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Social Investment first! A precondition for a modern Social Europe

by Claire Dhéret and Lieve Fransen

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Table of abbreviations

AGS	Annual Growth Survey
ALMP	Active Labour Market Policy
AT	Austria
BE	Belgium
BG	Bulgaria
CESI	European Confederation of Independent Trade Unions
CSR	Country-Specific Recommendation
CZ	Czech Republic
CY	Cyprus
DE	Germany
DK	Denmark
EaSI	Programme for Employment and Social Innovation
EE	Estonia
EFSI	European Fund for Strategic Investment
EL	Greece
EMU	European Monetary Union
ERDF	European Regional Development Fund
ES	Spain
ESF	European Social Fund
ESPN	European Social Policy Network
EU	European Union
EPC	European Policy Centre
FEAD	Fund for European Aid to the Most Deprived
FI	Finland
FR	France
HU	Hungary
HR	Croatia
IE	Ireland
IT	Italia
JAF	Joint Assessment Framework
LT	Lithuania
LTU	Long-term unemployment
LU	Luxembourg
LV	Latvia
MIP	Macro-economic Imbalance Procedure
MFF	Multiannual Financial Framework
MT	Malta
NEET	A young person who is 'Not in Education, Employment or Training'
NL	Netherlands
OMC	Open Method of Coordination
PISA	Programme for International Student Assessment
PIAAC	Programme for the International Assessment of Adult Competencies
PL	Poland
PT	Portugal

RO	Romania
SE	Sweden
SGP	Stability and Growth Pact
SI	Slovenia
SIA	Social Impact Accelerator
SIP	Social Investment Package
SK	Slovakia
SME	Small and Medium-sized Enterprises
SIA	Social Impact Accelerator
SPPM	Social Protection Performance Monitor
TEU	Treaty of the European Union
TFEU	Treaty of the Functioning of the EU
UK	United Kingdom
YEI	Youth Employment Initiative

Executive Summary

This EPC issue paper is an urgent call to put social investment at the centre of the EU's policy agenda. Its authors see the concept of social investment as well as its full and comprehensive integration into policymaking and budget allocations as a prerequisite for a strong, modern and sustainable Social Europe.

Social investment does not simply mean more social policies. It goes beyond the question of social expenditure and rather requires a radical change of mindset on the role of social policies and how they are delivered. The concept 'social investment' means investing in people from the earliest stage in life, promoting the participation of each individual in the economy, adopting a life-course approach, adapting policies to individualised circumstances and providing services in an integrated manner. In the social investment logic, good social outcomes are the result of a complex and balanced mix of policies that complement and reinforce each other. In the same vein, protective and active measures are two sides of the same coin and social protection is an integral part of a successful investing strategy. It bears a significant potential, namely to address two growing challenges that the EU is currently facing: the inadequacy of many welfare state regimes to cope with new social and economic developments, in particular those transforming and polarising the labour market, and the growing socio-economic divergences that affect both member states and the EU as a whole. Often, these divergences originate from significant disparities in human capital investment, which has become increasingly important in the knowledge economy.

The authors of this paper argue that the role of the EU in fostering and promoting social investment is key and a necessary step towards a stronger and more modern Social Europe. While many believe that there is no appetite for such a move and that the push for a more social Europe would only strengthen the voices of populist and Eurosceptic forces, this paper supports the opposite view. Its authors believe that too much time has already been wasted, and that the absence of a comprehensive social investment strategy across member states partly explains the economic, social and political crisis the EU is facing. Pursuing this path further would, in the medium to long run, entail a number of risks with fatal consequences for the EU, the eurozone and its member states. First, a further increase in economic and social divergences would make the eurozone particularly fragile and accentuate imbalances between the best and worst performing countries, prolonging therefore the need to support the 'weakest' given the strong interdependency of national economies. In the worst-case scenario, member states' interests and expectations as regards monetary policy would diverge too much, with both the eurozone and the EU at risk of eventually falling apart. Second, the absence of a strong Social Europe would further nurture citizens' anger towards the EU and a sentiment that EU policies are threatening their well-being and quality of life. This would, in the end, further embolden Eurosceptic movements. But if, on the contrary, the EU is able to reinforce its social dimension with a robust strategy on social investment, enabling greater competitiveness in the weakest countries and social convergence within the EU and the eurozone, citizens' attitudes towards the EU are likely to change. In fact, the Union can then become a driver of positive changes and social progress for all.

Some countries in the EU have embarked on this journey since some time and have, as a result, survived the financial crisis relatively unscathed. There is, however, still some work to do, both at the national and EU level. In fact, the reality is that, despite a few recent and welcome steps at the EU level (including the adoption of the Social Investment Package in 2013), social investment has only been

developed superficially. In addition, there is a misalignment between EU policy objectives and their implementation in practice.

To reverse this trend and turn the EU into an agent of positive change and social progress for all, setting up a concrete EU action plan for a full and comprehensive implementation of social investment is essential. As recommended by the authors, this plan will have to rely on three main pillars: a European roadmap to ensure a minimum level of social protection for all (i), a stronger focus on investing in human capital in the EU budget (ii) and, a set of reforms to align EU governance with the social investment imperative (iii). A number of important steps will have to be taken in each of these pillars as summarised in the table below.

A European roadmap for a minimum level of social protection for all

A stronger focus on human capital investment in the EU budget

Aligning EU governance with the social investment imperative

Key objective

Guarantee the same social rights to all citizens and provide a minimum level of social protection to all so as to achieve an effective social investment strategy and improve outcomes.

Use the EU budget as a main vehicle to achieve EU social objectives and foster social convergence through more efficient investment in human capital.

Use EU governance to foster and monitor progress towards a robust social investment strategy.

Broad policy change

Reform EU law by adjusting already existing legislation and creating new legislative acts.

Increase the share and impact of investment in human capital coming from the EU budget, in particular for the weakest countries.

Ensure that macro-economic and social objectives are on an equal footing within EU governance, while recognising the economic value of social investment.

Concrete recommendations

- Adapt EU legislation on family leave schemes by taking into account new forms of shared roles in households and enlarging the number of leave schemes available throughout the life-course;
- Come up with a common and larger definition of employment so that all workers can benefit from the same rights;
- Create a European framework for a minimum income scheme in each member state and a guarantee for accessing basic public services;
- Develop the concept of personal activity accounts at the European level and extend its function to the role of a European social card.

- Conduct a thorough social impact assessment of the EU budget;
- Increase the allocations of EU funds aiming to invest in human capital and ensure that they go to people who need them most;
- Facilitate the access to loans for the social economy, in particular social service providers, by adapting financial instruments to their needs.

- Look more carefully at policy inputs to get a better understanding of the impact of policies and their complementarity;
- Better integrate the notion of social investment into EU social governance and reflect this notion in the use of social indicators;
- Use the European Semester to monitor the respect and implementation of social rights;
- Establish a Golden Rule allowing member states to deduct social investment from the calculation of the public deficit;
- Create a body of independent experts to make progress on the measurement of social investment economic returns and define which spending would qualify as social and productive investment.

Introduction

Social Europe is currently under pressure from opposing dynamics raising fundamental questions about its *raison d'être*. Social policies and the need to build up a strong Social Europe have recently been put at the forefront of the European political agenda. But opinions in the member states are very different.

Years of austerity measures, their indisputable harmful effects on people and the relentless battle of many social activists have, over the last years, prepared the ground for a growing support for social policies at the European level. It certainly took time for the supporters of a stronger Social Europe to get their message across and resonate beyond the traditional political dividing lines. But it now seems that the need to move towards a more social Europe is gaining ground within the institutions of the European Union (EU). This change of approach is mainly due to two factors. Firstly, the disastrous impact of the post-crisis policies on economic and social cohesion has become increasingly evident. In parallel, voices denouncing the role of austerity measures in the inability of some member states to recover from the economic crisis and in the increase of divergences between EU countries (in particular within the eurozone) have started to be heard. Secondly, while post-crisis measures were being implemented, EU policymakers witnessed the consolidation of already existing, but still scattered and fragile, Eurosceptic forces as well as the emergence of new ones. This phenomenon was largely, if not exclusively, the expression of people's anger against mainstream political parties and their inability to prevent some of the trends resulting from globalisation, trade liberalisation and economic transformations.

The most visible signs of the EU's changing approach can be found in the so-called Five Presidents' Report¹ calling for a 'Social Triple A' for Europe. This was followed more recently by the launch of a public consultation on a European Pillar of Social Rights that was closed in January 2017. As described by European Commission President Jean-Claude Juncker, the objective of the pillar is to "serve as a compass for the renewed convergence within the euro area" and "drive reforms at national level" while taking account "of the changing realities of the world of work".² It should be used as a policy reference framework to benchmark employment and social policy performance in order to achieve a deeper and fairer Economic and Monetary Union (EMU). The preliminary outline of the pillar was divided into three main categories: equal opportunities and access to the labour market, fair working conditions, and adequate and sustainable social protection.³ There has been a wide debate on the role and final objectives of the European Pillar during the public consultation, with many proposals on the way.⁴ The follow-up by the European Commission is now expected to be announced in April 2017.

Whether these developments will continue and whether political discourse will be translated into tangible policy actions still remains to be seen. But what is certain is that any move towards more Social Europe also faces bitter opposition. National capitals do not share the same vision. Instead, they are adapting to public opinions that have increasingly turned EU-sceptic and as a result, European matters have become ever more

¹ See Jean-Claude Juncker, Donald Tusk, Jeroen Dijsselbloem, Mario Draghi and Martin Schulz (2015), *The Five Presidents' Report: Completing Europe's Economic and Monetary Union*, available at

http://ec.europa.eu/priorities/sites/beta-political/files/5-presidents-report_en.pdf, last accessed on: 03.02.2017.

² See European Commission President Juncker's 2015 State of the Union address, available at

https://ec.europa.eu/priorities/state-union-2015_en, last accessed on: 24.11.1016.

³ European Commission (2016a), *Launching a consultation on a European Pillar of Social Rights*, COM(2016) 127 final, available at

<http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2016:127:FIN#document2>, last accessed on: 24.11.1016.

⁴ See, for example, the recent report of Rodrigues Maria-Joao, Member of the European Parliament, in: Report on a European Pillar of Social Rights (2016/2095 (INI)), accessible at

<http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+REPORT+A8-2016-0391+0+DOC+PDF+V0//EN>, last accessed on: 27.02.2017.

contentious in national public discourse. Many recent examples (the Brexit vote, the Dutch referendum on a Ukraine-EU Association Agreement, recent elections etc.) illustrate how citizens are turning their back on the European project. Citizens' sentiment that the EU is no longer to be associated with social progress and that they would be better off with a return to a purely national approach has been further exacerbated by the economic crisis. In this context, it has become extremely difficult for mainstream politics to come up with new and credible European proposals in the social area. Thus, most of the progressive ideas introduced in national public discourses follow a national logic and refrain from raising the European dimension.

In short, while the necessity to give a more prominent role to the EU in the social area has become evident for some, resistance, politically but also among citizens, is strong at the member states' level. Social Europe is therefore facing an existential dilemma that needs to be overcome.

With such a background in mind, this paper aims to provide further evidence on the need to reinforce Social Europe, not least by re-introducing the concept of social investment in the public debate. Social investment is a worthwhile approach that bears the potential to address many of the challenges – be they economic, social or political – that Europe is currently facing. However, to do so it needs to be fully and comprehensively implemented and has to fulfil a number of conditions. In this paper, the authors present their thoughts for turning the concept of social investment into concrete policy actions, which they see as a precondition for a strong, credible and sustainable Social Europe. Furthermore, they argue that the EU should play a pivotal role in supporting such a change of mindset and adapting the European welfare states to the 21st century.

The paper is composed of three main chapters. In chapter 1, the authors depict the new trends challenging the current functioning of European welfare states, while pointing out their current difficulties in addressing them. The second chapter presents the concept of social investment by highlighting its potential in better equipping European welfare states and making them more resilient to ongoing and future challenges. It also describes how the concept is currently only partially integrated into policymaking and budget allocations. Finally, chapter 3 outlines an action plan for the EU to fully embrace the social investment concept and initiate a change of mindset with respect to social policies. Lastly, it demonstrates how the EU could, by putting social investment at the heart of its policies, address the growing issue of economic and social divergences (both between and within member states).

THE NEW REALITIES FACING WELFARE STATES IN EUROPE

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1.1 THE HISTORIC DEVELOPMENT OF WELFARE STATES IN EUROPE

The first instruments of welfare emerged across parts of Europe in the 19th century. But it was only after the Second World War that the continent witnessed a rapid expansion of welfare provisions and the creation of a more comprehensive protection system providing security for citizens. Since then, welfare programmes have been developed upon different institutional logics, leading many scholars to group them in distinct categories. The first highly influential theory⁵ provided by Esping-Andersen makes the distinction between three welfare regimes: the liberal (or market-oriented) regimes of the Anglo-American model, the conservative ones of continental Europe and the Nordic social democratic policy model. Esping-Andersen's typology was then further elaborated and expanded over time by a very rich scholarly literature highlighting the existence of different welfare provision equilibria across Europe. Nowadays, the scale and scope of social provisions still vary significantly across EU countries. Their exact design, including the eligibility criteria and the scope of the support, have also evolved over time with periods of contraction and expansion mainly depending on the weight of political forces.

European welfare states have been fairly resilient over the course of their history and their core principles are deeply rooted in people's mindset.⁶ Their various types of solidarity and distribution mechanisms as well as social dialogue are at the heart of what people consider to be the key characteristics of the European social model.⁷

⁵ Esping-Andersen Gosta (1990), *The Three Worlds of Welfare Capitalism*, Princeton University Press.

⁶ When asked about the three most important values in 2012, 20% of Europeans chose among them equality and 15% solidarity and support for others. To compare, 11% pointed to self-fulfilment and 5% to religion. Similar patterns emerged with regard to the values that were seen as best representing the EU. Moreover, two-thirds of Europeans expressed support for more equality and justice, even if it meant less individual freedom. See Eurobarometer (2012), *The values of Europeans*, Standard Eurobarometer 77, Spring 2012, available at <http://ec.europa.eu/COMMFrontOffice/publicopinion/index.cfm/ResultDoc/download/DocumentKy/63157>, last accessed on: 14.02.2017.

⁷ For more evidence on this point, see Dhéret Claire and Zuleeg Fabian (2011), *Well-being 2030 – A new vision for 'Social Europe'*, EPC Issue Paper N°65, available at http://www.epc.eu/documents/uploads/pub_1326_a_new_vision_for_social_europe.pdf, last accessed on: 28.02.2017.

Putting national variations aside, European welfare states presented some common features in their initial design. Originally, they were built upon the single-wage-earner family structure that prevailed in the post-war industrial period. At that time, European welfare regimes were mainly dominated by the male breadwinner employment-based social insurance approach and based on the assumption that families are stable, children and elderly are taken care of by family members (women in most cases), and that securing income for the entire family is an easy task in this period of full - or nearly full - employment. This latter aspect allowed, moreover, a rather balanced equilibrium between welfare contributors and beneficiaries. In addition, the family context and the very linear work life of individuals (mainly male) limited the needs to adapt the system to life-course transitions.

With the economic shocks of the 1970s, the impact of slower economic growth, higher levels of unemployment, and an ageing population on public expenditures as well as the appearance of a strong feminist movement,⁸ criticism towards the functioning of the welfare regime started to emerge. In this context, some governments undertook reforms and cuts in welfare provisions, without, however, questioning the overall principles of the welfare regime. The pressure on welfare states amplified in the 90s, when the combined effects of post-industrialism and the gender equality movement required important adjustments. Female employment, particularly important in the third sector, as well as the rapidly growing emergence of the dual-wage earner family forced governments to gradually move away from the male breadwinner approach. Family-related social services, including child and elder care, developed at a rapid pace. Furthermore, the change in family structure and the emergence of single-mother households created a need for new services.

Clearly, European welfare states have already gone through important transformations, moving from a single-wage earner family based protection system in times of (nearly) full employment to a more individual-based regime, where gender and family considerations took centre stage. That being said, economic and social realities continue to evolve at a rapid pace, making further adjustments an imperative, as highlighted in the next section.

1.2 WELFARE STATES IN EUROPE: AT ODDS WITH NEW SOCIO-ECONOMIC TRENDS

Unlike in the 1990s, it is less the changes in the family structure and the rise in female employment than the profound structural transformations in the labour market that call for a swift and deep rethinking of our welfare regime.⁹ Long-term forces in the labour market are at work and they pose, together with the persistent problem of high public debt and continuous demographic ageing significant difficulties both for the sustainability of our welfare states and individuals' life-course transitions.

The economic environment in which European companies operate nowadays has changed significantly. Globalisation, trade liberalisation and swift technological changes, such as the digitalisation of the economy, have made business cycles fluctuate more rapidly and less predictable. To respond to such fluctuations and remain competitive *vis-à-vis* the rest of the world, human resources have become a key adjustment variable for employers. In the same vein, many jobs have become more vulnerable to external demand and are more

⁸ See e.g. Brenner Johana (1989), *Towards a Feminist Perspective on Welfare Reform*, Yale Journal of Law & Feminism: Volume 2(1), Article 6, available at <http://digitalcommons.law.yale.edu/yjlf/vol2/iss1/6>, last accessed on: 14.02.2017; Borchorst Anette and Siim Birte (2002), *The Women-Friendly Welfare States Revisited*, NORA Nordic Journal of Women's Studies, Volume 10(2):90-98, available at https://www.researchgate.net/publication/248996473_The_Women-Friendly_Welfare_States_Revisited, last accessed on: 14.02.2017.

⁹ The authors do not dismiss the importance of other social and societal transformations, such as for instance the increased number of isolated people and recomposed households, but they choose, for the sake of brevity, to focus on the ones affecting the labour market. Furthermore, they consider the current changes in the labour market to be particularly relevant for the future of the welfare state.

project-oriented, reducing therefore the number of open-ended contracts and making the labour market more volatile.

On top of that, European labour markets witnessed a sharp increase in new forms of employment, reaching 25.8% of the European labour force in 2014.¹⁰ While standard employment is considered as employment in open-ended contracts, in full-time jobs and in a wage-/or salary relationship, non-standard forms of employment are diverse and can be everything outside the traditional model of a full-time worker engaged in a regular activity in the employer's premises over a long time. All of them include either part-time, temporary work or self-employment. The literature shows that classifying and quantifying the new forms of employment is far from an easy task, in particular due to their diversity and the absence of any robust statistics. However, efforts have been made to get a better understanding of their multiple forms and a recent study of Eurofound distinguishes nine categories (employee sharing; job sharing; interim management; casual work; ICT-based mobile work; voucher-based work; portfolio work; crowd employment; and collaborative employment).¹¹

The increase in these new forms of employment varies across countries. For instance, the proportion of self-employment as a share of total employment in 2015 was above 20% in Greece (29.9%) and Italy (21.9%), but below 10% in Denmark (7.8%), Luxembourg (8.6%), Sweden (8.9%), Estonia (9.3%) and Germany (9.6%). Particularly striking is the rapid spread of the self-employment status in some countries with traditionally low self-employment rates. For instance, the Netherlands and Slovakia have seen a considerable increase over recent years, exceeding the EU average of 14.1% and reaching respectively 15.3% and 14.9% in 2015. The self-employment rate had remained below 10.5% in both countries until 2003.¹²

These profound labour market transformations can be explained in several ways. They partly reflect new economic realities, such as the digital revolution, and are also the result of new social aspirations. Relationships between employers and employees have changed; loyalty towards a single company has worn away; and new aspirations – such as a need for increased flexibility and autonomy, a good work-life balance – have emerged, at least for some parts of the work force. As a result, people do no longer have the same job for their entire lives, but are increasingly moving between jobs and companies. This increases the number of life-course transitions and potentially the number of risks individuals have to face over their life span. These changes are certainly a source of opportunities both for individuals and in terms of jobs creation. However, they can also entail a number of risks in case social policies do not provide individuals with the necessary support to deal with life-course transitions.

Most people taking part in these new forms of employment are poorly protected by the conventional welfare regime. As their employment status does not allow them to contribute to the regime, they are not covered by most welfare provisions. Thus, they either sign up to private insurances or are not protected at all. This raises significant risks for individuals themselves as it becomes increasingly difficult to cope, for instance, with periods of unemployment, parenthood, or sickness. Furthermore, they are likely to reinforce the vicious circle of income inequality that people face on the labour market by extending it to the area of social protection. Hence, social protection will no longer act as a safety net for all. Instead, its functioning is likely to create new forms of inequality and sharpen the duality in the labour market.

¹⁰ These figures come from the own calculations based on the European Labour Force Survey and provided in: Schmid Günther (2016), *Flexible and Secure Labour Market Transitions: Towards Institutional Capacity Building in the Digital Economy*, IZA Policy Paper N°116, available at <http://ftp.iza.org/pp116.pdf>, last accessed on: 28.02.2017.

¹¹ Eurofound (2015), *New forms of employment*, Luxembourg: Publications Office of the European Union, available at https://www.eurofound.europa.eu/sites/default/files/ef_publication/field_ef_document/ef1461en.pdf, last accessed on: 13.02.2017.

¹² See Eurostat, Database: Employment by sex, age and professional status, available at http://ec.europa.eu/eurostat/web/products-datasets/-/lfsa_egaps, last accessed on: 28.02.2016.

Besides their impact on individuals, such transformations are also highly disruptive for the functioning of our welfare states. In fact, new work patterns are amplifying the persistent trends of demographic ageing and high level of unemployment (resulting in bigger numbers of welfare dependents) by further reducing the number of welfare contributors. This will result in an increase of the economic dependency ratio, which is the size of the inactive population compared to the number of people, who are employed.¹³ With recent developments on the labour market, non-contributor workers will now need to be taken into consideration when making this calculation.

All in all, a reduction in the number of contributors is likely to threaten the credibility and the *raison d'être* of the welfare regime but also question the social contract that is lying at the heart of the European social model. In short, economic and social realities have evolved so rapidly over the last decade that the current functioning of welfare systems is no longer adapted to current challenges. The need to reform welfare state policies is further highlighted by the overall deterioration of social indicators over time (described in the next section), raising questions over their effectiveness in adequately investing in human capital and protecting the most vulnerable.

1.3 AN OVERALL DETERIORATION OF THE SOCIAL SITUATION ACROSS THE EU

Analysing the social situation in the EU requires taking a closer look at the main employment and social indicators. Recent developments show that social challenges remain high and that social conditions have deteriorated in many respects. Starting with the indicators used in the Europe 2020 Strategy (see Graph 1 for progress until 2014),¹⁴ the EU's flagship ten-year strategy on smart, sustainable and inclusive growth, one can observe that member states are struggling to make progress in the social area. In fact, two out of the nine indicators were found to be in worse condition in 2015 than when the strategy was launched in 2008: the number of people at risk of poverty or social exclusion in EU 27 has increased by almost 1.6 million between 2008 and 2015¹⁵ (while the goal is a decrease of 20 million by 2020) and the employment rate of people aged 20-64 years reached 70.1% in 2015 (less than the 70.3% in 2008 and far from the objective of 75% in 2020).¹⁶

¹³ Türk Erik, Wöss Josef, and Zuleeg Fabian (2012), *1000 billion Euros at stake: How boosting employment can address demographic change and public deficits*, EPC Issue Paper N°72, Brussels, available at

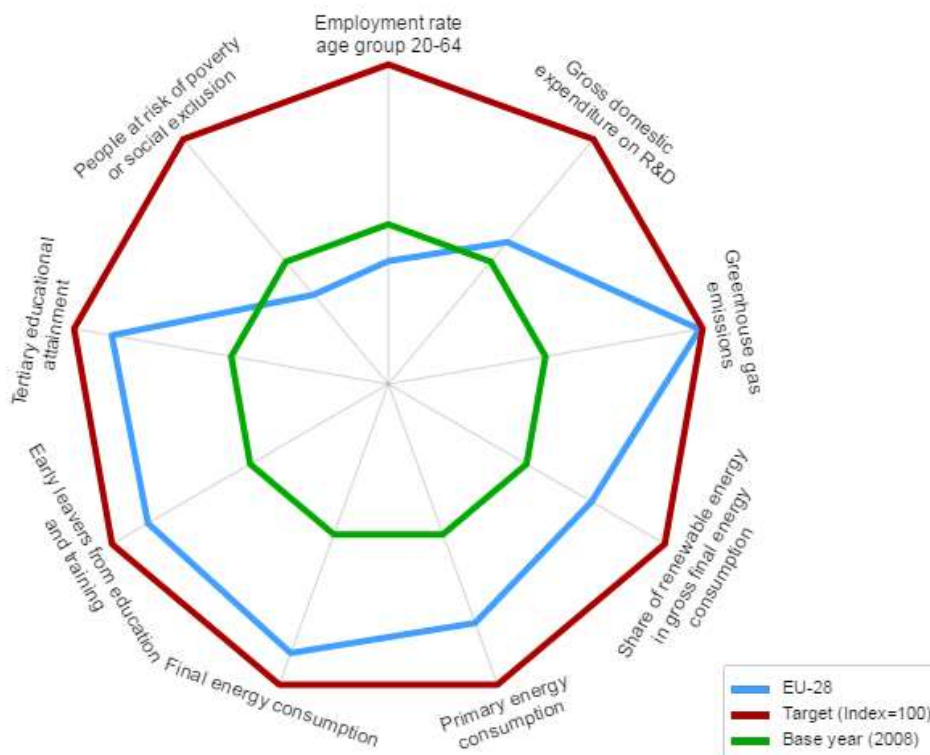
http://www.epc.eu/documents/uploads/pub_3074_1000bn_euros_at_stake.pdf, last accessed on: 28.02.2017.

¹⁴ See Eurostat, Database: Europe 2020 – Headline indicators: scoreboard, available at <http://ec.europa.eu/eurostat/web/europe-2020-indicators/europe-2020-strategy/headline-indicators-scoreboard>, last accessed on: 21.02.2017. Data for 2015 is not available for all indicators.

¹⁵ See Eurostat, Database: People at risk of poverty or social exclusion by age and sex, available at http://ec.europa.eu/eurostat/web/products-datasets/-/ilc_peps01, last accessed on: 14.02.2017.

¹⁶ This situation was, however, an improvement from the 2012 levels when the number of people at risk of poverty or social exclusion was over 6.3 million higher than in 2008 and when the employment rate equalled 68.4%.

Graph 1. Europe 2020 indicators – progress made between 2008 and 2014 and distance to cover towards the key targets in 2020



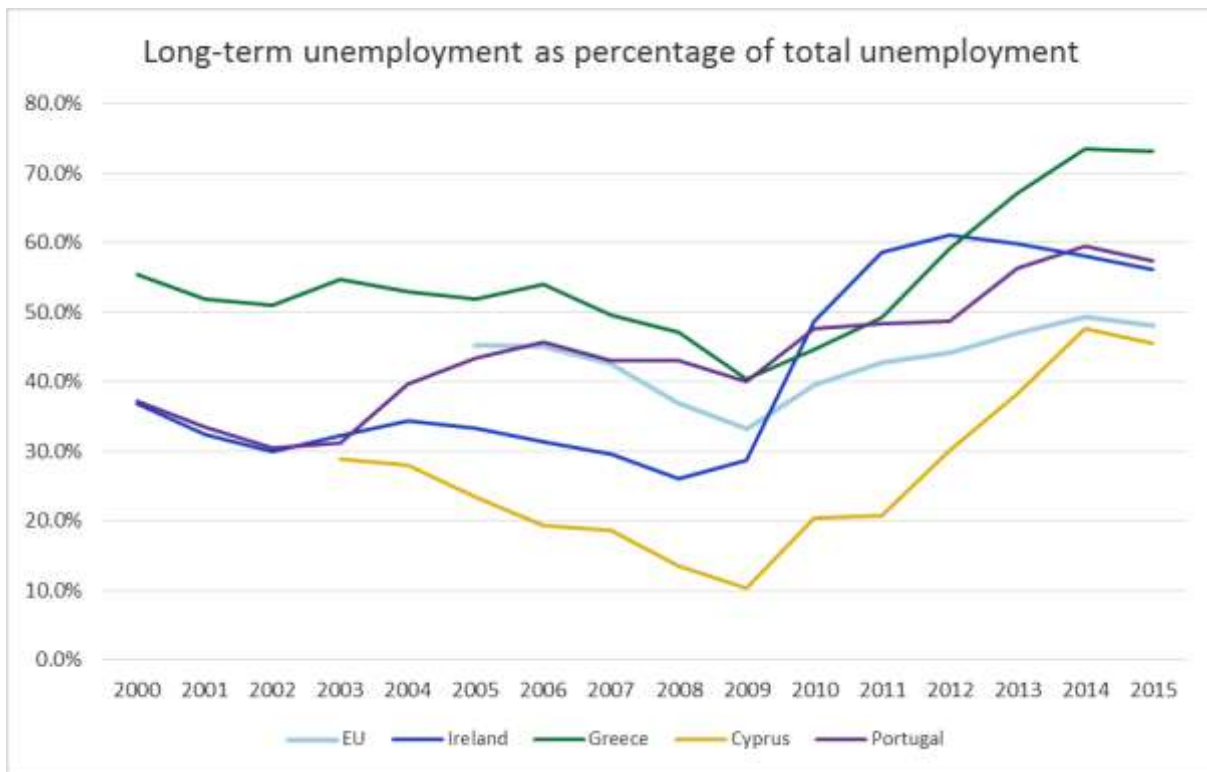
Additional social indicators, such as the level of inequality or the rate of childhood poverty, further confirm the deterioration of the social situation in the EU and even highlight growing disparities between people, undermining therefore social cohesion within a country. Income inequality has increased in fourteen EU countries between 2008 and 2015,¹⁷ while the rate of children at risk of poverty or social exclusion increased in seventeen member states in the period 2008-2015,¹⁸ reaching 26.9% in 2015 for the EU as a whole (compared with 26.4% in 2008).

Multiple reasons have played a role in the deterioration of the social situation of populations in the EU. One of them, if not the most important one, is the profound transformation of the labour market. As mentioned earlier, jobs have become more volatile, making the labour market less and less inclusive. In addition to the emergence of new forms of employment described earlier, long-lasting developments have polarised the labour market, with stronger divisions between insiders, who have full-time, permanent contracts and outsiders, who find themselves in precarious work situations or unemployment. The graphs below indicate that the share of long-term unemployment in overall unemployment is growing; that underemployment has also increased; and that in-work poverty, although still limited, is on the rise in some countries. They display both EU aggregate figures as well as the four worst performing countries in each case.

¹⁷ Bulgaria, Czech Republic, Denmark, Estonia, Greece, Spain, Italy, Cyprus, Lithuania, Luxembourg, Hungary, Romania, Slovenia, Sweden. See Eurostat, Database: Gini coefficient of equivalised disposable income - EU-SILC survey, available at http://ec.europa.eu/eurostat/web/products-datasets/-/ilc_di12, last accessed on: 14.02.2017.

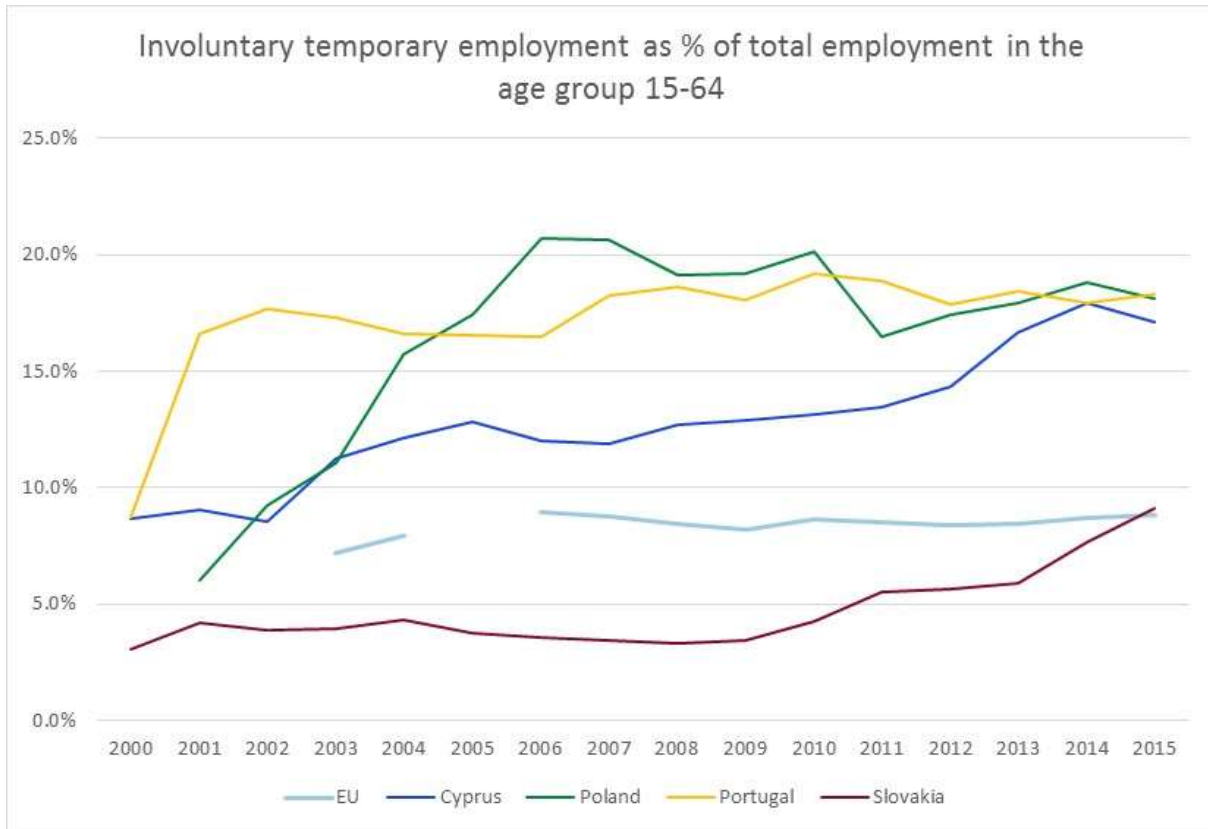
¹⁸ Belgium, Denmark, Estonia, Greece, Spain, Ireland, Italy, Cyprus, Lithuania, Luxembourg, Hungary, Malta, Netherlands, Portugal, Slovenia, Slovakia, United Kingdom. See Eurostat, Database: People at risk of poverty or social exclusion by age and sex, available at http://ec.europa.eu/eurostat/web/products-datasets/-/ilc_peps01, last accessed on: 14.02.2017.

Graph 2. Evolution of long-term unemployment in the EU and four member states with sharpest increase between 2000 and 2015



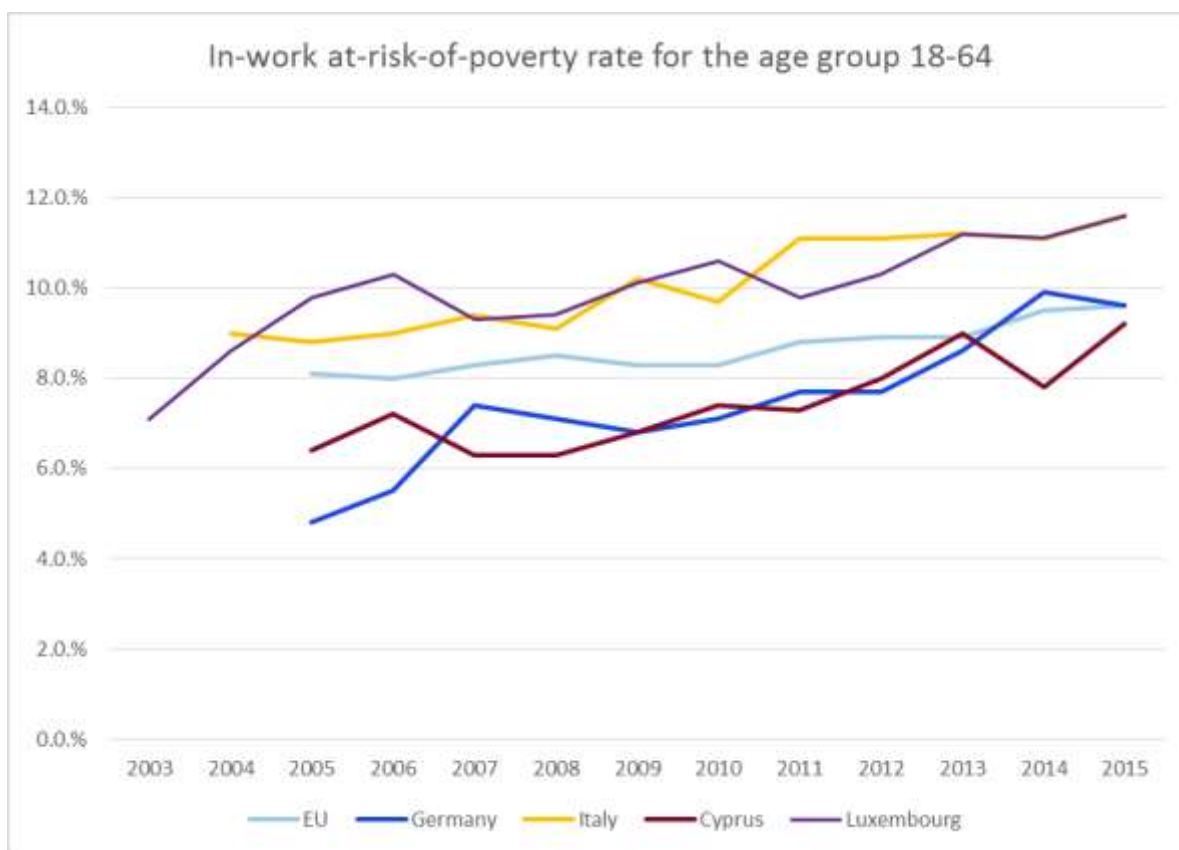
Source: Eurostat. Database: Long-term unemployment by sex - annual average.

Graph 3. Evolution of involuntary temporary employment in the EU and four member states with sharpest increase between 2000 and 2015



Source: Calculations based on Eurostat. Database: Temporary employees as percentage of the total number of employees, by sex and age and, Main reason for the temporary employment by sex and age.

Graph 4. Evolution of in work at risk of poverty rate in the EU and four member states with sharpest increase between 2003 and 2015

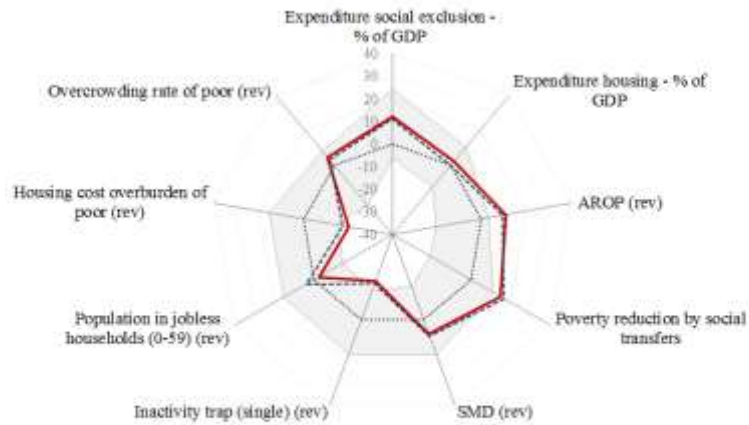


Source: Eurostat. Database: In-work at-risk-of-poverty rate by age and sex.

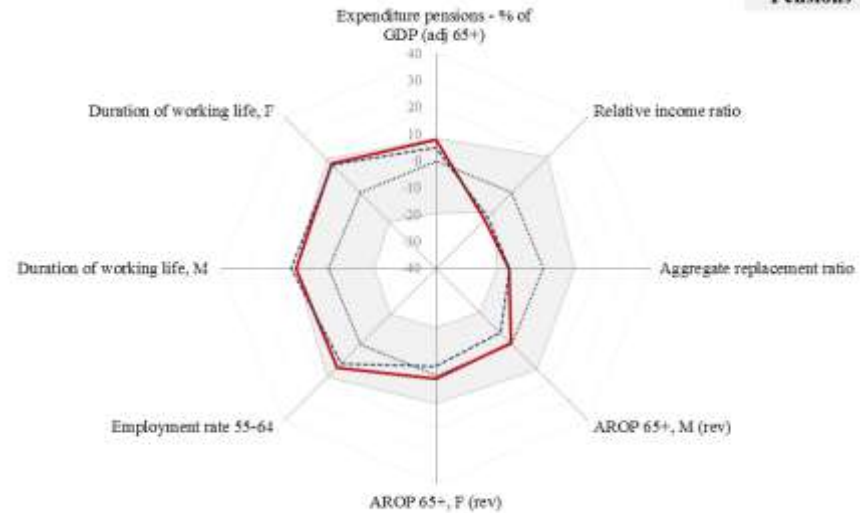
Certainly, the deterioration of these indicators has been amplified by the economic crisis. But notwithstanding its effect, it would be too easy to explain negative trends by simply referring to the economic crisis, as its impact has not hit all EU countries to the same extent. In fact, some countries have been more resilient than others and have appeared better equipped to weather the economic storm. The differentiated impact of the crisis and the uneven capacity of member states to prevent or cope with certain trends have therefore exacerbated divergences across the EU. Such divergences are illustrated in the radar charts below, presenting the position of one EU country - Denmark in this case - relative to the rest of the EU and the average of the three best and worst performers in the four main areas of social protection (namely social exclusion & housing, pensions, family, and unemployment) as well as the levels and orientation of social protection expenditures. In each radar chart, the area in grey indicates the spread of each indicator, which helps assess the relative position of the given country.

Radar charts: Social protection spending and social outcomes in Denmark (2011 and 2008)¹⁹

Social Exclusion & Housing

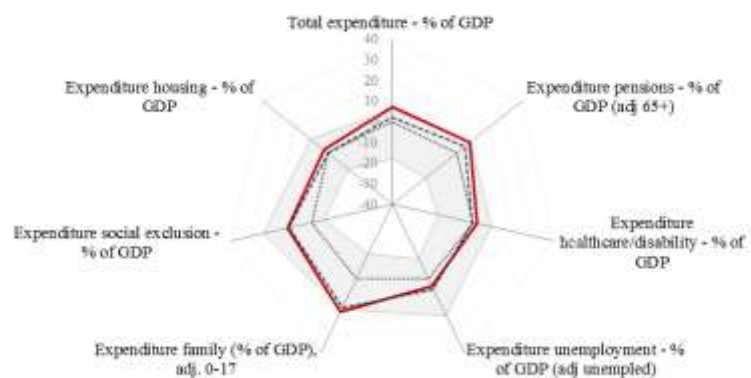


Pensions

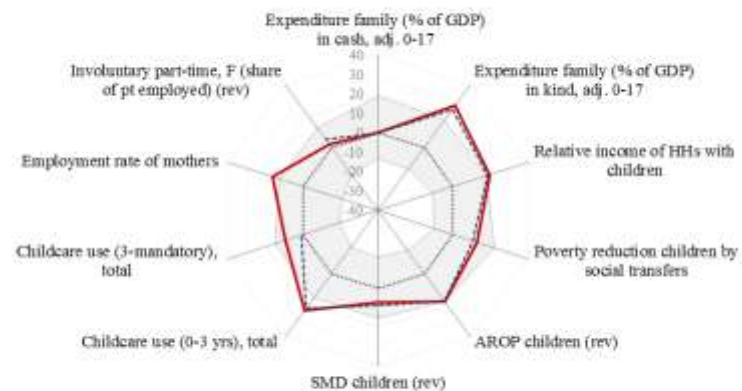
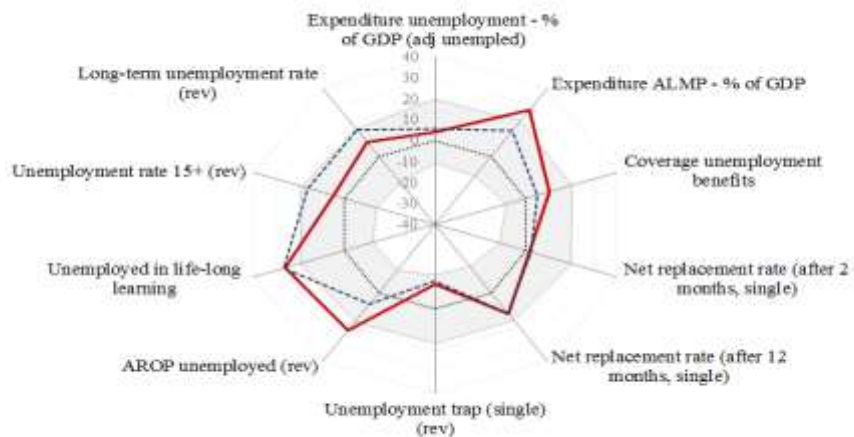


¹⁹ For more information about the radar chart, see: European Commission (2015), *Social Protection Systems in the EU: Financing Arrangements and the Effectiveness and Efficiency of Resource Allocation*, Report of the Social Protection Committee and the European Commission, Luxembourg: Publications Office of the European Union, available at <http://register.consilium.europa.eu/doc/srv?l=EN&f=ST%206140%202015%20ADD%201>, last accessed on: 28.02.2017.

Expenditure on social protection



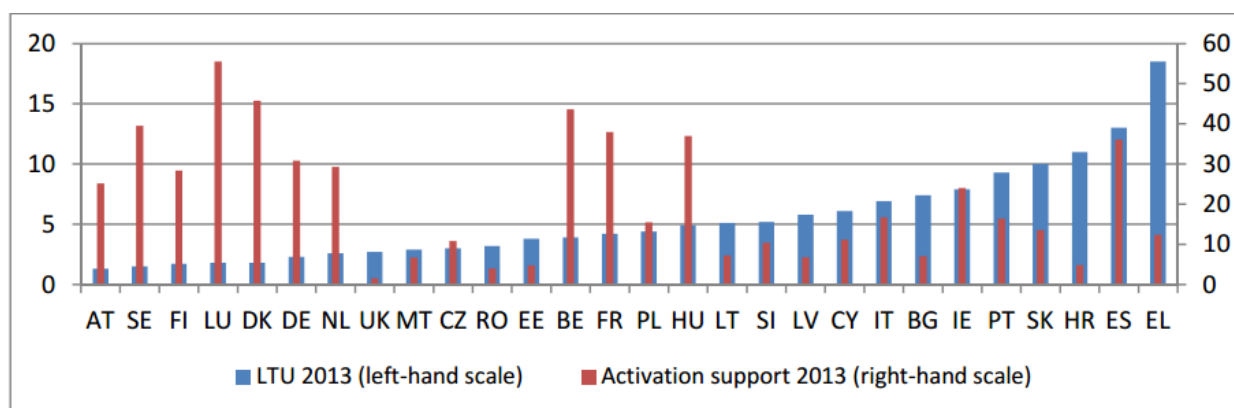
Unemployment Family



..... EU-28 in 2011 — DK in 2011 DK in 2008 □ Range best 3 – worst 3 in 2011

The example provided by the radar charts of Denmark illustrates the extent to which social outcomes vary across member states, regardless of the level of social protection spending. In fact, while a minimum level of spending is required to obtain good social outcomes, this factor is far from being the only determinant. Instead, the effectiveness and efficiency of resource allocation play a significant role. Taking the example of active labour market policies (ALMPs), Graph 5 supports this argument even further by comparing the level of activation support provided by each member state with the level of long-term unemployment. It shows that, while certain countries, such as Spain, invest a lot in ALMPs, they do not seem to be as efficient as others in fighting against long-term unemployment.

Graph 5. Activation support (LMP participants per 100 persons wanting to work) and long-term unemployment (LTU) rates by member state (2013)



Source: Eurostat. Database: Activation support refers here to LMP database categories 2-7 ((2) training,²⁰ (4) employment incentives, (5) supported employment and rehabilitation, (6) direct job creation, (7) start-up incentives. Note: 2009 data for the UK, 2010 data for EL and 2012 data for CY, ES, FR, MT, LT, RO.

Against this background, one can say that policy design is key in determining each member state’s capacity to protect the most vulnerable and erase inequalities. Thus, despite an overall deterioration of social indicators at the EU level, this chapter has pointed out that some EU countries have better grappled with the impact of the economic crisis and the long-lasting developments in the labour market. In fact, countries that have invested in people when the economy allowed it and paid particular attention to the complementarity of policies have weathered the crisis much better than others. All this highlights the relevance of the social investment concept that will be presented in the next chapter.

²⁰ Category 3 ‘job rotation and job sharing’ is not used anymore and included in category 4 ‘employment incentives’.

SOCIAL INVESTMENT: A PROMISING CONCEPT FOR MODERN WELFARE STATES

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2.1 AN OVERVIEW OF THE SOCIAL INVESTMENT CONCEPT

2.1.1 *The key principles of the social investment concept*

The concept of social investment has emerged in the context of the discussion on ‘new social risks’, life-course transitions and the need to invest early rather than intervene after the damage has occurred, all elements that many welfare states in Europe fail to address. Many scholars working in the area of social policy have written extensively about it, enriched it over time, and explored how it could be better integrated into policies.

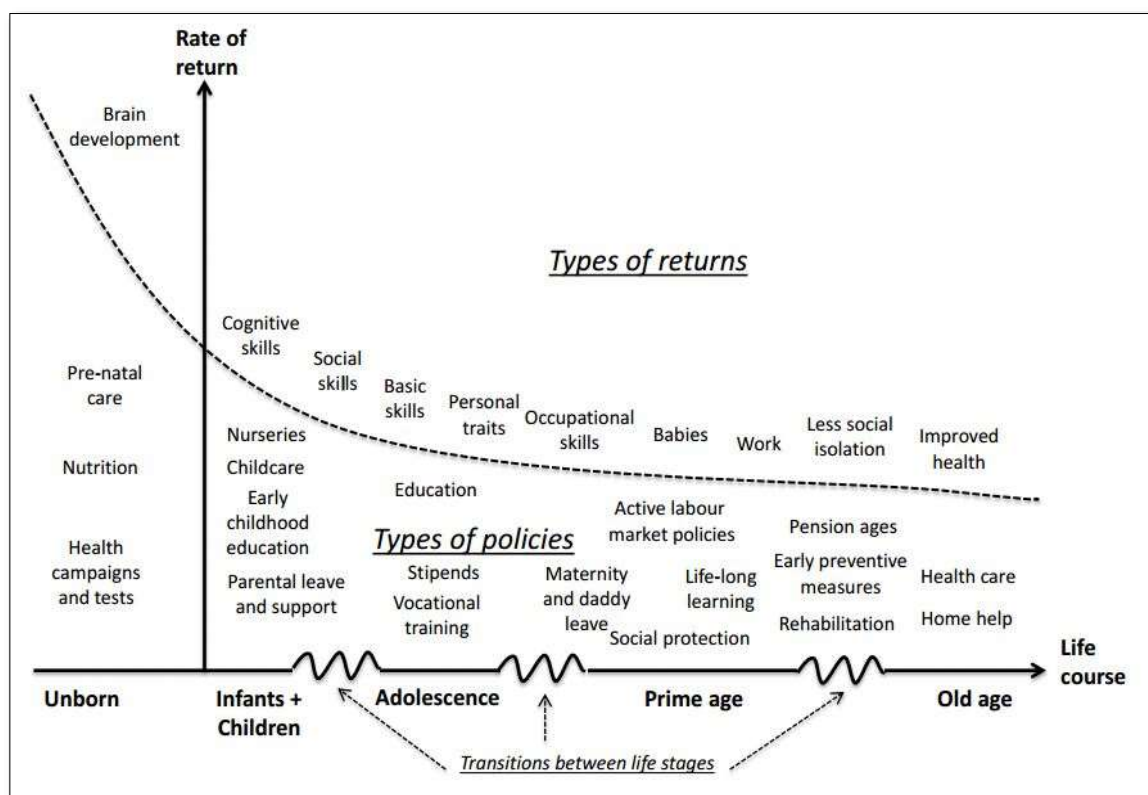
One of the most influential authors in the field, Esping-Andersen, establishes a clear link between social investment and the life-course approach that he bases on five age-related stages: toddler, child, young adult, adult and older adult.²¹ More precisely, he stresses that the social investment concept favors policies that intervene early on in the life-course as returns are more important when social policies intervene at an early stage, preferably in the pre-natal period to prevent adverse pre-natal influences from having negative effects on individual development later on. This idea is illustrated in Figure 1. In the same vein, studies²² have shown that children, who face disadvantages in health, living environment and/or education, tend to face difficulties throughout their whole life. Through early interventions, socio-economic inequalities can be tackled at the roots, the cycle of disadvantages can be broken and equality of opportunity can thus be promoted. Another key notion in the social investment conceptual framework is life transitions. To avoid getting trapped in a vicious spiral (e.g. not being able to find a job after leaving the education system too early), the welfare state

²¹ Esping-Andersen Gosta (2002), *Why We Need a New Welfare State*, Oxford University Press.

²² European Commission (2013a), *Investing in Social Europe*, Luxembourg: Publication Office of the European Union, available at <http://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=7515&type=2&furtherPubs=yes>, last accessed on: 28.02.2017.

should provide a framework enabling exposed individuals to manage these transitions smoothly. In that respect, measures to support skill formation and employability play a vital role in all life stages.

Figure 1. A life course perspective on social investment policies and their returns



Source: Kvist, Jon (2014), *A framework for social investment strategies: Integrating generational, life course and gender perspectives in the EU social investment strategy*, Comparative European Politics 1-19, accessible at <https://jonkvist.files.wordpress.com/2014/10/kvist-2014-a-framework-for-social-investment-strategies-cep.pdf>, last accessed on: 28.02.2017.

In line with the life-course approach, the social investment concept insists on the importance to deliver tailor-made services that correspond to the needs of the individuals at a given point in time. Considering the many life transitions that individuals are likely to face – be it related to the professional path or private life –, their needs are likely to vary considerably over time. The same degree of variety applies between individuals. Adjusting the public answer to life circumstances is therefore crucial to provide support in the most effective way and offer a pertinent solution to people. That being said, big public administrations are, generally speaking, not fit for delivering integrated personalised services, as that would require more flexibility, less standardised processes and more cooperation between public services.

In addition to the life course perspective, social investment is based upon a comprehensive household approach, facilitating women’s participation in the economy while increasing flexibility in the labour market to allow all workers (men included) to take care of their family members, be they children, parents or other relatives. The social investment concept strongly advocates greater gender equality in the labour market and households as a means to support employment and family aspirations.

The reality is that women do not only have lower employment rates than men and work fewer hours, they also work fewer hours per month for lower hourly earnings, and as a result, the gender overall earnings gap

was estimated to equal 40% in the EU28 in 2014.²³ These inequalities run through women's entire life and negative effects cumulate over time. In fact, evidence shows that 18% of women of 65 years and older are at risk of poverty, compared with 13% of men. With a growing number of single women, this phenomenon is particularly worrisome due to the negative impact on themselves and potential spillover effects it has on child poverty.

All in all, the social investment approach is based on policies that both invest in human capital development throughout the entire life (early childhood education and care, education and life-long training) and help make an efficient use of it (with policies supporting women's and lone parents' employment through active labour market policies, but also through specific forms of labour market regulation and institutions that promote flexible security). Furthermore, it also fosters greater social inclusion, notably by facilitating access to the labour market for segments of the population, which are often excluded (such as the disabled, migrants, people from ethnic minorities etc.).²⁴ Hence, one can say that the social investment approach aims to address the current limits of our welfare states – marked by the combined trends of a growing number of welfare recipients, less welfare contributors, and increased budget constraints – by raising workforce's productivity and activity rates over the life course.

Recently, Hemerijck *et al.* have further enriched the concept by developing a taxonomy highlighting three complementary policy functions of social investment.²⁵ The first one consists of raising the quality of human capital 'stock' over time and relates to future productivity. It is also directed towards 'capacitating' interventions that enhance and maintain individual capabilities over the life course. The second function is about easing the 'flow' of contemporary labour market transitions in line with (gendered) life-course dynamics. In other words, the 'flow' function is directed at making the most efficient use and allocation of labour resources over the life course in support of high employment participation of both genders. The third function consists of the income 'buffers' that help to compensate and mitigate social inequity at the micro level and thus provide the necessary financial security for people to develop their human capital while at the same time stabilising the business cycle at the macro level. Thus, an adequate minimum income protection is seen a critical precondition for an effective social investment strategy.

Another specificity of the social investment approach concerns its implications for policymaking and the high degree of policy complementarity it requires in practice. Welfare states are a complex mix of policy instruments that are most often interdependent. They either have mutually reinforcing or conflicting effects. For instance, facilitating enrolment in childcare translates both in a higher level of women employment and allows families and social services to identify health issues at the same time, thus resulting in lower infant mortality. Additionally, one single policy instrument can entail both an activation and protection dimension. For instance, unemployment benefits can function as protection (by providing the actual benefits), activation (by conditioning the benefits to active labour market prospects and the take-up of training offer) and also play a role in automatic stabilisation. It is, from a policy perspective, very convenient when the outcomes are all positive and generate social progress. But unfortunately, this is not always the case. For instance, whereas longer maternity leave has a positive impact on fertility rates and infant mortality, extended leave duration can also create difficulties for women to return to the labour market. This example shows how the same policy can have a positive effect on particular aspects and a negative one on others. It also indicates that developing a comprehensive and coherent social investment strategy requires looking carefully at spillover

²³ Eurostat, Database: Gender overall earnings gap, available at <http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=teqges01&plugin=1>, last accessed on: 22.02.2017.

²⁴ Morel Nathalie, Palier Bruno and Palme Joakim (ed.) (2012), *Towards a Social Investment Welfare States? Ideas, policies and challenges*, Policy Press at the University of Bristol.

²⁵ Hemerijck Anton, Burgoon Brian, Di Pietro Alessandra and Vydra Simon (2016), *Assessing Social Investment Synergies (ASIS)*, Luxembourg: Publications Office of the European Union, available at http://www.google.be/url?sa=t&rct=j&q=&esrc=s&source=web&cd=3&ved=0ahUKewiH29ae7LLSAhXC7xQKHdYbCEsQFggmMAI&url=http%3A%2F%2Fec.europa.eu%2Fsocial%2FblobServlet%3FdocId%3D16878%26langId%3Den&usq=AFQjCNHjHNP7liNrOyNbRoYrNlImNWJ6Q6A&sig2=wF2UBMo_qkxwDUyHcRW0Qw&bvm=bv.148073327,d.bGs, last accessed on: 28.02.2017.

effects and trade-offs. Preventing and addressing social problems often require several measures that need to be carefully designed and "aligned towards a unified goal" in order to support each other and to "maximise the returns of said policy mix".²⁶

2.1.2 Methodological challenges but strong plausibility argument

As indicated in the above section, social investment is the result of a complex policy mix that raises a series of challenges not only in terms of policy-making (as explained above) but also with regards to policy analysis. In fact, it is very difficult to assess the returns on social investment policies, namely because of the multidimensional nature of policy inputs and the multiple nature of policy outcomes. Furthermore, social investment policies affect different policy areas simultaneously and in different time horizons. Disentangling the effects of complementary policies is thus extremely complex. This is why policy analysis mainly follows a silo approach, making it difficult to identify what policy mix is needed to achieve the best social outcomes.²⁷ That being said, the same difficulties apply to economic policies as most economists do not agree, for instance, on what should be taxed, and at which level, to stimulate growth and well-being.

Several attempts have been made over the last years to determine what types of social investment are the most likely to have a productive return and how to measure this return.²⁸ However, no common agreement on the best methodology exists so far among scholars. Measuring the return on social investment remains therefore a major obstacle for the advocates of social investment policies. This, together with the difficulty to monetise the return of investment in the short term, explains why policymakers are reluctant to better integrate the concept into the current policy agenda.

However, the authors of this paper argue that it is now time to address the question related to the measurement of social investment. While doing so, it is important to bear in mind two main points:

- First, the difficulty to measure the return of social investment is not a specificity of social policies. The return on investment of physical infrastructure such as a road is also a matter of judgement and is not based on hard science either;
- Second, the return on social investment policies is often long-term and might not always translate into immediate results. Social investment should be considered as an insurance against future risks. In the same vein, the concepts of *vulnerability* and *resilience* are of outmost importance. As a matter of fact, countries that provide effective social protection as well as investment in human capital have better weathered the financial crisis, especially if these provisions were put in place before the crisis began.²⁹ And not only were these countries able to make their citizens more resilient, but they also have better performing and more competitive economies. In fact, human capital is a key determinant of competitiveness in today's knowledge economies.

Despite such limitations, the authors want to showcase the strong plausible argument that social investment is a rewarding approach to address the current challenges of welfare states. In fact, there is no doubt – provided that social investment policies are designed in an integrated and balanced way – about the positive

²⁶ *Ibid.*, p. 31.

²⁷ Hemerijck Anton *et al.* (2016); Aiginger Karl (2016), *New dynamics for Europe: Reaping the benefits of socio-ecological transition*, Part I: Synthesis – Executive Summary, WWWforEurope Synthesis Report.

²⁸ For historical case studies chronicling the introduction and effectiveness of 'capacitating' social services, see, for instance: Sabel Charles *et al.* (2015), *Capacitating Services and the Bottom-Up Approach to Social Investment*, forthcoming in *The Uses of Social Investment*, ed. Anton Hemerijck, Oxford University Press; Vandenbroucke Frank and Vleminckx Koen (2011), *Disappointing poverty trends: is the social investment state to blame?*, *Journal of European Social Policy*, Volume 21(5).

²⁹ For more information on the topic, see: European Commission (2014), *Employment and Social Developments in Europe 2014*, Luxembourg: Publications Office of the European Union, available at

<http://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=7736>, last accessed on: 28.02.2017.

long-term impact of investing in people from an early stage. Evidence is particularly strong in the areas of education, childcare services, and ALMP.

With respect to education, data from the Programme for International Student Assessment (PISA) and the Programme for the International Assessment of Adult Competencies (PIAAC) offers strong evidence that investing in education has a potential of improving future life by eventually leading to increased individual resilience to changing socio-economic circumstances and better prospects on the job market.³⁰ Analyses for 24 countries and economies that took part in the Survey of Adult Skills conducted by PIAAC in 2011-12 led to the conclusion that, after considering the effects of educational attainment, a rise of one standard deviation in an individual's literacy proficiency is linked to a 20% increase in the probability of being employed as opposed to being unemployed. In this group of countries, and for salaried employees, a rise of one standard deviation in literacy proficiency is also linked to an 8% increase in hourly wages.³¹

Policies supporting families with young children also show positive results at further life stages, sometimes even decades following the intervention. Such policies aim to ensure that children are ready for school and prepared to participate in the economy and society. The European Commission's European Platform for Investing in Children³² offers a database of evidence-based practices that can be examined from several angles, such as policy category (facilitating positive transitions to adulthood, fostering family-friendly workplaces, helping vulnerable children, supporting parenting and assisting with childcare) or evidence level (best, promising and emergent practices). Among the best practices is the 'Incredible Years Pre-school Basic Programme'³³ comprising eight to twelve weeks of 2-2.5 hours parenting sessions aimed at guiding parents to recognise and treat their child's emotional and behavioural problems through positive parenting. The programme demonstrated good levels of effectiveness, transferability and enduring impact. It was found to improve results for children in the UK, Sweden, Portugal, Norway, and the Netherlands. Among the positive outcomes were better self-control, improved social skills, decreased hyperactivity and depression.

In addition, research carried out in the United States showed that the policies aimed at the most at-risk groups do bring the greatest social returns, but often require intensified action, e.g. multiple integrated services (such as education, nutrition, health). It also demonstrated the positive impact of offering services in private homes and to individual families, while lowering take-up barriers (related to factors such as affordability and motivation) and tailoring care to specific needs and living conditions.³⁴

Studies also indicate that ALMPs have a positive influence on employment levels. In general, there is a vast amount of research focusing on the micro-economic evaluation of individual ALMP and identifying which elements are effective and which are not. A meta-analysis of studies carried out in 1995-2007 found that, in general, long-term policy evaluations appear to be more favorable than the short-term ones.³⁵ For instance, while job search assistance programmes produce relatively good short-term impacts, training programmes (classroom and on-the-job) tend to display better results in the medium-term. These are examples of actions

³⁰ See: OECD (2013a), *PISA 2012 Results: What Makes Schools Successful? Resources, Policies and Practices* (Volume IV), PISA, OECD Publishing, available at <http://dx.doi.org/10.1787/9789264201156-en>, last accessed on: 28.02.2017; OECD (2014), *Strengthening Resilience through Education: PISA Results* (background document at the Meeting of the OECD Council at Ministerial Level, Paris, 6-7 May 2014), OECD Publishing, available at https://www.oecd.org/mcm/Pisa2012_Overview_v25_04_05_14.pdf, last accessed on: 28.02.2017.

³¹ OECD (2013b), *Skills Outlook 2013: First Results from the Survey of Adult Skills*, OECD Publishing, available at <http://dx.doi.org/10.1787/9789264204256-en>, last accessed on: 28.02.2017.

³² See Evidence-Based Practices on the website of the European Platform for Investing in Children, available at http://europa.eu/epic/practices-that-work/evidence-based-practices/index_en.htm, last accessed on: 28.02.2017.

³³ *Ibid.*

³⁴ OECD (2015), *Social Impact Investment: Building the Evidence Base*, OECD Publishing, available at <http://dx.doi.org/10.1787/9789264233430-en>, last accessed on: 28.02.2017.

³⁵ Card David, Kluve Jochen, Weber Andrea (2009), *Active Labor Market Policy Evaluations: A Meta-Analysis*, IZA Discussion Paper No. 4002, available at <http://ftp.iza.org/dp4002.pdf>, last accessed on: 28.02.2017.

that bring positive effects and cost-effectiveness in the longer run, especially if they are designed to fit with job offers and reach out to outsiders.

Next to micro-economic research, a growing body of literature also looks into the macro-economic results of activation policies for the aggregate labour market and go beyond the sum of individual ALMP. Such studies examine whether effective activation is able to decrease the rate of structural unemployment. According to a recent study,³⁶ a policy package composed of training, employment incentives, supported employment, rehabilitation and direct job creation measures has a potential of decreasing unemployment and the share of low-skilled unemployed.

As shown by the previous examples, strong evidence exists about the positive social and economic outcomes of social investment policies, especially in the medium to long term. There are, however, a number of crucial observations that have to be taken into account when discussing their design and implementation. First of all, there are no 'one-size-fits-all' solutions. While benchmarking is certainly useful, it has to be used critically and policies need to be tailored to specific circumstances and local realities. Flexibility, outreach and involvement of the target group are vital as well. Furthermore, multiple actions are often required to achieve a given objective and double effects of certain measures have also to be taken into account. Policies that produce both positive and negative outcomes in different areas highlight the need for designing measures that can compensate for negative effects. Lastly, as short-term results are not always visible, evaluating data in the long term is key to see the real influence of policies. All these pieces of evidence should now motivate policymakers to make progress on the measurement question of the return on social investment in order to anchor the concept in the policy agenda.

2.2 THE ROLE OF SOCIAL INVESTMENT IN POLICYMAKING: ENCOURAGING OR DISAPPOINTING?

2.2.1 Social investment in EU policymaking

As mentioned earlier in this paper, the European Commission has recently made some attempts to give more prominence to social policies and, to some extent, the social investment concept. To start with, the Europe 2020 Strategy adopted in 2010 provided an integrated framework for smart, sustainable and inclusive growth, underpinned by five mutually dependent and reinforcing targets and seven flagship initiatives. The Europe 2020 Strategy recognises that social cohesion and inclusion need to be at the core of a growth agenda and that a better integration of economic, employment and social objectives is essential. In the social area, the strategy sets out quantified objectives to reduce poverty and social exclusion, boost employment, improve tertiary educational attainment and reduce early school leaving.³⁷

Notwithstanding the Europe 2020 Strategy's target for early school leaving, it must be recognised that the social investment concept received greater emphasis only afterwards, i.e. with the adoption of the Social Investment Package (SIP) in 2013.³⁸ The SIP was very much in line with the academic work carried out on social investment (presented in the above section). In fact, it put forward a policy framework that stressed the importance of investing in human capital from an early age, better supporting women's participation in the labour market and incentivising longer working lives, and providing integrated social services and benefits

³⁶ Escudero Veronica (2015), *Are active labour market policies effective in activating and integrating low-skilled individuals? An international comparison*, International Labour Office, Working Paper No. 3, available at http://www.ilo.org/wcmsp5/groups/public/-/dgreports/-/inst/documents/publication/wcms_345758.pdf, last accessed on: 28.02.2017.

³⁷ More specifically, the three social-oriented targets of the Europe 2020 strategy set the objectives of reaching an overall employment rate of 75% of the 20-64 year olds by 2020 (i); reducing the rates of early school leaving below 10% as well as getting at least 40% of 30-34 year-olds completing third level education by 2020 (ii); and lifting at least 20 million people out of the risk of poverty and social exclusion by 2020 (iii).

³⁸ The SIP is a series of non-binding documents including a Framework Communication, a Recommendation on investing in children, a number of Staff Working Documents as well as a report on Social Services of General Interest. For more information, see: <http://ec.europa.eu/social/main.jsp?langId=en&catId=1044&newsId=1807&furtherNews=yes>, last accessed on: 21.02.2017.

enabling people to better cope with risks and key transitions across their life course. Thus, the European Commission defined social investment as follows: "The social investment approach stresses the case for considering certain parts of employment and social policies – and possibly other policy areas, such as education – as entailing investments improving prospects for future employment and social participation, together with more social cohesion and stability [...] thus stressing the life-course dimension of social policies and their long-term benefits for society."³⁹ To achieve these objectives, the SIP called for a modernisation of social protection systems with a more effective and efficient use of budgets for social policies, a better use of social policy innovation for evidence-based reforms, and a strengthening of partnerships between all actors involved in the design and delivery of social policies, including the third and private sectors.

Besides the SIP, additional positive signs can be found in the revised Employment Guidelines that call for modernising social protection systems along a life-course approach and for support to be "efficient and adequate at all stages of a person's life".⁴⁰ The importance of activating and enabling services to help remove barriers to labour market participation and support the development of human capital is equally stressed, including affordable quality early childhood education and care, services to prevent early school leaving, training and job assistance, housing support and accessible health care.

To support member states in moving in that direction, the European Commission has introduced a few changes in a number of areas. The most important ones concern its governance framework; its financial instruments; and the development of new analytical tools to support evidence-based policy reforms. However, while some of these initiatives are encouraging steps, they either remain small in relation to the rest of the EU's agenda or are of a non-legally binding nature.

With respect to governance, it is worth having a closer look at the European Semester process, which was created in 2010 to achieve "a more integrated surveillance of economic policies",⁴¹ with the aim of detecting macro-economic and fiscal imbalances. The European Semester, which is one of the key instruments of the enhanced macro-economic governance framework, starts each year in the autumn with an identification of reform priorities through the publication of an Annual Growth Survey (AGS). Later on, after analysing the reform efforts and commitments made by each member state, the Commission adopts Country-Specific Recommendations (CSRs) in the spring, which are then reviewed and endorsed by the Council. The legal base for the adoption of the CSRs (Art. 121 and 148 of the Treaty of the Functioning of the European Union (TFEU)) is thereby linked specifically to employment and macro-economic objectives, and not to the wider social objectives set out in the Treaties.⁴²

³⁹ European Commission (2013b), *Commission Staff Working Document: Evidence on Demographic and Social Trends Social Policies' Contribution to Inclusion, Employment and the Economy*, accompanying the document: Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: Towards Social Investment for Growth and Cohesion – including implementing the European Social Fund 2014-2020, SWD (2013) 38 final, p.4.

⁴⁰ Council of the EU (2015), *Council Decision (EU) 2015/1848 of 5 October 2015 on guidelines for the employment policies of the member states for 2015*, Official Journal of the European Union, p.5, available at http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:JOL_2015_268_R_0005, last accessed on: 1.03.2017.

⁴¹ European Commission (2010), *Communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank, the Economic and Social Committee and the Committee of the Regions: Reinforcing economic policy coordination*, COM(2010) 250 final, available at [http://ec.europa.eu/economy_finance/articles/euro/documents/2010-05-12-com\(2010\)250_final](http://ec.europa.eu/economy_finance/articles/euro/documents/2010-05-12-com(2010)250_final), last accessed on: 1.03.2017.

⁴² Art. 3 TEU stipulates, for instance, that the Union "shall promote economic social and territorial cohesion, and solidarity among member states".

Moreover, the enhanced competences that the EU has gained in macro-economic and fiscal governance following the adoption of the Six Pack,⁴³ Two Pack,⁴⁴ and Fiscal Compact⁴⁵ have created the possibility of financial sanctions in the case of macro-economic imbalances.

As part of the efforts to strengthen the social dimension of the EU's governance framework, a scoreboard of social and employment indicators was introduced to the European Semester in 2013. One of the reasons of having such a scoreboard was to track member states' progress in achieving the objectives of the 2020 Strategy. As a result, social policies have also been monitored in the context of the European Semester. However, it is important to highlight that social indicators do not benefit from the same status as the ones used in the macro-economic and budgetary areas. In fact, 'social imbalances' cannot trigger any sanctions on member states (contrary to macro-economic imbalances). Furthermore, it must be acknowledged that while focusing on specific policies (including social ones), the European Semester fails to give prominent attention to the integration of social services and the need for system-level reforms, which are at the core of the social investment approach. In other words, CSRs have failed to look at social protection systems as a whole and reflect on the relationship between different social policy measures.

Besides the European Semester, additional inconsistencies as regards the implementation of the social investment concept can be found in other aspects of the EU's governance framework. They relate to the use of social indicators and the overall coherence of the Union's political messages.

There are many social indicators used in different contexts at the EU level and the ones used in the macro-economic governance framework are not necessarily the same as those used in the social area, especially in the Open Method of Coordination (OMC), which is a tool providing a framework of cooperation between member states as regards social and employment policies. Even within the macro-economic governance, there are differences between the indicators used for the European Semester⁴⁶ and those for the Macro-

⁴³ European Parliament, Council of the EU (2011a), *Regulation (EU) No 1173/2011 of the European Parliament and of the Council of 16 November 2011 on the effective enforcement of budgetary surveillance in the euro area*, Official Journal of the European Union, available at <http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32011R1173>, last accessed on: 1.03.2017; European Parliament, Council of the EU (2011b), *Regulation (EU) No 1174/2011 of the European Parliament and of the Council of 16 November 2011 on enforcement measures to correct excessive macro-economic imbalances in the euro area*, Official Journal of the European Union, available at <http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32011R1174>, last accessed on: 1.03.2017; European Parliament, Council of the EU (2011c), *Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies*, Official Journal of the European Union, available at <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32011R1175>, last accessed on: 1.03.2017; European Parliament, Council of the EU (2011d), *Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macro-economic imbalances*, Official Journal of the European Union, available at <http://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex%3A32011R1176>, last accessed on: 1.03.2017; European Parliament, Council of the EU (2011e), *Council Regulation (EU) No 1177/2011 of 8 November 2011 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure*, Official Journal of the European Union, available at <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32011R1177>, last accessed on: 1.03.2017; Council of the EU (2011), *Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the member states*, Official Journal of the European Union, available at <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32011L0085>, last accessed on: 1.03.2017.

⁴⁴ European Parliament, Council of the EU (2013a), *Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of member states in the euro area experiencing or threatened with serious difficulties with respect to their financial stability*, Official Journal of the European Union, available at <http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:32013R0472>, last accessed on: 1.03.2017; European Parliament, Council of the EU (2013b), *Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the member states in the euro area*, Official Journal of the European Union, available at <http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:32013R0473>, last accessed on: 1.03.2017.

⁴⁵ The Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, available at <http://www.consilium.europa.eu/en/history/20120301-tscg-euro-summit/>, last accessed on: 1.03.2017.

⁴⁶ In response to the 2013 Communication on 'Strengthening the Social Dimension of the Economic and Monetary Union (EMU)', a new scoreboard of key social and employment indicators has been included in the European Semester. The objective of having such a social scoreboard was to detect major employment and social imbalances early on. This scoreboard is composed of five indicators, namely the unemployment level and changes; the number of young people who are 'Not in Education, Employment, or Training' (NEET) and youth unemployment rate; real disposable income of

economic Imbalance Procedure (MIP).⁴⁷ The indicators used in the European Semester are more comprehensive (they cover for instance aspects of inequality and the real disposable income of households) than the headline indicators of the MIP that are merely focusing on participation in the labour market. In addition, the indicators used for the social OMC are even more advanced in the sense that they capture additional dimensions – such as for instance child poverty, impact of social transfers on poverty reduction, in-work at risk of poverty rate, early school leaving, housing cost and, healthy life and self-reported unmet need for medical care.⁴⁸ However, such indicators are only used on an indicative basis with a view to exchanging best practices between member states.

All this highlights the fuzziness around the importance the EU wants to give to social indicators and more generally to social policies. It also indicates a lack of consistency at the highest policy level, making it difficult for member states to get a clear understanding of where its priorities lie.

In addition, the European governance system does not always follow a coherent line. In fact, EU policy recommendations vary from one country to another depending on the situation of the given member state. For instance, while the EU urged Bulgaria to increase the coverage and adequacy of its minimum income scheme in 2016,⁴⁹ it also conditioned the financial assistance given to programme countries to severe cuts in social expenditures. The Portuguese case is worth looking at. Portugal's National Reform Programme in 2016 admits that social inequality and poverty problems faced by the Portuguese society worsened in preceding years.⁵⁰ In fact, the Economic Adjustment Programme for Portugal from 2011 required among others an average cut of 5% in government wages, reductions in government payroll lists, cuts in social transfers such as unemployment benefits and family allowances, and a freeze of all other social outlays.⁵¹ Thus, no fiscal space has been given to these countries – which, by the way, would need it most – to preserve the 'buffers' and invest in human capital.

Against this background, it seems that the EU's governance framework has not allowed member states to prevent growing economic and social divergences between countries. On the contrary, some argue that they have even exacerbated them by ignoring the importance of investment in human capital. As explained by Vandembroucke,⁵² the EU faces huge levels of disparity in human capital. In fact, OECD data shows that the four southern eurozone countries (Italy, Spain, Greece and Portugal) are performing badly with regards to both quantitative and qualitative aspects of education. In all these countries, there is a high percentage of the active population without upper secondary qualification and they score low, for instance, on literacy.

households; the at-risk-of-poverty rate for the working age population; and inequality (S80/20 ratio). See European Commission (2013c), *Strengthening the social dimension of the EMU*, Communication from the Commission, COM (2013) 690 final.

⁴⁷ While an employment indicator was already included in the MIP scoreboard in the past, a set of new indicators were added in 2014 and 2015. The first change occurring in 2014, which consisted of the addition of some indicators to the set of auxiliary indicators. These indicators concern the following variables: employment, activity rate, long-term unemployment rate, youth unemployment rate, NEETS and poverty. In 2015, some of these indicators, namely activity rate; long-term unemployment; and youth unemployment, were moved from the set of auxiliary indicators to the set of headline indicators. Whereas the 11 headline indicators form the basis of the economic reading of the Alert Mechanism Report and are used to flag adjustment issues, they are also complemented by auxiliary indicators in view to better understand the social dimension of risks implied by imbalances.

⁴⁸ See European Commission (2016b), *2015 Social Protection Performance Monitor (SPPM) dashboard results*, Social Protection Committee, SPC/ISG/2016/02/4 FIN.

⁴⁹ Council of the EU (2016), *Council Recommendation of 12 July 2016 on the 2016 National Reform Programme of Bulgaria and delivering a Council opinion on the 2016 Convergence Programme of Bulgaria*, 2016/C 299/08, Official Journal of the European Union, available at [http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32016H0818\(08\)&from=EN](http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32016H0818(08)&from=EN), last accessed on: 1.03.2017.

⁵⁰ *2016 National Reform Programme Executive Summary – Portugal*, available at https://ec.europa.eu/info/publications/2016-european-semester-national-plan-portugal_en, last accessed on: 1.03.2017.

⁵¹ European Commission (2011), *The Economic Adjustment Programme for Portugal*, Occasional Papers 79, http://ec.europa.eu/economy_finance/publications/occasional_paper/2011/pdf/ocp79_en.pdf, last accessed on: 1.03.2017.

⁵² Vandembroucke Frank (2017), *Social Investment as a Policy Platform: A European Argument*, in *The Uses of Social Investment* (ed. Hemerijck Anton), Oxford University Press.

As regards EU funds, it must be noted that the current Multiannual Financial Framework (MFF) has given more prominence to social policies in general and aspects of social investment in particular. At the same time, efforts have been made to create stronger synergies between the MFF, the functioning and monitoring of EU funds, the EU's governance framework, and its policy priorities. For instance, a new rule regarding the allocation of the European Social Fund (ESF) money has been created.⁵³ A minimum share of 20% now needs to be allocated to the thematic objective of "combatting poverty and social exclusion". Other thematic objectives under the ESF, such as "promoting employment and supporting labour mobility" and "investing in education, skills and lifelong learning", also support social policies that facilitate skill development and investment in human capital throughout the life-course. A new budget line has also been created to fight against the massive problem of youth unemployment while conditioning the payment of the money to a member state's plan to conduct structural reforms in the area of labour market policies. Lastly, the new Programme for Employment and Social Innovation (EaSI) also supports innovative social policy packages in line with a social investment approach, such as through providing financial support to public and private authorities developing integrated and individualised social services.

Regarding the analytical tools provided by the European Commission, it is encouraging to take note of all the research work that has been delivered in the radar charts presented in chapter 1. They illustrate a new approach towards social policies, not only focusing on expenditure but comparing social outcomes in different areas of social policy. This methodology provides an interesting avenue for exploring policy complementarities that lie at the heart of the social investment approach. Additionally, the Commission has recently taken initiatives to support the analytical basis for the development of adequate minimum income provisions, which are a crucial element of comprehensive social protection systems. Through the European Reference Budgets Network,⁵⁴ the Commission has worked on the development of a shared methodology to construct high-quality comparable reference budgets as an instrument that can help member states design efficient and adequate income support.

Notwithstanding some EU efforts in giving more prominence to the social investment concept, it is clear that the overall strategy suffers from significant inconsistencies. Whereas the concept of social investment is in itself a call for a profound rethinking of our social model and how social policies are delivered, the changes introduced at the EU level are too small and scattered to respond to such a call. In a nutshell, there is a profound misalignment between the policy objectives described in the SIP and the European policy framework that is supposed to support these objectives.

2.2.2 What role for the EU's social acquis?

The SIP emphasises the role played by social protection in achieving good social outcomes and highlights the close link between protection and investment. In fact, it says that "the protection function during adverse periods enables previous investments made in human capital to be preserved".⁵⁵ Furthermore, it indicates that "well-designed welfare systems combining a strong social investment dimension with the other two functions, protection and stabilisation, increase the effectiveness and efficiency of social policies".⁵⁶ Hence, it confirms that social investment needs to be complemented by protective measures.

⁵³ See European Parliament, Council of the EU (2013c), Council Regulation N°1304/2013 of the European Parliament and of the Council of 17 December 2013 on the European Social Fund and repealing Council Regulation (EC) N°1081/2006., Official Journal of the European Union.

⁵⁴ For more information on the reference budgets, see: <http://ec.europa.eu/social/main.jsp?catId=1092>, last accessed on: 1.03.2017.

⁵⁵ European Commission (2013d), *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: Towards Social Investment for Growth and Cohesion – including implementing the European Social Fund 2014-2020*, COM(2013) 83 final, p.3.

⁵⁶ *Ibid.*, p.2.

Furthermore, it is often advocated that social protection should be developed on a rights-based approach. The current set of social rights that are available across the EU is the result of an incremental process that stretches across decades. Thus, a close look at the historic development of the social *acquis*, based on provisions included in EU primary law and materialised by secondary legislation, shows that it has been developed in a fragmented way due to its initial function of securing market integration.

Starting with EU primary law, one can notice that EU Treaties have, since the very early days of the European construction, made reference to its social dimension. Already in 1957, the Treaty of Rome⁵⁷ made reference to the objectives of "promoting improved working conditions and an improved standard of living for workers, so as to make possible their harmonisation while the improvement is being maintained" (Art. 117). Furthermore, the Treaty included the right of freedom of movement for workers and the abolition of any discrimination based on nationality between workers of the member states as regards employment, remuneration and other conditions of work and employment (Art. 48). Provisions were also given concerning the principle of equal pay between male and female workers for equal work or work of equal value (Art. 119). Finally, it also highlighted the need for promoting collaboration in the following areas: employment, labour law and working conditions, (vocational) training, social security, prevention of occupational accidents and diseases, occupational hygiene, the right of association, and collective bargaining between employers and workers. In terms of social security coordination, secondary law was adopted in 1958.

Developments in the area of social policy were later marked by the introduction of a possibility to adopt minimum requirements regarding workers' health and safety in 1986, and the expansion of EU action fields in a Social Protocol in 1992⁵⁸, which was integrated into the Treaty framework in 1998, giving the basis for the current Title X on Social Policy of the TFEU.

Important changes also took place in the context of the adoption of the Lisbon Treaty: the concept of a highly competitive social market economy was first introduced in EU primary law (Art. 3(2) of the Treaty on European Union (TEU)); the EU Charter of Fundamental Rights became legally binding; and an horizontal social clause was included stating that "in defining and implementing its policies and activities, the Union shall take into account requirements linked to the promotion of a high level of employment, the guarantee of adequate social protection, the fight against social exclusion, and a high level of education, training and protection of human health" (Art. 9 TFEU). In addition, the TFEU also refers in its Art. 153 to the integration of persons excluded from the labour market, the combating of social exclusion and the modernisation of social protection systems.⁵⁹

That being said, one should not omit that EU actions in the social field are limited by two general factors: the need to comply with the proportionality and subsidiarity principles, and the fact that social policy is a shared competence for which the EU can only establish minimum requirements that support and complement the activities of the member states. Furthermore, it is important to mention that the EU's law making competence to adopt directives does not apply to social exclusion and the modernisation of social protection systems. Moreover, the TFEU stipulates that the Council shall act unanimously in the areas pertaining to social security and social protection of workers, the protection of workers where their employment contract is terminated, representation and collective defence of the interests of workers and employers, and conditions of employment for third-country nationals legally residing in Union territory. Thus, any legislative changes in these fields remain particularly difficult as they require the consent of all member states. Finally,

⁵⁷ See *Traité instituant la Communauté Économique Européenne* (1957), 25.03.1957, available at <http://eur-lex.europa.eu/legal-content/FR/TXT/PDF/?uri=CELEX:11957E/TXT&from=EN>, last accessed on: 24.11.2016.

⁵⁸ See *Treaty establishing the European Community* (1992), 31.08.1992, available at <http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:11992E/TXT&from=EN>, last accessed on: 24.11.2016.

⁵⁹ See consolidated version of the *Treaty on the Functioning of the European Union* (2007), 13.12.2007, available at <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:12016E/TXT&from=EN>, last accessed on: 24.11.2016.

the limits of the EU Charter should be kept in mind as the Charter must be read in conjunction with the EU Treaties. As a consequence, the EU Charter does not give any additional powers or competences to the Union that are not defined in the Treaties. Furthermore, in many fields included in the Charter, such as housing, child well-being or social protection, the EU has little or no competence to enact secondary legislation.

As far as EU secondary law is concerned, most directives deal with issues related to the work environment and access to work as well as those concerning social protection, though to a lesser extent. With regards to work environment and access to work, adopted directives refer to the following areas: equal treatment in the workplace (e.g. Employment Equality Directive 2000/78/EC, Gender Recast Directive 2006/54/EC); reconciling family and professional life (e.g. revised Parental Leave Directive 2010/18/EU); awareness of conditions of employment (e.g. Written Statement Directive 91/533/EEC); equal treatment regardless of type of contract (e.g. Fixed-term Work Directive 1999/70/EC); limitation of working time (e.g. Working Time Directive 2003/88/EC); protection of health and safety (e.g. Framework Directive 89/391/EEC and 23 individual directives on different aspects of health and safety); posted workers (e.g. Posting of Workers Directive 2014/67/EU); third country nationals (e.g. Directive on Seasonal Work 2014/36/EU); protection in the event of termination of employment (e.g. Insolvency Directive 2008/94/EC, Maternity Leave Directive 92/85/EEC); organisation, information and consultation of workers (e.g. General Information and Consultation Directive 2002/14/EC); and the prohibition of child labour and protection of young people at work (Young People at Work Directive 94/33/EC). EU legislation concentrates therefore on workers while failing to address the needs of citizens, who are excluded from the labour market. Even more striking is the lack of a definition of a worker in EU law; instead, it refers back to national definitions and therefore fails to take an inclusive approach by covering workers involved in new forms of employment.

Legislation related to social protection is much scarcer and can be classified in two categories: social security coordination and equal treatment in social security and social integration. With respect to the first category, enhancing the coordination of national social security systems was, again, mainly driven by internal market considerations in order to facilitate the mobility of EU workers. As regards to the latter, the main directives concern anti-discrimination principles (such as in Directive 79/7/EEC on the progressive implementation of the principle of equal treatment for men and women in matters of social security) or on minimum requirements for vulnerable citizens (such Directive 2014/92/EU on Payment Accounts or the proposed Directive on the European Accessibility Act). However and given the impossibility for the EU to adopt directives to fight against social exclusion and to modernize social protection systems (Art. 153 TFEU), EU provisions on social protection is very limited.

This review of the social *acquis* sheds light on three main observations: First, the *acquis* fails to include all citizens. Instead, it focuses first and foremost on workers and the working environment and excludes those, who are not part of the labour market or the active population. Secondly, it neglects the emergence of new forms of employment and concentrates on individual characteristics (men/women; people with disabilities; workers with specific status) instead of taking a more integrated approach towards the different transitions and risks that individuals might encounter throughout their life. By doing so, the EU copied a structure that was already existing in national contexts and followed their logic. In the 21st century and with the recent developments described in the first chapter of this paper, this structure is clearly behind the curve.

2.2.3 Social investment at the national level

Efforts have been made in some member states to reorient their social policies towards a social investment approach. However, this re-adjustment is far from being a general trend. On the contrary, a report of the European Social Policy Network (ESPN) indicates a "slow dissemination and diffusion of the social investment

approach".⁶⁰ The same report also confirms the negative effects of fiscal consolidation on the development of social investment policies. It highlights that fiscal consolidation has led to budget cuts in programmes aimed to build human and social capital. It has also resulted in a shift away from developing successful universal social investment policies to a more targeted and conditional approach, which is often less effective in addressing social challenges and leads to increased stigmatisation and inequality. In addition, passive short-term measures to protect people are prioritised over more enabling and active programmes. That being said, the same report also highlights the success of some countries in investing in human capital while pursuing fiscal objectives at the same time.

All in all, it appears that the SIP has not had the same impact on all countries. Some of them seem to have made a better use of the available space to develop integrated and balanced socio-economic policies than others.⁶¹ Various reasons can explain national choices, including the political colour and priorities of the ruling government or the degree of familiarity of the institutional framework with the social investment concept. Furthermore, it also appears that positive initiatives have been introduced in some countries without being accompanied by the complementary measures that would have allowed them to lead to positive social outcomes.

⁶⁰ European Social Policy Network (2015), *Social Investment in Europe – A study of national policies*, Luxembourg: Publications Office of the European Union, p.12.

⁶¹ Bekker Sonja (2017), *Can European Socio-Economic Governance be Social Investment Proof?*, in *The Uses of Social Investment* (ed. Hemerijck Anton), Oxford University Press.

THE ROLE OF SOCIAL INVESTMENT IN FOSTERING SOCIAL CONVERGENCE IN THE EU

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The two first chapters of this paper looked into the historic and present functioning of European welfare states and set out the intellectual notion of social investment, its potential to transform our current welfare system and its current role in EU and national policymaking. One of the key observations of this analysis is that the social investment approach has only been developed superficially and that there is a misalignment between policy objectives and their implementation at the European level. At the national level, some good examples (such as the Nordic countries) of how to translate the concept of social investment into policies do exist. Nevertheless, the situation is very uneven across the EU and good practices often concern specific policy areas instead of being applied in an integrated manner across policies.

Many welfare states in Europe require therefore profound structural changes built upon a comprehensive implementation of the social investment concept. A much bigger effort has to be made to place it at the heart of EU and national policies. The remaining question is how to move in such a direction? In other words, how can the EU become a political driving force for promoting the social investment approach and encouraging member states to reform and modernise social policies so that they can better cope with new and fast-changing economic and social realities?

The third chapter of this paper aims to answer these questions by providing policy recommendations for a better and more comprehensive integration of the social investment notion into the future European policy framework and turning the EU into an agent of positive change in the functioning of national welfare states. These recommendations are based on three main pillars: a European roadmap to ensure a minimum level of social protection for all (i), a stronger focus on human capital in the EU budget (ii) and a set of reforms to align EU governance with the social investment imperative (iii). While recognising that member states have a dominant role to play in the area of social policies, this chapter focuses, nevertheless, on the added value that the EU could bring in this field. Its role is too often underestimated, although it remains a key agent to both support member states in their transition towards modern welfare states (as described in chapter 2) and respond to the objectives of social cohesion stipulated in the TEU.

3.1 A EUROPEAN ROADMAP FOR A MINIMUM LEVEL OF SOCIAL PROTECTION FOR ALL

As already mentioned earlier, the authors of this paper support the argument that social protection and investment are two sides of the same coin. Following the approach of the SIP and Hemerijck *et al.* (2016), they believe that some ‘buffers’ are necessary to optimise the positive impact of investment measures. In other words, a good balance between the two needs to be struck in order to achieve the best social outcomes. Yet, the review of the social *acquis* (as presented in chapter 2) indicates its shortcomings and inadequacy with what an inclusive and robust social protection system should look like today.

Reforming EU law, making it more inclusive and fit for current realities is therefore a necessity. This is also a precondition for applying the social investment concept to all, i.e. both to workers and individuals who are currently excluded from the labour market, including third country nationals residing legally in the EU. Guaranteeing the same social rights to all is also a way to pre-distribute social investment and address social inequality at its roots, while evening out the distribution of income set by market forces, reducing discrimination in the workplace or society and advancing the life chances of the underprivileged in ways that does not entail fiscal redistribution. While it certainly has a cost on the short run as it requires public investment, the benefits both for the economy and the society will be significant in the medium to long run.

Hence, **an optimal level of social protection based on a pillar of existing and new social rights** needs to be ensured. This would require an adjustment of already existing legislation but also the creation of new policies in areas where EU action is necessary to foster social convergence between member states.

With respect to existing legislation, EU law is often based on old models. It needs to adapt to new realities characterizing our societies and changing economies while ensuring that social policies in Europe are in line with the gender dimension of the social investment concept. To do so, it is crucial to **further adapt family leave schemes** (including maternity leave, paternity leave, and parental leave) to the newer form of shared (but still not equal) roles in households, the increasing dependencies not only of children but also older people and the greater participation of women in society and the workforce. As mentioned earlier, women are still at a disadvantage in the labour market; this can only be remedied if care responsibilities are equally shared with men. Their social value also needs to be recognised through, for instance, **the creation of new types of leave schemes, such as care leave**. Progress in that area is key to avoid gender gaps in social protection and prevent their negative impact on children. Hence, the upcoming package of the European Commission on work-life balance needs to seriously take such adjustments into consideration.

In addition, **a common and larger definition of employment** is a necessity to avoid new forms of discrimination among workers. This is an important precondition to ensure that EU legislation provides the same rights (such as for instance, fair working conditions, health and safety at work, and social protection) to all workers, including the self-employed and the ones taking part in new forms of work.

However, adjusting current legislation will not be enough to turn the EU into an agent of innovative change in the functioning of European welfare states. To this end, the Union needs to play a precursory role in providing innovative thinking on how the ‘flow’ and ‘buffer’ functions of the welfare states could be fulfilled. To start with the EU should make sure the member states provide an adequate minimum floor of social protection, enabling people to cope with adverse life events such as disease, unemployment, involuntary part-time work or career breaks and transitions. Such a floor should be composed of **a minimum income** and **a guarantee for accessing basic public services**, such as quality healthcare, basic education and affordable housing. Today, minimum income schemes across the EU are very diverse and in many countries, they are

either insufficient to support people's basic needs or eligibility and coverage are very restricted.⁶² **A European framework for minimum income schemes assessed through a common methodology of reference budgets in each member state** would therefore allow people, who are not eligible for unemployment benefits, to live decently. Both instruments would act as a buffer for individuals going through hard times and avert the increase and transmission of inequalities.

On top of this minimum social protection floor, new 'flow' mechanisms should be created to allow individuals to change paths regardless of their age or employment status. To do so, the current protection system needs to become more flexible and develop itself outside the criteria of specific employment status and old family structures. A new system based on **individualised and universal rights** must emerge. The concept of a personal activity account⁶³ that has already been developed in some countries goes in the right direction and needs to be taken up at the European level. The ultimate objective would be to allow all individuals to accumulate entitlements during their working periods, enabling them to access further education and training or to benefit of leave schemes (such as the care leave mentioned earlier) whenever need be. Such an instrument could be monitored by public (and/or private depending on their level of cooperation in each member state) employment agencies that would guide workers in professional transitions, or who are in need of reskilling and/or upskilling. Lastly, such an account should also recognise the value of experiences abroad (be they educational or work-related). **Its function should be extended to the role of a European social card**, which would keep track of each European citizen's entitlements regardless of where they are located in the EU and could be used as the key instrument to access certain rights across member states.

3.2 THE ROLE OF THE EU BUDGET – A STRONGER FOCUS ON HUMAN CAPITAL

It is urgent to ensure that current budgetary resources provided by the EU budget contribute to the realisation of EU social objectives. A close look at the composition of the EU budget and the allocation of its financial instruments underscore the discrepancy between these instruments and the social investment imperative. Social objectives and investment in human capital are covered by several EU funds, mainly through the ESF, the Youth Employment Initiative (YEI), the Programme for Employment and Social Innovation (EaSI), the Fund for European Aid to the Most Deprived (FEAD), Erasmus+, and the Asylum and Integration Fund, which only represent about 10.5%⁶⁴ of the overall EU budget. In the Investment Plan for Europe⁶⁵ launched by the European Commission in 2015, it is worth noticing that the social economy is one of the priority sectors targeted by one of its main instruments, which is the European Fund for Strategic Investments (EFSI). EFSI is a guarantee from the EU budget (further supported by EIB's own capital) that is meant to foster strategic investments in infrastructure and innovation, as well as financing small-and medium-sized enterprises (SMEs). In addition to EFSI, European financial instruments have been developed in order to better respond to the investment needs and the growing pressure on the social sector. They include the Social Impact Accelerator (SIA) and the financial guarantee provided by EaSI.

⁶² For an overview of the different minimum income schemes available in EU member states, see European Social Policy Network (2016), *Minimum Income Scheme in Europe – A study of national policies*, Luxembourg: Publications Office of the European Union, available at: <http://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=7882>, last accessed on: 22.02.2017.

⁶³ Similar ideas have already been implemented in some member states. See, for instance, the 'Compte Personnel d'Activité' in France: <http://www.gouvernement.fr/compte-personnel-activite-cpa>, last accessed on: 20.01.2017.

⁶⁴ The average yearly sum of EU expenditure on all these funds in 2014-2020, based on amounts planned in the MFF, amounts to around €16.3 billion. It must be noted here that the European Regional Development Fund (ERDF) has not been taken into account in the calculation, although this Fund might play an important role in the financing of social infrastructures in some regions.

⁶⁵ The objective of the Investment Plan for Europe is, as defined by the European Commission, to encourage investment so as to create jobs, boost growth, and competitiveness, meet long-term economic needs and strengthen the EU's productive capacity and infrastructure. The EFSI is the instrument backing up innovative projects that need risk-coverage and therefore help attract private investment.

All these developments are very encouraging. However, it is important to highlight that they are at a very early stage and often, the social economy has not sufficiently benefited from these initiatives. For instance, social infrastructures had only received 4% of EFSI financing by December 2016, highlighting the gap between the financial sector and the social economy, in particular social service providers (investment into social services is below 1%),⁶⁶ and the need to create a specific window within the EFSI dedicated to them.⁶⁷ As noted by some studies,⁶⁸ this gap is often due to a lack of understanding between the financial sector and the social economy, highlighting a **need for capacity building and know-how on both sides**. Furthermore, it must be noted that instruments like EasI and the SIA are rather designed for new start-up social enterprises rather than social service providers, which remain key agents for empowering people in Europe. All in all, **an even stronger re-orientation of EU resources and financial instruments towards social investment** is necessary, as well as a **better adaptation of their design and functioning in light of the specific features of the social sector**. This would be a very welcome way to balance out the growing social divergences between member states discussed earlier in this paper, in particular those related to human capital.

3.3 ALIGNING EU GOVERNANCE WITH THE SOCIAL INVESTMENT IMPERATIVE

The economic crisis and the growing socio-economic polarisation within and between member states have pushed the EU to undertake some key initiatives aimed at reinforcing the EU's social dimension in recent years. The debate has further intensified following the European Commission's Communication on 'Strengthening the social dimension of the EMU' in 2013,⁶⁹ and the more recent announcement by the Commission to create a European Pillar of Social Rights.⁷⁰ However, the overall attempt to strengthen the EU's social dimension and come up with concrete policies still faces a strong resistance at the highest political level. This resistance is mainly due to the fact that standards in social protection are very diverse across the EU. Furthermore, employment and social policies are often perceived by member states as a national policy area, and of key importance to manage their competitiveness. So, while some countries have invested in high standards, others think that an improvement of those standards could undermine their economy. This strong cleavage explains why EU policymakers have failed to turn relevant initiatives into a coherent policy framework.

To address this failure the EU needs, in addition to the adoption of a roadmap for a minimum level of social protection for all, to change its governance framework by taking social considerations more into account and putting the concept of social investment at its core. By changing the EU's governance architecture concerning social policies, the EU could promote a new approach to the member states and encourage them to better evaluate the effectiveness of their welfare state and the complementarity of their policies. To do so, two major steps are essential. They relate to the structure of EU social governance, and the overall direction of the EU's macro-economic governance.

First, **EU social governance needs to make a bigger effort to measure policy impact**. Social indicators used in the Joint Assessment Framework (JAF), the SPPM and the Social and Employment Scoreboard look primarily at final outcomes and the protection aspect of social policies. Whereas monitoring such elements is needed, it is also key to look at the notion of investment, which is currently poorly reflected in the set of indicators. To

⁶⁶ For more information on this topic, see the following study: EASPD (2016), *Unlocking the EFSI for Social Services*, available at <http://easpd.eu/en/content/study-unlocking-efsi-social-services>, last accessed on: 19.01.2016.

⁶⁷ See also Huguenot-Noël Robin and Zuleeg Fabian (2016), *Rethinking the EU's investment strategy: EFSI 2.0 needs a Social Pillar to address economic insecurity*, EPC Commentary, available at http://www.epc.eu/pub_details.php?cat_id=4&pub_id=7175, last accessed on: 19.01.2016.

⁶⁸ EASPD (2016).

⁶⁹ European Commission (2013d), *Strengthening the social dimension of the EMU*, Communication from the Commission, COM (2013) 690 final, available at <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52013DC0690&from=EN>, last accessed on: 25.11.1016.

⁷⁰ For more information on the European Pillar of Social Rights, see:

https://ec.europa.eu/commission/priorities/deeper-and-fairer-economic-and-monetary-union/towards-european-pillar-social-rights_en, last accessed on 28.02.2017.

reverse this trend, get a better understanding of policy complementarities and synergies, and monitor progress so as to better disseminate best practices across countries, there is a need to expand the use of the radar charts (presented in chapter 1) and monitor their development, particularly when policy changes are happening. By doing so, the EU and its member states will gain a better understanding of the link between specific policy initiatives and social outcomes. Furthermore, going beyond a mere focus on ‘stocks’ and giving more importance to the ‘flows’ is necessary to better measure the long-term impact of policies.

Secondly, a radical shift in the direction of the EU’s macro-economic governance is key. It has been mentioned earlier in this paper that the priorities of the different committees represented in the EU institutions, such as for instance the Social Protection Committee, the Employment Committee and the Economic Policy Committee differ significantly, as much as the indicators used in their daily work. **Aligning their work and priorities while giving equal importance to the social dimension** is essential so that the EU does not provide contradicting policy messages. This alignment on social investment objectives should also come out clearly in the European Semester, and more specifically in the CSRs delivered to member states. In addition, **the European Semester should be used to monitor the implementation of the social rights** presented in the above section.

Furthermore, the way public deficit is calculated and the targets imposed by the EU in the context of the Stability and Growth Pact (SGP) have hindered EU countries, in particular the ones that need it most, to exit the economic crisis and conduct more expansionary fiscal policies. As a result, the countries performing poorly in the social area often lack the fiscal space to invest in good public policies and improve social outcomes. Most of them now struggle to exit a vicious circle of social deterioration. Even more, EU rules have tended to exacerbate divergences between member states, such as the one pertaining to educational policies presented in chapter 2. These divergences took place despite the existence of flexible mechanisms such as the investment clause provided by the European Commission in 2015.⁷¹ But the application of this clause has been limited and has not enabled member states to address the current need for social investment. Therefore, additional instruments should be created.

The principles of the investment clause, which only apply to expenditures on projects co-funded by the EU, need to be extended to additional types of spending. To do so, **the EU should establish a Golden Rule allowing member states to deduct certain types of public investment from the calculation of the public deficit**. The first and immediate focus should be on human capital, particularly in areas in which there is strong evidence of growth-enhancing potential in the long run. These areas should entail early childhood education and care, secondary and tertiary education, training and active labour market policies, as well as the provision of affordable and social housing. To complement this approach and **ensure a focus on qualitative spending** (and not merely on quantity), **a body of independent experts should be established by the European Commission**. Its aim would be twofold: first to establish clear criteria to define what kind of spending would qualify as social and productive investment; and second, to evaluate which of them could fall under the Golden Rule in each member state. This second element could vary from one member state to another. It would then require a very

⁷¹ See European Commission (2015b), Communication from the Commission to the European Parliament, the Council, the European Central Bank, the Economic Social Committee, the Committee of the Regions and the European Investment Bank Making the best use of the flexibility within the existing rules of the Stability and Growth Pact, COM (2015) 12/final, available at <http://ec.europa.eu/transparency/regdoc/rep/1/2015/EN/1-2015-12-EN-F2-1.PDF>, last accessed on: 1.03.2017. In this Communication, the Commission indicates that member states have the possibility to deviate, under the preventive arm of the SGP, temporarily from their medium term objective or adjustment path towards it to accommodate investment, including social investment, if the following conditions are met: (a) their GDP growth must be negative or GDP remains well below its potential; (b) their deviation must not lead to an excess over the 3% deficit reference value and an appropriate safety margin must be preserved; (c) investment levels must be effectively increased as a result; (d) the deviation must be compensated within the timeframe of the member states’ stability or convergence programme; eligible investment must be national expenditures on projects co-funded by the EU under the Structural and Cohesion policy, trans-European networks and the Connecting Europe Facility or national co-financing projects also co-financed by EFSI.

good understanding of the situation and the needs of each member state to become more inclusive and competitive at the same time. In addition, such a radical move would require some changes in current EU legislation, in particular Regulation 1466/97 or through the introduction of a Social Investment Protocol under the simplified revisions procedure of Art.48 of the Lisbon Treaty.⁷² Lastly, the establishment of a Golden Rule would benefit countries that most need it only if fiscal capacity is created at the same time. In fact, increased flexibility in social spending through the Golden Rule would be only useful if there is sufficient fiscal space and if member states have the capacity to invest. This is why increasing the share of the EU budget allocated to social investment spending and facilitating the access to financial instruments for the social economy simultaneously (as a way to create this fiscal space) are of key importance.

⁷² This proposal has been discussed thoroughly at one of the meetings of the expert group on social investment that was put together by the EPC and supported by CESI. In addition, it is very much in line with the initiative of CESI, Eurodiaconia and Social Platform that can be found here: <http://www.cesi.org/trade-union-and-civil-society-representatives-launch-talks-with-eu-decision-makers-on-ways-towards-more-public-social-investment-in-europe/>, last accessed on: 27.02.2017. See also, Truger Achim (2015), *Revising EU Fiscal Policy: 10 ways to strengthen public investment*, Article on Social Europe, available at <https://www.socialeurope.eu/2015/03/public-investment-2/>, last accessed on: 27.02.2017

Conclusions

The magnitude of the challenges the EU is currently facing is significant, ranging from growing economic divergences, social deterioration, the inadequacy of the political answers to many urgent problems, a lack of citizens' support for further integration, political distrust between member states and their political elites, and a massive expansion of populist and Eurosceptic forces. Although all of these phenomena have different causes and consequences they are also, in many ways, closely inter-related. In the same vein, the authors of this paper argue that many of these challenges could find their answer in a single but key change in policymakers' mindset, which would consist of putting the concept of social investment at the heart of policies and empowering the role of the EU in that respect.

Many argue that the EU, its member states and citizens are not ready for such a move and that a stronger Social Europe would be, politically, too sensitive. The authors of this paper share a different view. They believe that too much time has already been wasted, and that the absence of a strong Social Europe partly explains the situation the EU is currently in. But by initiating a change of mindset underpinned by a concrete action plan on social investment as presented in this paper, the EU would show its willingness to address two current issues: the fact that the functioning of many welfare states in Europe is no longer fit for purpose and the growing economic and social divergences. At the same time, the EU would also respond to citizens' widespread distrust towards the EU. It would reassure citizens about the protective power ('caring dimension') that the EU could endorse while debunking the deeply-anchored perception that European integration can only lead to increased inequalities and divergences.

Of course, such a move will be politically difficult to achieve. Not only due to questions related to their concrete implementation, but also because such a quantum leap forward in European integration is likely to provide Eurosceptic forces with additional arguments for opposing the EU, at least in the short run. This is a risk worth taking provided that it is carefully managed. Hence, a number of conditions need to be fulfilled. First, communication will be key. Advocates for a stronger Social Europe will have to clearly explain that this process is not about transferring more competencies to Brussels for its own sake. On the contrary, it is about ensuring that EU countries move towards more economic and social convergence, which is essential for Europe's long-term stability and the well-being of its citizens. There is also a need to reiterate that EU countries are too small to individually cope with current global challenges, and that it would be easier to address them collectively while relying on a strong common set of social standards and rights. Furthermore, this is about demonstrating that the benefits of further integration and cooperation are larger than those of disintegration.

Second, moving in that direction will require some political courage and a fundamental attitude change, first and foremost among mainstream political parties. Their responsibility to provide a credible counter-narrative to Eurosceptic forces is beyond a doubt. The more support such a narrative will receive, the more credible it will be. This new narrative will have to transcend country-borders and be based on the idea that social progress can be achieved collectively, and that the EU can become a model where social convergence and national competitiveness are not antagonistic. In the same way, it will have to go beyond 'national egoism' and defend the argument that efficient investment in human capital across the whole EU will make our Union and eurozone much stronger. In order to succeed, this attitude change has to be promoted by key political figures, while establishing cross-party and transnational coalitions. This would send a strong signal to citizens, showing them that politics can be done differently and that pro-European forces can go beyond short-sighted interests and work for the common good.

Finally, all these efforts will need to be underpinned by a continuous reflection about how the welfare state can align itself to the future of work, without undermining the core principles of the European social model. Some interesting ideas have already emerged but would need bigger support to have larger implications. In this respect, engaging in a far-reaching dialogue with all relevant stakeholders is key and this is where the work of the EPC aims to provide a useful contribution in the future.

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