demographic conditions, Esping-Andersen *et al.* radically transcended the distributive political frames of juxtaposing 'contributors' and 'beneficiaries' of the welfare state as distinct cleavages.

3.2. The welfare state's carrying capacity

Central to the sustainability of advanced welfare states is the number (*quantity*) and productivity (*quality*) of current and future workers and taxpayers. To the extent that social policies are geared towards maximizing employment and productivity of present and future workers, they effectively contribute the 'carrying capacity' of the welfare state and, by implication, economic progress. Employment and employability are central objectives behind the more overarching social investment aim of breaking the intergenerational transmission of social disadvantage. A larger, more productive and less socially scarred workforce is fundamental to a costly but potentially productive social investment strategy. Faced with the increased volatility in post-industrial labour markets, most people find themselves in between different jobs and caring obligations at various stages in their lives, with the risk of falling behind after precarious transitions. On the other hand, the vast majority of youngsters in schools will become productive workers, most ill people

return to the labour market after medical intervention, young mothers more easily find work if supported by good daycare and generous parental leave provision, and also the (short-term) unemployed usually resume paid work after spells of remedial training and activation while being supported by social security (Hills 2014).

3.3. The work–family life course

The *work–family life course* is very much the 'lynchpin' of the social investment policy paradigm (Kuitto 2016). More flexible labour markets and skill-biased technological change, but also higher divorce rates and lone-parenthood, make female economic independence an important prerequisite for curbing child poverty. Absent possibilities of externalizing child and elderly care, a rising numbers of female workers face 'broken careers' and postponed motherhood, with low fertility intensifying the ageing burden in pensions and healthcare in the medium term (Esping-Andersen 2009). Most worrysome is the rise of marital homogamy in the new era of high female employment. Chances are that highly educated and dual-earning households, with easy access to high quality childcare, race ahead while low-skill and low-work intensity households fall behind (Cantillon and Van Lancker 2013). For a better work–life balance, *Why We Need a New Welfare State* urged for social investment policies for improved resilience over the family life course. The orientation on the life course is crucial. Lengthier, more diverse and volatile working lives harbour important implications for social policy. People are most vulnerable over critical transitions in the life course: (1) when they move from education into their first job; (2) when they aspire to have children; (3) when they – almost inevitably – experience spells of labour market inactivity; and, finally, (4) when they move to retirement. To the extent that policymakers are able to identify how economic wellbeing and social problems at such transitions in the life course impinge on later conditions, preventive policies should be advanced to forestall cumulative social risk and poverty reproduction, with the eradication of child poverty taking pride of place together with more continuous female careers.

3.4. Stocks, flows and buffers in 'institutional complementarity'

Like any notion of 'investment', the concept of social investment begs the question of measurable welfare 'returns' (Begg 2017; Burgoon 2017; De Deken 2017; Verbist 2017). Wellbeing returns on social investment hinge fundamentally on the synergy effects across complementary – capacitating and compensatory – policy interventions. In recent years, I have developed an operational taxonomy of three interdependent and complementary social investment policy functions: (1) easing the 'flow' of contemporary labour-

market and life-course transitions; (2) raising and upkeeping the quality of the 'stock' of human capital and capabilities; and (3) maintaining strong minimum-income universal safety net 'buffers' for micro-level income protection and macro-economic stabilization in support of high employment levels in aging societies, for further empirical analysis and assessment (Hemerijck 2015, 2017). In this taxonomy, the 'buffer' function is about securing adequate and universal minimum income protection, thereby also stabilizing the business cycle and buffering economic shocks. Next, the 'stock' function, including cognitive and non-cognitive and physical and apprenticeship training and on-the-job professional skills. The 'stock' function of social investment has wider bearings relating to the provision of 'capacitating social services', bringing under one roof adjustable bundles of professional assistance from from child- to elderly care, including skill enhancement and training services in case of unemployment, health, family and housing support. The 'flow' function, finally, is about efficient and optimal allocation of labour and employment over the lifespan, making sure that unemployment workers can return to work as fast as possible through active labour market policies and job matching. In this context, Guenther Schmid (2015) aptly speaks of a shift from 'making work pay' to 'making transitions pay'.

In everyday policy practice there is ample overlap between the policy functions of 'stocks', 'flows' and 'buffers'. Policy provisions that seemingly focus on one of the three functions, often back up the others in an interconnected fashion and need to do so (Dräbing and Nelson 2017). For example, poverty alleviation is principally a 'buffering' policy, but adequate financial security can facilitate smoother labour market 'flow' as a consequence of mitigated pressure to accept any job on offer, with the potential overall benefit of better job matching and less skill erosion. Portable pension 'buffers' also contribute to better labor market 'flow' for older workers. As Europe's workforce is shrinking, measures to improve labor market 'flow' must be accompanied with effective 'stock' and 'buffer' policies to make sure that a more mobile workers receive the training and skills and measures of income protection that effective support and empower them to make successful transitions. In recent reports of inequality, OECD experts argue that any reduction of inequality between the rich and poor citizens today requires the mobilization of a whole range of policies, from turning female employment into good quality careers ('flow'), to proactive early childhood development, youth and adult training policies ('stock'), and the expansion of effective and efficient activating tax-and-transfer systems ('buffers') in times of dire need (OECD 2008, 2011, 2015, 2017). This evidence on how effective 'stock', 'flow', and 'buffer' policies reinforce the proficiency of each other, allows us to conjecture the operation of a social investment 'life-course multiplier' effect, whereby high quality early childhood care over time contribute to higher levels of educational attainment, which in turn, together with more

tailor-made vocational training, can spill over into higher and more productive employment in the medium term. To the extent that employment participation is furthermore supported by effective work-life balance policies, including adequately funded and publicly available childcare, higher levels of (female) employment with lower gender pay and employment gaps can be foreseen. More opportunities for women – and men – to combine partenting with paid labour is, in addition, likely to have a dampening effect on the so-called 'child gap', the difference between the desired number of children per couple (aspirational fertility) and the actual number of children (realized fertility) (Bernardi 2005). A final knock-on effect is a higher effective retirement age, provided the availability of active ageing policies, including portable and flexible pensions, for older cohorts (see Figure 1).

4. The social investment paradigm by typological comparison

Reference to the Keynesian–Beveridgean welfare state and the neoliberal critique of the interventionist welfare state, as representing distinct policy paradigms, has gained widespread acceptance in the literature on the modern welfare state. This is not the case for the social investment edifice. In

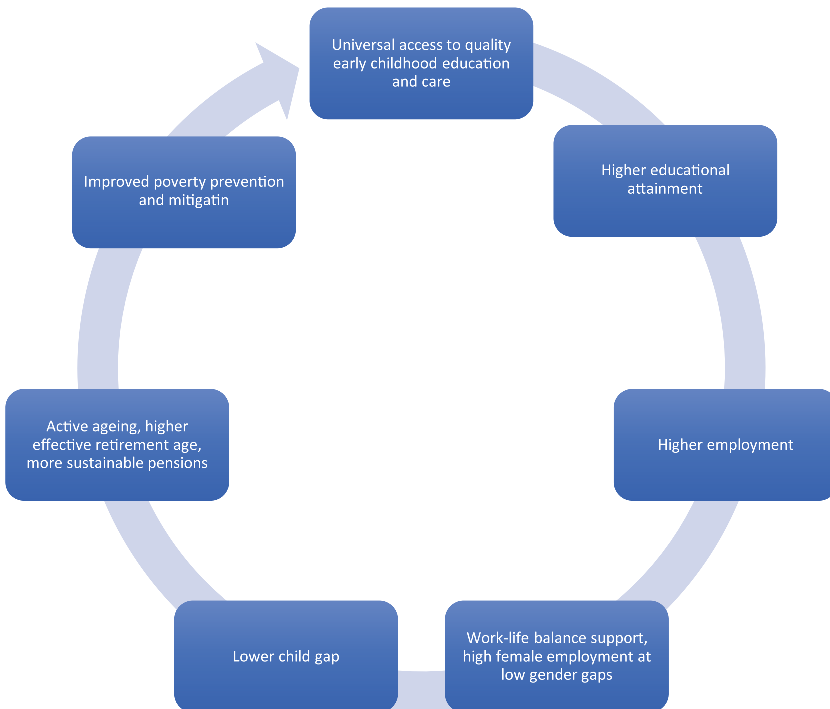

Figure 1. Social investment life-course multiplier.

academia, reference to social investment is decidedly on the increase. The index of 2010 *Oxford Handbook of the Welfare State* counts nine references to the Keynesian–Beveridgean consensus and 18 entries to the neoliberal critique of the welfare state, but none to social investment (Castles *et al*. 2010). The recently published *Handbook of European Social Policy* includes 28 references to social investment, compared with 20 entries to neoliberalism, and suprisingly none to Keynes, Beveridge and the post-war welfare compromise (Kennett and Lendvai-Bainton 2017).

After having exemplified the policy theory of the social investment paradigm, for the final section I now venture to make a conceptual comparison with the two more generally accepted welfare paradigms along a number of salient dimensions. Beyond the core policy theory, there are the obvious dimensions of salient problems, political objectives and privileged policy instruments (and their settings) highlighted by Hall. I add four attributes of key relevance to welfare provision. Inherent to the interdependent nature welfare provision, first and foremost, a wide variety of governance modes and social actors, beyond central bankers and fiscal authorities in macroeconomic management, are engaged in the formulation, implementation and delivery of social policies. A crisis in welfare provision, from this perspective, is not only likely to trigger contestation over substantive policy (re-)direction; it could just as well inspire political discord with prevailing governance structures and institutional actors, unleashing a search for novel rules, responsibilities and stakeholder (non-)involvement. Second, as welfare interventions cater after particular social groups, it is imperative to consider the target population, especially concerning gender. In the third place, there is the time horizon. Social policy interventions can bring immediate poverty relief, akin to Keynesian stimuli, but the timelines for the return to work after retraining and for early childhood care to pay off in terms of long-term productivity gains at higher levels of employment are much longer. Finally, as welfare provision is politically legitimated with reference to normative conception of fairness and the ‘good life’, justice, life, work, family and liberty, value orientations should be also be taken into considered, independently of expedient political problems (Jenson 2010).

4.1. Salient problems and political objectives

The experience of mass unemployment, unleashed by the Great Depression and the atrocities that followed in Word War Two, inspired post-war élites to single out full employment and the introduction of social citizenship rights to unemployment, sickness and old age insurance, together with universal access to education, housing, health care as the overriding objectives of welfare state expansion. The neoliberal critique of the post-war welfare state, by contrast, was rooted in the 1970s and 1980s crisis of stagflation. In

response, non-inflationary economic growth, balanced budgets, and undistorted labour market allocation were singled out core objectives, to be achieved by rolling back the welfare state. The political objective of the social investment paradigm is generally framed in terms of breaking the inter-generational cycle of social disadvantage in an era of volatile and heterogeneous life course and labour market risks (Esping-Andersen *et al*. 2002). But perhaps the more mundane political objective concerns the very viability of popular welfare states, for which high levels of family-friendly employment are *sine qua non* in terms of its 'carrying capacity'.

4.2. Policy theory and instrumentation

The policy theory of the post-war welfare state is rooted in the Keynesian revolution in macroeconomics. In his *General Theory* (1936), John Maynard Keynes exemplified how the political objective of full employment can be upheld by countercyclical macroeconomic demand management. William Beveridge proposed compulsory social insurance as an 'automatic stabilizers' in times of recession, thereby protecting families from cyclical unemployment crises and economic hardship (Beveridge 1942, 1944).

If Keynesian macroeconomics was the brainchild of the Great Depression, the revival of the 'new' classical microeconomics and rational-expectation macroeconomic theory and monetarism are intellectual products of the 1960s' experience cost-push price inflation and the rise of structural unemployment in the 1970s and 1980s. Following 'new' classical economics, recessions are best understood – contra Keynes – as the outcomes of exogenous shocks – the oil shock of the 1970s being a case in point – as a consequence of market imperfections produced by the welfare state, ranging from 'moral hazard' distortions related to compulsory social insurance, to 'unemployment hysteresis' and 'deadweight loss' problems, resulting from heavy taxation, overprotective job security, high minimum wages, and inefficient public employment services (Blanchard and Summers 1987). An additional predicament is the conjecture of low (public) service productivity, associated with the so-called 'Baumol cost disease' (Baumol 1967). To boost non-inflationary economic growth, consistent with the neoliberal consensus, a slimmed-down welfare state, labour market deregulation, collective bargaining decentralization, public service liberalization, low taxation, balanced budgets, and monetarism, enforced by independent central banks, gained prominence in the policy repertoires of a majority of OECD economies since the 1980s.

Theoretically, the social investment paradigm places the Baumol cost predicament in a entirely different light. Publicly financed social investments can create extra private output at relatively low social costs, as parenting services, education, active labour market, health and long-term care interventions contribute to higher employment and long-term productivity gains across all

economic sectors, to service and protect Europe's ageig populations (Atkinson 2015; Wren 2017). But, in contrast to the 'general (economic) theoretical' premises and assumptions of both the Keynesian–Beveridgean welfare state and its neoliberal anti-thesis, social investment diagnosis is more 'contextualized' in its understanding of the contingent – both positive and perverse – interaction effects of family demography, labour market dynamics and technological change, in relation to critical institutional differences across welfare regimes. Likewise, 'contextualization' also features prominently in social investment policy instrumentation, relating to specific mixes of 'stock', 'flow' and 'buffer' policies for mitigating gender-, family- and labour-market contingencies and how effective policy mixes, 'crowding in' employment and family-friendly inclusive growth have to differ across welfare regimes (Hemerijck *et al.* 2016; Kvist 2015).

4.3. Institutional governance

Based on a general diagnosis of *market failures* in financial markets and the cyclical nature of industrial capitalism, securing effective demand and protection against unemployment have been emancipated as prime responsibilities of the modern *state* in the post-war era. Although Beveridge argued that wage bargaining should remain the prerogative of trade unions and employers' associations, he believed that, under conditions of full employment, wage co-ordination between the social partners and public authorities was required for mitigating inflation. Social partnership in the administration of social insurance provision, he thought, could contribute to 'public regarding' collective action in management of the post-war welfare state.

In the neoliberal critique, based on a general diagnosis of *state failure*, social partnership, social partnership wage co-ordination and social security administration are primarily understood as *rent-seeking* 'distributive coalitions', producing strong 'insider–outsider' cleavages in the labour market, to the detriment of job opportunies for the young, women, the old, the low skilled and migrants (Lindbeck and Snower 1989). A rule based fiscal policy, prescribing balanced budgets, together with an anti-inflationary monetary policy, under the jurisdiction of an independent central bank, are presumed to discipline public officials to adopt liberalizing market-conforming 'structural' reforms.

The social investment paradigm is, like the Keynesian–Beveridgean consensus, rooted in a positive understanding of public policy and the role of state. However, the welfare state in the social investment paradigm is more appreciated as a complex interacting system, where feedback loops can foster positive wellbeing synergies as well as unintended negative consequences, such as Matthew effects (discussed by Pavolini and Van Lancker 2018 in this volume). What therefore stands out in institutional terms is the

high level of professional discretion attributed to decentralized levels of public administration for tailoring person-centred service provision to the disabled, youngsters with learning difficulties and families with young children, by aligning capacitating in-kind benefits and protective cash-transfers, in an integrated fashion, to support livelihood independence. The institutional preconditions are thus far more demanding than both centralized social security state of the post-war era and the market-oriented minimalist welfare state of neoliberal descent. Effective social investment governance requires national administrations to render ample backing and discretionary policy space to regional and local authorities and civil society user-led organizations to bundle 'stock', 'flow' and 'buffer' policy mixes (Sabel *et al*. 2017).

4.4. Target population and gender

In principle, the target population of the Keynesian–Beverdigean welfare state, based on social citizenship rights, is highly inclusive. But given its central ojective to eradicate mass unemployment, the post-war welfare state developed a strong bias toward the working age population and the old-aged poor. Moreover, as full employment policy and social insurance against industrial-biographical risks were conscripted to male breadwinners only, the expansion of the Keynesian–Beveridgean welfare state entrenched traditional familyhood, making women as homemakers and children entirely dependent on male breadwinner employment, their wages and deferred social security benefit rights.

Like its Keynesian precursor, the target population of the neoliberal paradigm is principally the working-age population. Novel is that dependent pensioner cohorts are increasingly understood as a cost burden, as their growing volume and high benefits conjure uprising fiscal outlays to be borne by shrinking future working-age populations. With respect to gender, the neoliberal consensus is in principle 'gender-neutral', but in *modus operandi* 'gender-blind' is the more appropriate depiction. Although neoliberalism gained political momentum with the expansion of the service economy in the 1980s, which opened up job opportunities for women, right-conservative coalitions in power at the time left problems of maternal employment with ongoing family care responsibilities largely unaddressed.

As the social investment welfare paradigm is directly linked heterogeneous vulnerabilities related to labour-market and family life-course transitions, rather than to traditional biographical risks, its target population is highly inclusive from early childhood to long-term care. In an era of rising child and in-work poverty, the social investment paradigm seemingly privileges investments in early childhood and social service support for working parents. The shift in policy orientation from older to younger age cohorts, however, does not belie the commitment of sustainable pension provision

in times of adverse demography. On the contrary, to the extent that quality childcare and preschool provision, alongside effective parental leaves and other family benefits, supported active labour market policies and vocational rehabilitation programmes enable (more) parents to engage in gainful employment without (gendered) career interruptions, health care and pension provision are effectively placed on a more sustainable fiscal footing. With its strategic emphasis on work–life balance and reconciliation, the social investment paradigm radically transcends the *male* bias in the Keynesian welfare state and *gender-blind* neoliberal labour market deregulation (Leon 2014).

4.5. Time horizon

Keynesian–Beveridgean welfare interventions are essentially *reactive*, with compulsory social insurance operating as *ex-post* shock absorbers during demand-deficient recessions with the medium-term intent to restore *medium-term* (male) full employment and macroeconomic stability. The neoliberal time horizon is essentially *ahistorical*: understorted market competition, monetary stability, budget consolidation and institutional liberalization should prevail under all circumstances. What stands out in the social investment paradigm is the central focus on life course dynamics and risks, from which *ex ante* and preventive family training and employment interventions naturally follow in a *future-oriented* manner.

4.6. Normative orientations and political discourse

At the normative core of the post-war welfare state lies Beveridge's inclusive resolve to eradicate the 'Great Social Evils of Want, Disease, Ignorance, Idleness and Squalor' (Beveridge 1944: 31). Neoclassical economists and political philosophers often present their justification for welfare state retrenchment in amoral terms, by conjecturing an inescapable 'big trade-off' between equality and efficiency as an unintended consequence of generous welfare provision (Okun 1975). From this reading, 'there-is-no-alternative' (TINA) to privileging '*negative freedom*' and individual responsibility over '*positive freedom*' as the latter inadvertently harms economic efficiency by undermining, at the micro-level, individual responsibility, self-reliance and liberty. In an open economy, therefore, relatively high levels of income inequality at market-clearing levels of full employment have to be accepted as fair, and a price worth paying for liberty (Friedman 1962; Hayek 1976, 2001 [1944]).

At the normative heart of the social investment paradigm lies a reorientation away from both Beveridge's notion of *freedom from want* and neoliberal predilection for *negative freedom* towards a richer understanding of human development in terms of *freedom to act*, taking inspiration from the 'capability

Table 1. Welfare regime paradigms compared, but then leave out name in first quadrant.

Welfare paradigm typologies compared	Keynesian–Beveridge	Neoliberal critique	Social investment
Policy problem and political objective	Demand deficient mass unemployment and poverty Full employment and social citizenship in industrial societies	Stagflation and labour market hysteresis Non-inflationary growth and undistorted labour market allocation in the service economy	Inter-generational reproduction of social disadvantage Human development (to sustain popular welfare states under adverse demography in the knowledge economy
Policy theory	Volatile capitalism (market failures) requires macro-economic steering through counter-cyclical demand management and fine tuning	Insurmountable 'big trade-off' between equity and efficiency: welfare (state failure) 'crowds out' private economic initiative ('moral hazard', 'deadweight loss', 'collective rent-seeking' and 'Baumol cost disease'	Social investments 'crowd in' private economic initiative, growth and competitiveness through higher employment, improved human capital use and economic security over the life course
Policy instrumentation	Income-replacing social insurance and (industrial) job protection, to help restore full employment (alongside fiscal stimulus)	Benefit curtailment, deregulation, liberalization, (public) pension privatization, undergirded by anti-trust legislation, non-discretionary rules-based fiscal discipline and hard currency monetary policy, to enforce 'structural reform'	Capacitating bundles of human capital 'stock', labour-market 'flow' and activating social security 'buffer' policies to address life-course contingencies *ex ante*
Governance prerequisites	Strong state, national accounting, efficient social security administration, progressive taxation and social partnership concertation to mitigate inflation (macro-level discretion)	Contracting out public services and new public management to pre-empt organized 'rent-seeking' and bureaucratic 'capture' by 'distributive coalitions' (no discretion)	Provision of integrated personalized services and benefits in 'institutional complementarity' (bottom–up discretion with strong central-level backing)
Target population and gender	Male breadwinners and (indirectly) dependent family, reinforcing female homemaking	Working age population dependent pensioner cohort (as a burden). Gender neutral in principle, but gender blind qua caring family support	All age cohorts, with a gender-equitable emphasis on vulnerable families, working parents and children
Time horizon	*Ex-post* medium-term macroeconomic restoration of full employment equilibria	General (ahistorical) imperative to reinforce permanently enforce *laissez-faire* market 'level-playing field' equilibria	*Ex-ante*, future-oriented and preventative mixes of 'stock', 'flow' and 'buffer' policies to sustain the 'carrying capacity' of popular welfare states with a focus on human development over risky transitions
Normative commitment	A free society without want, disease, idleness, squalor and ignorance	'There-is-no-alternative' to privileging 'negative' over 'positive' freedom to secure life and liberty (inequality to be accepted as 'fair')	Capacitating (life- course contingent) social justice

approach' of Amartya Sen (2001, 2009; see also Morel and Palme 2017). The normative foundation of the social investment edifice remains anchored in the Rawlsian principle favouring of the least well-off as a precondition effective social investment, but no longer in a decommodifying manner, but rather in terms of enhancing citizens' capabilities to flourish over the life course, by constantly scrutinizing and correcting unequal market and non-market opportunity structures, including those produced – interactively – by the welfare state itself (Table 1).

Acknowledgements

The author wishes to thank two anonomous reviewers for their constructive comments, and Frank Vandenbroucke and Jim Mosher for insisting on keeping the argument focused on the social investment paradigm.

Disclosure statement

No potential conflict of interest was reported by the authors.

Notes on contributor

Anton Hemerijck is professor of political science and sociology at the European University Institute (Florence, Italy) and Centennial Professor of Social Policy at the London School of Economics and Political Science (London, UK).

References

Atkinson, A.B. (2015) *Inequality: What Can Be Done?*, Cambridge, MA: Harvard University Press.

Baumol, W.J. (1967) 'The macroeconomics of unbalanced growth', *American Economic Review* 57(3): 415–26.

Begg, I. (2017) 'Social investment and its discount rate', in A. Hemerijck (ed.), *The Uses of Social Investment*, Oxford: Oxford University Press, pp. 174–183.

Begg, I., Mushoevel, F. and Niblett, R. (2015) 'The welfare state in Europe – visions for reform', in B. Stiftung (ed.), *Vision Europe Summit. Redesigning European Welfare States – Ways Forward*, Guetersloh: Bertelsmann Stiftung, pp. 12–37.

Beland, D. and Cox, R.H. (2010) *Ideas and Politics in Social Science Research*, Oxford: Oxford University Press.

Bernardi, F. (2005) 'Public policies and low fertility: rationales for public intervention and a diagnosis for the spanish case', *Journal of European Social Policy* 15(2): 123–38.

Beveridge, W.H. (1942) *Social Insurance and Allied Services, Presented to Parliament as Command Paper 6404. Report by Sir William Beveridge [The Beveridge Report]*, London: HMSO.

Beveridge, W.H. (1944) *Full Employment in a Free Society: A Report*, London: Allen & Unwin.

Blanchard, O. and Summers, L. (1987) 'Hysteresis in unemployment', *European Economic Review* 31: 288–95.

Blyth, M. (2002) *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century*, Cambridge: Cambridge University Press.

Burgoon, B. (2017) 'Practical pluralism in the empirical study of social investment: examples from active labour market policy', in A. Hemerijck (ed.), *The Uses of Social Investment*, Oxford: Oxford University Press, pp. 161–73.
Cantillon, B. and Van Lancker, W. (2013) 'Three shortcomings of the social investment perspective', *Acta Sociologica* 55(2): 125–42.
Castles, F.G., Leibfried, S., Lewis, J., Obinger, H. and Pearson, C. (eds.) (2010) *The Oxford Handbook of the Welfare State*, Oxford: Oxford University Press.
De Deken, J. (2017) 'Conceptualising and measuring social investment', in A. Hemerijck (ed.) *The Uses of Social Investment*, Oxford: Oxford University Press, pp. 184–93.
De la Porte, C. and Natali, D. (2018) 'Agents of Institutional Change in EU Policy: The Social Investment 'Moment'', *Journal of European Public Policy*. doi:10.1080/13501763.2017.1401110
Dräbing, V. and Nelson, M. (2017) 'Addressing human capital risks and the role of institutional complementarities', in A. Hemerijck (ed.), *The Uses of Social Investment*, Oxford: Oxford University Press, pp. 128–39.
Esping-Andersen, G. (2009) *The Incomplete Revolution: Adapting to Women's New Roles*, Cambridge: Polity.
Esping-Andersen, G., Gallie, D., Hemerijck, A. and Myles, J. (2002) *Why We Need a New Welfare State*, Oxford: Oxford University Press.
European Commission (2013) *Towards Social Investment for Growth and Cohesion – Including Implementing the European Social Fund 2014*-2020, COM(2013) 83 final, Brussels, 20.02.2013.
Fleckenstein, T. (2011) 'The politics of ideas in welfare state transformation: Christian democracy and the reform of family policy in Germany', *Social Politics International Studies in Gender, State & Society* 18(4): 543–71.
Friedman, M. (1962) *Capitalism and Freedom*, Chicago: University of Chicago Press.
Hall, P.A. (1989) *The Political Power of Economic Ideas: Keynesianism Across Nations*, Princeton, NJ: Princeton University Press.
Hall, P.A. (1993) 'Policy paradigms, social learning, and the state: the case of economic policy-making in Britain', *Comparative Politics* 25(3): 275–93.
Hayek, F.A. (1976) *Law, Legislation, and Liberty, ii. The Mirage of Social Justice*, London: Routledge & Kegan Paul.
Hayek, F.A. (2001 [1944]) *The Road to Serfdom*, London: Routledge.
Hemerijck, A. (2013) *Changing Welfare States*, Oxford: Oxford University Press.
Hemerijck, A. (2015) 'The quiet paradigm revolution of social investment', *Social Politics: International Studies in Gender, State & Society* 22(2), 242–56. doi:10.1093/sp/jxv009
Hemerijck, A. (ed.) (2017) *The Uses of Social Investment*, Oxford: Oxford University Press.
Hemerijck, A. and Schludi, M. (2000) 'Sequences of policy failures and effective policy responses', in F.W. Scharpf and V. Schmidt (eds.), *Welfare and Work in the Open Economy, i. From Vulnerability to Competitiveness*, Oxford: Oxford University Press, pp. 125–228.
Hemerijck, A., Burgoon, B., Dipietro, A. and Vydra, S. (2016) *Assessing Social Investment Synergies (ASIS), A Project to Measure the Returns of Social Policies*, *Report for DG EMPL*, Brussels: European Commission.
Hills, J. (2014) *Good Times, bad Times: The Welfare Myth of Them and Us*, Bristol: Policy Press.
Jenson, J. (2010) 'Diffusing ideas for after-neoliberalism: the social investment perspective in Europe and latin America', *Global Social Policy* 10(1): 59–84.
Kennett, P. and Lendvai-Bainton, N. (2017) *Handbook of European Social Policy*, Basingstoke: Edward Elgar Publishing.

Keynes, J.M. (1936 [1973]) *The General Theory of Employment, Interest and Money*, London: Macmillan for the Royal Economic Society.
Kuitto, K. (2016) 'From social security to social investment? Compensating and social investment welfare policies in a life-course perspective', *Journal of European Social Policy* 26(5): 442–59.
Kvist, J. (2015) 'A framework for social investment strategies: integrating generational, life course and gender perspectives in the EU social investment strategy', *Comparative European Politics* 13(1): 131–49.
Leon, M. (ed.) (2014) *Care Regimes in Transitional European Societies*, Basingstoke: Palgrave.
Lindbeck A., and Snower, D. J. (1989) *The Insider-Outsider Theory of Employment and Unemployment*, Cambridge, MA: MIT Press.
Merkel, A. (2013) *Speech by Federal Chancellor Merkel at the World Economic Forum Annual Meeting* 2013, Davos, 24 January, available at https://www.bundesregierung.de/ … /2013-01-24-merkel-davos.ht
Morel, N. and Palme, J. (2017) 'Social investment and capabilities: a normative foundation', in A. Hemerijck (ed.), *The Uses of Social Investment*, Oxford: Oxford University Press, pp. 150–157.
Morel, N., Palier, B. & Palme, J. (eds.) (2012) *Towards a Social Investment Welfare State? Ideas, Policies, Challenges*, Bristol: Policy Press.
OECD (1994) *The OECD Jobs Study: Facts, Analysis, Strategies*, Paris: OECD.
OECD (1997) *The OECD Jobs Strategy: Making Work Pay: Taxation, Benefits, Employment and Unemployment*, Paris: OECD.
OECD (2008) *Growing Unequal*, Paris: OECD.
OECD (2011) *Doing Better for Families*, Paris: OECD.
OECD (2015) *In It Together; Why Less Inequality Benefits All*, Paris: OECD.
OECD (2017) *Employment Outlook 2017*, Paris: OECD.
Okun, A.M. (1975) *Equality and Efficiency: The Big Trade Off*, Washington, DC: The Brookings Institution.
Sabel, C. (2012) 'Individualized service provision and the new welfare state: are there lessons from Northern Europe for developing countries?', in C. Luiz de Mello and M.A. Dutz (eds.), *Promoting Inclusive Growth, Challenges and Policies*, Paris: OECD, pp. 75–111.
Sabel, C., Zeitlin, J. and Quack, S. (2017) 'Capacitating services and the bottom-up approach to social investment', in A. Hemerijck (ed.), *The Uses of Social Investment*, Oxford: Oxford University Press, pp. 140–49.
Schmid, G. (2015) 'Sharing risks of labour market transitions: towards a system of employment insurance', *British Journal of Industrial Relations* 53(1): 70–93.
Schmid, G. (2017) 'Towards life course insurance', in A. Hemerijck (ed.), *The Uses of Social Investment*, Oxford: Oxford University Press, pp. 108–17.
Sen, A. (2001) *Development as Freedom*, Oxford: Oxford University Press.
Sen, A. (2009) *The Idea of Justice*, Cambridge, MA: Harvard University Press.
Simon, H. (1957) *Models of Man: Social and Rational*, New York: John Wiley & Sons.
Verbist, G. (2017) 'Measuring social investment returns: do publicly provided services enhance social inclusion?', in A. Hemerijck (ed.), *The Uses of Social Investment*, Oxford: Oxford University Press, pp. 194–204.
WEF (World Economic Forum) (2014) *Global Competitiveness Report 2013–2014*, www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2013-14
Wren, A. (2017) 'Social investment and the service economy trilemma', in A. Hemerijck (ed.), *The Uses of Social Investment*, Oxford: Oxford University Press, pp. 97–107.