The European Social Model in the Time of Crisis

Which roads towards social investment?

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von

Stefano Ronchi

aus

Pavia

Erstgutachter: Prof. Dr. Achim Goerres, Universität Duisburg-Essen

Zweitgutachter: Prof. Dr. Hans-Jürgen Andreß, Universität zu Köln

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Abbreviations

ALMP	Active labour market policies
BWE	Budgetary Welfare Effort
CEE	Central and Eastern European
EC	European Commission
ECB	European Central Bank
EMU	Economic and Monetary Union
ESM	European Social Model
EU	European Union
EU-SILC	European Union Statistics on Income and Living Conditions
GDP	Gross Domestic Product
ICC	Intraclass Correlation Coefficient
ILO	International Labour Organization
LMPS	Labour Market Policy Statistics (Eurostat)
OECD	Organisation for Economic Co-operation and Development
PES	Public employment services
PLMP	Passive labour market policies
R&D	Research and development
SI	Social investment
SIWE	Social Investment Welfare Expenditure dataset
SOCX	OECD Social Expenditure Database
SP	Social protection
VoC	Varieties of capitalism

Country abbreviations

AT	Austria
BE	Belgium
BG	Bulgaria
CY	Cyprus
CZ	Czech Republic
DE	Germany

DK	Denmark
EE	Estonia
EL	Greece
ES	Spain
FI	Finland
FR	France
HU	Hungary
IE	Ireland
IT	Italy
LT	Lithuania
LU	Luxembourg
LV	Latvia
MT	Malta
NL	Netherlands
NO	Norway
PL	Poland
PT	Portugal
RO	Romania
SE	Sweden
SI	Slovenia
SK	Slovakia
UK	United Kingdom

Acknowledgements

I remember when I took the admission test for a master at the University of Milan, called ‘Master in International Labour and Social Policies’. The professor who was doing the interview asked me why I chose that master. I was so naive as to bluntly say something like ‘well, because I hear people every day talking about how precarious are our jobs and how weak social security, and I feel like I should know more about it’. Apparently my answer was convincing enough to get me accepted into the programme. At the time I was delivering pizzas as a side job—without a regular contract of course—and, most important, the economic crisis was getting worse in Italy: studying labour and social rights seemed to me something timely and concrete. When I first got interested in the social investment debate, again I tried to reconnect it to the real world, or at least to my concrete experience. In those years Italy still did not have a national minimum income scheme. At the other extreme of the EU, countries like Denmark could guarantee a minimum income support well above the equivalent of a thousand euros a month to the needy. How could any social investment reap the same fruits from so different grounds?

In a nutshell, this was the question that pushed me to write this PhD thesis. And which, hopefully, brought me to prove something relevant. Should this be the case, the credit goes to the many persons that supported me along the way. First, Achim Goerres, my supervisor at the University Duisburg-Essen, whose practical advice and timely heads-up were always crucial in keeping me on track when I was about to derail—that is, what a good supervisor should do. I am also very grateful to Hans-Jürgen Andreß, my supervisor at the University of Cologne. I did not know much about regression analysis when I came to Cologne. I am happy I took up the challenge: what I know now I owe to Hans-Jürgen’s commitment to the Graduiertenkolleg SOCLIFE. As a father of SOCLIFE, he made all this possible in the first place, for me and for many other students before, to whom he left a notable legacy. Anton Hemerijck is surely the third on this long list of persons to whom I owe my gratitude. It is fair to say that the trust he placed in me completely changed my prospects. Indeed, it seems to me to be the proverbial dwarf who stands on the shoulder of a giant. Many thanks go to my friends and colleagues from Uni-Köln (and from the other places which I visited during my PhD), in particular to Eleonora, Sabina, Micha, Andrea, Jens and Christian, who made many grey days less so. I am indebted to many scholars and colleagues who were patient enough to give me precious feedback on my work: among them, Frank Vandenbroucke, Adeline Otto, René Lehweß-Litzmann, Wim van Oorschot, Alex Schmidt-Catran, Heike Wirth, Regina Weber, Evelyn Funk, Florian Rabuza and Dominik Lober. Some persons, finally, would deserve much more than a few lines, given the fact that there is much more in life than a computer screen from which to speculate on the future of European social policy. Thank you Laura for all the true support you gave me in this intense, sometimes tough, years. And for having been the real discovery of my doctorate, which gave a new colour to my life—the most beautiful I could imagine. Lastly, I thank my parents. I do not know if what they did for me can be considered as a ‘social investment’...Be that as it may, none of this would have been possible without all the sacrifices they made for me.

Firenze, 27 September 2018

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Introduction

The European social model has already gone, when we see the youth unemployment rates prevailing in some countries.

Mario Draghi, President of the European Central Bank, interviewed by the Wall Street Journal, February 24th, 2012

If there is a trademark which defines European welfare capitalism, it is the commitment to both economic and social progress. Ever since the Second World War, the development of comparatively generous welfare state systems and the pledge to redistribute the wealth and opportunities generated by the market laid the foundations of the 'social contract' which, in the words of the historian Tony Judt (2005: 748), 'binds Europeans together'. This legacy has been internalized by the European Union (EU), which set itself the aim of building up a European Social Model (ESM) capable of providing market integration with a social counterweight (European Commission, 1994). The Social Model enshrines European welfare states as one of the most successful feats of the Old Continent. According to a report of the International Labour Organization (ILO), it 'undoubtedly represents the soul of the European Union, envied and copied by other regions and countries in the world' (Vaughan-Whitehead, 2015: 9). However, as the opening quote suggests, the success story of European welfare states seems to have entered a new, dark chapter. The ESM is not at its best today.

European welfare states face multiple challenges: global and EU market integration, rapid technological change, the changing nature of (gendered) social risks in ageing post-industrial society and, last but not least, the Great Recession casts a shadow on the

effectiveness and sustainability of the ESM as we know it. Born from the academic debate over welfare state change, the blueprint of social investment has been proposed as a new 'edifice' for the ESM (Hemerijck, 2012). The social investment perspective tips the welfare state balance in favour of risk prevention rather than compensation after moment of economic or personal hardship (Esping-Andersen, Hemerijck, Gallie and Myles, 2002; Morel et al., 2012; Van Kersbergen and Hemerijck, 2012). To wit, it moves beyond the sole focus on out-of-work protection typical of post-war welfare institutions. By putting the stress on policies aimed to prepare and mobilize human capital, it shifts the logic of the welfare state from protection *against* the market to social inclusion *within* the market, understood as today's post-industrial labour market. In other words, social investment strives to find its way as a new policy paradigm, able to reconcile the social and economic challenges of 21st century welfare states (Jenson, 2012; Hemerijck, 2017, 2018).

At a time when the welfare state tends to be seen as a sheer cost rather than an investment, the social investment blueprint sounds like an appealing recipe to rescue the ESM from its demise. Indeed, the imperatives of social investment have informed EU growth and cohesion strategies since the launch of the Lisbon Agenda in 2000 (European Council, 2000), and have been restated after the onslaught of the Euro crisis, when the European Commission adopted a 'Social Investment Package' (European Commission, 2013a, 2013d), which called member states to invest in social policies to enhance human capital and citizens' labour market opportunities. In the crisis aftershock, however, the road towards an EU-wide social investment strategy is steeper than it may seem. European welfare states have been caught between a rock and a hard place. On the one hand, most of them fall short of the social investment ideal-type, and must strive to adjust to the changing context and social risks. On the other, their room for manoeuvre is constrained by mounting economic pressures that, as a result of the crisis and austerity, have become tighter than ever before. This predicament has raised doubts as to whether the EU is losing its social 'soul' (Vaughan-Whitehead, 2015). Tellingly, it was exactly one year before the adoption of the Social Investment Package that the President of the European Central Bank (ECB) Mario Draghi figuratively buried the ESM, claiming that 'it had gone' (The Wall Street Journal, 2012).[1] Since

[1] To do justice to the President of the European Central Bank, it is worth reporting how Draghi then

2011, fiscal austerity has carried the day (European Commission, 2013b), relegating the social policy discourse to the back seat.

Some questions hence come to the fore: can social investment weather the storm of the crisis? Does it effectively deliver the desired economic *and* social outcomes? Does it work for citizens with different socioeconomic characteristics? And can all European countries possibly pursue the social investment strategy, and reap its fruit, despite the wide diversity in their welfare state legacies? In the face of many hurdles—both at the micro level of socially stratified societies and at the macro level of cross-country disparities in institutional legacies, macroeconomic conditions and societal fabrics—the social investment strategy could fail to reach the ambitious aim to rescue the ESM from the crisis. It may turn out to be a sheer window dressing for the real economic priorities of today's EU, those enshrined in the Economic and Monetary Union (EMU). Or, in any event, social investment could be affordable only by some countries, while austerity, together with unfavourable welfare legacies, makes life harder for the bulk of member states.

This monograph seeks to provide an empirical assessment of the road(s) that EU welfare states are taking in the time of the economic crisis, and whether that of (fully-fledged) social investment is just the best of many possible roads. It does so in a truly comparative fashion, not limited to few case studies and country-comparisons, but which, by contrast, tries to explain the dynamics of social investment reform and outcomes through variables, in the context of a large-N empirical study.[2] Two crucial traits make this contribution original. First, we use a novel policy dataset—the Social

revised his statement: 'My actual statement is that this European social model has to be revisited, and one of the reasons is the reason I gave you. I believe in the values of inclusion and solidarity, but the present rules don't allow, don't make this social model—it's not European, by the way, but a social model that prevails in some countries in Europe, not everywhere—these rules make it unsustainable.' (Q&A time at a press conference at the ECB, Frankfurt am Main, 4 April 2012). That said, Draghi was not a lone voice in speaking of the death of the ESM. The same stance was in a way echoed by the Dutch King Willem-Alexander in a speech to the Parliament held in September 2013, when he heralded the end of the Dutch welfare state, arguing for its evolution into a society in which 'citizens will be expected to take care of themselves, or create civil-society solutions for problems such as retiree welfare' (Financial Times, 2013). Along the same line, speaking at the 2013 World Economic Forum in Davos, the German Chancellor Angela Merkel worried about Europe's too generous welfare commitment, which she presented as a hurdle to competitiveness and economic growth ('while "making up for almost 25 percent of global GDP", [Europe] "accounts for nearly 50 percent of global social spending" [(quoted in Hemerijck and Huguenot-Noël, forthcoming).

[2] Throughout the book we also refer to case studies and comparative studies from the qualitative literature on the welfare state and political economy, as they constitute a necessary complement to add flesh to the bones of the results from the quantitative research presented here.

Investment Welfare Expenditure (SIWE, whose potential is shown in Chapter 3; an in-depth description is provided in Appendix 1)—to track the trajectory followed by social investment in welfare reform across all EU member states, from 2000 (the year in which the Lisbon Strategy for Growth and Cohesion was launched) to 2013, through the crisis years. Second, different from previous research that looked at the potential of social investment at the aggregate level (and often in a descriptive fashion), we assess social investment outcomes at the micro level. More specifically, we do that by linking the macro level of policy indicators with the micro level of European individuals and households, whose employment prospects and income security we take as yardstick to measure the outcomes of social investment in different countries and policy mixes.[3] Moreover, in the multivariate analyses (included in Chapters 4 and 5) we rely on a state-of-the-art statistical technique which allows the combination of policy and individual perspectives, while also telling us to what extent policy outcomes are due to enduring differences across European welfare states or to the effort put by a country's policy-makers into social investment over time (methodological details in Section 4.3).

The book is structured in a way to add detail step-wise to a unique, complex picture. It first introduces the reader to academic literature regarding welfare state change, into which it places the (academic and policy) debates on the emergence of a 'social investment paradigm'. Then, in the empirical part, it maps the most recent welfare state developments at the country-level, before narrowing the focus towards the micro-level outcomes of social investment across the EU and their many pitfalls. Since social investment is such a normatively charged concept, the latter are no easy tasks. On the one hand, the normative nature of social investment makes it a powerful platform for European economic and social policy strategies. On the other, its still rather nuanced conceptual boundaries make it a challenging subject for empirical research (cf. Nolan, 2013). Therefore, the next chapter—Chapter 2—sets the scene, and draws the theoretical background for the subsequent empirical inquiry. The European 'social contract' did not remain unchanged over time. It originated to cope with the socio-economic challenges affecting European societies in the heyday of industrialization, and then it mutated along with them, undergoing periods of boom and bust. Following the

[3] Micro-level data on individuals and households are taken from the European Union Statistics on Income and Living Conditions (EU-SILC), which is described in-depth in Appendix 2.

end of the Second World War, the social policies that had been outlined since the turn of the century were spectacularly expanded. Markets were embedded into a growing bundle of public policies, which sought to provide citizens with social protection 'from cradle to grave'. The Golden Age of both economic and welfare state growth came to an end when the economic crises of the 1970s cast doubts on the effectiveness of such a strong state-market nexus. Increasingly expensive welfare states turned to be seen as part of the problem, hampering economic efficiency and causing sluggish growth. However, European welfare states proved resilient vis-à-vis pressures for retrenchment. Rather than being utterly downsized, they gradually adjusted to the emerging social and economic challenges, redrawing their scope and rationale.

The jury is still out on the extent and nature of the ongoing transformation of European welfare states. Although different national trajectories certainly emerge, much academic debate has been struggling to identify the common thread which underlies the transformation. The social investment perspective has become the most influential academic framework to look at welfare state change, and a politically engaging platform for EU social and economic strategies. Chapter 2 puts social investment into context: by retracing the developments of European welfare states over the last half of the 20th century, it shows how it cannot be taken for granted that the new welfare blueprint, recently endorsed by the same European Commission, is a viable and effective way out of the crisis for *all* the Social Model*s* that in fact exist in today's Europe.

Many hurdles hinder the development of social investment across the EU. Some relate to the same micro foundations of the emerging paradigm, and are as such a matter of concern for all welfare states. Some others are instead intrinsic to the disparities which exist across European welfare states. In this book, we first consider the latter point, which may prevent social investment reform from occurring in the first place. Although they have all been called to take the road towards social investment, EU member states are not placed on the same starting blocks. The bulk of them do not provide a favourable social and institutional foundation for social investment to thrive. On top of that, fiscal austerity clashes with social policy objectives and squeezes the resources for welfare state recalibration, especially in crisis-ridden countries. Against this backdrop, it becomes clear that a full turn towards social investment can be just one of many scenarios for the future of very different European welfare states. At the crisis

crossroads, some countries may be unable to afford the social investment strategy at all, or buy some cheaper version of it, and fail to reconcile economic and social goals. In the first empirical step of the book, Chapter 3 draws four scenarios for the recalibration of European welfare states, and, based on the patterns which emerge from the SIWE dataset, tracks the trajectory of recalibration followed by each member states from 2000 to 2014.[4] As expected, European welfare states differ greatly in their social investment- (and protection-) orientation. Furthermore, Chapter 3 shows that the economic crisis put the brakes on progress made by social investment policies in the social budgets of EU countries in the early-days of the Lisbon Strategy. Indeed, the road towards social investment reform appears as an uphill struggle for the bulk of European welfare states.

Aside from country-level hurdles, social investment is exposed to a number of pitfalls at the micro level of its outcomes. If pursued at all, does social investment lead to the desired economic outcomes (boosting individual employment chances)? And are its outcomes not only economically, but also *socially* fair and desirable? Chapter 4 answers the first of these questions. By bridging policy indicators from the SIWE dataset and micro-level data from the EU-SILC (European Union Statistics on Income and Living Conditions) in multivariate analyses based on multilevel modelling, it reveals the picture of a glass that can be considered either half-full or half-empty. To wit, the employment micro-outcomes of social investment, although positive overall, seem to be due to long-standing cross-country heterogeneity more than to increased policy efforts over time. Thus, it could be hard for 'laggards' of social investment, unable to reap the rewards of their policy efforts in the short term, to catch up with best-performing countries. Chapter 5 then turns to assessing the social (un)fairness of social investment micro-outcomes. More specifically, it puts to the empirical test the two main lines of criticism made of the social investment blueprint. On the one hand, the reorientation of social policy towards the employment-centred imperatives of social investment entail a risk of losing the grasp of social inclusion goals. If the only aim of social policy becomes that of adapting people to the labour market (i.e., to '*recommodify*' them), the traditional social protection function of the welfare state could be belittled, and the welfare state itself deprived of its fundamental counterweight

[4] Chapter 3, and in general all the empirical analyses based on the SIWE dataset, differentiates between *social investment* (social services to boost human capital and citizens' labour market and work-life balance opportunities) and *social protection* policies (cash transfers to those out of work).

against market risks (Crouch and Keune, 2012; Daly, 2012; Nolan, 2013; Leibetseder, 2017; Laruffa, 2017). On the other hand, concerns have been raised about the vulnerability of the social investment blueprint to what is generally referred to as the '*Matthew effect*'. Social investment policies tend to benefit those individuals who are already better equipped to get the best out of labour market participation, while leaving the most vulnerable aside, thus amplifying existing inequalities (Van Lancker, 2014; Bonoli et al., 2017). The empirical findings from Chapter 5 highlight that both pitfalls—recommodification and the Matthew effect—are in fact threatening the social fairness (and desirability) of social investment. However, the specific outcomes of such policies depend on the institutional and socio-economic circumstances found within different welfare states. Most notably, in countries which buttress social investment policies with encompassing social protection legacies (thus, generous unemployment and anti-poverty benefits, family allowances, pensions, etc.), the 'side-effects' of social investment are as a result mitigated. In fact, it is the *policy complementarity* between investment- and protection-policies which leads to reconciling economic *and* social outcomes; social investment interventions in isolation can otherwise drift into unintended outcomes.

This last aspect brings us to anticipate a consideration that will come back, and on which we will further elaborate, in the conclusions in Chapter 6. In a way, the Matthew effect—i.e., self-fuelling inequalities in social investment outcomes—can materialize not only between different individuals and households (micro-level). It can also be observed at the macro level, that is to say, between European countries. Better-off member states (in terms of welfare legacy and/or macroeconomic situation) could find it easier to progress further along the road of social investment, while others lag behind. At a time when the economic crisis has put the social and political cohesion of the EU under a serious stress test, this comes at a very high cost. Further divergence between already diverse Social Models could undermine the endurance of the same European integration project, recently weakened not only by the economic, but also by a deep social and political crisis.

2

The Transformation of European Welfare States: from the Origins to the Social Investment Paradigm

The social investment perspective did not come out of the blue. It is the last step in the historical trajectory of European welfare states, which have gone through periods of boom and bust, and are now striving, once again, to adjust to changed social and economic challenges. As an emerging welfare paradigm, social investment is more than an analytical framework for academic research in social policy. It is also a policy platform, politically charged, which has informed European growth and cohesion strategies for at least two decades now. As such, it has a normative dimension which makes it a problematic subject for empirical research. This chapter frames social investment (and its critiques) in a systematic way, drawing the theoretical framework for the empirical investigations conducted in this monograph. It navigates the reader through the transformations experienced by European welfare states since the Second World War. It is shown that, rather than a single, abstract ESM, a variety of European social models emerged through time, which are facing today's social and economic challenges to different degrees, and are differently prepared to cope with them. Therefore, the question arises not just as to whether the social investment strategy is fit to rescue the European Social Model as a whole. First and foremost, the question becomes whether the road to social investment is viable for *all* European welfare states.

The next section retraces the steps of European welfare states since their inception, highlighting the normative paradigms which underlay each evolutionary phase. Following that, Section 2.2 describes the varieties of European social models, and how they are (or are not) equipped to meet today's social and economic challenges. The third

section defines the social investment perspective in its two facets: as a new theory of 21st century welfare states, and as a policy blueprint for the European Social Model. Section 2.4 discusses criticisms of the social investment approach. The final section wraps up and concludes by raising questions that will remain central throughout the monograph.

2.1. The Origins and Transformation of European Welfare States

Social policies which form today's welfare states originated as a public response to social risks and needs that changed over time. They did not automatically adjusted to changing environments: it took time for new social demands to become clear, and for policy solutions to be formulated. Moreover, the political and institutional specificity of each country made welfare states evolve along different trajectories. This section illustrates how European welfare states first originated and expanded, and how they confronted changing economic and social challenges.

2.1.1. Welfare state expansion and the Golden Age

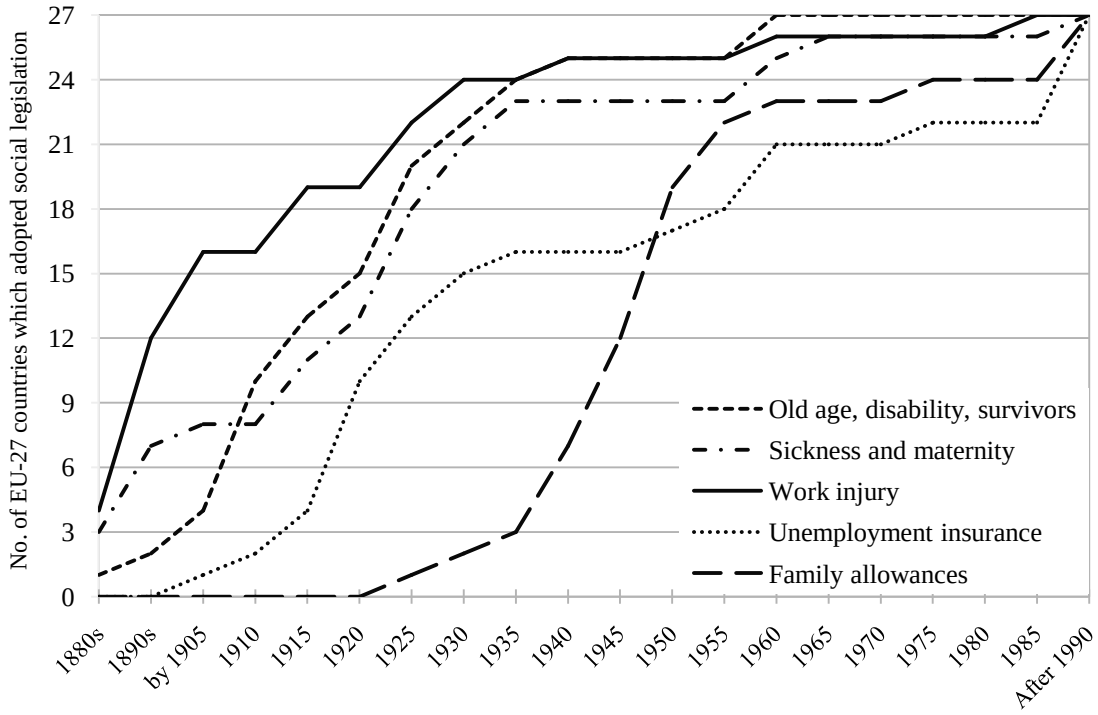
European welfare states first developed in response to the problems brought by the rapid process of industrialization in the late nineteenth century. The social insurance legislation which bloomed in that period is commonly interpreted as the 'take-off' of modern welfare states (Flora, 1986: XIII).[5] Figure 2.1 shows the timeline along which EU-27 countries introduced social insurance legislations in five key policy domains (the graph lines indicate the cumulative number of countries endowed with such legislation). The German Empire led the way. In 1883 and 1884 the Chancellor Otto von Bismarck had two bills enacted, which established social insurance in case of sickness and work injuries.[6] In 1889 the first old-age and disability pension programmes were also

[5] Earlier examples of social legislation are found in the British Poor Laws, poor relief measures that were enacted since the seventeenth century in the UK. The Poor Laws were however calibrated on pre-industrial societies, and were conceived as a responsibility of local parishes instead of being administered as central government policy. According to Karl Polanyi, the Speenhamland-Poor Law system even prevented the commodification of labour, that was necessary for industrial capitalism to take off (Polanyi, 1944: 7).

[6] Statutory social insurances schemes had been actually anticipated by workers' self-help. Mutual benefit societies had previously arisen, that provided on a voluntary base some form of insurance against sickness and unemployment to their members (Harris, 2015; Palier, 2010: 1). This was the case of 'friendly societies' in England, '*Hilfskassen*' in Germany, '*Sociétés de secours mutuelles*' in France, '*Società*

introduced. Most of continental Europe soon followed. By the 1930s almost all today's EU-27 countries had introduced their own old-age, sickness and work-injury insurance schemes. Unemployment insurance came soon after, although with a slower pace of diffusion (Figure 2.1; see also Ştefan [2015]).[7] Public allowances for families with children spread later on, during and immediately after World War Two.

Figure 2.1. Diffusion of social insurance programmes in today's EU-27 countries, by year of adoption



Source: International Social Security Association (2016).

The progressive diffusion of social insurance programmes was bound to the societal needs of the time. According to structuralist accounts of the development of the welfare state, state-provided social protection became necessary to keep together the mutated social fabric of modern industrial economies—the so called 'logic of industrialism' (for example Wilensky and Lebeaux, 1965). The blooming industrialization of the nineteenth century profoundly changed both economies and societies. The traditional

operaie di mutuo soccorso' in Italy, '*sociedades de socorros mutuos*' in Spain, and so forth.

[7] The lag in the diffusion of unemployment insurance schemes in Figure 2.1 is partly due to the fact that, in some former socialist Member States, only post-transition schemes are considered as fully-fledged unemployment insurance in the International Social Security Association database.

social institutions on which pre-industrial communities were based—first and foremost the family, the church and guild solidarity—lost their grip on the emerging economic system, in which market relationships became the crucial element determining whether one could make ends meet. Social insurance programmes were put in place to cater for the (basic) social needs that came along with industrialization (Esping-Andersen, 1990: 13). Their objective was to provide industrial workers (typically male family breadwinners) with some income compensation in case of job interruption, intervening when the labour market was failing to provide them (and their families) with a living. According to the seminal work of Karl Polanyi, welfare states originated to rescue the market from itself. On the one hand, the commodification of labour was the engine of the 'great transformation' which caused industrial capitalism to arise. On the other, it overturned the society in a way that would have not survived without a necessary 'countermovement'. A counterweight that was found in the emerging welfare state. By posing a limit on its influence on people's lives, social protection prevented the market from being self-damaging (Polanyi, 1944).[8]

The full consolidation of European welfare states came in the post-World War Two, during the *Trente Glorieuses* (1945-75) that is generally identified as the 'Golden Age' of welfare expansion.[9] The coverage of social insurance programmes grew to reach one hundred percent of workers in most Western European countries, and benefit generosity also increased (Ferrera, 2005a: 63ff). Most importantly, a new logic of welfare provision arose. While early-time insurance schemes offered protection to workers on the basis of their occupational sector, a universalistic conception of social rights emerged, according to which individuals were entitled to some forms of welfare protection based on citizenship. Along with this logic, a new wave of social policies developed in some countries, departing from the categorical, earnings-related rationale

[8] This view is common in neomarxist accounts of the welfare state, which emphasized the centrality of changing relations of production ('logic of capitalism') in making state-provided social protection necessary. According to this, 'the welfare state tries to compensate for new problems which are the by-products of industrial growth in a private economy' (Offe, 1972: 481). Social protection not only helped to stem the social malaise generated as side effect by the fast growing market economy. It was also seen by politicians and business groups as necessary political move to keep social conflict under control (Palier, 2010: 1; Paster, 2013). It is not by chance that the first social legislation came from the conservative Bismarckian regime, whose interest was to appease an increasingly organized working class.

[9] Analyses based on welfare expenditure have generally placed the Golden Age in between 1960 and 1975, as the period in which welfare spending across European democracies increased most rapidly (Flora, 1986: XII; see also Figure 2.2 below).

of 'Bismarckian' social insurance, and setting up widespread, flat-rate entitlements based on the principle of universal social rights.[10] The core aim of both streams of social policy remained the same as highlighted by Polanyi. Industrial welfare states essentially aimed at 'decommodifying' people, making them less reliant on market forces in order to make their living (Esping-Andersen, 1990: 3; 37). Through cash transfers such as pensions, unemployment insurance, social assistance and family allowances the State sought to alleviate the economic stress connected to old age, unemployment, poverty, and family-related needs. Post-war welfare states shared the same rationale: protecting (male) industrial workers against market risks.

The Golden Age of welfare expansion was backed by two crucial elements. The first was a favourable political economy and ideological turf. Following the Great Depression of the 1930s, Keynesianism started to emerge as a solution for the management of capitalist economies. In the post-war period, it became the dominant paradigm (Ruggie, 1982; Quadagno, 1987; Blyth, 2002). Social spending was seen as a positive means to stimulate aggregate demand and to smooth fluctuations of the business cycle. The 'embedded liberalism' of the Bretton Woods years made it possible for the consensus around the intervention of the State into the economy to remain stable (Ruggie, 1982).[11] The second element which facilitated welfare state expansion was the sustained economic growth of the post-war period. Figure 2 shows the average trends of both welfare spending (left axis) and Gross Domestic Product (GDP) per capita (right

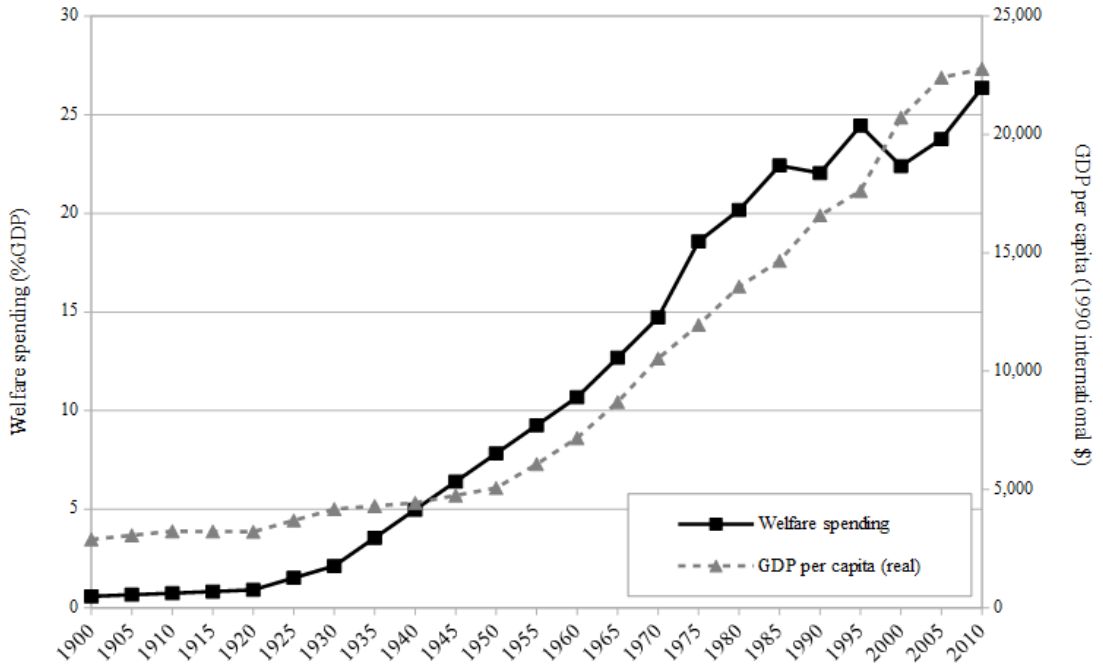
[10] When talking about the principle of universalism in social policy reference is often made to the British government report 'Social Insurance and Allied Services' (1942), commonly named the 'Beveridge Report' after the main author, William Beveridge. The report set the blueprint which inspired the post-war Labour government of Clement Attlee in building the foundations of the modern British welfare state, including the universalistic National Health Service. The birth of a new conception of the welfare state was acknowledged in the seminal essay 'Citizenship and Social Class' written by the British sociologist T.H. Marshall (1950). Marshall described the evolution of the conception of citizenship, from 'civil citizenship'—bound to the principle of formal equality before the law typical of eighteenth century's liberal states—to 'political citizenship'—with reference to the expansion of suffrage which came with democratic states – and finally to 'social citizenship'—which encompasses a 'whole range' of rights typical of what we now call 'the welfare state', from 'a modicum of welfare and security to the right to share to the full in the social heritage and live the life of a civilized being according to the standards prevailing in society.'

[11] John Ruggie coined the term 'embedded liberalism' with reference to the international macroeconomic equilibria that were maintained from the 1940s to the early 1970s, under the international monetary agreements adopted at the Bretton Wood Conference in 1944. The Bretton Woods system helped 'embedding' international markets by limiting cross-border capital flows and pegging other currencies to the US dollar. This provided national governments with considerable leeway in monetary policy, thereby allowing them to resort to market regulation and deficit spending, and therefore a favourable ground for the expansion of welfare state programmes.

axis) in European democratic countries across the twentieth century. The most spectacular increase in welfare expenditure which followed World War Two indeed goes along with economic well-being, also accelerating after the 1950s. This simple figure reflects what was pointed out by early-time empirical welfare state research, which identified the level of economic development as the main determinant of the expansion of Western welfare states (in terms of both expenditure and programmes' coverage) (Cutright, 1965; Wilensky, 1975).

Overall, while industrialism made the welfare state necessary for the social regulation of capitalist societies, the post-war decades provided the best ideological and economic conditions for it to take off. But these favourable conditions soon proved to be the exception rather than the rule (cf. Streeck, 2011).

Figure 2.2. Trends of welfare spending and GDP per capita in the twentieth century: average of 11 Western European democratic countries.



Source: (a) Welfare spending (left-hand y-axis): Our World In Data (dataset constructed by Marco Molteni), cited in and available from Ortiz-Ospina and Roser (2018). Data before 1930 taken from to Lindert (2004); Data from 1960 to 1979 taken from OECD (1985); Data after 1980 taken from OECD Social Expenditure Database (SOCX). (b) GDP per capita (right-hand y-axis): The Maddison-Project, version 2018 (Bolt et al., 2018).
Note: Countries included are EU-15 less Luxembourg (missing data), and Greece, Spain, Portugal (which were not democracies during the Golden Age of welfare states). Welfare spending values from year 1930 to 1960 have been linearly interpolated.

2.1.2. The Silver Age of welfare state retrenchment

By the mid 1970s, the average social expenditure of Western European countries had almost reached 20 percent of GDP. According to Peter Flora, welfare states seemed to 'have approached their limits of expansion' (Flora, 1986: XII). These limits were not set by the increased expenditure *per se*; instead, it was the changing macroeconomic context and resulting shift in economic ideas that put the brakes on welfare state growth.

The political-economic equilibrium of the Golden Age started to break down in the 1970s. The last decades of the twentieth century marked the start of a 'Silver Age' (Taylor-Gooby, 2002), in which European welfare states had to face many challenges. On the one hand, the end of the post-war economic boom in the 1970s posed a serious upper bound to further expansion of social programmes. Social spending became a big financial burden for countries which had to cope with exogenous economic constraints while paying welfare benefits to rapidly ageing populations. On the other hand, new endogenous challenges arose. The economy, labour markets and society changed, and social risks with them. New needs emerged which were not properly addressed by post-war social programmes; European welfare states strove to adjust to a wider range of social demands, although in a context that was not as favourable as that of the previous decades.

A series of shocks overturned the global economic system on which the Golden Age rested. In the face of a growing deficit in the balance of trade, in 1971 the President of the United States (US) Richard Nixon suspended the dollar's convertibility into gold. This implied a *de facto* unilateral termination of the Bretton Woods system of international currency arrangements: from that moment, national currencies were left free to float according to their market demand and supply. As the US dollar depreciated, the revenues of oil producing states decreased. This, together with the political conflict over the Arab-Israeli question, brought oil-producing countries to agree on a massive increase in oil prices in 1973, followed by a second rise in 1979. The 'oil shocks' severely hit Western economies, heavily dependent on oil imports, and contributed to putting an end to the post-war economic boom (Hay and Wincott, 2012: 25).

The economic shocks of the 1970s were characterized by the simultaneous presence of stagnation and inflation—'stagflation'. This unforeseen conundrum caused the second pillar on which the Golden Age relied—the predominance of Keynesian

economic ideas—to crack. Keynesian demand-side economics was not able to provide a satisfactory explanation for the stagflation crisis, let alone a solution. The impasse of post-war capitalist expansion paved the way for the rise of neoliberalism: non-inflationary economic growth became the core objective, and market efficiency the favoured way to pursue it. This entailed a shift away from the State-interventionist view that had previously provided a breeding ground to the expansion of the welfare state, and a preference for market-centred solutions (Gamble, 2009, Chapter 3). According to Peter Hall, this ideological change corresponded to a shift towards a new policy paradigm: namely, a 'movement from a Keynesian mode of policymaking to one based on monetarist economic theory' (Hall, 1993: 283; see also Jenson, 2012). As opposed to Keynesians, neoliberal thinkers argued in favour of less intervention of the State into the economy, according to the idea that private investment, rather than government spending, would restore and promote growth.[12] Against the backdrop of the 1970s—impressively grown public spending facing economic stagnation—the 'Keynesian welfare state' came to be seen as part of the problem. The dilemma of that time was effectively translated by the American economist Arthur Okun (1975) into the 'Big Tradeoff' between equality and efficiency: to wit, a trade-off between what we would call the social and economic goals of advanced welfare states. According to Okun, generous welfare programmes—although crucial for redistributing wealth and fight poverty—impaired economic growth.

Neoliberalism found its political springboard in the Conservative governments that dominated the political scene of the Anglo-Saxon world through the 1980s, most

[12] In a nutshell, 1970s' neoliberal critiques of Keynesianism rested on two pillars, one concerning the micro-, and another concerning the macro-level setting. At the micro level, the 'moral hazard' became the main concern for economists. For example, the standard 'job search models' framed unemployment benefits as disincentives for work, for they can raise the 'reservation wage' (i.e. income for those out of work) above some level considered optimal for the 'job match' between labour supply and demand. In other words, unemployment benefits are fraught with moral hazard, since they risk pushing people to live on welfare rather than to look for jobs, and to activate perverse 'welfare dependency traps'. At the macro level, at a time of stagflation and high unemployment, the thesis emerged according to which public borrowing (considered at that time necessary to finance 'Keynesian' welfare states) crowds out private investment, harming the overall economy (see e.g. Bacon and Eltis, 1976). Overall, neoliberalism shifted the focus from demand-side to supply-side economics and policies. That is to say, from State intervention in the economy to boost the aggregate demand through, e.g., direct job creation, sustained out-of-work benefits, wage increases, etc., to a revisited *laissez-faire* view, which not only privileged the market over the (minimal) State, but actively promoted pro-market State intervention (Laruffa, 2017) betting on the potential of lower taxes, benefits and pro-market regulation to boost economic growth.

notably Thatcher in the UK and Reagan in the US (Pierson, 1994).[13] The neoliberal negative framing of the welfare state paved way to what Paul Pierson called 'age of permanent austerity' (Pierson, 1998), a period in which budgetary constraints on welfare state growth and maintenance became tighter, and welfare state 'retrenchment'—cost-containment at best—rather than expansion became the political *leitmotiv*. Yet welfare states somehow proved resilient to pressures for outright retrenchment: rather than triggering a fully-fledged rollback, 'permanent austerity' generally inhibited social spending from further growth.[14] Western European welfare states obviously faced increasing problems in balancing their budgets. Nevertheless, this was not the only obstacle they had to face in the Silver Age. In a context of tighter fiscal leeway, the challenge became that of adapting established welfare institutions to changes in the economic, social, and political environment (Alber, 1988: 200).

2.1.3. New challenges and new social risks in the post-industrial era

Paul Pierson described post-war 'industrial' welfare states as 'immovable objects', politically shielded against retrenchment by vested interests entrenched in established social programmes (Pierson, 1998). However, the recent history of advanced welfare states was not only a story about resistance to downward pressures. Behind the apparent immobility, subtle changes occurred as a result of the attempts to adapt welfare provision to the new needs brought by economic and social change. With the fade out of

[13] The shift away from postwar Keynesianism was not circumscribed to the US and the UK. Starting from the 1970s, the assertive restrictive monetary policy of the German *Bundesbank*, the centre-right governments that broke the almost 30 years long hegemony of the Social Democrats in Sweden, and the austerity turn taken even by a left-wing government in France (Mitterrand's *tournant de la rigueur*) show how different countries, institutions and governments were all in search of new economic paradigms to overcome the stagflation crisis after the collapse of Bretton Woods (Hay and Wincott, 2012: 26ff).

[14] The literature on welfare state retrenchment is generally split into two different views, whose conclusions largely depend on how the dependent variable is measured (see Starke, 2006 for a review). The resilience thesis, notably put forward by Pierson (1996, 1998), was mostly based on the observation of expenditure-over-the-GDP figures, in which it was indeed hard to see any decrease at all. The empirical work of Jens Alber on this type of data clarified that '[i]n the period of austerity after 1975 the welfare state programmes of the major Western countries experienced neither unrestrained further expansion nor a dismantling.' Instead, they 'considerably reduced the growth rates of social spending after 1975' (Alber, 1988: 200). Opposite conclusions on the age of retrenchment came from research based on institutional data on the generosity of welfare entitlements (e.g., replacement rate of benefits relative to market-wages, duration, eligibility criteria and other qualitative information on social transfers). For example, Korpi and Palme (2003), and Allan and Scruggs (2004), based on two similar though different institutional data sources, found that retrenchment indeed took place in terms of curtailments of welfare benefits generosity, which not always, and in any case only with some time-lag, translated into social expenditure restraint. Clayton and Pontusson (1998) came to similar conclusions by observing over-time trends of needs-adjusted 'welfare effort' indicators similar to those used in Chapter 3 in this book.

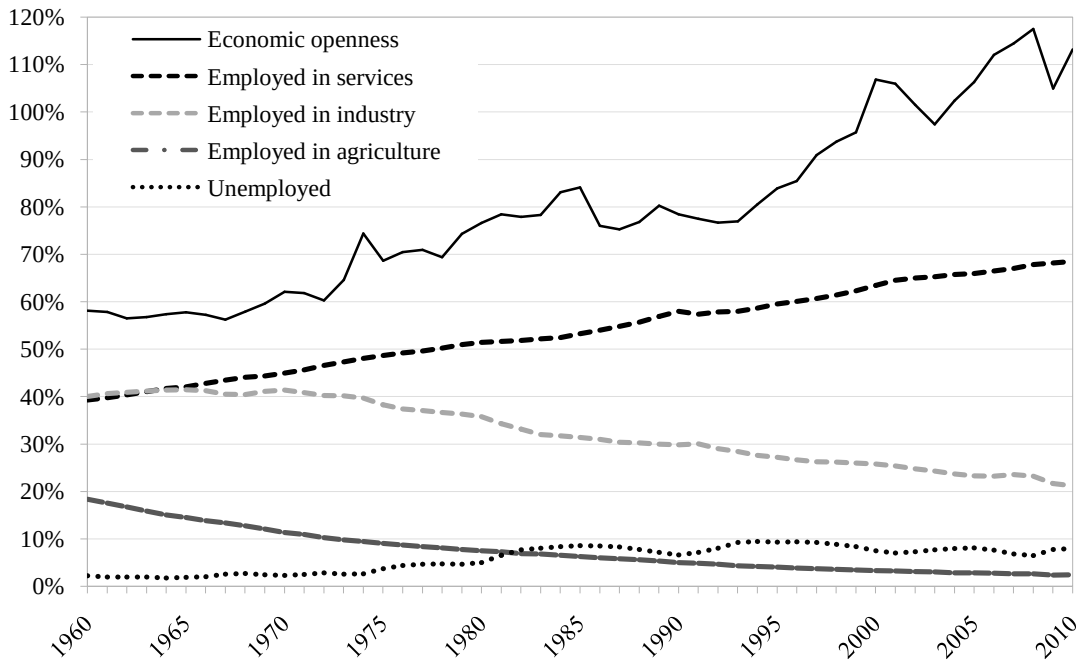
the Golden Age, the transformation of European societies into *post-industrial* societies raised many challenges, both exogenous and endogenous, to national economies and welfare state systems. Let us now go through the most important ones.

Economic globalization is considered one of the main factors that contributed to changes to the nature and politics of the welfare state since the 1970s. Although it was certainly favoured by political decisions, globalization can be seen as an exogenous challenge, in that single European welfare states could do little to influence the way in which the worldwide economic context was changing around them. The collapse of Bretton Woods' embedded liberalism paved the way for a consistent increase of cross-border capital flows. As shown by the continuous line in Figure 2.3, total trade (the sum of import and export) in the EU-15 rose from about 60 percent of the GDP in 1970 to more than 100 percent in the 2000s.[15] Globalization put tradable goods, services as well as labour in competition across borders. At least in theory, this tipped the balance in favour of capital, that was provided with an 'exit' option which reduced the bargaining power of governments and labour (Mishra, 1999: 6). The preference of entrepreneurs for investing in countries with lower labour cost and taxes would trigger a 'race to the bottom', in which all countries are pushed to reduce welfare spending and employment protection in order to retain mobile capital. On the other hand, most empirical studies did not found evidence for such a clear-cut downward convergence.[16] Instead, along what has been referred to as the 'compensation' thesis (Cameron, 1978; Katzenstein, 1985), globalization seems to have pushed governments in small, open economies to expand national welfare states so to cushion the deleterious social and economic effect of international market competition (Garrett, 1998). As a matter of fact, the influence of globalization on national welfare states does not seem unambiguous, but rather appears filtered by politics and institutions in different countries and across different social policy domains (Rodrik, 1997; Burgoon, 2001; Myles and Quadagno, 2002).

[15] Hay and Wincott (2012: 3) show that not only more and more EU products are being traded, but the EU has become more globalized also in terms of foreign direct investment, amount of financial transactions in European currency and – to a lesser extent – labour inflows. However, they point out that rather than globalization, one should speak of regionalization (Europeanization). Most of the increase in trade, financial and labour flows is in fact due to intra-EU markets integration. Most notably, since the 1960s intra-EU exports have weighted increasingly more than extra-EU export in the overall trade figures. Since 1980, 'every single EU-15 economy has exported more to EU-15 than it has to the rest of the world' (Hay and Wincott, 2012: 81).

[16] An exception is, for example, Busemeyer (2009), that indeed found a negative effect of economic openness on welfare spending in the longer term.

Figure 2.3. Globalization and post-industrial employment trends: economic openness and employment by sector (EU-15 average, excluding Spain and Portugal)



Source: Comparative Political Data Set 1960-2014 (Armingeon et al., 2016)
Note: Economic openness is measured as total trade (sum of import and export) as percentage of GDP, in current prices; Employed in services, industry, agriculture and the unemployed are expressed as share of the total civilian labour force (=100).

While globalization exerted external pressures on welfare states, endogenous changes also affected Western European economies and societies from the 1970s. As mentioned above, the shift to post-industrial societies crucially contributed to redefine the set of risks and needs that social policy had to address. For some authors, *post-industrialization* itself became the real engine of welfare state change (Iversen and Cusack, 2000; see also Bonoli, 2007). The dashed lines in Figure 2.3 give an idea of the extent of the change, showing how the composition of the workforce changed over the second half of the 20th century in the EU-15 (except Portugal and Spain). While the manufacturing and the service sectors took the same share of the labour force in 1960 (about 40 percent each), the things remarkably changed from the 1970s. By 2010, the share of people employed in the manufacturing sector plummeted to 20 percent, revealing a trend towards *deindustrialization*; by contrast, employment in services

raised to almost 70 percent of the workforce, becoming by far the largest sector of the economy—the so called process of *tertiarization*. The share taken by agriculture, already lower in the 1960s, further decreased to residual levels (2-3 percent).

The increasing importance of the service sector brought further pressure on the welfare state. In particular, the expansion of labour-intensive services—including jobs created within the same expanding welfare state, e.g., in education, medical care and childcare—raised economic dilemmas. The most known is the so called Baumol's 'cost disease' argument (Baumol, 1967a) According to this, labour-intensive service jobs become increasingly costly over time, since their productivity fails to keep up with wage increases. In interpersonal services, it is in fact labour itself, not goods, that we consume. Hence, labour-intensive service industries, unlike manufacturing, cannot rely on technology-driven productivity gains to match wage increases. Wages raise, adjusting to the leading dynamics of the manufacturing sector, but productivity lags behind.[17] This generates a perverse cycle which hurts the welfare state both directly—labour-intensive welfare services would become increasingly unsustainable—and indirectly—stagnating growth and less revenues from the low-skilled, low-productivity end of the service sector.

The massive shift towards service-sector employment also redefined the very subject around which industrial welfare states had been designed. Tertiarization and the decline of the 'Fordist' industrial mass production system changed the same nature of labour (Piore and Sabel, 1984; Amin, 1994). Together with the Keynesian objective of full employment, the Fordist industrial production model—based on the full-time industrial (male) permanent worker, typical subject of Golden Age welfare provision—began to crack. This had two consequences. First, unemployment generally raised to become a structural element in post-industrial economies (cf. the dotted line in Figure 2.3).[18]

[17] The typical example is that of performing arts, the sector originally studied by the economist William J. Baumol when he first formulated the 'cost disease' thesis (Baumol, 1967b). Actors have obviously not become 'more productive' over time. Nevertheless, their wages are higher today than they were fifty years ago, since they raised with the general wage levels and cost of living.

[18] The issue of changed job availability and occupational structures is more complex than it seems at a first sight. A large part of the debate regards how and to what extent can technological advancement compensate job destruction at the bottom, low-skilled end of the employment structure with the creation of new jobs at the top, high-skilled, high-value added end. In an economy driven by scientific progress and the expansion of the service sector, workers' skills became increasingly valuable. In the 1990s, economic theories centred on the so called 'skill-biased technological change' began to emerge, which posited high-skilled employment upgrades to the detriment of low-skilled work. More nuanced theses then highlighted how labour market transformation can actually vary across different institutional and

Low-skilled workers became the main losers of post-industrialization: their prospects of (secure) employment deteriorated both in the declining manufacturing sector and in the newly expanding services.[19] Second, new forms of employment emerged, exposing even the skill-intensive high end of the service sector to new social risks. Departing from secure, life-long employment of core industrial (male) workers, more heterogeneous, 'non-standard' flexible employment relationships spread throughout occupational sectors in post-industrial labour markets (Eichhorst and Marx, 2015). In terms of mutated social risks, this often translated into work 'precariousness' – higher risk of redundancy, irregular work careers and contributory records leading to ineligibility to social insurance benefits. To wit, employment in itself stopped being a firm guarantee of income security, with potential spillovers to other life phases and domains (Klammer, 2010). Workers employed with flexible contracts had to cope with a higher degree of uncertainty, ranging from increased vulnerability to in-work poverty and unemployment, to less generous prospective public pensions (Andreß and Lohmann, 2008; Kalleberg, 2009; Crouch and Keune, 2012).

The transformation of labour came along with deep socio-demographic changes. Among these, the gender dimension is the aspect that is most closely connected with post-industrialism. Although with wide differences across countries, the expansion of the service sector coincided with a massive entry into the labour force of women, paralleled by a decline of men's labour force participation (Esping-Andersen, 2009; OECD, 2017a). This contributed to an alteration of the contours of one of the essential institutions that, together with the State and the market, shape citizens' welfare: the family. The male-breadwinner family was at the centre of industrial economies and welfare states (see 2.2.1.). With the entry of an increasing number of increasingly well

political contexts. Alternatively to a uniform upskilling of employment, job polarization (growth in both the low-skilled and in the high-skilled ends, with a hollowing out middle of the employment structure) was recognized as possible outcome of post-industrialization (for a review on the various accounts of the impact of technological change on the employment structure and for an empirical map of the patterns observable in Europe, see Oesch [2013]).

[19] As noted by Giuliano Bonoli (2005: 434), during the postwar years low-skilled workers could count on employment in the manufacturing industry, whose productivity—and wages—raised due to technological advancements. On top of that, the strong mobilizing capacity of trade unions among industrial workers contributed further to wage increases, so that wage labour in the manufacturing sector was a guarantee of income security. Both conditions vanished with the shift to a service economy, in which low-skilled workers can only be employed in low-value added services such as retail sale, cleaning, catering, etc. That is to say, those jobs most exposed to Baumol's cost disease, which not only cannot count on productivity increases to sustain wages, but are also less unionized and more fragmented (Ebbinghaus, 2006).

educated women into employment, dual-earner (or one-and-a-half earner) families became more and more common (Lewis, 2001); in fact, having two earners became an important prerequisite for families to reach an adequate income (Esping-Andersen, 2009). On the other hand, the increased participation of women in the labour market did not match with an equal redistribution of unpaid work at home—household chores and family-care work—for which women remained mostly in charge (Gornick and Meyers, 2003)[20] The dual-earner model was not the only new family arrangement which departed from the male-breadwinner model. Increased rates of family break-up and single-parenthood also brought to the fore new social risks industrial welfare states were not well equipped to cope with (Esping-Andersen, 1999). Overall, the growing heterogeneity of family structures raised new demands for policies aimed at reconciling work and family commitments (Taylor-Gooby, 2004; Bonoli, 2005).

Population ageing is the other big endogenous socio-demographic change which shook industrial welfare states after the Golden Age, casting a shadow on their sustainability and conditioning political debates (Vanhuysse and Goerres, 2012). Today's population ageing is due to the combination of increased life expectancy and reduced number of births—the latter aspect being especially marked in European societies (Kohler et al., 2002). The 'baby boomers'—those born in the post-war decades—are greying, and fewer babies are replacing them from the bottom of the age pyramid. This change in the population structure is particularly critical for the welfare state. The share of the population of working age is in fact reducing compared to the elderly population. To put it simply, this entails growing costs for states, that have to pay for an increasing number of pensions (as well as care services alike) in the face of scarcer revenues coming from a shrinking working-age population.[21] Such an increasing

[20] The double burden of being both earner and carer constitutes a serious hurdle for gender equality, and de facto limits women's labour market opportunities. However, it is not the only aspect in respect to which women are penalized. Gender discrimination concerns also unequal access to good jobs and unequal treatment once into work (most notably in terms of a gender pay gap in favour of men) (Bettio et al., 2013). This monograph takes into account only work-life balance issues, but not labour market discrimination, which is out of its scope. Women's employment is in fact crucial to the rise of new social demands and work-life balance policies in changing European welfare states, like, for example, care and leave policies.

[21] The indicator that is generally used to gauge the extent of the pressures exerted by population ageing on the sustainability of welfare states is the old-age dependency ratio—the ratio between the number of older (aged 60 or more in the data we refer to) and working-age people (aged 20-59). The so expressed old-dependency ratio for the EU-15 increased from 0.29 in 1960 to 0.44 in 2013, meaning that while for every 10 persons of working age there were approximately 3 elderly persons in 1960, the EU-15 is now

burden for welfare state budgets adds to the macroeconomic challenges discussed above. The limits to further expansion of post-war welfare states are hence posed not only by the increased exposure to global markets, but also by endogenous sources of pressure, of which population ageing is the clearest one.

It is in this constrained context that European governments have long been striving to adjust established welfare states to an expanded set of social risks. Post-war welfare policies were designed to protect male breadwinners in case of income loss due to involuntary unemployment, old age and sickness. Aside these 'old' risks, the economic, social and demographic changes discussed above brought about the emergence of new social risks, which were not addressed by post-war welfare states (Taylor-Gooby, 2004; Bonoli, 2005; Armingeon and Bonoli, 2006). Giuliano Bonoli (2005) summarizes them as the following: possessing low or obsolete skills, insufficient social security coverage, reconciling work and family life, single parenthood and having a frail relative, with the higher social vulnerability of women cutting across all dimensions. Although European welfare states face common challenges, the way in which they are equipped to cope with them varies a lot across countries. The institutional differences between European welfare states are the subject of next section.

2.2. Varieties of European Social Models

After having discussed the developmental phases and the challenges shared by European welfare states, we now turn to the differences that exist among them. Although largely sharing the same objectives, European countries have followed different institutional pathways, which brought about different welfare arrangements. Detailed analyses of single countries' idiosyncrasies went so far as to argue that one cannot speak of one 'European Social Model' (see for example Schubert et al., 2009). Indeed, a general concept as that of a European Social Model is increasingly meaningful the more one climbs up the ladder of abstraction – that is to say, when contrasting the deep historical, institutional and political characteristics which distinguish European welfare capitalism from other models around the globe (e.g., North America) (Judt,

approaching a population structure in which there will be 2 working-age persons for every elderly person (own elaboration on Eurostat population statistics; Eurostat projections up to 2080 confirm that old-age dependency ratios are expected to increase to and above 0.5).

2005; Offe, 2006).[22] When narrowing the focus to European countries only, diversities among welfare states stand out. If a variety of European Social Models exists, yesterday's different institutional pathways influence the way in which external constraints and new social risks are perceived today in each model of welfare. This section outlines the main institutional traits of the different European Social Models, and highlights the different trade-offs that each of them faces vis-à-vis today's economic and socio-demographic challenges.

2.2.1. Welfare state regimes: different social models

As mentioned in section 2.1.1, early accounts of the determinants of welfare state expansion—both the 'logic of industrialism' and neomarxist explanations—shared a similar functionalist logic (Myles and Quadagno, 2002). In a nutshell, they all tended to see the development of the welfare state as a 'necessary consequence of long-term economic growth and its social and demographic concomitants' (Pampel and Williamson, 1988: 1427): institutions and politics were not considered determinant. With the maturation of European welfare capitalism in the post-war decades, it came clear that welfare states were not all the same. However, functionalist approaches were not able to explain such an institutional variety.

From the 1970s, new accounts emerged which turned to politics, and more specifically to class politics, to explain welfare state diversity (Stephens, 1979; Korpi, 1980, 1983; Esping-Andersen, 1985). The 'power resource theory' highlighted how the access to power of the working class, through strong unions and social-democratic parties, was key to shaping the '*democratic class struggle*' in a way that favoured the development of generous, universalistic welfare states like those in Scandinavian countries (Korpi, 1983). In a similar vein, other research emphasized the link between religious cleavages and the welfare state in Catholic countries (Van Kersbergen and Manow, 2009). Christian Democratic parties aggregated cross-class interests which also fostered the growth of welfare systems, although along a more segmented and less universalistic path, based on the traditional male-breadwinner family as crucial social

[22] When referring to a distinctive 'European Social Model', one should however keep in mind the findings of Jens Alber (2006), which cast doubts on the empirical validity of that concept. Looking at over-time trends of macroeconomic, employment and social indicators, Alber found a larger variation within-EU than between the EU and the US, and no sign of (alpha-)convergence in social expenditure and public revenues within Europe since the 1990s.

unit (Huber et al., 1993; Van Kersbergen, 1995).

The power resource theory provided a common ground to many analyses of the welfare state. The most influential remains Esping-Andersen's (1990) theorization of the nature and origin of distinct welfare 'regimes'. Instead of looking at quantitative differences that had generally been measured through welfare spending, Esping-Andersen focused on the different historical-political trajectories and specific class coalitions, identifying three distinct types of welfare capitalism. Each type was characterized by different policy outputs which in turn fed back into the social fabric of each specific society. Building on Karl Polanyi's work, Esping-Andersen used a crucial dimension to identify the three welfare typologies: the degree of 'decommodification' they provide to the citizens. That is to say, the extent to which individuals (workers) and households 'can uphold a socially acceptable standard of living independently of market participation' (Esping-Andersen, 1990: 37), thanks to generous social insurance provision.[23] Aside decommodification, Esping-Andersen's typologies were characterized by two other dimensions: the market-State-family mix, and stratification. The former refers to the weight which the three fundamental institutions of a society—the market, the family and the State—hold in determining citizens' welfare. Stratification concerns instead the outcomes of different welfare mixes and levels of decommodification: to wit, how much different welfare arrangements soften, reproduce or exacerbate social divides.

These dimensions led Esping-Andersen to define his three well-known welfare state regimes: liberal, corporatist-conservative and social-democratic. The liberal regime includes Anglo-Saxon countries (in Europe, that is typically the case of the UK and Ireland) is characterized by a low level of decommodification, the market as main welfare provider, and high stratification. The State provides social assistance targeted to those most in need, mainly through flat-rate means-tested benefits, and generally tends to give free rein to market dynamics. The corporatist-conservative regime is the case of Continental European countries, most of which share a Christian-Democratic political tradition. Since the very beginning, welfare provision developed along the principle of social insurance (think of Bismarck's social insurance programme), which provides

[23] An alternative classification of welfare states based on social insurance institutions and their redistributive potential was provided by Korpi and Palme (1998).

protection to workers based on their preceding labour market positions. Decommodification is medium-to-high, although conservative welfare states tend to reinforce existing social structures, e.g. stratifying citizens along occupational lines. The social democratic regime, typical of Northern Europe, is characterized by high decommodification and low stratification. The entitlement to (comparatively generous) social benefits is bound to citizenship as such, and not based on particular occupational and social categories. Social democratic welfare states pursue cross-class equality through broad redistributive State intervention in market's dynamics.

Esping-Andersen's typology has provided a common ground for welfare state studies over the last thirty years. Although many authors criticized it for missing some important dimensions (e.g. the neglect of gender, social services, etc.), it still remains the most influential theorization to explain the different institutional pathways that brought to different welfare arrangements.[24] Other critics added new typologies to the original three-fold classification. The most important to our aims (especially in Chapter 3), is the addition of a Southern European model, characterized by a corporatist structure similar to that of continental welfare states, but with higher degrees of familialism and benefit fragmentation, and weak state capacity (Ferrera, 1996; Leibfried, 1993; Bonoli, 1997). A further cluster is that of former communist Central and Eastern European (CEE) countries, which, despite the common past, took post-transition trajectories that varied widely from one another (Cook, 2010; Cerami and Stubbs, 2011; Bohle and Greskovits, 2012; Hay and Wincott, 2012: 62–63).[25]

These different 'worlds of welfare capitalism' constitute in fact different European Social Models, which are ideally part of a same 'social soul' of Europe. Different established welfare systems that, although sharing the objective of reconciling today's social and economic imperatives, differ in the way they perceive the challenges discussed in the previous sections.

2.2.2. Different social models, different tradeoffs

The different social models discussed above began to take shape during the Golden

[24] The special issue of the Journal of European Social Policy No. 25(1) of 2015 showed how after 25 years Esping-Andersen's 'Three Worlds' had become a classic, almost acquiring a paradigmatic status in the field (Emmenegger et al., 2015). A review of the substantive critiques to the original welfare state typology can be found in Van Kersbergen and Vis (2015).

[25] Following what suggested by Jolanta Aidukaite (2011), we consider post-communist welfare states as a separate group due to their historical legacy.

Age, and consolidated by 1980s on separate institutional tracks (Danforth, 2014).[26] Established welfare systems hence came to the hard times of post-industrial economic and social change differently prepared to cope with the new challenges. Most notably, social democratic welfare states in Nordic countries were those which were better equipped to cope with the 'new social risks' discussed in Section 2.1.3. As Giuliano Bonoli (2007) noted, Nordic and English-speaking countries experienced the shift towards a post-industrial economy earlier than other countries. Especially in the former case, this meant that new social demands increased at a moment of both economic and welfare growth. On the one hand, due to the post-war economic boom, there was enough fiscal room for manoeuvre for financing new policies such as childcare and activation programmes. On the other, welfare spending had not yet 'grown to its limits' (Flora, 1986), this meaning that pension and social insurance programmes were not yet saturating welfare spending in a way that could prevent – or at least make it hard – to devote resources to other, different forms of welfare provision. This context met favourable political conditions in Scandinavian countries, where social-democratic governments could expand industrial welfare programmes and policies addressing new social risks at the same time, without having to favour one to the detriment of the other.

The music changed with the end of the Golden Age of welfare and economic growth. Facing harsher budgetary constraints, those countries which saw the rise of NSRs in later periods could not count on much fiscal leeway to expand new policies, and remained locked in their established institutional arrangements, favouring social insurance policies for industrial risks (Pierson, 1998; Bonoli, 2007). In other words, the distributive politics of the age of welfare expansion gave way to a different scenario, in which increasing economic constraints and post-industrial social transformations raised a number of dilemmas for welfare states that had developed along different institutional paths.

Iversen and Wren (1998) framed the issue in terms of trade-offs which are specific to each welfare model. The shift from industrial to service economy implied a downward pressure on wages in the less productive end of the service sector (see

[26] Benjamin Danforth (2014) observed that, when adding new dimensions relating to social services, gender, poverty, and activation to those originally considered by Esping-Andersen, the three welfare clusters become empirically distinguishable by 1980 (the year Esping-Andersen's (1990) original data referred to) and consolidate after that time.

section 2.1.3.). In Iversen and Wren's heuristic framework, this raised a 'trilemma', i.e., a situation in which established welfare states can achieve only two out of three equally desirable goals. Governments cannot pursue employment creation, earnings equality and budgetary restraint simultaneously. Social-democratic welfare states perform well in terms of equality and employment levels. Their big welfare states proved effective not only in redistributive terms, but also in terms of employment creation, whereas much of employment growth took place in public service sectors. However, in Iversen and Wren view, this comes at the cost of higher level of government spending. Liberal welfare states took the opposite way, leaving low paid jobs expanding in the private service sector, and sticking to their tradition of minimal State intervention. This ensures high employment levels and budgetary restraint, at the cost of rising inequality and higher (in-work) poverty. The insurance-based tradition and the rigid wage-setting institutions of conservative welfare states deliver good results in terms of earnings equality and budgetary restraints (although with some variation), but prevent employment growth—what Esping-Andersen (1996) called 'welfare without work' syndrome. In fact, Continental and Southern welfare states sought to remedy stagnant employment by introducing flexible forms of employment at the margins of the labour market, which brought to a 'dualization' between better paid, better protected labour market insiders in the core employment sectors and low-paid, low-protected outsiders at the margins (Emmenegger et al., 2012).

A more streamlined version of the tradeoffs faced by the European welfare states directly leads back to Okun's 'big tradeoff', discussed in section 2.1.2. Looking at their different performance in terms of poverty prevention and employment creation, Sapir (2006) combined the institutional varieties of four different European social models with Okun's impossible pair of equity and efficiency (see also Boeri, 2002).[27] Table 1

[27] For the sake of simplicity, the fifth variant of European social model, CEE countries, is for the moment left aside. It includes a very heterogeneous set of welfare states. After the post-communist transition, some CEE countries got closer to the arrangement typical of the corporatist-conservative countries (e.g. Czech Republic, Slovenia, although along different trajectories of industrial policy), while some others (e.g. the Baltic countries) followed a marked liberalization trajectory which brought them closer to the lean welfare state typical of the Anglo-Saxon bloc (Bohle and Greskovits, 2012). As a matter of fact, due to a fast recalibration which took place in the last two decades, the bulk of welfare states in CEE countries still falls behind Western European welfare standards (in respect to lower spending levels, scarce benefit generosity, etc.) (Cook, 2010; Aidukaite, 2011), and faces a broader range of NSRs, since some of those that are considered 'old' risks to the Western standards came to a head during the transition phase in post-communist countries (Cerami, 2008).

reports Sapir's schema. Nordic and Southern welfare states do in fact seem to escape the trade-off, although in two opposite ways. Nordic countries, with low levels of poverty and high employment, fall closer to a positive sum solution: the only model which seems to reconcile equity and efficiency, or the social and economic goals of today's welfare states. Southern countries are instead the most unequal and inefficient, as they fail to deliver employment growth and at the same time do not fare well in terms of poverty. The real trade-off, as framed by Okun, materializes in continental and Anglo-Saxon countries. While the former redistribute more at the cost of non-exceptional employment growth, the latter's liberal model ensures high employment levels, but in a context of higher poverty and inequality.

Table 2.1. The European Social Models meet Okun's Trade-off.

		Efficiency	
		Low	*High*
Equity	*High*	Continental	Nordic
	Low	Southern	Anglo-Saxon

Source: Sapir (2006)

The challenge for today's ESM largely concerns finding an answer to the question as to how welfare state can be reformed in a way that reconciles equity and efficiency. Table 1 seems to point out the Nordic way as the best possible scenario. However, the viability of this path clashes with today's harsh economic constraints and sticky policy legacies. Finding a solution to this dilemma is at the core of the social investment perspective, which is discussed in the next section.

2.3. A New Welfare Paradigm? The Social Investment Perspective

Over the last two decades, the idea of 'social investment' gained considerable purchase in debates over the welfare state, to the extent that some scholars have described it as an

emerging *sui generis* 'policy paradigm' (Jenson, 2012; Hemerijck, 2017, 2018).[28] The social investment perspective has two distinct facets. On the one hand, it takes stock of recent social policy developments and provides an up-to-date, comprehensive analytical framework for studying welfare state change in the 21st century. On the other, it goes beyond academic research, and proposes a normative view on how to reform welfare states in order to withstand today's socioeconomic challenges. In other words, as an emerging policy paradigm, social investment comprises both a diagnosis of the reasons 'why we need a new welfare state' (Esping-Andersen, Hemerijck, Gallie and Myles, 2002), and a recipe to set this up. Through promoting social policies that aim to prevent rather than cure social risks, the social investment approach, once again, points out a way to reconcile the economic and social goals of contemporary welfare states, with a view to turning the equity-efficiency trade-off discussed in Section 2.2.2 into a positive-sum game (Hemerijck, 2013).

At a time when welfare states are seen as a cost on already overburdened public finances, the ambitious objectives of social investment provide an engaging blueprint for relaunching the ESM. In fact, it is its normative grip and political relevance that make it hard to distinguish between the two facets of the emerging paradigm: social investment as an academic endeavour to understand welfare state change, and social investment as political advocacy of a new social policy blueprint. This section tries to make this distinction clear. It first defines social investment as a new framework to study welfare state change, bridging 'old' protective and 'new' investment-oriented social policies and their interplay. Then, it discusses the nature of social investment as a politically charged policy platform, which, boosted by academic advocacy, has increasingly inspired the social dimension of the EU over the last two decades.

2.3.1. Social investment as a new theory of the welfare state

Two main streams can be identified in the recent literature on welfare state change. Both originated from the need of interpreting the dynamics arisen since the mid-1970s,

[28] The concept of 'policy paradigm' was first put forward by Peter Hall (1993), who in turn borrowed from the definition that Thomas Kuhn gave of 'scientific paradigm'. Building on Hall, Anton Hemerijck understood the taking shape of social investment as a new policy paradigm as 'a coherent set of ideas, relating *causal understanding* of social risk change and effective policy responses, the *political mobilization* behind legitimate priorities of social risk mitigation, together with a *governance structure* that allows welfare policy-making to be conducted in an internally consistent fashion' (Hemerijck, 2017: 5 original emphasis).

when stagnating economic growth apparently set a limit on the expansion of Golden Age welfare states on the one hand (Section 2.1.2.), while, on the other, new social needs began to emerge in the changing fabric of ageing post-industrial societies (Section 2.1.3.). Both streams underline welfare states' 'resilience' to socioeconomic pressures; yet, they do that along two different understandings.[29] Paul Pierson (1994, 1998) spoke of Western welfare states as a rather static entity, whereby resilience is understood as 'resistance to change' of long-standing social programmes vis-à-vis the fiscal and societal pressures for retrenchment in the age of permanent austerity. More recent contributions to comparative welfare state research have instead focused on subtle changes that have taken place beyond the domain of redistributive social programmes established in the post-war period. In this second stream, resilience is appreciated as the capacity of welfare states to adjust to change, albeit retaining a certain degree of path dependence, through the gradual expansion of policies that address new social risks (Taylor-Gooby, 2004; Armingeon and Bonoli, 2006; Bonoli and Natali, 2012; Hemerijck, 2013).[30]

The social investment perspective has its roots in this latter strand (Morel et al., 2012), and is gradually taking shape as a new paradigm in the study of welfare state change in Europe and beyond (Jenson and Saint-Martin, 2006; Morel et al., 2012; Hemerijck, 2017, 2018). As we have discussed in the previous sections, the development of 20th century welfare states went through different historical phases in which different policy paradigms alternated according to different priorities (cf. Hall, 1993). In all phases, the gradual loss of grip on the political-economic challenges of the time paved the way for paradigm shifts. The Keynesian welfare state flourished as 'politics against markets' (Esping-Andersen, 1985), when the 'social' embedding of the

[29] This two-faced acceptance of the term 'resilience' as key to the interpretation of recent welfare state literature was suggested by Anton Hemerijck in a lecture held at Collegio Carlo Alberto in April 2014.

[30] Another stream can be identified, rooted in the fields of political economy and industrial relations, which also appreciates change, but emphasizes downward policy drift, understood as either partial or full-blown liberalization and erosion of social and labour rights developed during the industrial era, over upward change in new social policy developments (Rueda, 2007; Baccaro and Howell, 2011; Pierson, 2011; Emmenegger et al., 2012; Streeck, 2014a). A partial exception within this stream is Kathleen Thelen's elaboration on 'embedded flexibilization', which to some extent recalls the idea of social investment in that it 'involves continued high levels of equality but in the context of policies that can only be characterized as liberal, in the sense of market promoting—indeed, radically so, since they are specifically not premised on protecting workers from the market but on actively adapting their skills to what the market demands (if anything, commodification rather than decommodification of labor)' (Thelen, 2012: 148; see also 'buttressed liberalization' in Vail, 2008).

economy turned out to be a winning solution for otherwise unstable industrial capitalism. The neoliberal turn followed close, in an attempt to restore economic growth when the Keynesian paradigm proved unable to do so; it shifted the focus to removing obstacles to the smooth functioning of the markets, which took priority over the social equity-objective that was central in Keynesian redistributive social policy. Social investment comes into play at a time when the rationale of both established welfare states and of pro-market welfare reforms of the 1980s and 1990s seems to stand on a shaky ground—especially after the global financial crisis revealed the shortcomings of markets not only in respect to social equity, but also in delivering stable economic growth. The social investment perspective seeks to bridge the gap that has emerged between existing welfare state theories and the actual scope and logic of new, ever-changing social policy, when the Keynesian welfare logic and its neoliberal critique fall short of providing a full account of what 21st century welfare state actually do – or, normatively, should (not) do—in order to ensure a functioning post-industrial democratic capitalism. Once again, the challenge for the emerging policy paradigm is to provide a both normative and analytical frame to reconcile the social and economic objectives of today's welfare state.

The social investment perspective takes stock of how, over the last decades, the focus of most advanced welfare states has gradually moved from the sole protection of citizens *from* market risks, to their empowerment *within* the market (namely, within today's knowledge-economy labour markets). The former objective (social protection) is served by long-established social programmes such as unemployment benefits, pensions, and in general cash benefits whose aim is to offer some kind of income compensation to those out of work, and after moments of economic or personal hardship. This is the logic along which redistributive welfare programmes—social insurance and social assistance—were developed in the 20th century, and still operate today (i.e., a 'decommodifying' logic: see Section 2.2.1). On the other hand, since the 1970s—although to varying degrees in different countries—a new wave of social policies has gained importance, which serves a second objective: essentially, social inclusion through employment, based on risk prevention rather than *ex-post* reparation. Public investments in daycare services, parental leave policies, active labour market policies (ALMP), education and training along the life course all serve this aim; as such,

they are recognized as 'investment-oriented' policies, which form the backbone of the new policy paradigm (Morel et al., 2012; Hemerijck, 2013). Some of this policies are truly preventative, in that they are geared towards enhancing human capital and, by implication, the labour market opportunities of today's and tomorrow's workforce (the case of education and training, as well as of upskilling ALMP). Some others, as in the case of childcare and leave policies, pursue a double aim: they also have a future-oriented investment dimension, in that they can be considered as early investments in children, which are likely to yield returns in terms of improved children life chances (Heckman, 2006; Cunha and Heckman, 2007). In the shorter term, they aim to reconcile work and family life, with a view to fostering (women) labour market participation—thus, economic independence—here and now (Gornick and Meyers, 2003; Britze, 2012; Brilli et al., 2016).

Fundamental to the social investment perspective is the belief that redesigning social policy provision along with preventative, investment-oriented imperatives is key to keeping up with both today's social and economic challenges. As a matter of fact, investment-oriented policies have become part and parcel of today's welfare states (Vandenbroucke and Vleminckx, 2011; Morel et al., 2012), and especially of those welfare states that do better in terms of both social inclusion and economic competitiveness (Huo et al., 2008; Hemerijck, 2013; Ahn and Kim, 2015; Hemerijck and Huguenot-Noël, forthcoming). The recognition of a 'productive potential' of social policy is not a novelty brought by the social investment perspective. As next subsection will remark, it has been a recurring *leitmotif* ever since the rise of 'Third Way' welfare reform advocacy in the 1990s.[31] Social investment departs from the Third Way in that it does not see investment-oriented policies as a substitute for traditional social protection

[31] In the academia, the understanding of social policy as productive factor was already present in Anthony Giddens' Third Way (1998), and in other academic works that used other labels to described similar welfare state developments. For example, 'enabling welfare state' (Gilbert, 2002; Maydell, 2006), 'supply side model' (Obinger and Starke, 2015), 'liberal neo-welfarism' (Ferrera, 2013). Early references to the concept of 'social investment' are found in the same work of Giddens (1998), as well as in Midgley (1999, from the field of development studies) and Jenson and Saint-Martin (2003). Since Esping-Andersen and his colleagues (2002) set its blueprint, the advocates of social investment distanced themselves from Giddens' earlier contribution in one important respect. Giddens argued that 'the guideline is investment in human capital wherever possible, rather than the direct provision of economic maintenance. In place of the welfare state we should put the *social investment state* [...]' (Giddens, 1998: 117 original emphasis). By contrast, the social investment approach considers investment-oriented policies as a complement, and not as a substitute for redistributive policies, and that the latter—in the first place minimum income guarantees—should serve as a precondition for a fully-fledged social investment welfare state (Esping-Andersen, Hemerijck, Gallie and Myles, 2002: 5; see also Hemerijck, 2015).

policy. Instead, although maintaining a stress on supply-side (i.e. human capital-enhancing) policies, it recognizes that most successful welfare states, such as those in Northern Europe, rests on state commitment towards both types of social policy (Hemerijck, 2013). Thus, according to the advocates of social investment, it is a balanced *mix* of the two dimensions—protection *and* investment—that is key to building a new welfare state capable of keeping up with today's economic and social challenges (Esping-Andersen, Hemerijck, Gallie and Myles, 2002).

Most recent contributions to the social investment literature sought to go beyond the protection-*versus*-investment dualism, and to appreciate the complementarities between different policies forming what we call the welfare state (see also Section 4.1.3). Notably, Anton Hemerijck proposed a conceptualization of social investment based on three policy functions that together underpin the ideal 'social investment welfare state': (1) raising and maintaining the 'stock' of human capital and capabilities; (2) easing the 'flow' of contemporary labour market and life-course transitions; (3) granting strong minimum-income safety nets as income protection and economic stabilization 'buffers' (Hemerijck, 2014, 2015, 2017). While redistributive social policies—especially social assistance—pursue the latter function, it is less easy to empirically distinguish the objective of investment-oriented policies (De Deken, 2017), which nevertheless all emphasize the 'stock' (most notably education and training policies) and 'flow' (for example, work-life balance policies) function, or both of them. Be that as it may, Hemerijck's framework for social investment policy analysis makes it clear that the three policy functions are interdependent. Supply-side investment-oriented policies, pursuing 'stock' and/or 'flow' functions, do not act in an institutional vacuum; *policy complementarity* matters, in that their effectiveness in leading to desired social and economic outcomes is conditional on other welfare policies, not least social protection 'buffers'. Redistributive social protection, in fact, acts to provide social investment with a level-playing field, giving economic support to those who are in need here-and-now and could therefore less likely profit from employment- and, in general, future-oriented social policies.[32] For example, measures to fight (child) poverty are to be considered as a necessary precondition for investments in children's education and care to be effective

[32] The '*policy complementarity*' between investment- and protection-oriented interventions is discussed more in-depth in Chapter 4.

and equitable, reaching also the most disadvantaged families and, by implication, achieving the ultimate aim of social investment to break the cycle of inter-generational transmission of poverty (Esping-Andersen, Hemerijck, Gallie and Myles, 2002).

In the recognition of investment-oriented social policies as something more than a simple addendum to established social protection systems lies the potential of social investment as an independent policy paradigm. That is to say, as a new theory of 21st century welfare states, which considers complementary social investment and protection policies as the means to reach the dual objective of catering for both today's changing social risks and economic challenges. As for the first objective, welfare provision gradually adjusted (and still strives to adjust) to new social risks which, having emerged in service economies, are hardly insurable through the Keynesian-social insurance devices of post-war programmes calibrated on the needs of industrial workers (Hemerijck, 2015). Indeed, they are best catered for by services geared at enhancing human capital and reconciling work and family commitments: supply-side 'social investments', whose level playing field is virtually ensured by adequate income guarantees (buffers). The same supply-side logic serves to boost quantity and quality of employment—the second fundamental objective of a social investment welfare state. High levels of employment not only benefit economic competitiveness, but are also crucial to secure the sustainability of increasingly costly welfare state institutions in ageing societies. To wit, established welfare states need high employment rates—thus high revenues—to be maintained, let alone improved, by governments under strong financial and demographic pressures.[33]

Social investment essentially addresses the same problem that was central to the neoliberal turn: low employment and stagnant growth in the presence of increasingly big welfare states to be paid for (see Section 2.1.2). However, the new paradigm proposes a different solution. Instead of welfare retrenchment to make room for efficient though socially unequal markets, social investment envisages a proactive, interventionist role for the state. Yet, it does so along different lines from the decommodification-only gist of the Keynesian welfare paradigm. This time, supply-side

[33] In other words, social investment pay attention not only to the distributive side of the welfare state (welfare recipients and benefit generosity), but also to the productive side of it, in terms of the number and productivity of workers that are necessary to finance generous welfare provision. This is what Anton Hemerijck called '*carrying capacity* of the welfare state' (Hemerijck, 2017: 9), inspired by the considerations of John Myles on pension sustainability (Myles, 2002: 137).

investment in human capital- and employment-enhancing social services take priority, and become the key to pursue social inclusion with economic sustainability—politics *for*, and not against, markets (at least in advanced, skill-intensive sectors of modern economies: see Iversen and Soskice [2015]). This new welfare state logic conceptually goes beyond Okun's dilemma (see Sections 2.1.2 and 2.2.2), by turning efficiency-equity trade-off into a positive-sum game (Hemerijck, 2013: Chapter 7).[34] At a time when social policy tends to be seen as a burden for public finance, this view goes beyond simple policy theory, and provides a very strong normative-political platform for rethinking the European social dimension.

2.3.2. Social investment as a policy platform for the EU

Due to its normative potential, since the late 1990s the social investment perspective has given momentum to welfare reform across Europe, up to the point of being integrated into EU policy strategies. The blueprint for a welfare state capable of reconciling economic and social objectives into a positive-sum game is indeed politically attractive. By suggesting an optimal solution to shared structural challenges, it represents a policy strategy that virtually transcends the traditional left-right division, being in the interests of both political sides.[35] In fact, this has been a point of strength for building consensus around a social investment strategy at the EU level, which has always been the intention of the academic advocacy of the new welfare paradigm. This overlap between academic and political advocacy arguably stands behind the conceptual ambiguity which is often pointed out in criticism of social investment (cf. Jenson, 2016); an intended ambiguity that serves well to make the blueprint appealing for policy-makers of all colours, but

[34] The validity of Okun's efficiency-equity trade-off was already contested by Lane Kenworthy on an empirical ground (Kenworthy, 1995, 2008), based on a of macro-level evidence on the positive economic *and* social performance of countries with biggest welfare states, in a number of socioeconomic domains.

[35] The words of Morel, Palier and Palme (2015: 139) best illustrate the theoretically non-partisan nature of the social investment blueprint: 'In fact, it seems that the political triggers for the promotion of social investment have often be of a substantive rather than ideological nature. […]. The ambiguity that characterizes the social investment perspective also carries some potential by offering an opportunity to build policy coalitions between partners who have very different worldviews. It may not be necessary for everyone to recognize the failure of neoliberalism as a paradigm in order to support policies or programs that are clearly outside the neoliberal box'. In partial contrast, Iversen and Soskice (2015) suggested that partisan politics should still matter for social protection policies, aimed at offering decommodification to people employed in the low-skilled sectors of the economy, while the positive-sum game suggested by social investment advocates should apply to advanced, skill-intensive sectors, whereby investments in human capitals can indeed bring together the interests of (high-skilled) workers and capital, and of the left and the right. In any event, centre-left or centre-right parties tend to endorse social investment policies depending on the specific social and institutional context (Gingrich and Ansell, 2015).

makes things harder for empirical research on social investment (Nolan, 2013). Furthermore, if the nuanced conceptual boundaries of social investment have indeed made it a captivating catch-all policy platform, they constituted a slippery slope when academic-born ideas met real-world politics. The real-world translation of the social investment perspective into EU-level policy strategies and national welfare reforms, constrained by financial pressures and the macroeconomic architecture of the EMU (Economic and Monetary Union), often drifted into cost-saving, market-driven solutions which resembled Third Way-reforms more than fully-fledged attempts to take social investment seriously (De la Porte and Jacobsson, 2012; De la Porte and Heins, 2015; Leibetseder, 2017).

With this caveat in mind, we must recognize the increasing relevance of social investment as a policy platform which has contributed to reshaping the social dimension of the EU for two decades now. The shift away from the negative view of the welfare state that characterized the neoliberal era can be traced back to the mid-1990s. Jane Jenson (2012: 21–22; see also Jenson and Saint-Martin, 2003) points out three early signs of this move in the actions to stimulate policy debates taken by international organizations: first, after its strong advocacy of market-friendly 'structural adjustments', the OECD (Organisation for Economic Co-operation and Development) published the 'New Social Policy Agenda' in 1997, which called for a 'social investment approach', geared at ensuring that returns to social expenditure in terms of 'social cohesion and labour market participation' (OECD, 1997). Second, in the same year the World Bank acknowledged for the first time that an 'effective'—not minimal—state was vital to 'enable markets to develop *and* to address social issues' (World Bank, 2005: 4). Third, in the same year a similar principle underlay the conclusions of the Dutch Presidency of the EU, which paved way for what then became the Lisbon Strategy. The document reminded that 'economic and social policies are mutually reinforcing', and called for a 'modernization' of social protection systems as a necessary supplement to the EMU, in order to 'establish a durable basis for social cohesion' (European Council, 1997).

The emergence of this new supranational social policy agenda had its roots in national initiatives. The first took place in a liberal welfare state that had been previously subject of retrenchment: that of the UK. Already in 1994, a report by the Commission on Social Justice, written on behalf of the Labour Party government as a

sort of update of the Beveridge report, envisaged 'welfare state modernization', which stressed the productive potential of social policy, through skill-investment to raise 'people's capacity to add value to the economy, to take charge of their own lives, and to contribute to their families and communities'. This market-friendly view of social policy essentially underpinned the New Labour's Third Way strategy under the leadership of Tony Blair, best summarized in the works of Anthony Giddens (1998). The Third Way blueprint soon travelled to other countries, inspiring a 'new course' of European social democracy—of which Gerhard Schröder's '*Neue Mitte*' is the best-known example—and a wave of supply-side-oriented welfare reforms geared toward work activation (Green-Pedersen et al., 2001). This reform momentum was in fact the forerunner of social investment. Although the Third Way was characterized by markedly negative view of 'passive' social protection against 'good' active policies, it promoted the notion of market-enabling welfare state that is substantially shared with the social investment strategy. That is, in the same words of two leading 'Third Way politicians', the idea that 'the essential function of markets must be complemented and improved by political action, not hampered by it' (Blair and Schröder, 1999: 2).

The idea of social policy as a productive factor rapidly made its way into the EU social and economic policy agenda, as a new blueprint for the ESM faced with increased European market integration and changing social structures in profoundly different member states.[36] The launch of the Lisbon Strategy in 2000 was the critical juncture in which the imperatives of social investment were taken on board in EU policy-making. At the European Council held in Lisbon on 23-24 March 2000, the member states' heads of state and government committed to the ambitious aim of making Europe 'the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion' (European Council, 2000). Starting from the Lisbon years, a strong academic advocacy contributed to make social investment a common policy platform for the EU.[37] The book '*Why We Need a New Welfare State*', a joint academic effort led

[36] In 1999, Wolfgang Streeck wrote: 'Whatever the "European social model" will turn out to be, then, it will be embedded in a more competitive and more market-driven economy, and it will only in part be vested in centralized European institutions.' (Streeck, 1999: 1)

[37] The nexus between academic technical expertise and politics was very close in the formulation of the Lisbon Strategy. Under the Belgian Presidency of the EU in late 2001, the initiative of the that time Minister of Social Affairs and Pensions Frank Vandenbroucke, academically active Flemish politician,

by Gøsta Esping-Andersen, commissioned by the European Union (EU), set the agenda for the renewal of the European social dimension through a 'social investment strategy', designed to secure European citizens' labour market and social inclusion and the long-term sustainability of welfare states, with the eradication of child poverty taking pride of place (Esping-Andersen, Hemerijck, Gallie and Myles, 2002).

Although it effectively introduced social investment in the European agenda, the Lisbon Strategy proved deceiving in terms of welfare reform convergence and, in particular, outcomes. On top of that, the onslaught of the economic crisis in 2008 upset EU coordination plans, unleashing macroeconomic divergence and worsening social conditions in the bulk of the member states. Against this difficult backdrop, the European Commission (EC) launched the new framework strategy Europe 2020, basically revisiting Lisbon target with a view to achieving 'smart, sustainable, inclusive growth' (European Commission, 2010). The strategy was however overshadowed by far-reaching changes in the economic governance of the EMU, that firmly made fiscal consolidation and economic growth a priority over social inclusion objectives (Costamagna, 2013; De la Porte and Heins, 2015; for a critical assessment of Europe 2020 see: Daly, 2012).

Once again, it was academic advocacy that sustained the momentum for social investment. The concept was presented as a policy strategy to take up the challenge 'to make long-term social investment and short-term fiscal consolidation mutually supportive at both the EU level and in the Member States' (Vandenbroucke et al., 2011: 5; see also Hemerijck and Vandenbroucke, 2012). Indeed, in 2013 the Commission presided by José Manuel Barroso launched a 'Social Investment Package for Growth and Cohesion' (European Commission, 2013d), together with a recommendation to commit member states in a joint effort to invest in children (European Commission, 2013a): the social investment strategy was explicitly welcomed by EU institutions and

was crucial in bringing together politicians, academics and a variety of policy advisors in three international conferences to boost the coordination of member states' welfare reform activity in the framework of the Lisbon Strategy. For Berghman and Okma (2002: 339), this mutual learning process was 'surprisingly effective in helping to place policy topics on the political agenda and to shape the debate on the important issues of social cohesion and the future of pension and health care systems in Europe'. At the same time, in line with what we said above with regards to the two-facets of social investment, it exposed 'the blurring of the borderline between the worlds of academia and politics', with academic experts that became *de facto* non-accountable political advisors—'While documents prepared by experts carries the weight of academic contributions, the discussion during the conferences focused on political steps of implementation' (Berghman and Okma, 2002: 338).

representatives as a way to rescue the European social dimension from the crisis (for example: European Parliament, 2012). However, the economic downturn and austerity made it hard for the blueprint to progress equally across countries (Kvist, 2013; Natali and Vanhercke, 2015; Bouget et al., 2015); 'social imbalances' between very different welfare states remained wide (Vandenbroucke, Diris, et al., 2013). More recently, the Juncker Commission launched the European Pillar of Social Rights: 20 basic principles—largely based on the social investment strategy—to restate European citizens' rights in relation to equal opportunities and access to the labour market, fair working conditions and social protection in case of need (European Commission, 2017a). The question is whether all these EU initiatives in the direction of social investment will remain merely lip service or, by contrast, effectively translate into a revived reform momentum for member states and improved employment and social conditions for European citizens.

The imperatives of social investment are increasingly seen as conducive to 'inclusive growth' in the aftermath of the global financial crisis not only in the EU, but also by other highly influential international organizations (OECD, 2008, 2014; World Bank, 2016). Nevertheless, the tension between economic and social priorities in today's Europe continues to be unbalanced in favour of the former, especially given the 'schizophrenic posture of the European Commission as the "social investment cheerleader" on the one hand, and the "fiscal austerity headmaster" on the other' (Hemerijck 2017, p. 17). As a matter of fact, the apparent ambiguity of the EU social investment strategy, the cross-country disparity and inconstancy in the implementation of social investment reform and the still frail empirical foundations of the emerging welfare state paradigm leave social investment exposed to many critiques. The next section discusses criticism and shortcomings of social investment.

2.4. Critiques of Social Investment

Notwithstanding its powerful normative appeal, social investment has not been exempt from criticism. Generally speaking, there are two stances taken towards the mainstream position held by social investment in welfare state debates. One is a radical opposition to the social investment approach, typically from scholars who, more or less explicitly, consider it as a simple continuation of the neoliberal age, or, at best, a sugar-coated

variant of it (a sort of 'neoliberalism with a social face'): we call these 'outside-critiques', which place themselves outside the boundaries of the emerging paradigm. The other stance is more of an 'inside-critique', taken by those who, although recognizing the potential of social investment as a *sui generis* policy paradigm, point out the fallacies and shortcomings of the whole policy theory or, most often, of social investment-oriented reforms and policies. While we first briefly review outside-critiques, inside-critiques are discussed in-depth in the next two subsections. The latter are especially important to complete the theoretical background for the empirical scrutiny of social investment progress and outcomes conducted in Chapters 3, 4 and 5.

Outside-critics roundly criticize social investment as an approach to interpret the change experienced by (especially European) welfare states from the 1980s. They substantially disagree with the view that the many subtle changes experienced by advanced welfare states beyond retrenchment—the expansion of service-based welfare provision, the stress on human capital investments and activation, etc.—sum up into something different from the neoliberal paradigm.[38] According to some, advocates of social investment 'miss the forest for the trees' in that the retrenchment of social protection programmes has indeed been central in the last decades of welfare reform, and, from a broader perspective than one solely focused on social policy, the labour-capital balance of power shifted toward the latter (Beckfield, 2012; see also note 26 on political economy perspectives on a downward liberalization trend). Along with this, many of its critics oppose the view according to which social investment carries the potential for resolving the fundamental tension between economic efficiency and social equity. Instead, by emphasizing (re-)commodification over the decommodification of people, social investment would consolidate the superiority of markets, and leave social-equity objectives behind (see also Section 2.4.2).[39] Indeed, the closer nexus

[38] From a political theory perspective, Francesco Laruffa argues that social investment in fact reflects the same kind of social citizenship as neoliberalism, by sharing with the latter the de-politicization of the economy and welfare reform, and an economistic conception of social domains (Laruffa, 2017). This is especially true when one recognizes that, in contrast with classical liberalism, *neo*liberalism is not simply about minimal state intervention, but rather it promotes the active role of the state in supporting market competition (cf. 'politics *for* markets' in Iversen and Soskice, 2015).

[39] This process of recommodification increasingly exposes people to life-course uncertainty: an aspect that has been taken for granted, and not disputed, in the social investment and the new-risks perspective alike (Crouch and Keune, 2012). The most radical views in this respect, opposed to the rosier social investment perspective, are those on the movement from the Keynesian welfare state to a 'Schumpeterian workfare state' (Jessop, 1993), or a 'competition state' (Cerny and Evans, 2000), under the mounting pressures of economic globalization and liberalization, whereby the objective becomes pushing people to

between social and economic policy which is the lynchpin of the social investment perspective (and strategy) places it on a politically slippery slope. In the context of the EMU, especially under post-crisis austerity, both EU and national policy-makers are exposed to the temptation of totally redesigning 'economic as social policy' (Streeck, 1999; see De la Porte and Jacobsson [2012] and Leibetseder [2017] on EU social and employment policy strategies). In the words of Brian Nolan, the tendency to 'fram[e] some social spending as "investment" and—explicitly or implicitly—the remainder as "consumption" puts the cart before the horse, runs the risk that economic impact will be seen as the dominant consideration, and could serve to skew choices about social spending' (Nolan, 2013: 466; see also Section 2.4.2). In sum, what we take away from outside-critiques is the awareness that real-world social investment provision is exposed to the risk of slipping towards the pre-eminence of the market above all things, subduing social to economic objectives in a way that would make the new paradigm hardly distinguishable from the neoliberal one. Whether, when and why this is true is an empirical question that we seek to address in the next chapters, beyond the normative and politico-theoretical debate that, although essential to the progress of social rights, falls outside the scope of this book.

Aside from this deeper criticism, a wealth of inside-critiques have highlighted the flaws of social investment 'from within', thus contributing to increasingly better define the boundaries of the emerging paradigm. Inside-critiques of social investment have identified pitfalls that are empirically discernible at two different levels of observation. First, at the 'macro-level' of welfare state reform, in which social investment has a long way to go when it comes to its real-world implementation across very different welfare systems. Second, at the micro-level of policy outcomes. As also noted by the stauncher opponents of social investment mentioned above, the employment-centred, 'recommodifying' rationale of investment-oriented policies exposes them to potentially disappointing social consequences. In other words, policy output does not equal policy outcomes: even when some turn towards social investment is achieved by governments of a given country, the economic and, most notably, social micro-level effects on citizens are not necessarily positive.

work with the view to boosting competitiveness, no matter the social aspects, without focusing on improving people life-course opportunities as social investment ideally does.

2.4.1. Macro-level hurdles to the social investment turn

As illustrated in Section 2.2, European welfare states widely differ from each other. This heterogeneity places them on very unequal 'institutional starting blocks' when it comes to take the road to social investment laid down by the EC. Since, as we learned from historical institutionalism (e.g. Pierson, 2000), welfare reforms—as well as their impact—tend to be dependent on past policy legacies, recalibrating social policy in the direction of the new welfare blueprint is in fact harder for those countries whose welfare arrangements are farther from the ideal-typical 'social investment state'. By contrast, those countries which started to develop service-, new social risks-oriented welfare provision earlier on are now better placed on the road to social investment. The latter is the case of Scandinavian countries, in which social investment-oriented services have been expanded alongside well-established generous cash-transfer systems from the 1970s (Bonoli, 2007); a policy mix that has indeed proved the best in pursuing both good economic and social purposes (see Table 2.1). The rest of welfare regimes hold less favourable institutional legacies. Continental and Southern European countries widely rely on (insurance-based) cash transfer and now struggle to expand social investment service provision in sectors such as child- and elderly-care, activation and life-long learning policies. Especially in Southern Europe, with the partial exception of Spain (Moreno, 2008; León and Pavolini, 2014), the progress in this direction has been extremely limited, whereby not only social investments lag behind, but social protection systems also show important gaps in coverage and are biased towards protecting the elderly more than young generations (Ferrera, 2005b; Tepe and Vanhuysse, 2010). A special case is arguably that of liberal welfare states in the UK and Ireland, that, coming from a 'lighter' conception of the state, have indeed shifted resources towards investment-oriented programmes such as education, (re-)training and activation services, although they have done so while relying on far less encompassing and generous social protection provision than Northern European countries—a policy legacy which likely delivers good economic performance but leaves social inequalities to grow (Table 2.1).

Especially in the aftermath of the global financial crisis, it has become hard for governments to expand social policy. In fact, austerity poses the biggest hurdle to the development of social investment across Europe. During the crisis, it has constrained

the resources available for welfare recalibration in order to make social retrenchment, rather than investment, an option in most member states. This has been the case especially in peripheral European countries hit the hardest by the crisis, which, needless to say, are also those whose welfare systems would most benefit from social investment reforms (Busch et al., 2013; Bouget et al., 2015; Natali and Vanhercke, 2015; Agostini et al., 2018). By implication, the gap between 'good' welfare states—getting closer to the social investment target—and laggards could persist, or even grow bigger, due to the uneven backlash of the economic crisis among already unequal social models (cf. Kvist, 2013).

On the other hand, even when it does not translate into full-blown—politically inconvenient—welfare retrenchment, austerity puts governments in front of difficult 'fiscal trade-offs'. While in the golden age of economic and welfare state growth it was less of a problem to increase social expenditure, austerity limits the resources available for further expansion. EU member states are called to invest in new social policies at a time when they already struggle to maintain established levels of social protection provision. This raises problems of 'resource competition' between old and new, protection- and investment-oriented policies (Cantillon, 2011; Vandenbroucke and Vleminckx, 2011). On the one hand, if a government want to invest in new welfare policies, it has to somehow find the financial resources, for example by cutting expenditure for existing social protection programmes. Otherwise, if policy-makers decide to retain or even increase spending for established programmes, they will most probably have renounce the development of social investment-oriented policies, or even reduce their financing. So far, the latter case has proved empirically more plausible, since traditional social protection programmes—for example pensions and unemployment insurance—are well rooted in vested interests whose retrenchment has a very high political cost, while investment-oriented policies such as daycare, activation services, research and development and the like are, in general, less established, and their curtailment would hurt less defined constituencies (Streeck and Mertens, 2011; Breunig and Busemeyer, 2012). Chapter 3 will elaborate more on the prospects for these kinds of resource competition in the recalibration of European welfare states.

Both retrenchment and an unbalanced welfare recalibration—favouring the protection or investment dimension to the detriment of the other—risk jeopardising the

EU social investment strategy. If the objective remains that of reconciling economic and social goals through a smart social policy mix of inclusive social protection 'buffers' plus employment-enhancing investments in human capital 'stock' and work-life 'flows' (Hemerijck, 2017), selective investments or, even worse, extended cutbacks on existing programmes are bad news for social investment. In fact, especially in countries which find themselves stuck between the rock of adverse institutional legacies and the hard place of (post-crisis) austerity, welfare recalibration could actually drift off the road to social investment; cheaper social policy strategies, or even sheer retrenchment, could prove the only affordable option for worse-off member states. Even when a government manages to pursue social investment to some degree, positive socioeconomic outcomes cannot be taken for granted. If social investment measures are put in place against the backdrop of an unbalanced policy mix (e.g. a patchy social protection system), their outcomes could actually differ from those desired, and fall into the pitfalls in respect to (individual-level) policy delivery and social fairness that many critics have pointed out.

2.4.2. Micro-level pitfalls of social investment policies

Being focused on employment and human capital, social investment-oriented measures—in most cases social services—are deeply connected with labour market mechanisms, that, as occurs in every market, 'commodify', and tend to generate inequalities. Social unfairness can materialize both in the access to investment-oriented services, as not all categories of people are able to benefit equally from them, and in their outcomes, that can also be as unequal as stratified societies and labour markets. Micro-level critiques to social investment focus on the social bias and unfair outcomes identified in connection to many types of employment-centred and investment-oriented policy interventions. These critiques can be grouped in two main sets: 'Matthew effect' and 'recommodification' critiques.

'Matthew effect' critiques come from a long tradition of social policy analysis which studied the perverse regressive outcomes of given social programmes, very often—though not only—service provision (notably, Herman Deleeck, cited in Bonoli et al. [2017], and Julian Le Grand [1982]; Section 5.1.1 gives more details on the so called 'Matthew effect' in social policy). The label 'Matthew effect' comes from the biblical proverb 'to him that hath shall be given' in the Matthew Gospel, which effectively renders the idea of the (unintended) inequality-fuelling effects that plague some public

policies. Following this tradition, one of the most influential empirical critique to social investment came from Bea Cantillon and her colleagues, who observed that social investment-oriented policy tends to benefit disproportionally 'work-rich' middle class families at the expense of more vulnerable 'work-poor' segments of societies (Cantillon, 2011; Cantillon and Van Lancker, 2013; Van Lancker, 2014; Abrassart and Bonoli, 2015; Bonoli et al., 2017; Bonoli and Liechti, 2018; Pavolini and Van Lancker, 2018). As explained more in-depth in Chapter 5, many policy domains which are crucial to the social investment perspective, such as childcare, parental leaves, education, ALMP, training and reintegration services, can further favour those people and households who already have some advantage in the labour market. Childcare and leave policies in fact prove more useful for families in which both parents work, and that could gain further advantage by keeping both jobs while relying on public work-family reconciliation policies. Similarly, education—especially high education—is biased toward of students from relatively better-off family backgrounds. Even work-activation services tend to give priority to the (re-)insertion of clients with better curricula, and so forth (Section 5.1.1). Very often, people with low education and other unfavourable social characteristics remain distant from the labour market (and/or leave in single-earner households), so that employment-centred policies alone can do little to improve their conditions, or, at best, push them towards low-quality employment.

Although somewhat in-built in much of employment-centred social policy, the Matthew effect is not necessarily irreversible. The same design of investment-oriented measures (think for example of progressive childcare fees and payment-exemption for the poor; Van Lancker [2014]) and the policy complementarity between investment policies and social protection 'buffers' (income-support to those who cannot find their way in the labour market) could help cushion the potential social unfairness of employment-centred policy provision (see Section 2.4.1; we will test this hypothesis empirically in Chapter 5). On the other hand, the argument that Matthew effect-critics put forward remains crucial to the consistency of social investment as a paradigm. If uncontrolled, the unequal distributive outcomes of the new social policy orientation could in fact undermine the same logic along which the social investment strategy is structured, and make it fail to keep up not only with social goals, but also with the objective of shoring up the economically sustainability of welfare states. In the words of

Bonoli, Cantillon and Van Lancker (2017: 65; original emphasis):

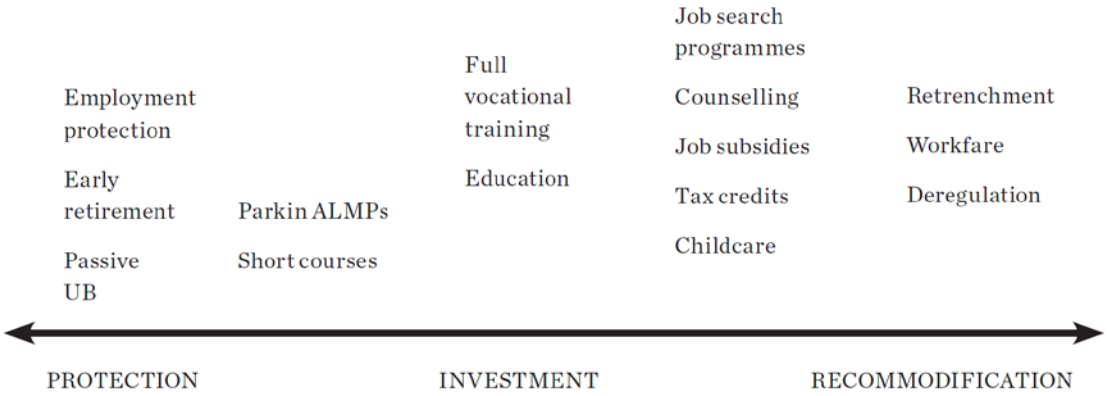
> '*If* social spending on human capital and active labour market policies benefits first and foremost the middle and the higher income groups at the expense of lower income groups, a social investment strategy will not deliver on its promises to bestow upon disadvantaged people the skills to succeed in the labour market in the short run, and to contribute to sound public finances in the long run.'

The second set of micro-level critiques to social investment refers to recommodification. As highlighted above for outside-critiques, the 'recommodifying' element of social investment risks making its dividing line from neoliberalism thinner and thinner when employment-maximization and not social inclusion through quality employment takes centre stage.[40] This 'slippery slope' from investment to neoliberalism has been acutely stylized by Bonoli (2009) for ALMP, in a way that we can easily extend to the whole social investment perspective. Bonoli placed labour market policies on a continuum marked by three different principles, which we readapt in Figure 2.3: (1) 'decommodification' through income (or status) *protection*; (2) human-capital enhancing 'social *investment*'; and (3) sheer *recommodification*. The first extreme, decommodification, concerns employment protection and income-support cash benefits to those out of work, the latter relieving, at least for the duration of the benefit, the unemployed from having to take up any job—even badly paid—in order to make ends meet. True investments in human capital and people's capabilities, such as education and training, take a mid-position in the continuum. As opposed to decommodification, full-blown recommodification takes the other extreme, whereby employment-

[40] For a discussion, both conceptual and empirical, on 'recommodification' of European labour in the 1990s and 2000s, see Papadopoulos (2005). One of the deepest conceptual critiques of social investment on the ground of recommodification came from Brian Nolan. Nolan contested the potential of social investment in creating good employment, which is not a necessary ingredient for economic growth. Specifically, he wrote: 'The case for the social investment paradigm rests heavily on the argument that the world is changing rapidly so that in the new knowledge-based economy a skilled and flexible labour force is the key motor for growth, with social investment then central to producing such a labour force. It is not obvious, though, why even in such a changing environment economic growth could not be achieved via selective intensive investment in the highly skilled minority who will occupy the 'quality' jobs and drive aggregate productivity and economic growth, with a hollowed-out middle and many in much less-skilled employment or not working – which is how critics would characterize the neo-liberal model or recent US experience. The nature of that economic growth might not appeal in terms of social outcomes – one could certainly claim that social investment will produce economic growth that is societally 'better' in terms other than employment – but that is a different argument.' (Nolan 2013, p.462)

maximization is pursued through removing obstacles to labour market participation instead of directly investing in human capital. That is to say, in a neoliberal fashion, by means of 'negative incentives' to take up any job. These can occur through deregulation and retrenchment (especially of social protection institutions), but can also take the form of 'welfare-to-work' (or 'workfare'), when social assistance benefits become functional and closely bound to work activation, in a way that make the (re-)entry into employment, and not the guarantee of a decent standard of living, their real aim.

Figure 2.4. Employment-related policy options situated on the continuum protection-recommodification



Source: Bonoli (2009)

Although social investment is centred on fostering people's capabilities to make their way within today's labour markets while being able to reconcile work and family commitments, in the real-world of today's welfare legacies and reform the actual implementation of the social investment strategy could slip towards the workfarist end of the continuum. This could be the case when investments in employment-centred policies, whose aim could even be the genuine empowerment of people, cannot rely on a solid policy mix capable of granting adequate incomes also when one falls out of work. Indeed, as remarked by the advocates of social investment (Esping-Andersen, Hemerijck, Gallie and Myles, 2002; Vandenbroucke et al., 2011; Hemerijck, 2014), the guarantee of a minimum income should act as a crucial precondition for social investment to be truly inclusive. Social protection 'buffers' like anti-poverty schemes and unemployment benefits not only improve the social conditions of those in need in

the here-and-now, giving to the unemployment an opportunity to search a better second-chance job. They can also limit the social disadvantage of children living in poor households, since 'equality here and now is very much a precondition for equality of opportunities (and vice versa)' (Esping-Andersen, 2015: 127; see also Corak, 2013; Esping-Andersen, 2009). Thus, social protection 'buffers' form part and parcel of the social investment mechanism for breaking the intergenerational transmission of poverty, and help prevent employment-centred policies from slipping towards the neoliberal end of the policy-principle continuum illustrated above.

In the light of these consideration, it becomes clearer why the EU social investment strategy remains exposed to the pitfall of tumbling towards 'workfarist' recommodification. Both minimum income and unemployment benefits, the crucial social protection policies that should serve as a necessary precondition for an inclusive social investment strategy, have been subject to retrenchment from the 1990s, when the activation agenda was also starting to change pace (Nelson, 2008; Clasen and Clegg, 2011; Bahle et al., 2011). In the vast majority of European countries, social assistance schemes fall short of granting an adequate 'minimum standard of living' (Nelson, 2008; Marx and Nelson, 2013; Marchal et al., 2014, 2016). Against this backdrop, many analyses of the progress made by social investment in Europe have shown that, overall, the since the launch of the Lisbon Strategy European welfare states have been more effective in delivering on the employment than on the social inclusion side. Notably, in the face of increasing employment levels, poverty has not been pushed down correspondingly (Taylor-Gooby, 2008; Cantillon, 2011; Cantillon and Vandenbroucke, 2014; Taylor-Gooby et al., 2015). This rather gloomy picture leaves ample space for the recommodification-critique of social investment, on whose empirical micro-foundations we will try to shed light in Chapter 5.

2.5. Conclusions: Which Roads to Social Investment?

Since their inception, European welfare states have tried to provide democratic capitalism with the best solution to keep the economy and society of the time together. Given the great economic and social progress of the last half century, they have been largely successful in doing so. Nevertheless, they have always struggled to adjust to changing economic dynamics and social structures. The 'Keynesian' welfare state

expanded as a win-win solution during the industrial era; the neoliberal case for a lighter—or, in any event, pro-market—state intervention in the economy contributed to reframing the welfare state debate when the challenges of post-industrialism, globalisation and population ageing started to cast a shadow on the sustainability of European welfare state. Since the late 1990s, the idea of social investment began to take shape as an emerging *sui generis* paradigm—a blueprint for a new welfare state capable of reconciling the twenty-first century's economic and social pressures. Having become a platform for EU growth and cohesion strategies, in the aftermath of the economic crisis it has been pointed out as a way 'to make long-term social investment and short-term fiscal consolidation mutually supportive at both the EU level and in the Member States' (Vandenbroucke et al., 2011). In other words, as a 'social' way out from the crisis for the strained European Social Model.

However, in the real-world of welfare reform in times of austerity, social investment is exposed to many pitfalls. While its focus on human capital and work-activation could well enhance people's opportunities to find a job—a conjecture that we nevertheless put to the test in Chapter 4— many doubts have been raised on the effectiveness and social fairness of its outcomes across welfare state and socioeconomic contexts different to those found in the EU. Moreover, in light of the uneven impact of the crisis and austerity upon member states, recalibrating the welfare state in the direction of social investment now seems especially difficult for countries that already held unfavourable institutional legacies before the onslaught of the economic crisis. On these bleak prospects for the ESM, Jon Kvist wrote:

> 'we are unlikely to see the emergence of a uniform European social investment model as those countries which are most in need of social investments are also the countries least likely to develop high-quality social investments' (Kvist, 2013: 91)

Is the social investment strategy affordable for all member states? Is social investment apt to take back the 'social soul' of Europe? On these important questions we begin our empirical investigation of the extent and the individual-level outcomes of social investment policies across the EU. Next chapters will inspect the fiscal viability of social investment though looking at trajectories of welfare recalibration at the country level. Chapters 4 and 5 will connect country-level policy changes with

individual-level employment and social-fairness outcomes respectively. Is social investment proving capable of bringing back together welfare state's lost economic and social objectives as the Keynesian paradigm did almost a century ago? This big question will return in the concluding chapter, which will put together the empirical results and go beyond with speculation on the prospects for the social investment strategy and the ESM as a whole.

3

Mapping the Recalibration of EU Welfare States at the Crisis Crossroads: Investment or Retrenchment?*

The road to social investment, set by the EU as a blueprint for welfare state renewal, is not an easy one to take. European welfare states find themselves between a rock and a hard place. Substantial institutional legacies are the 'hard place'. Welfare state institutions widely differ across Europe; in the bulk of member states, with the notable exception of Nordic countries, they fall short of the ideal-type of social investment. Established social protection programmes take the lion's share of social expenditures, are firmly anchored in vested interests, and leave little space for investment in new social policies (Hudson and Kuhner, 2009; Nikolai, 2012; Beramendi et al., 2015). On the other side, the 'rock' corresponds to today's mounting fiscal pressures. After the outbreak of the Euro crisis, austerity tightened the constraints on national economic policies, further reducing the budgetary space available for welfare state recalibration.[41] Social investment spending, which slowly but steadily progressed in most countries in the decade prior to the crisis (Vandenbroucke and Vleminckx, 2011; Hemerijck, 2013; Kuitto, 2016), now faces a more difficult situation. Today's context of scarcer resources potentially exacerbates the trade-offs between spending for old protection-oriented and for new investment-oriented programmes (Cantillon, 2011; Streeck and Mertens, 2011; Breunig and Busemeyer, 2012): if at all, governments willing to expand on one side

* An excerpt from this chapter has been published on the Journal of Social Policy: see Ronchi (2018).

[41] On the general concept of welfare recalibration see Ferrera, Hemerijck and Rhodes (2000). In this chapter, I use the term 'recalibration' in a narrower fashion, with specific reference to welfare state financing (what I call 'budgetary recalibration'), that is to say, the (re-)allocation of public resources (social spending) over different types of social policies.

may have to retrench on the other. Moreover, the crisis increases the difficulty of catching up for countries that had not previously invested in new policies, when budgetary constraints were less tight.

There is no agreement on the trajectory taken by EU welfare states at the crossroads of the crisis. On one hand, some scholars argued that, at least in core EU countries, social investment has been pursued despite *prima facie* cost-containment policy priorities (Van Kersbergen et al., 2014). By contrast, especially where austerity is biting harder, retrenchment rather than investment seemed to be the rule (Petmesidou and Guillén, 2014). Overall, worries about further divergence between EU welfare states have been raised (Kvist, 2013; Natali and Vanhercke, 2015). Not all Member States would have been able to afford the social investment strategy: at the crisis crossroads, some could have taken cheaper paths instead. In fact, fiscal viability is the primary hurdle on the road to social investment. This brings us to the following questions: did European governments increase the resources for social investment-oriented programmes despite the tightening of the fiscal space available for welfare recalibration? Did countries with diverse welfare spending patterns, and facing austerity to different extents, take divergent trajectories of recalibration? Have social investment and social protection policies competed with each other over scarcer resources?

This chapter looks at how welfare state budgets were recalibrated in the EU-27 (all member states except Croatia, plus the UK) from the launch of the Lisbon Strategy in 2000 to 2014, through the time of the crisis. We track the trajectories of budgetary welfare recalibration by means of a novel dataset: the Social Investment Welfare Expenditure dataset (SIWE), which includes up-to-date public expenditure time series pooled from various Eurostat sources, and allows for a fine-grained disaggregation of social spending across the EU (further details on the SIWE dataset are found in Appendix 1). Instead of looking at raw data on spending as a share of the Gross Domestic Product (GDP), we rely on needs-adjusted indicators of the effective 'budgetary effort' (i.e. spending per potential beneficiary: cf. Vandenbroucke and Vleminckx [2011]) put into selected welfare programmes by governments.

By analytically differentiating between two fundamental dimensions of the 'new' welfare state—social investment and social protection—we develop four theoretical scenarios for the recalibration of welfare state budgets. These range from a 'high road'

to social investment to full-blown retrenchment, going through intermediate compromise-solutions. In this way, we acknowledge that a fully-fledged social investment strategy could have not proven affordable for all member states. In fact, the results show that the overall progress made by social investment in welfare budgets since 2000 came to a halt with the onslaught of the economic crisis. Bleaker scenarios materialised, whereas EU welfare states pursued retrenchment rather than investment, or, in any event, had to face harsher budgetary trade-offs which constrained them to expand social investment to the detriment of social protection. In other words, the 'resource competition' predicament, that did not seem a matter of concern before the Great Recession (Cantillon, 2011; Vandenbroucke and Vleminckx, 2011; see Section 2.5.1), indeed become concrete after the crisis.

The next section describes the institutional 'starting blocks' of EU welfare states, highlighting the varying social expenditure profiles which characterize different welfare regimes. Following that, it discusses the post-crisis context that obstructs the momentum of social investment. Section 3.2 draws the four scenarios for welfare recalibration, and grounds them in the literature on social investment and its critiques. Section 3.3 presents the SIWE data and the method. The empirical section follows, which analyzes the trends of budgetary efforts that member states put into the different welfare dimensions. The final section concludes, and further elaborates on the analytical implications of this first empirical step to track the European roads towards social investment.

3.1. Social Investment Spending and the Euro Crisis

3.1.1. Configurations of welfare expenditure in the EU: the starting blocks

In comparative welfare state research, the social investment approach has served as an analytical framework for looking at most recent trends in welfare state change (Section 2.3.1). Over the last three decades, policy makers have paid increasing attention to supply-side policies (such as public investments in human capital, activation and re-insertion services), that have become a key component of advanced welfare states alongside the demand-side social protection functions which carried the day in the Keynesian phase, when pensions, unemployment benefits and income-support measures

in general were expanded (Section 2.1; Obinger and Starke, 2014). Focusing on the structure of social expenditure, many contributions to comparative welfare state research have tried to keep track of this change by differentiating between spending on demand-side social protection programmes that typically compensate 'old' social risks compensation, and on supply-side 'social investment' policies (Vandenbroucke and Vleminckx, 2011; Nikolai, 2012; Vaalavuo, 2013; Hemerijck, 2013; Van Vliet and Wang, 2015; Kuitto, 2016).[42] Vandenbroucke and Vlemincks (2011) showed that, overall, social investment spending increased across OECD countries from the late 1980s to the pre-crisis years.[43]

However, the general expansion trend conceals wide differences across welfare states. European countries are not positioned equally in respect to the 'social investment turn' (Section 2.4.1), and this is immediately visible in their social expenditure configurations. Even with some minor blurring, Esping-Andersen's (1990) seminal taxonomy of welfare state regimes (and its various updates: see Arts and Gelissen (2002) and Ferragina and Seeleib-Kaiser (2011) for comprehensive reviews) is still reflected in the spending profiles of European welfare states (Kuitto, 2016), and helps to define their 'institutional starting blocks'. Nordic countries seem to have embarked well on a 'high road' to social investment. They began to raise public investment in services for daycare and for the upskilling and (re-)insertion of workers since the 1970s, well before other European countries. This has brought them to be not only amongst the biggest welfare state spenders, endowed with very generous social protection programmes; aside that, Nordic welfare states also devote a comparatively large share of public spending on social investments, which is arguably the key for them to combine encompassing social inclusion with high employment levels (Huo et al., 2008;

[42] Many labels have been used to refer to the different dimensions of welfare state policies. Social protection spending has also been called 'compensatory' (Nikolai, 2012; Hemerijck, 2013; De Deken, 2014), 'old' social risk-spending (Armingeon and Bonoli, 2006; Häusermann, 2010); what we call here social investment spending has also been referred to as 'productive' (Hudson and Kuhner, 2009), 'new social risk-' (Armingeon and Bonoli, 2006; Häusermann, 2010) or 'capacitating' (Hemerijck, 2013) spending.

[43] It has to be noted that, despite its gradual increase, social investment spending still takes a residual part of welfare budgets compared to 'old' protection policies (most notably pensions). This led Hudson and Kuhner (2009) to a more cautious, if not even negative, assessment of the progress of social investment policies. Vandenbroucke and Vleminckx's noted a general progress of investment spending over the long run, from the 1980s to the years 2005-2007, with an analysis that included 13 EU countries. Kuitto (2016) obtained similar results for the period 2000-2010, with spending data on 23 European countries, and data on benefit generosity (for social protection policies) for 14 countries.

see Section 2.2.2.). Liberal welfare states (Ireland and the UK) have only favoured the development of some selected investment-oriented policies (e.g. activation, education and training) over that of social protection, which remains comparatively weak (Nikolai, 2012). The preference for market solutions was also reflected in maintaining a leaner welfare state also on the side of public investment-oriented service provision, against the backdrop of a general 'workfarist' logic (Section 2.4.2; Bonoli, 2013; Deeming and Smyth, 2015). Countries of continental Europe have the opposite legacy, as the conservative-corporatist origins of their welfare system have led to a spending profile which is strongly biased towards insurance-based social protection, which leaves a narrow space for social investment (Nikolai, 2012). Nevertheless, aside from the (often selective) liberalization of labour markets, recent welfare reforms have gradually moved continental welfare states away from their 'Bismarckian' roots. With the Netherlands as the forerunner (Visser and Hemerijck, 1997), continental countries expanded (female) employment-friendly supply-side policies, most notably through investments in ALMP, but also in daycare services and various work-life balance policies (Vail, 2008; Palier, 2010). Southern and Eastern European welfare states stand out as laggards of social investment, displaying a substantially worse situation, both in terms of human capital outcomes and social and macroeconomic indicators (Kvist, 2013). Southern countries resemble to some extent the continental model, albeit with even more unbalanced arrangements and less developed social investment-oriented policies, which, if at all, have appeared on policy agendas in more recent times (Petmesidou and Guillén, 2014). Pensions take the lion's share of social spending, at the detriment of many gaps in the coverage of social protection for working age people. In this latter respect, the most striking case was the absence of nation-wide minimum income schemes in Greece and Italy until recently (Ferrera, 2005b).[44] Eastern countries' welfare systems have been drastically downsized after the post-communist transition. With some exceptions among Visegrád countries (especially Czech Republic and Slovenia, which are somewhat closer to the continental regime), they spend very little on social policy, lagging even behind the liberal standards (Bohle and Greskovits, 2007; Cook, 2010; Cerami and Stubbs, 2011).

[44] Greece and Italy introduced forms of nation-wide minimum income protection schemes in 2017 and 2018 respectively (Natili, 2017).

These legacies of welfare spending configurations constitute the 'starting blocks' from which European welfare states have been called upon to embark on the road to social investment since the launch of the Lisbon Agenda (see Section 2.3.2). If on the one hand some gradual progress of social investment policies was observed prior to the crisis (Vandenbroucke and Vleminckx, 2011; Kuitto, 2016), less is known about the trajectories of welfare recalibration which emerged afterwards. The Euro crisis, especially, tightened budgetary constraints to an unprecedented degree, bringing bad news for the social investment strategy. Past research has shown that the time at which given social policies were first introduced mattered for future welfare state developments (Bonoli, 2007). The effective adaptation of Nordic welfare states to new social risks provides a fitting example. Ahead of other welfare regimes, Nordic countries started to invest in new kinds of social services before welfare expansion reached its peak, when the economic conditions were still rather favourable and welfare budgets less burdened (Bonoli, 2007). This led to the consolidation of a system of investment-oriented policies—and their political constituencies, such as a high number of women working in public services—before financial constraints were tightened. The situation is different for countries that are called upon to catch up with social investment today, in the aftermath of the biggest economic crisis since the Great Depression. If 'time matters', no scenario could be less favourable than this. Not only has welfare spending arguably become saturated, but the Euro crisis and austerity have raised fiscal pressures to a level never seen before.

3.1.2. Wrong place at the wrong time: social investment meets the Euro crisis

The decade of the Lisbon Strategy (2000-2010) has been an eventful one. It started with the Eurozone early days of rather sustained growth, when peripheral EU economies in particular could free-ride on artificially low interest rates. Then, it was inexorably marked by the outbreak of the economic crisis. As the contagion from the US subprime mortgage crisis crossed the Atlantic, with few exceptions, EU countries first reacted in a countercyclical fashion (Armingeon, 2012). Social expenditure was expanded to buffer the shock: in particular, government resorted to so called 'automatic stabilizers' such as employment-based social insurance and short-time work schemes, increased to match the augmented job losses (Chung and Thewissen, 2011; Sacchi et al., 2011; Clasen et

al., 2012) In the words of Hemerijck (2015), 'Keynesianism through the backdoor' proved once again to be reactive in the aftermath of the crisis.[45] With the outburst of the Greek crisis in late 2009, what had started as a financial-sector crisis translated into a sovereign-debt crisis. To wit, design failures which were inherent in the design of the Economic and Monetary Union (EMU) (De Grauwe, 2013), although had remained latent in the early days of the Euro, were finally unleashed in the Euro crisis. This marked the shift from (mildly) counter-cyclical policies to fiscal austerity, to an extent that exceeded that of previous recessions (European Commission, 2013b). Since then, austerity measures have often encroached upon the domain of social policy, which was subject to cutbacks especially in those countries which have been subject to financial rescue plans (conditionality attached) or fallen very close to that (Busch et al., 2013; Sacchi, 2015; Petmesidou and Guillén, 2014; Natali and Vanhercke, 2015; Theodoropoulou, 2018).

Against the backdrop of crisis and austerity, an opposite push regarding welfare reform came from the social investment strategy promoted by the EU. Taking on the challenge of making 'long-term social investment and short-term fiscal consolidation mutually supportive at both the EU level and in the Member States' (Vandenbroucke et al., 2011), the relaunch of the social investment strategy provided, at least on paper, an appealing recipe to rescue the shaky social dimension of the EU. After a long path, started with the Lisbon strategy and boosted by academic advocacy (Esping-Andersen, Hemerijck, Gallie and Myles, 2002; Vandenbroucke et al., 2011; Hemerijck and Vandenbroucke, 2012; Vandenbroucke, 2013), the launch of a *Social Investment Package for Growth and Cohesion* officially marked the EU endorsement for this blueprint (European Commission, 2013c; see Section 2.3.2). However, in a context of scarcer resources, many budgetary dilemmas made it harder for governments to translate the EU social investment blueprint into reality.

3.1.3. Welfare recalibration as competition over (scarce) resources

Although it stresses human capital- and work-enhancing functions of social policies, the social investment strategy does not deny the value of social protection 'buffers' policies

[45] Although with this expression Hemerijck primarily refers to minimum income protection (social assistance), we use the expression in an extended fashion, which includes all out-of-work social protection programmes. Hence, also unemployment insurance, that is the primary means with which the vast majority of EU welfare states are equipped to respond to unemployment shocks.

(that was more the case for the Third Way view: see Section 2.4). Social investment considers income-protection programmes as a necessary precondition for building a truly inclusive new welfare state, not only geared at maximizing employment *per se*, but at boosting work opportunities with a view to breaking the intergenerational transmission of poverty (Esping-Andersen, Hemerijck, Gallie and Myles, 2002; Hemerijck, 2015). From a social expenditure perspective, this entails that the expansion of social investment spending should not come at the cost of retrenchment of social protection.

However, in a context of scarce financial resources, the fiscal space available to policy makers hardly allows the expansion (or maintenance) of the levels of both investment and protection spending. Previous research raised concerns over the emergence of budgetary trade-offs between different kinds of social policies (see Section 2.4.1.), concerns that have become an increasingly concrete dilemma for welfare state recalibration in the context of post-crisis austerity. Already during the years of the Lisbon Strategy, poverty levels stagnated in spite of the growth of employment. Among the possible explanations for this puzzle, Bea Cantillon and her colleagues formulated the so-called 'resource competition' hypothesis (Cantillon, 2011; Vandenbroucke and Vleminckx, 2011). According to this, given scarce resources, the financial effort put on employment-centred social investments in the Lisbon years implied cutting spending for social protection policies, that were arguably more redistributive. This, in turn, plausibly contributed to the puzzling outcome of employment growth without poverty reduction (see also Cantillon and Vandenbroucke, 2014).[46]

Streeck and Mertens (2011) took an opposite view of the same budgetary trade-off. Their work revealed a decreased capacity of governments to shift resources at all

[46] In an article in a special issue of the Journal of European Social Policy, Cantillon (2011) argued that investing resources in the 'new' social investment policies could easily crowd out social spending for 'old' redistributive functions of the welfare state. In the same special issue, looking at the dynamics of social expenditure in 14 OECD countries, Vandenbroucke and Vleminckx observed that, although they have indeed increased their fiscal weight, social investment-oriented policies are still taking too much of a residual share in state budgets to play such a role. Rather than a crowding-out effect exerted by them on old social spending functions, the pattern they found hinted at old social protection functions competing with one another in a sort of inside resource competition. In their words: 'if there was pressure on traditional redistributive budgets because of competing claims, it came more from healthcare (and in a number of countries from old age spending) than from the new programmes'(Vandenbroucke and Vleminckx, 2011: 460).

towards social investments in times of fiscal consolidation (see also Mertens, 2017). To some extent, this reverses the resource competition hypothesis, in that it is what they called 'mandatory' spending (i.e. the payment of vested social protection benefits such as pensions) that, proving more resilient to retrenchment, tends to crowd out 'discretionary' social investments. Through a more fine-grained multivariate analysis, Breunig and Busemeyer (2012) also came to a similar conclusion: in times of austerity, social investment spending is hit harder than social protection spending.

Various qualitative assessments of welfare reforms in Europe over the time of the crisis recognized that austerity was indeed a serious hurdle to the progress of social investment (Bouget et al., 2015; Natali and Vanhercke, 2015). However, recent empirical studies reported contrasting findings. On one side, some highlighted that at least in Northern and Continental Europe, welfare states kept moving towards social investment in spite of the *prima facie* priority given to cost-containment policies (Van Kersbergen et al., 2014). On the other side, the progress of social investment seemed overwhelmed by austerity and retrenchment, especially in the crisis-ridden peripheries of the EU (Kvist, 2013; Petmesidou and Guillén, 2014; Pavolini et al., 2015). In line with this view, Klaus Armingeon (2013) did not detect any progressive welfare reform shift in recent development, but rather a common austerity push toward retrenchment. In this regard, Paul Pierson went so far as to raise the question whether, in the shadow of the Great Recession, 'the *real* era of retrenchment' finally begun (Pierson, 2011, emphasis added). Should this be the case, not only would social investments find no fiscal leeway to develop, but all welfare spending would be irreversibly rolled back.[47]

3.2. Four Scenarios for Welfare State Change

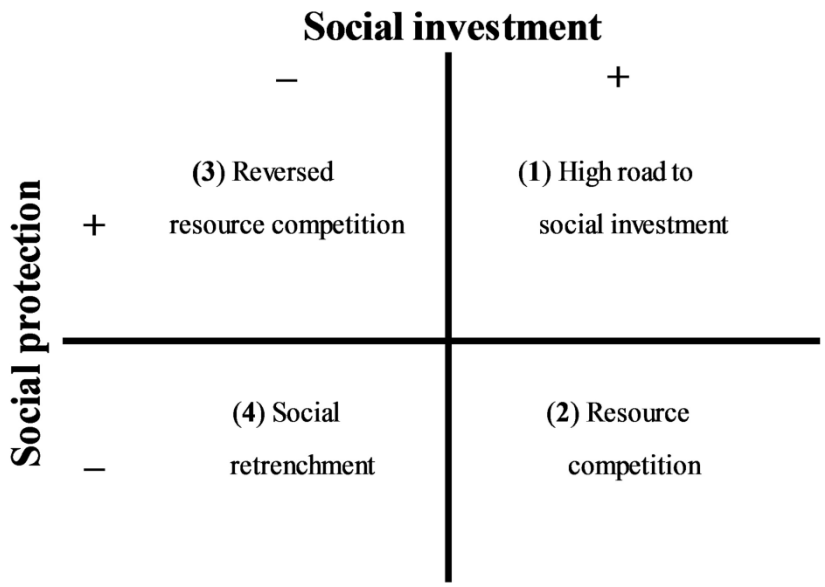
The future of the European Social Model(s) is torn between two opposite drives: the momentum provided by the social investment strategy and the unprecedented fiscal pressures raised by post-crisis austerity. At a first glance, two routes seem possible. Welfare states under pressure can either take the crisis as a window of opportunity to recalibrate their efforts towards social investment-oriented policies, or give in to the

[47] Although this appears as a very gloomy perspective, it resonates with the (in any case less stark) conclusion to which De la Porte and Jacobsson (2012: 140) came when examining the outcomes of the European Employment Strategy (thus, in the domain of labour market policies): 'there have not really been clear and massive shifts from passive to active expenditure on labour market policies in the EU-15, but expenditure for both is depleting'.

mounting pressures for retrenchment. However, building on the insights from the literature on the (limits to) social investment welfare recalibration discussed in the previous section, a closer inspection reveals more nuances. For this purpose, I develop a framework that helps to deliver analytical bite for the analysis of the direction taken by the (budgetary) recalibration of European welfare states at the crisis crossroads.

As done in previous research, I dissect countries' social budgets by differentiating between the expenditure for *social protection*- and *social investment*-oriented programmes (hereafter, SP and SI respectively). The former are cash benefits which provide *ex-post* income compensation for old industrial social risks. The latter are investments in services, aimed at enhancing human capital and labour market participation *ex ante*, and addressing the new social risks that have emerged in post-industrial societies. By crossing these two fundamental dimensions of advanced welfare states, it is possible to get a better understanding of all possible trajectories for welfare recalibration. Countries can either increase or decrease the *budgetary effort* put into each of the two dimensions, for a total of four possible combinations. Four scenarios for the recalibration of European welfare states hence emerge, as shown in Table 3.1.

Table 3.1. Four scenarios for the budgetary recalibration of European welfare states



Note: The 'high road-' scenario can in turn be divided into: a) 'Ideal social investment turn', when the financial effort put on social investment-oriented functions increases more than that put on social protection; b) "Keynesianism through the back door", when it is the other way around.

The four scenarios provide an analytical framework for interpreting welfare state change. Each of them matches with different normative views and theoretical expectations that have been proposed in the literature. On the right side of the thick line in Table 1 we find the two scenarios which correspond to an augmented budgetary effort on the SI dimension. In the top-right quadrant, the budgetary resources put on both welfare state dimensions increase: this is the best-case scenario for welfare state change, which matches what I call (1) 'High road to social investment'. This scenario actually encompasses two sub-trajectories, that become clearer when comparing the magnitude of the increases on the two dimensions. Differentiating between these two sub-trajectories is not a trivial issue. On the one hand, welfare effort for social investment can grow more than that for social protection: a shift of resources towards SI within an overall context of increased welfare effort. This is arguably the very best scenario envisaged by advocates of social investment[48], hence labelled 'ideal social investment turn' (1a). The growth of the budgetary effort put into social protection can otherwise outpace that of social investment: a sort of business-as-usual incremental response in which established cash benefits-oriented programmes continue to play a major role, without nevertheless preventing the expansion of SI. Put differently, a situation which amplifies the 'Keynesianism through the back door' function (Hemerijck, 2015) in the scope of an overall turn towards social investment (1b). In the bottom-right quadrant of Table 1, a less optimistic configuration of the social investment turn takes shape: while the budgetary effort on social investment again raises, that on social protection falls. Again, the magnitude of the rollback of this latter dimension is not irrelevant. Keeping this in mind, this scenario matches Cantillon's (2011) (2) 'resource competition' thesis, insofar as the budgetary effort put into social investment grows at the cost of crowding out that of SP. Moving to the left-side of Table 1, we find the negative cases for the social investment turn. In the top-left quadrant lies the reverse of the scenario just discussed, thus labelled (3) 'reversed

[48] It is a best-case scenario at least for those advocates of social investment who do not reject the social and economic function of 'old' income- (and human capital-) maintenance programmes such as unemployment insurance (e.g. De Deken, 2014), mostly based on the vast literature on Varieties of Capitalism (above all, see Hall and Soskice [2001]).

resource competition'. Here, it is the budgetary effort put into social protection that increases to the detriment of social investment. These dynamics may originate from the fact that, given the tight fiscal constraints, the financing of enduring policy legacies (welfare entitlements politically anchored in vested interests) leaves no room for investments in new welfare policies (cf. Streeck and Mertens, 2011; Breunig and Busemeyer, 2012). Last, we find a scenario of (4) 'social retrenchment', in which both SI and SP are rolled back, in line with the darkest view about a *real* age of austerity being triggered by the Great Recession (Pierson, 2011).[49]

Two considerations are due for all scenarios. First, starting level matters: policy legacies in terms of high or low public investment in various welfare programmes are in fact likely to influence future developments. They set the starting blocks of welfare states at the crisis crossroads. Thus, for instance, Eastern welfare states with comparatively low starting levels on both functions have significant room for improvement, i.e., for catching up with other countries. By contrast, for very generous Scandinavian welfare states this is far less likely. Their social spending capacity arguably got closer to an 'upper bound'. Second—but not less important—although not very much can be inferred about it by simply looking at the sheer cost of social policy (i.e. budgetary effort, as explained in next section), *recommodification*—work incentivization through an erosion of workers' reservation wage rather than human capital enhancement (see Section 2.4.2)—is more likely to overlap with some scenarios than with others. Arguably, a reduction of the budget put into SP programmes (especially those targeting working-age social risks) is likely to go together with recommodification, since it is indeed hard to 'do more with less' when it comes to providing cash benefits. Yet, fiscal disinvestment may be a necessary but certainly not a sufficient condition for it; the devil is in the detail regarding the actual contents of policies financed with those resources (e.g., benefit eligibility, generosity and duration). With this caveat in mind, the next section explains how we track welfare change in welfare state budgets.

[49] Although this fourth scenario indeed recalls the 'real' age of austerity portrayed by Pierson, 'social retrenchment' refers here only to the fiscal retrenchment of social spending (i.e. *dis*investment), and does not fully grasp all of the nuances that he attributes to welfare state retrenchment. According to Pierson (2011: 22–23), established welfare programmes are not just being frontally assaulted through cutbacks; instead, as a 'Maginot line', they are being outflanked by policy makers' inertia, that let them grow obsolete in terms of contents and coverage and not only of their funding ('policy drift' in Hacker [2004] and Streeck and Thelen [2005]).

3.3. Data and Method: the Social Investment Welfare Expenditure Dataset

3.3.1. The skeleton of social investment revisited

To put it as De Deken (2014) did, I rely on expenditure data to map 'the skeleton of the social investment welfare state'.[50] This is taken as a clue to understand in which of the scenarios sketched above have European welfare states placed themselves. All analyses build on data from various Eurostat sources, reaggregated in the new Social Investment Welfare Expenditure (SIWE) dataset. While Appendix 1 gives more specific details on the dataset construction, this subsection highlights the main innovations of the SIWE dataset and the re-categorization of social spending categories used throughout the book.

Previous research highlighted the usefulness of disaggregating total welfare expenditure into separate functions, which were found to be determined by different politico-institutional factors and in turn associated with different socio-economic outcomes (Castles, 2009; Van Vliet and Wang, 2015). Many empirical studies have re-aggregated social spending categories to fit the social investment perspective (Vandenbroucke et al., 2011; Nikolai, 2012; Hemerijck, 2013; Cantillon and Vandenbroucke, 2014; Kuitto, 2016), bringing new empirical and analytical insight to our knowledge of welfare state change. The most recent critical reviews and updates of this methodology have been drawn by De Deken (2014, 2017; see also the appendix in Cantillon & Vandenbroucke, 2014). The expenditure-based approach has pros and cons, and some limitations are unavoidable. A first limitation regards the general question of how to measure welfare state change (Clasen and Siegel, 2007). By looking at spending data, researchers can only grasp the budgetary weight of social policies, but not the institutional characteristics of such programmes. It is, however, exactly the cost of social policies that gains political salience in times of fiscal consolidation (Streeck and Schäfer, 2013; Mertens, 2017), bringing to light the budgetary trade-offs that are a crucial focus of this chapter (Section 3.2.3.). A second limitation is specific to the operationalisation of social investment through social expenditure. The distinction

[50] The quote is actually taken from the work of the Austrian sociologist Rudolf Goldscheid, '*Staatssozialismus und Staatskapitalismus*' (1917), restated by Josef Schumpeter: 'The budget is the skeleton of the state stripped of all misleading ideologies'.

between SI- and SP-spending items is often blurred; many policies in fact serve both aims (De Deken, 2014; Nolan, 2013).[51] The uncertain categorisation of social programmes largely derives from the same conceptual ambiguity of social investment: a strong point for policy-makers who use it as a political platform (Jenson, 2016: 4), but a hurdle for researchers interested in using it as an analytical framework (cf. Nolan, 2013). Given this (intentional) ambiguity, any agreement on a fixed operationalisation is unlikely to be reached.

Aware of its shortcomings, my analysis builds on the disaggregated expenditure approach. The proposed methodology differs from the bulk of those used previously in two respects: the choice of the data source and the (expanded) allocation of social spending functions over the two welfare dimensions. While most studies of social investment spending have relied on the OECD Social Expenditure Database (SOCX), my methodological effort builds on expenditure data from various Eurostat sources, as provided in the SIWE dataset, described in-depth in Appendix 1.[52] Eurostat sources include: the European System of Integrated Social Protection Statistics (ESSPROS), Eurostat Labour Market Policy (LMP) statistics, and Eurostat data on education and research and development (R&D). The SIWE data cover all member states except Croatia (instead of 21 member states included in OECD-SOCX) and provide more complete time series for the period considered in this article. In spite of some differences in data collection (see Adema and Ladaique, 2009), the degree of disaggregation reached by Eurostat is comparable to that of OECD-SOCX. As done in the bulk of previous contributions, the SIWE dataset takes into account gross public expenditure: data on net spending do not reach such a fine-grained level of disaggregation.[53]

As for the allocation of social spending functions over distinct welfare dimensions,

[51] For example, parental leaves can be seen both as protection, insofar as it provides out-of-work benefits which suspend (and in some cases can even hurt) labour market participation, and as investment, in that it aims to reconcile work and family life, providing an incentive to have children in the European context of low fertility.

[52] The SIWE dataset is available upon request from the author at https://sronchi.wordpress.com/siwe-data-set/.

[53] As discussed in De Deken (2014), the use of gross instead of net spending could overestimate social protection expenditure in countries which tax benefits (e.g., Nordic countries), while underestimating the extent of welfare effort when this largely relies on tax breaks (e.g., UK and Ireland, but also many continental and Southern EU countries for child allowances). The SIWE dataset includes in-work tax credits alongside direct cash transfers.

we also use the heuristic dichotomy which differentiates between social protection spending and social investment spending. Nevertheless, we modify and expand the expenditure-based methodology. Previous studies have mostly categorised spending items based on the rationale of different policies. However, as mentioned above, policies can follow multiple rationales: this leads to ample margins of discretion when allocating items to welfare dimensions. Thus, we differentiate between SP and SI by looking at the way in which different programmes are provided: cash benefits are considered as SP, benefits in kind (services) as SI. This grants a more objective criterion, without neglecting the policy rationale aspect: cash benefits in fact provide ex-post-compensation for 'old' risks and a demand-side economic stimulus (hence, a social protection rationale), while investment-oriented policies generally come as services to enhance labour supply (Ahn and Kim, 2015).

As shown in Appendix 1, SP includes passive labour market policies (PLMP), cash benefits for families with children and old-age benefits. ALMP, care services for families with children and for the aged, public spending for education (from primary to post-secondary non-tertiary) and research and development (R&D) are counted in SI. This categorisation departs from the bulk of previous studies in three ways: (1) Contrary to what is done by some authors (e.g. Vandenbroucke and Vleminckx, 2011), healthcare spending is not incorporated in the SP dimension, but is excluded from the dichotomy. Healthcare is a very ambiguous welfare function that does not exclusively fit either of the two categories suggested. As opposed to the rest of the SP functions, healthcare is generally not based on cash transfers, but on the provision of services that both compensate for the occurrence of health problems, and (re-)capacitate those in need. Hence, the dual protection-investment aim appears especially marked here. Moreover, in the case of healthcare, expenditure is a particularly bad indicator of government effort (Wilkerson, 2003). (2) Following Streeck and Mertens (2011) and Beramendi and his colleagues (2015), I include public spending for R&D in the SI dimension. Investing in R&D is in fact part and parcel of a social investment strategy centred on human capital in a knowledge-based economy, and was among the targets of the Lisbon Strategy (European Council, 2000). (3) The categorisation of parental leave policies as either SI or SP is a contested issue (De Deken, 2014).[54] In line with the cash-*versus*-

[54] Leave policies aims to foster the reconciliation of work and family commitments, with the ultimate

service logic of the operationalization chosen here, I classify them as SP, insofar as they consist of cash benefits. Nevertheless, considering them as SI did not alter the findings shown in the results section below.

Table 3.2 gives a summary of categorization of welfare spending functions as either SP or SI, grouping different policies according to the domain and life stage they (mainly) address. Further details are found in Appendix 1.

3.3.2. Country sample and time span

The recalibration of welfare state budgets is observed for all EU-27 countries (Croatia is excluded due to missing values, the UK is included). Countries are grouped into the most commonly used clusters (for a review, see Ferragina and Seeleib-Kaiser [2011] and Arts and Gelissen [2002]; Aidukaite [2011] on new member states from post-communist Eastern Europe). Welfare regimes are used as a reference point to indicate the different policy legacies which exist across the EU. That is, the institutional 'starting blocks' of very different member states now called to embark on the road to social investment. Welfare state clusters are the following:

- Scandinavian: Denmark, Finland and Sweden;
- Liberal: Ireland and UK;
- Conservative: Austria, Belgium, Germany, France, Luxembourg and the Netherlands;
- Southern: Italy, Spain, Greece, Portugal, Cyprus and Malta;
- Eastern: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.

social investment-oriented objective to support mothers' employment (Esping-Andersen, Hemerijck, Gallie and Myles, 2002; Gornick and Meyers, 2003; Hemerijck, 2013; Nelson and Stephens, 2013). However, especially when they are too long, parental leaves can actually act as a disincentive for mothers to get back to work. The debate is open on what is the actual 'optimal' length of parental leaves in order to benefit parents' and children wellbeing without penalizing mothers' employment and career opportunities (Galtry and Callister, 2005; Evertsson and Duvander, 2011).

Table 3.2. Re-aggregation of welfare spending functions and social programmes included in the Social Investment Welfare Expenditure dataset (SIWE)

Category	Function	Social programmes included	Source (*Eurostat tag*)
Social protection	WORKING AGE cash benefits	– Out-of-work income maintenance and support	LMPS *(cat. 8)* *lmp_expsumm*
		– Early retirement	LMPS *(cat. 9)* *lmp_expsumm*
		– Housing benefits	ESSPROS *spr_exp_fho*
		– Disability pensions & early retirement	ESSPROS *spr_exp_fdi*
		– Social exclusion (Minimum income support)	ESSPROS *spr_exp_fex*
	FAMILY/CHILDREN cash benefits	– Family/children cash benefits [1]	ESSPROS *spr_exp_ffa*
	OLD AGE cash benefits	– Old age pensions and other benefits	ESSPROS *spr_exp_fol*
		– Survivors' benefits	ESSPROS *pr_expfsu*
Social investment	WORKING AGE services	– ALMP (includes spending for PES)	LMPS (cat.1-7) *lmp_expsumm*
		– Rehabilitation of disabled persons	ESSPROS *spr_exp_fdi*
	FAMILY/CHILDREN services	– Family/children benefits in kind [1]	ESSPROS *spr_exp_ffa*
	OLD AGE services	– Old age benefits in kind (elderly care)	ESSPROS *spr_exp_fol*
	EDUCATION	– Education (ISCED 1-4) [2]	Education & training *educ_figdp*
	R&D	– R&D (includes higher education)	Science, Technology & Innovation *rd_e_gerdfund*

Abbreviations: ALMP: Active Labour Market Policies; PES: Public Employment Services; LMPS: Eurostat Labour Market Policy Statistics (composed by 9 categories); ESSPROSS: *European System* of Integrated *Social Protection* Statistics.
Notes: [1] In an alternative specification of the family/children welfare function, parental leaves and family allowances are considered as social investment instead of as social protection.
[2] Education includes primary, secondary and post-secondary non tertiary levels (ISCED 1-4); Pre-primary is included in Family/children (daycare) services; Higher education is counted in R&D. Data on Education for Greece are taken from the World Bank database.

The focus is on the period 2000-2014. The analysis first compares the average levels for the years 2000-2008 with those for the aftermath of the crisis (2009-2014), and then narrows the focus to the post-crisis dynamics only. 2009 is taken as the watershed year between the period of overall economic growth of the early 2000s and the crisis 'rainy days'.[55] After 2009, the bulk of EU countries shifted to pro-cyclical fiscal policies (European Commission, 2013b).

3.3.3. What do we measure: budgetary welfare effort

This chapter focuses on the trends of 'budgetary welfare effort' (BWE): a proxy to account for the fiscal skeleton of social investment. Raw figures on welfare expenditure over GDP are not very instructive in this respect: both the numerator and denominator are in fact particularly susceptible to economic downturns as well as to the demographic structure of (ageing) populations, contextual factors that have nothing to do with the actual budgetary effort governments put into social programmes.[56] Therefore, I focus on social expenditure trends in volumes, expressed in purchasing power standards (PPS) for the EU-28 at constant prices (with 2005 as base year), and weighted for the *target population* of the selected social programmes. This adjusts expenditures for the extent of the respective social needs in a given country-year (it is in fact spending per potential beneficiary). For each welfare function, the BWE comes net of distortions due to fluctuations of the business cycle or of the structure and the needs of the population. The general formula for the construction of BWE indicators is the following:[57]

[55] In the years ranging from 2000 to 2008, with very few exceptions, the economies of all member states were continuously growing. The average EU-28 annual real GDP growth reached its peak in 2006 with +3.4 percentage points over the previous year. In 2008 growth came to a slowdown. In 2009, all EU-28 economies (the only exception being Poland) considerably shrunk, with an average of – 4.4 negative growth. In the two following years, overall, the feeble recovery did not compensated for the ground lost, and recession struck again in 2012 (data retrieved from Eurostat online database, accessed in June 2015).

[56] The most fitting example for the excessive business cycle-sensitivity of spending-over-GDP figures is that of the automatic stabilizers such as unemployment benefits: the numerator tends to react counter-cyclically, increasing during recessions as a consequence of the increased number of claimants. On the contrary, the denominator (GDP) naturally decreases when the economy falls into recession. This would lead to overestimating budgetary welfare effort in times of economic crisis.

[57] Although the name BWE is the same used by Vandenbroucke and Vleminckx (2011) and then in Cantillon and Vandenbroucke (2014: Appendix), the method they follow goes one step beyond, comparing the spending-per-beneficiary indicators (for fewer welfare functions) with national GDP per capita, so as to come to figures comparable across country. In order to avoid the noise introduced by GDP measures in times of recession (i.e. GDP per capita as denominator in their case), across-country comparability is achieved here by relying on volumes expressed in PPS.

$$\text{BWE} = \frac{\text{Euros spent on a given welfare function}}{\text{target population of that given function}} \times 100$$

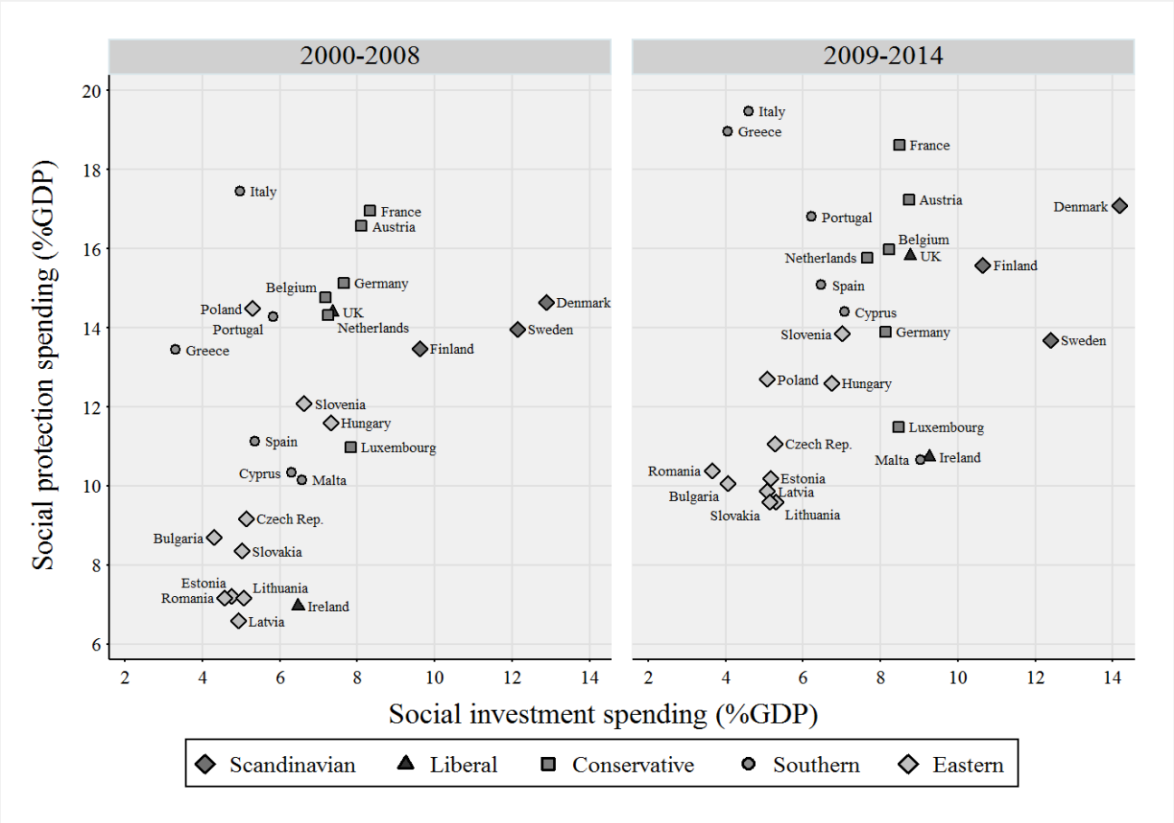
That so tells us how many euros (in PPS) a country spends on average per each potential beneficiary of a given welfare function. The welfare functions included in the SIWE dataset are divided by phases of the life course, as are the BWE indicators (see Table 2). The target populations used in the process thus refer to the corresponding phase of the life course: they are reported in Appendix 1 (Table A1.2).

Two composite indices for the two crucial welfare state dimensions (SP and SI) are finally computed by taking the standardized mean scores of the indicators for the respective welfare functions (see Table 2 for the allocation of functions over the two analytical dimensions). The mean and standard deviation used for the standardisation are obtained from the full sample, pooling all country-years. This allows for a fine-grained examination of welfare recalibration 'on the move'.

3.4. Welfare States in Motion: Tracking the Trajectories of Budgetary Welfare Recalibration Empirically

In the previous section we have drawn the skeleton of social investment along two dimensions: SP and SI. Which of the two has carried the day through the crisis? At a very general level, there seem to be no doubts in answering this question. Figure 1 shows the positioning of EU member states at the crossroads between the two dimensions, comparing the expenditure over the GDP before and after the crisis. With very few exceptions, welfare expenditure (as percentage of the GDP) increased in all countries in response to the economic downturn, and SP spending raised much more than SI spending (countries' upward shift in Figure 3.1 is more marked than that towards right). Both before and after the crisis, SI and SP seem to be positively correlated, though the dispersion among the 'big spenders' (in the top-right edge) increased in the latter period. That is to say, most generous welfare states also tend to be the most social investment-oriented, with Nordic countries taking the lead.

Figure 3.1. Social protection and social investment spending before and after the crisis (%GDP)



The expansion of welfare expenditure after the crisis comes as no surprise. Especially in the case of SP functions such as unemployment compensation, this reflects a natural countercyclical response to the increase of unemployment.[58] As expected, the contraction of the economy and the worsening of social conditions translated into a general increase in public spending.

The exploratory observations based on spending-over-GDP figures pave the way for a more in-depth analysis of the BWE indicators, which give an idea of the effective effort put by welfare states into the crucial functions net of the interference of exogenous factors (business cycle downturns, the population structure, and the increase

[58] The specific dynamics of the working-age function (a level of disaggregation which is not shown in the figure) indeed explains a large part of the increase of SP spending apparent in Figure 1. Scandinavian countries, in which the share taken by working-age benefits over the total spending was by far the largest prior to the crisis, such spending tended to decrease; on the contrary, in those countries where working-age benefits took a smaller part of welfare budgets (typically the liberal UK and Ireland) this gave much more room for the massive increases observed in Figure 3.1 (see in particular Ireland).

of social needs). We first compare the average levels of BWE indicators for each welfare function before and after the crisis. Table 3 shows the standardized scores for the pre-crisis years (average 2000-2008) and the absolute change from this starting time-span registered in the post-crisis years (average 2009-2014). All eight selected welfare functions are shown, in turn grouped in the two synthetic indices for SP and SI (mean scores of the corresponding functions). Context factors are also reported: the average annual real GDP growth and unemployment rate for the two periods examined.[59]

The efficacy of using BWE to 'deflate' welfare spending from intervening factors such as increased unemployment becomes apparent when one looks at the dynamics of the SP—working-age function. The very high increases noted in Figure 3.1 are now scaled down, and in some cases even reversed. By contrast, in almost all countries the level of BWE on SI functions (especially for childcare services plus parental leaves) increased. It is worth noting that not all the changes in the functions included in either SP or SI display the same sign of the respective composite index. In some cases, these divergent sub-trends get lost in the composite SI-SP indices. This is most often the case for the SP working-age functions. Namely, it seems that over the period studied passive labour market policies (PLMP) in particular were more prone to cost containment or even retrenchment relative to other welfare state functions.

The general trends of SI and SP (composite indices) from Table 3.3 are summarized in Figure 3.2, which plots member states by crossing SI and SP scores. The markers indicate the average pre-crisis BWE scores (2000-2008), and the arrows indicate the change from the pre-crisis to the post-crisis average (2009-2014).

[59] With regards to context factors, it is important to recall that most EU countries experienced a double-dip recession, with GDP going negative first 2009 and then again in 2012. Throughout the sample post-crisis unemployment raised relative to the pre-crisis average, with the exceptions of Germany, Finland, Luxembourg and some of the new Eastern member states.

Table 3.3. Change in budgetary welfare efforts (BWE) from before (2000-08) to after (2009-14) the crisis, standardized scores. (1/3)

	Austria		Belgium		Bulgaria		Cyprus		Czech Rep.		Germany		Denmark		Estonia		Greece	
	00-08	***09-14***	*00-08*	***09-14***	*00-08*	***09-14***	*00-08*	***09-14***	*00-08*	***09-14***	*00-08*	***09-14***	*00-08*	***09-14***	*00-08*	***09-14***	*00-08*	***09-14***
GDP growth	2.3%	**0.4%**	2.1%	**0.6%**	5.9%	**-0.3%**	4.1%	**-1.8%**	4.3%	**0.2%**	1.6%	**0.8%**	1.6%	**0.2%**	6.5%	**0.6%**	3.6%	**-4.8%**
Unempl. rate	4.7%	**5.1%**	7.7%	**8.0%**	12.4%	**10.9%**	4.3%	**10.6%**	7.2%	**6.8%**	9.1%	**6.0%**	4.5%	**7.0%**	9.2%	**11.4%**	9.7%	**19.8%**
	SD	Δ	*SD*	Δ	*SD*	Δ	*SD*	Δ	*SD*	Δ	*SD*	Δ	*SD*	Δ	*SD*	Δ	*SD*	Δ
Social protection	1.2	**-0.0**	0.3	**+0.1**	-1.1	**+0.2**	-0.1	**+0.1**	-0.5	**+0.1**	0.5	**+0.1**	0.6	**-0.2**	-0.9	**+0.2**	-0.5	**+0.1**
work. age	0.7	**-0.1**	0.3	**+0.0**	-0.9	**+0.0**	-0.1	**-0.3**	-0.6	**+0.0**	-0.3	**+0.2**	1.5	**-0.8**	-0.8	**+0.1**	-0.7	**-0.1**
children	1.6	**-0.1**	0.3	**+0.0**	-0.9	**+0.2**	-0.3	**+0.0**	-0.1	**+0.1**	1.3	**+0.2**	-0.0	**+0.1**	-0.5	**+0.2**	-0.6	**+0.1**
old age	1.5	**+0.1**	0.4	**+0.2**	-1.6	**+0.2**	-0.1	**+0.6**	-0.7	**+0.3**	0.6	**-0.2**	0.4	**+0.2**	-1.4	**+0.3**	-0.2	**+0.3**
Social investment	0.4	**+0.5**	-0.1	**+0.2**	-1.0	**+0.2**	-0.6	**+0.2**	-0.6	**+0.1**	0.2	**+0.5**	1.7	**+0.1**	-0.8	**+0.2**	-0.8	**+0.1**
work. age	0.2	**+0.3**	0.0	**+0.0**	-0.8	**-0.0**	-0.7	**-0.0**	-0.7	**+0.0**	0.1	**+0.3**	2.1	**-0.7**	-0.8	**+0.1**	-0.8	**-0.0**
children	0.1	**+0.6**	-0.3	**+0.0**	-0.8	**+0.4**	-0.7	**+0.0**	-0.7	**-0.1**	0.7	**+0.9**	2.5	**+0.5**	-0.9	**-0.0**	-0.9	**-0.1**
old age	-0.1	**+0.2**	-0.5	**+0.2**	-0.7	**+0.0**	-0.6	**-0.0**	-0.3	**-0.1**	-0.7	**+0.0**	2.1	**+0.2**	-0.6	**-0.0**	-0.7	**-0.0**
education	0.5	**+0.3**	0.5	**+0.4**	-1.5	**+0.3**	-0.1	**+0.5**	-0.9	**+0.3**	0.0	**+0.6**	1.1	**+0.0**	-0.9	**+0.4**	-0.8	**+0.2**
R&D	1.2	**+1.0**	-0.1	**+0.5**	-1.3	**+0.0**	-1.0	**+0.2**	-0.3	**+0.4**	0.8	**+0.6**	0.6	**+0.6**	-0.8	**+0.7**	-0.8	**+0.1**

Table 3.3. Change in budgetary welfare efforts (BWE) from before (2000-08) to after (2009-14) the crisis, standardized scores. (2/3)

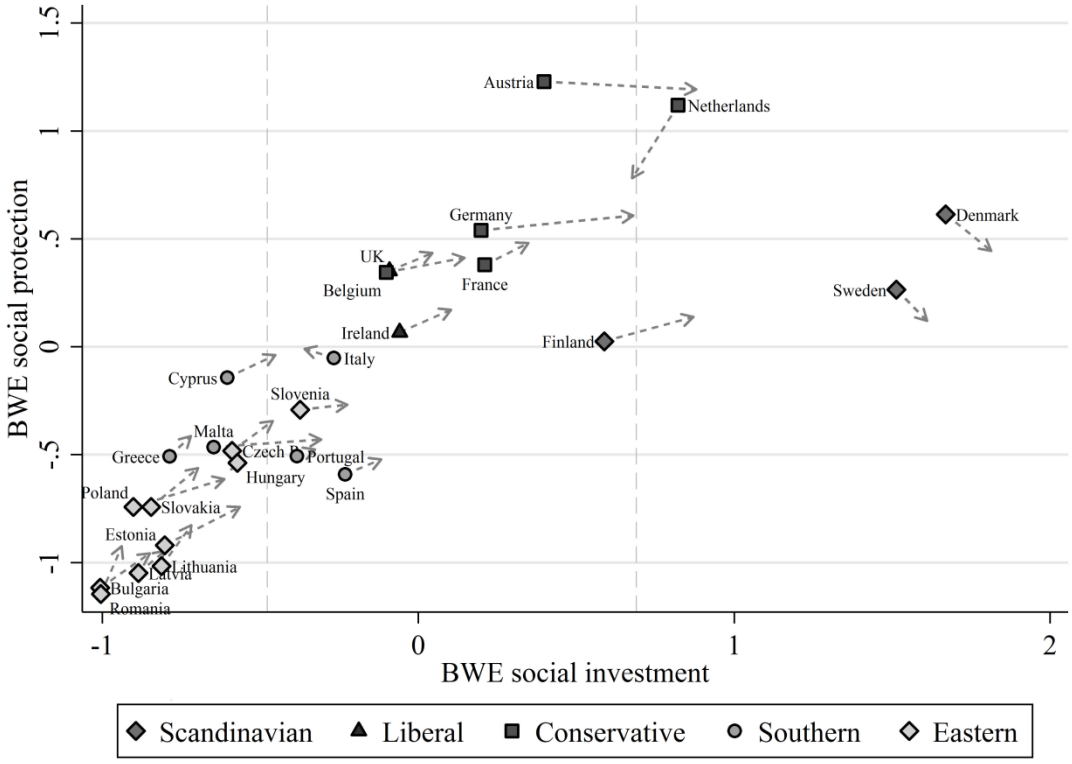
	Spain		Finland		France		Hungary		Ireland		Italy		Lithuania		Luxembourg		Latvia	
	00-08	***09-14***	*00-08*	***09-14***	*00-08*	***09-14***	*00-08*	***09-14***	*00-08*	***09-14***	*00-08*	***09-14***	*00-08*	***09-14***	*00-08*	***09-14***	*00-08*	***09-14***
GDP growth	3.5%	**-1.3%**	3.2%	**-0.9%**	1.9%	**0.4%**	3.4%	**0.1%**	4.8%	**1.0%**	1.2%	**-1.3%**	7.0%	**0.6%**	3.9%	**2.0%**	7.2%	**-0.5%**
Unempl. rate	10.4%	**22.4%**	8.4%	**8.2%**	8.3%	**9.7%**	6.6%	**10.2%**	4.6%	**13.3%**	7.9%	**10.0%**	10.6%	**13.8%**	3.8%	**5.3%**	10.5%	**15.1%**
	SD	Δ	*SD*	Δ	*SD*	Δ	*SD*	Δ	*SD*	Δ	*SD*	Δ	*SD*	Δ	*SD*	Δ	*SD*	Δ
Social protection	-0.6	**+0.1**	0.0	**+0.1**	0.4	**+0.1**	-0.5	**+0.0**	0.1	**+0.1**	-0.1	**+0.0**	-1.0	**+0.2**	2.9	**+0.2**	-1.0	**+0.1**
work. age	-0.5	**-0.2**	0.1	**+0.1**	0.1	**-0.0**	-0.5	**-0.3**	0.1	**-0.4**	-0.5	**+0.1**	-0.8	**+0.0**	2.6	**-1.2**	-0.9	**-0.0**
children	-0.9	**+0.1**	0.1	**-0.0**	0.1	**-0.1**	-0.2	**+0.1**	0.5	**+0.2**	-0.5	**+0.1**	-0.8	**+0.3**	3.6	**+0.9**	-0.8	**+0.0**
old age	-0.4	**+0.3**	-0.1	**+0.3**	0.9	**+0.4**	-1.0	**+0.2**	-0.4	**+0.5**	0.8	**-0.1**	-1.4	**+0.2**	2.3	**+1.0**	-1.5	**+0.3**
Social investment	-0.2	**+0.1**	0.6	**+0.3**	0.2	**+0.1**	-0.6	**+0.0**	-0.1	**+0.2**	-0.3	**-0.1**	-0.8	**+0.1**	1.1	**+0.7**	-0.9	**+0.1**
work. age	-0.5	**-0.2**	0.1	**+0.3**	0.1	**+0.0**	-0.6	**-0.0**	0.2	**-0.7**	-0.5	**-0.2**	-0.7	**-0.0**	2.7	**-0.2**	-0.8	**-0.0**
children	0.2	**+0.1**	1.2	**+0.5**	-0.1	**+0.4**	-0.3	**+0.0**	-0.6	**+0.1**	-0.6	**+0.1**	-0.6	**+0.1**	0.7	**+1.0**	-0.8	**+0.0**
old age	-0.3	**+0.2**	0.5	**+0.2**	-0.2	**+0.1**	-0.3	**+0.0**	0.1	**+0.3**	-0.6	**+0.0**	-0.6	**+0.0**	-0.7	**-0.0**	-0.6	**+0.1**
education	-0.3	**+0.1**	0.2	**+0.3**	0.1	**+0.1**	-1.0	**+0.0**	0.2	**+0.8**	0.3	**-0.3**	-1.2	**+0.3**	2.6	**+0.2**	-1.1	**+0.3**
R&D	-0.3	**+0.3**	1.0	**+0.2**	1.0	**+0.1**	-0.8	**+0.0**	-0.2	**+0.3**	0.0	**-0.1**	-0.9	**+0.1**	-0.1	**+2.3**	-1.2	**-0.0**

Table 3.3. Change in budgetary welfare efforts (BWE) from before (2000-08) to after (2009-14) the crisis, standardized scores. (3/3)

	Malta		Netherlands		Poland		Portugal		Romania		Sweden		Slovenia		Slovakia		UK	
	00-08	***09-14***	*00-08*	***09-14***	*00-08*	***09-14***	*00-08*	***09-14***	*00-08*	***09-14***	*00-08*	***09-14***	*00-08*	***09-14***	*00-08*	***09-14***	*00-08*	***09-14***
GDP growth	2.4%	**3.0%**	2.2%	**-0.1%**	4.2%	**3.0%**	1.4%	**-1.2%**	6.1%	**0.1%**	2.8%	**1.2%**	4.2%	**-1.1%**	5.7%	**1.4%**	2.5%	**0.9%**
Unempl. rate	7.0%	**6.4%**	4.4%	**5.8%**	15.8%	**9.5%**	7.5%	**13.6%**	7.3%	**6.9%**	6.5%	**8.1%**	6.0%	**8.4%**	16.%0	**13.6%**	5.1%	**7.5%**
	SD	Δ	*SD*	Δ	*SD*	Δ	*SD*	Δ	*SD*	Δ	*SD*	Δ	*SD*	Δ	*SD*	Δ	*SD*	Δ
Social protection	-0.5	**+0.0**	1.0	**-0.3**	-0.7	**+0.1**	-0.5	**+0.0**	-1.1	**+0.2**	0.3	**-0.1**	-0.3	**+0.0**	-0.7	**+0.2**	0.4	**+0.1**
work. age	-0.5	**-0.1**	2.8	**-1.3**	-0.8	**+0.0**	-0.2	**-0.4**	-0.8	**+0.1**	0.6	**-0.6**	-0.5	**-0.1**	-0.8	**+0.0**	0.6	**-0.5**
children	-0.5	**+0.1**	-0.6	**+0.1**	-0.9	**+0.0**	-0.8	**+0.2**	-1.0	**+0.2**	0.2	**-0.1**	-0.2	**+0.0**	-0.5	**+0.2**	0.1	**+0.5**
old age	-0.4	**+0.1**	1.2	**+0.1**	-0.6	**+0.3**	-0.5	**+0.3**	-1.6	**+0.4**	0.1	**+0.3**	-0.2	**+0.1**	-0.9	**+0.3**	0.4	**+0.2**
Social investment	-0.6	**+0.3**	0.8	**-0.1**	-0.9	**+0.3**	-0.4	**+0.1**	-1.0	**+0.1**	1.5	**+0.1**	-0.4	**+0.1**	-0.8	**+0.1**	-0.1	**+0.1**
work. age	-0.6	**-0.0**	1.9	**-1.2**	-0.8	**+0.1**	-0.4	**-0.2**	-0.8	**-0.0**	1.6	**-0.3**	-0.6	**+0.0**	-0.8	**+0.0**	-0.1	**-0.2**
children	-0.8	**+0.1**	0.0	**-0.1**	-0.9	**+0.6**	-0.3	**-0.1**	-0.6	**+0.0**	1.5	**+0.4**	-0.1	**-0.1**	-0.8	**+0.0**	-0.4	**+0.4**
old age	-0.0	**+0.1**	0.7	**+0.2**	-0.6	**+0.0**	-0.3	**-0.0**	-0.7	**+0.0**	2.4	**-0.1**	-0.6	**+0.1**	-0.2	**+0.0**	-0.0	**-0.1**
education	-0.6	**+1.2**	0.4	**+0.5**	-1.2	**+0.4**	-0.3	**+0.2**	-1.7	**+0.2**	0.8	**+0.2**	-0.2	**+0.3**	-1.3	**+0.5**	0.1	**+0.5**
R&D	-1.2	**+0.2**	1.1	**-0.0**	-1.0	**+0.3**	-0.5	**+0.4**	-1.3	**+0.1**	1.3	**+0.4**	-0.4	**+0.5**	-1.1	**+0.2**	-0.0	**+0.0**

Note: The first two rows report contextual factors: annual real GDP growth and unemployment rates (mean for before and after the crisis). The other rows concerns Budgetary Welfare Efforts (BWE): BWE scores for Social protection and Social investment in the column 00-08 (pre-crisis period) are the mean of the standardized scores (*SD*) in the respective constituent welfare functions. 09-14 columns report absolute change (Δ) from the pre-crisis starting levels. All rounded to first decimal.
Source: SIWE dataset (see Appendix 1).

Figure 3.2. Budgetary welfare effort in motion: pre-crisis levels (dots) and directions of change (arrows)



Let us first look at the pre-crisis levels. As observed above with spending-over-GDP data, EU countries seem to align with a positive linear correlation: more generous welfare states which score higher on SP also score higher on SI. The dashed vertical lines mark the limits of three clusters obtained through a simple hierarchical cluster analysis conducted on the single BWE-SI variable for the pre-crisis averages. [60] Although welfare regimes 'still feature differing spending profiles with respect to both the relation of social investment and social [protection] measures' (Kuitto, 2016: 452), they appear to be a bit blurred here. The blurring is in line with previous research, which pointed out that—since the mid-2000s— 'traditional regime analysis no longer represents a valid framework for contemporary analysis' (Nikolai, 2012: 110). This depends on the different perspective from which we look at the welfare state. While Esping-Andersen's (1990) traditional clusters were based on the *generosity* of social

[60] The SI clusters delimited by the dashed lines in Figure 2 are based on hierarchical cluster analysis (Ward's linkage method): see Table A1.3 in Appendix 1 for clusters' descriptive statistics.

insurance programmes, the expenditure-based approach loses some information on the institutional characteristics of cash benefits, but adds variation along another dimension which has become increasingly relevant: that of SI, which does not always perfectly match the welfare generosity profile.

Denmark and Sweden stand out as champions of SI. The other social-democratic country—Finland—falls closer to the conservative block. By contrast, the Netherlands places itself in the high-SI cluster, although with higher SP scores. Austria follows the Netherlands very closely. A scattered picture emerges in the middle part of the plot, where liberal and the remaining conservative welfare states are mixed, followed soon after by the bigger Southern welfare states (Italy, Spain and Portugal) and Slovenia. The bottom-left part of the plot includes the rest of the SI laggards: the remaining Southern countries and the new Eastern member states, the latter with the lowest scores on both dimensions.

The arrows in Figure 3.2 show the direction of change: the shift from the pre- to the post-crisis average scores. Almost all arrows point towards an expansion of the BWE, especially in the direction of SI. However, starting levels seem to matter. With the exception of Italy, Southern and Eastern laggards seem to be undergoing a (moderate) catch-up process on both SI and SP. The more spectacular catch-ups are nevertheless found among those welfare states which already fell closer to the SI champions. Austria, Germany and Finland have reduced the gap in the SI score with Denmark and Sweden. By contrast, the Netherlands seems to have gone against the tide, retrenching 'from above', that is to say, from comparatively high levels of both SI and SP.

Figure 3.3(a) takes stock of the changes, and plots the countries according to their trajectories of recalibration, i.e., the difference between average post- and pre-crisis BWE scores. This allows a direct match of member states with the scenarios presented in Table 3.1. Over the whole period examined (2000-2014), almost all member states successfully increased their BWE put into SI in spite of recently having had to cope with the crisis (the bulk of countries are placed right of the y-axis). Most countries place themselves in the 'high road' scenario (1), having increased BWE on both welfare dimensions (although to different degrees). Countries like Germany, Malta, Belgium, Finland, Poland and Slovenia seem to have followed an 'ideal' path to SI, having increased the BWE put into SI more than that for SP. On the other hand, at the top-left

corner of the same quadrant, the bulk of laggard countries, especially Lithuania and Romania, seem to be leaning towards a more 'Keynesianism through the back door' variant of SI. Although starting from comparatively very low levels (Table 3.3), they expanded SP more than SI. The second scenario includes countries in which gains in the budgetary effort put into SI have been achieved to the detriment of SP—the 'resource competition scenario' (2). Here, the progress of SI seems to have partly crowded out SP only in the cases of Sweden, Denmark and—to a lesser extent—Austria. However, it has to be noted that all countries that reduced their budgetary effort in SP (those below the x-axis) did so starting from comparatively high levels. In a way, they seem to have reached a sort of upper bound for SP. Despite the direction taken, their welfare states are still among the most generous in terms of SP. Alone in the scenario of 'reversed resource competition' (3), Italy behaved the other way around, increasing its effort into SP while reducing its effort into SI. Indeed, the literature refers to Italy as the exception in the European SI framework, with a welfare legacy biased towards SP, and no progress made in SI during the Lisbon years (Hemerijck, 2013: 264; León and Pavolini, 2014; Ronchi and Vesan, 2018). The Netherlands stands out in the 'social retrenchment' scenario (4). By and large, this reflects previous considerations of the retrenchment component which has characterised Dutch welfare reforms both over the long run (Van Oorschot, 2006), and in more recent times (Van Kersbergen et al., 2014). Once again, starting levels matter: the Netherlands remains in any case one of the most generous and SI-oriented welfare states.

In the light of the austerity turn that followed the Euro crisis, the positive picture which emerges when comparing average pre-crisis to post-crisis levels can however be overly optimistic. The catch-up process that many member states undertook during the Lisbon years could have slowed down after the crisis, and budgetary trade-offs worsened: an aspect that we cannot grasp from Figure 2a. To unveil the crisis aftershocks, we have to narrow the focus to the post-crisis period only. This is done in Figure 3.3b, that places member states into the four scenarios, but this time on the base of changes in BWE in the post-crisis period only, from 2009 to 2014.[61]

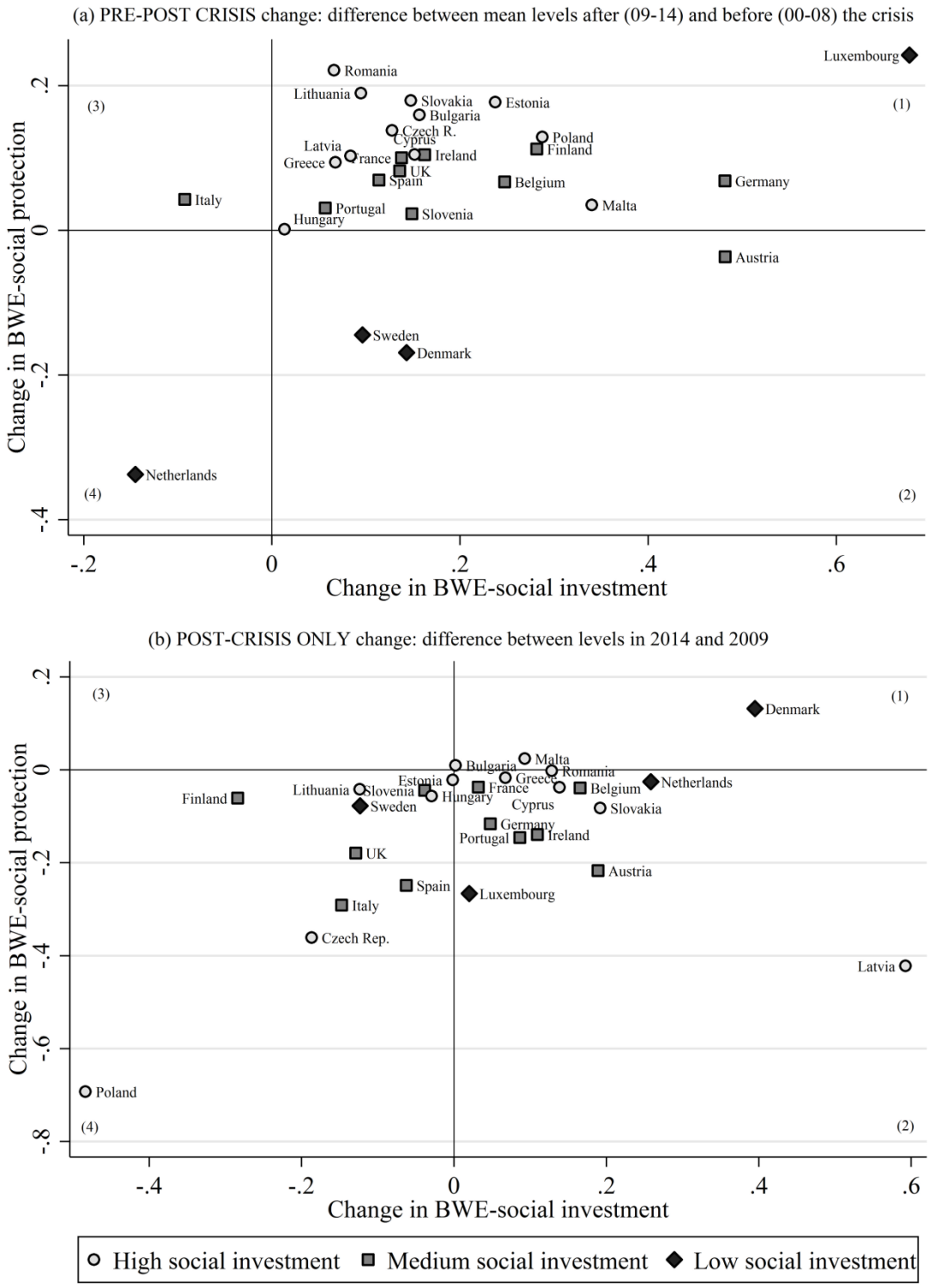
After 2009, the growth in BWE on both SP and SI came to a halt, and even reversed

[61] Figure A1.1 in Appendix 1 shows the detailed country-trajectories: annual trends 2000-2014 for each country included in the analysis.

in some countries. With the exception of Denmark, all countries slipped towards the scenarios of resource competition (2) and social retrenchment (4). While in the Lisbon years only the most generous welfare states reduced their effort in the SP dimension (Figure 3.3a), retrenching SP became the rule after the crisis, regardless of starting levels. To some extent, this comes as no surprise. Even though they are protected by vested interests which make their retrenchment politically difficult (Streeck and Mertens, 2011), SP programmes take the largest share of public budgets. As such, they became the primary target for reducing the deficits that exploded during the financial crisis. Especially in the crisis-ridden peripheries of the EU, budget constraints became tighter after the crisis, and the opportunity-cost for retrenching even long-established social protection benefits decreased (think for example of pension reforms: [Natali, 2018]). As evident in Figure 3.3b, austerity not only made it harder to invest in new policies; it also directly hit established SP programmes (Busch et al., 2013; Armingeon, 2013; Petmesidou and Guillén, 2014; Natali and Vanhercke, 2015; Pavolini et al., 2015).

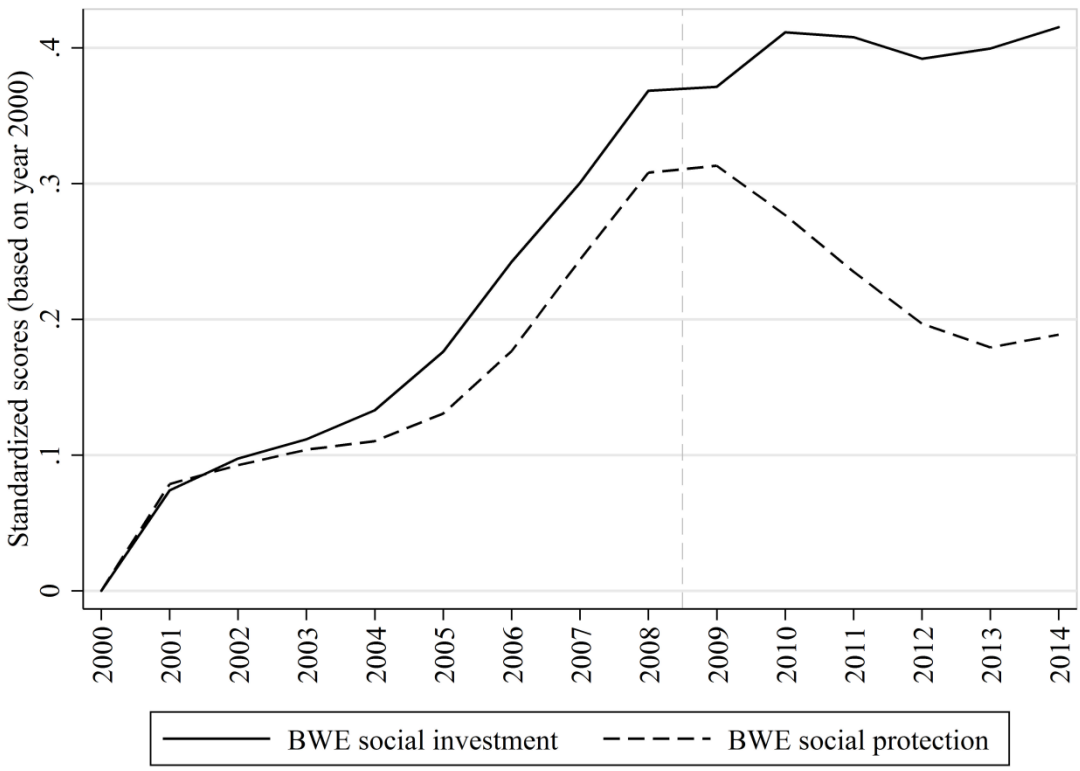
The most worrying signal for the SI strategy is the presence of eleven countries in the bottom-left quadrant of Figure 3.3b; eleven countries in which the effort on both SP *and* SI was rolled back. In the crisis aftermath, social retrenchment rather than investment became an option. Where governments continued instead to expand their BWE on SI, budgetary trade-offs became unavoidable (the case of the 12 countries in the bottom-right quadrant of Figure 3.3b). In the post-crisis context of harsher fiscal consolidation, mild expansions of (less costly) SI programmes had to happen to the detriment of the SP programmes, which resulted in reduced budgetary effort. Against this backdrop, it seems reasonable to raise doubts on the fiscal viability of SI for crisis-ridden countries, insofar as harsh fiscal consolidation does not leave the budgetary space for further progress of social investments. If at all, SI expansion seems to occur only when SP is rolled back to make space in a context of scarcer resources.

Figure 3.3. EU countries placed into the four scenarios. Based on: (a) the change from the Lisbon years to the crisis aftermath; (b) the post-crisis change only



The worries concerning resource competition are confirmed by Figure 3.4, which shows the average BWE trends of SI and SP for the whole EU-27. The standardized composite indices have been rebased on the year 2000 (i.e., the mean and standard deviation for the standardization are now those of 2000, fixed, so as to track the EU-average over-time trends). This clearly shows that, while SP kept pace with the budgetary expansion of SI up to the outbreak of the crisis, the picture drastically changed after 2009. On average, the progress of SI slowed down considerably, almost stagnating. Meanwhile, that of SP plummeted: the (average) gap between the two welfare dimensions increased, reflecting the resource competition pattern that materialised in many countries faced with the economic crisis and austerity.

Figure 3.4 Average trends of Budgetary Welfare Efforts on SI and SP for the EU-27 (2000 = 0)



3.5. Conclusions

According to growing academic advocacy, the social investment strategy should serve to overcome the fiscal pressures put by the crisis on European welfare states, reconciling today's economic and social priorities (Vandenbroucke et al., 2011). However, not all European welfare states are situated at the same starting position. Notably, while Scandinavian countries fall close to the ideal type of the social investment welfare state, other member states (especially Southern and Eastern) lag behind with respect to many dimensions. The Great Recession has come to threaten the fiscal viability of social investment: after the Euro crisis unleashed, austerity carried the day, further constraining social budgets. Based on the SIWE data, and on a fine-grained measure of needs-adjusted budgetary effort, this chapter has assessed the trajectories taken by the recalibration of EU welfare states from the launch of the Lisbon Strategy to the aftermath of the crisis (2000-2014).

The results show that, overall, the bulk of member states expanded the social investment dimension of their welfare states over the 15 years studied. However, the crisis put the brakes on the progress that SI had made during the Lisbon years in countries' social budgets. This contrasts with the positive pattern highlighted by previous studies, which, however, focused on trends preceding the aftershocks of the Euro crisis (Vandenbroucke and Vleminckx, 2011; Hemerijck, 2013; Kuitto, 2016). On the other hand, the results that emerge in this chapter are in line with the conclusions reached by recent qualitative policy analyses on social investment and welfare reforms in the EU (Petmesidou and Guillén, 2014; Bouget et al., 2015; Natali and Vanhercke, 2015). Still, as testified by the position of most EU countries in the 'high road to SI' scenario in Figure 3.3a, in the great majority of member states the budgetary progress made since the outset of the Lisbon Strategy has not been jeopardised, at least up to 2014. That is, the crisis has brought a widespread slowdown of the budgetary progress of SI, but not (yet) a U-turn. Whether this is just a temporary shock or the start of a 'real' age of retrenchment (Pierson, 2011) remains to be seen. To date, it seems at least reasonable to raise doubts about the budgetary viability of what we called 'the high road to social investment' for crisis-ridden countries.[62]

[62] The further tightening of the EMU governance after the crisis has certainly played a key role in squeezing the fiscal space available for SI (Costamagna, 2014). However, it should be noted that some

Another issue arises with regards to the budgetary trade-offs between the two fundamental dimensions of the social investment welfare state. Contrary to what seemed to be the case before the crisis (Vandenbroucke and Vleminckx, 2011), in the crisis aftershocks protection- and investment-oriented social policies have entered a competition over the scarcer resources available for welfare recalibration: to wit, 'resource competition' has become a matter of concern. Those countries which expanded SI after the crisis outbreak did so to the detriment of SP, which had to be rolled back to allow fiscal space for the former. This may lead to less socially fair policy outcomes.

There is a urgent question regarding whether, in a context of budgetary disinvestment, social investment could flourish anyway, and reap the wished-for fruits in terms of both economic (fostering employment) *and* social outcomes (social fairness). This depends not only upon a successful fiscal recalibration of welfare states towards social investment in a context of shrinking expenditure; it is primarily conditional on a more efficient use of the (scarcer) budgetary resources deployed. Moreover, it depends on how different social policies interact to bring about (un)intended outcomes. The sole look at the fiscal 'input' side of welfare states is not sufficient to assess which road the European Social Model is taking today. The trajectories of budgetary welfare recalibration mapped in this chapter hint at a reshaping of social policy mixes that, within diverse socioeconomic contexts, may or may not lead to the outcomes wished for by the advocates of the social investment strategy. The next chapters will turn the attention towards the outcome-side of welfare state change.

As a matter of fact, especially for those countries which lag behind on both dimensions of social protection and investment and are now faced with austerity, the challenges of reconciling social equity and economic efficiency (through boosting employment) sound serious indeed. Based on the considerable 'social imbalances' which exist across very different EU welfare states (Vandenbroucke, Diris, et al., 2013),

efforts to temper this rigidity have put forward. The Commission's Communication 'Strengthening the social dimension of the EMU' (also known as 'Social Compact') (2013c) proposed five key indicators to prevent social imbalances in the EMU, which should be placed side by side macro-economic imbalances. These social complements of the fiscal consolidation priorities come however with no binding sanction mechanism, playing a *de facto* marginal role (De la Porte and Heins, 2015). In the words of Hemerijck (2017: 17), the European Commission has taken a 'schizophrenic posture' as the 'social investment cheerleader' on the one hand, and the 'fiscal austerity headmaster' on the other, with the latter arguably prevailing.

we cannot exclude that, other factors staying the same, better-off countries which can afford a 'high road' of recalibration will continue to show good socioeconomic performance, bolstered by a rich mix of both social investment and protection policies. By contrast, despite some tentative progress towards catching up prior to the crisis, those countries which were starting from behind in terms of imbalanced welfare legacies will stop or even reverse this trend, having no fiscal leeway with which to invest in new or more efficient social policies at a moment of their particular need.

4

Glass Half Empty, Glass Half Full? Individual-Level Employment Outcomes of Social Investment Across EU Welfare States

Not all European welfare states provide a good foundation for social investment to thrive. As we saw in Chapter 3, despite the momentum for reform provided by the Lisbon strategy, the progress of social investment happened to different degrees and along different trajectories across the EU. The gap between the (Nordic) 'champions' of social investment and the laggard countries in the Southern and Eastern peripheries remains wide. Moreover, the economic crisis and austerity further tightened the budgetary space available for welfare recalibration, putting different social policies in competition over scarcer fiscal resources. Especially in countries hit harder by the crisis—which are, needless to say, also those with the most imbalanced welfare state legacies—social retrenchment rather than investment became the rule.[63] Against the backdrop of widely diverse welfare state arrangements, social fabrics and austerity pressures, public investments in new social programmes may lead to different outcomes in different national contexts, if pursued at all.

This chapter starts to link the recent country-level policy developments with their outcomes at the individual level of European citizens. The prime objective of the social investment strategy is to support high employment levels through enabling and enhancing people' labour market participation. Indeed, despite some disappointing results on the side of social objectives, the bulk of member states saw employment rates

[63] In addition to the analysis of budgetary welfare recalibration provided in Chapter 3, a wealth of in-depth case studies of post-crisis welfare reforms came to the same conclusion: see for example Bouget et al. (2015), Natali and Vanhercke (2015), Vaughan-Whitehead (2015), Theodoropoulou (2018, on labour market policies).

rise during the years of the Lisbon Strategy, which was inspired by the social investment blueprint (Social Protection Committee, 2009; Cantillon, 2011; Hemerijck, 2013). The micro-level mechanisms which underlie such positive trends remain largely to be investigated. Before considering social outcomes in the next chapter, in this chapter we focus on the individual-level employment potential of social investment. Did the efforts put by governments into social investment-oriented policies effectively help citizens to stay (or get) into employment? Did social investment help cushion the employment shock of the crisis? And did the employment outcomes of social investment change depending on the different policy mix found across EU welfare states?

At least two substantive issues arise in trying to answer these questions. The first concerns the channel through which the employment returns of social investment are expected to come about. Different employment records can be due to established institutional differences between countries. Aggregate evidence has in fact shown that more generous and social investment-oriented welfare states exhibit better performance not only in terms of social inclusion, but also in terms of employment (Huo et al., 2008; Hemerijck, 2013; Ahn and Kim, 2015; Hemerijck and Huguenot-Noël, forthcoming). On the other hand, social investment returns could be (also) observable 'within countries'. This would be the case if enhanced policy efforts effectively matched with improved outcomes over time. Although it is less studied in the literature, the latter case would entail especially good news for the advocates of the social investment strategy. Better individual employment chances would in fact not only be due to established differences between welfare states, but also to policy developments within the same country. As a consequence, the prospect of a catching-up process would be more realistic for member states with less social investment-oriented welfare arrangements. The second issue regards the multidimensional nature of the concept of 'social investment'. Social investment includes a variegated bundle of policies, which often have different targets in terms of social risk prevention. For example, although both policies share employment-friendly objectives, childcare and activation services do not necessarily address the same persons. Moreover, the outcomes of social oriented-investment policies are bound to the policy mix in which they are introduced: it is their interplay with existing social protection programmes which may or may not ultimately

favour citizens' employment perspectives.

We seek to tackle these substantive issues empirically by relying on micro data from the longitudinal version of the EU Statistics on Income and Living Conditions (EU-SILC). By means of multilevel modelling, the chapter analyzes the micro-level outcomes of country-level policy efforts across 27 European welfare states and over the period 2004-2013, while taking into account a number of individual and household characteristics. Since it cuts across the crisis years, the time span covered also allows an assessment of whether the social investment-orientation of welfare states helped to buffer the disruptive impact of the crisis on individual employment chances.

The empirical results reveal a picture of a 'glass half full', or 'half-empty', depending on the analytical perspective. Countries which put more effort into social investment policies indeed show better individual-level employment outcomes—the glass half full. By the same token, the social investment-orientation of welfare states proves able to mitigate the crisis-employment shock as well as potential employment disincentives from social protection schemes. However, the glass seems half empty when looking at the effects of social investment efforts over time, which are not empirically discernible in the short-to-medium term perspective taken in this chapter. Therefore, the prospects of a catch-up on the side of SI-laggards appear poor.

The next section develops theoretical expectations regarding the outcomes of social investment on citizens' employment. Following, I briefly introduce the data and the variables, which are explained in-depth in Appendix 1 (country-level policy variables from the Social Investment Welfare Expenditure dataset—SIWE) and Appendix 2 (micro-level variables from the EU-SILC). A separate section describes the multilevel regression modelling method applied. Section 4.4 presents the results, going from simpler analysis on the direct effect of social investment, to more complex over-time and conditional effects. The final section discusses the findings and integrates them into a single picture. In the next chapter, we will add detail to this picture by turning from the employment-related outcomes of social investment to their implications in terms of social (un)fairness.

4.1. Theoretical Expectations on the Micro-Level Employment Outcomes of Social Investment

To recall Chapter 2, the social investment strategy tips the balance of welfare provision from 'curative' to preventative social policy. That is, from out-of-work protection (i.e. cash transfers to those already in need) to employment-centred, service-oriented 'social investments' whose aim is to support labour market participation. On the one hand, quality childcare, education and training for young people serve to enhance human capital and lay the basis for the efficiency of tomorrow's labour markets. On the other, care services and—even more directly—active labour market policies help people to stay or get (back) into work, thus fostering labour market participation in the here-and-now. A recalibration which emphasizes social investments without sacrificing the social protection-dimension is seen as the key for making welfare states meet not only new social needs, but also today's economic imperatives (see Section 2.4.1).

The aim of this chapter is to assess how well social investment has fared in respect to its most immediate economic objective. That is to say, whether, despite the crisis shock, there are empirically observable 'returns' on social investments in terms of improved citizens' employment prospects. Analytically, such returns can manifest in three different ways: higher individual employment likelihood can be due to (1) cross-country differences in the overall social investment-orientation of welfare states—do more social investment-oriented welfare states perform better? Alternatively, it could be (also) due to (2) over-time developments in policy efforts—does increasing social investment within a country pay off in employment terms? Moreover, (3) the employment returns on social investment policies is likely to be conditional on the policy mix found in different welfare states, as investment-oriented measures interact with social protection policies, that, indirectly, can also influence citizens' employment choices and opportunities. For example, it would be rather straight-forward to expect the Swedes to have higher chances to be employed than citizens of other EU countries, given the long-lasting social investment tradition of the Swedish welfare state (point 1 above), which furthermore relies on solid social-protection bases, like encompassing unemployment and family allowances, highly integrated with the provision of work-enhancing services (3). It is, however, a different (and, arguably, less trivial) thing to ask whether the expansion of social investment-oriented interventions over time (2) has

effectively improved the employment prospects of citizens of countries holding more imbalanced welfare legacies. In this regard, we can think of the activation turn pushed forward in Germany by the Hartz reforms, a borderline-workfarist reform package implemented in a typical 'Bismarckian' corporatist system, or of the expansion of care and reconciliation policies under Zapatero government in Spain, in the context of a 'familistic' Southern welfare model.

Drawing on the theoretical perspective of social investment and on previous empirical works, in the following sections I put forward a set of expectations related to both the direct and indirect effects of social investment on individual-level employment outcomes—the economic goal of the new welfare blueprint.

4.1.1. The expected direct effects of social investment on individual employment

The social investment strategy stresses the role of social policy as a productive factor, aimed at boosting economic competitiveness through more and better employment (Hemerijck, 2013; Morel et al., 2012). Aggregate evidence based on country-level employment performance testifies that, indeed, social investment policies are associated with higher employment levels (Huo et al., 2008; Hemerijck, 2013; Ahn and Kim, 2015; Hemerijck et al., 2016), especially in the high-skill end of the labour market (Nelson and Stephens, 2012). All programmes which form the core of social investment (see Chapter 3 and Appendix 1 for the operationalization) are in fact supply-side social policies, typically services, geared at fostering individuals' opportunities to (re-)enter employment. Education and training, as well as R&D, enhance human capital, providing citizens with the skills needed in the labour market.[64] Leave and care policies aim to reconcile work and family life, allowing people—most importantly women—to stay in (or enter) employment also when they have children and/or frail relatives at home (Morgan, 2012; Nieuwenhuis et al., 2012; Britze, 2012; Brilli et al., 2016). Active labour market policies (ALMP) serve to help the unemployed to get back into work, either through upskilling training programmes and job-matching services, or through employment incentives of various types and direct job creation (Bonoli, 2013; Eurostat,

[64] R&D spending also includes public financing of both public and private research entities; thus, it can boost (high-skilled) employment also through direct job creation.

2013a).[65] Therefore, the basic expectation is:

H1: social investment (SI) has a positive impact on the individual likelihood of being employed.

More specifically, the effect of social investment-oriented policies on employment can materialize in two different ways. On the one hand, it can be a matter of enduring differences across countries with diverse welfare state arrangements (*between-country effect*, BE). People living in countries which, in general, put a higher budgetary effort into social investment policies should have a higher probability of being employed. On the other hand, the effect of social investment could also be discernible over time (*within-country effect*, WE). That is to say, annual increases in the budgetary effort put into social investment programmes within a country should match with higher individual likelihood of being employed over time. Since the social investment strategy has been pointed out as a recipe to boost welfare states' employment potential and contribute to future welfare sustainability (European Commission, 2013e; Vandenbroucke et al., 2011), the general expectation H1 can be extended by predicting both positive BE and WE of social investment on the individual likelihood of employment.

4.1.2. Social investment as (employment) shock absorber

Social protection programmes work as a shock absorber during economic downturns. Economists often refer to unemployment benefits and short-time work schemes as 'automatic stabilizers' of the business cycle. When the economy worsens and unemployment rises, they naturally react to dampen the downturn, cushioning the consequences of unemployment by providing those who have lost their jobs with income-support benefits (at the micro level), which in turn prevent aggregate demand from plummeting (at the macro level). The importance of overall social protection in acting as a social buffer (i.e., limiting poverty) is by now acknowledged (e.g. Nolan and Marx, 2009). In particular, social protection has played a crucial role in cushioning the

[65] The Labour Market Policy dataset, used to construct the SIWE dataset, includes employment incentives and direct job-creation programmes as ALMP. This is the case, for example, of employment incentives to hire unemployed persons, direct creation of public jobs for hard-to-employ welfare recipients (e.g. socially useful jobs), sheltered and supported employment and rehabilitation for persons with reduced working capacity, and start-up incentives (that encourage the unemployed or other target groups, such as young people, to start their own business).

social backlashes of the global financial crisis (Sacchi et al., 2011; European Commission, 2013b; Chzhen, 2016). But what about social investment policies?

The employment-enhancing function of social investment could in fact work to prevent, or at least reduce, the employment shock *ex ante*, before traditional shock absorbers enter into action to limit the damage from increased unemployment *ex post*. By enhancing human capital and job creation in the skill-intensive and more dynamic sectors of the labour market (Nelson and Stephens, 2012; Iversen and Soskice, 2015), social investment could both make current employment less vulnerable to job destruction and, in any case, boost workers' employment 'second chances' through lifelong training to keep their skills marketable. According to this, over and above the (many) intervening economic factors, the employment shock could have been at least partly cushioned in those countries which arrived at the crisis with more developed social investment arrangements. More formally, I expect that:

H2: countries with higher SI scores felt the crisis-employment shock less than those with lower SI scores.

4.1.3. The indirect effect of social investment on individual employment: the expected complementarity of investment and protection policies

SI policies do not operate in an institutional vacuum. On the contrary, as the social investment literature has increasingly stressed (recall Section 2.4.1), it is the complementarities between different types of social policies that are expected to enable modern welfare states to meet both economic and social goals.

The concept of institutional complementarities is in fact borrowed from the Varieties of Capitalism (VoC) perspective (Hall and Soskice, 2001). In the VoC literature, a 'set of institutions is said to be complementary to another when its presence raises the returns available from the other' (Hall and Gingerich, 2009: 450). On the other hand, complementarity also refers to situations whereby different components of large policy portfolios 'compensate for each other's deficiencies' (Crouch et al., 2005). The two definitions strongly resonate with the ideas elaborated by OECD economists, who recognized that 'marginal efficiency gains' of given policies can depend on interactions with other policies, as well as with the socioeconomic context within which such interactions unravel (Bassanini and Duval, 2009; Thévenon, 2016). The idea of

institutional complementarities has increasingly penetrated the social investment perspective, as complementarity between social policies pursuing different functions (Section 2.4.1; for a recent empirical application of the idea, see Hemerijck et al. 2016). Most notably, the success of social investments in human capital is expected to be *conditional* on the existence of adequate and inclusive (minimum) income guarantees, deemed necessary to ensure a level playing field for employment-centred policies (Esping-Andersen et al., 2002; see Sections 2.4 and 2.5). The importance for social investment and social protection to work in tandem has been also inscribed in the Social Investment Package issued by the Commission, which lays down that:

> 'Well-designed welfare systems combining a strong social investment dimension with the other two functions, protection and [economic] stabilisation, increase the effectiveness and efficiency of social policies, whilst ensuring continued support for a fairer and more inclusive society' (European Commission, 2013e)

The complementarity between social investment and protection policies can unravel in two directions. In the first place, social investment policies could alter the impact of social protection on employment. Notably, by providing unemployed people with some income support, social protection policies can act as a disincentive for the unemployed to take up a job (especially in the case of long unemployment benefits). Social investment measures could well counteract this potential work-disincentive effect. In fact, training, activation and work-family reconciliation policies are in general designed to foster people's opportunities to find (or retain) a job that matches their skills and time-preferences. On the other hand, policy complementarity could also go the other way round: the existence of a solid complex of social protection measures could activate (or boost) the potential effect of social investments on citizens' income improvements. That is to say, generous social protection could make the employment gains of social investment more 'worth it' in terms of income gains. Insofar as job-seekers (and beneficiaries of activation and social investment services in general) can count on generous out-of-work income support, they do not need to take up badly paid jobs; encompassing social protection systems can in general grant them more time and the material means to look for better(-matching) jobs.

The latter acceptance of policy complementarity concerns the social-fairness aspect

of social investment—avoiding the pitfalls of recommodification (recall from Section 2.4.2): as such, we will come back to it in the next chapter. Since this chapter aims to ascertain whether social investment effectively boosts employment at the individual level, the focus is put on the former type of complementarity. Namely, I try to grasp whether social investment does 'compensate for the deficiencies' of social protection, mitigating potential work-disincentives and leading to positive employment outcomes. A little more technical detail is needed to properly spell out the hypothesized causal mechanism. Social protection-oriented policies provide citizens with a 'reservation wage', that is, an out-of-work income alternative to market income (i.e., job earnings). This is relevant to our aims in two respects. First, especially when it is set at a high level relative to the wage that one could potentially earn through work, the reservation wage provided by social protection schemes such as unemployment benefits and family allowances can act as a disincentive to labour market participation. However, if complemented with well-designed social investment policies (whose aim is human capital enhancement and inclusion into quality work), such schemes could actually become less detrimental to employment.[66] Therefore, we formulate the following expectation on the interaction between social investment and social protection-based policies:

H3: SI mitigates the plausibly negative impact of social protection (more specifically, at the individual level, cash benefits received by persons and households) on the likelihood of employment.

[66] Admittedly, this is only a stylized version of the complex relationship between unemployment benefits and employment. According to the (standard) job search theory (Mortensen, 1970; for a recent general review see Faggian, 2014), unemployment benefits increase workers' reservation wage which in turn disincentivizes people's job-seeking efforts. However, over time numerous contributions have added much more nuance, showing that the relationship is far from straight-forward. In the first place, unemployment benefits can improve the quality of the job matching and contribute to human capital and skill preservation (De Deken, 2014; this closely follows the VoC view on the function of social insurance [Estévez-Abe et al., 2001]), while not necessarily acting as a disincentive to employment. The evidence on the employment effect of unemployment benefit generosity is in fact mixed (Howell and Rehm, 2009). Benefit receipt seems to be associated with the postponement of the return to work, and not to an utter renouncement of it (Bernardi, 2001), and to operate as a sort of 'bridge to better employment' in terms of job duration and quality (Mooi-Reci and Mills, 2012), while also limiting the 'scar effects' of unemployment (Gangl, 2004). Be that as it may, it is not social protection benefits *per se*, but their interplay with social investment policies which becomes crucial in our framework. Since social investment policies aim to enhance work (opportunities), they could neutralize the possible negative effect of receiving cash benefits (in year *t-1*) on the likelihood of being employed in year *t*, or, in any event, make it 'less negative'.

4.2. Data and Variables from the EU-SILC and the SIWE Dataset

The empirical analysis presented in this chapter is based on the following data sources. Individual and household-level data have been taken from the longitudinal user database of the European Union Statistics on Income and Living Conditions (EU-SILC). The EU-SILC is a cross-national survey conducted by Eurostat since 2003 on an annual basis, which provides comparable multidimensional information on income, poverty, social exclusion and living conditions of citizens and households of EU member states (plus five non-EU countries which also joined the survey). It is based on a rotational panel design that ensures annual representative cross-sectional and longitudinal samples; the latter includes panel observations of the same individuals for a period of up to 4 years. An in-depth description of the EU-SILC is provided in Appendix 2.

Non-overlapping representative country-subsamples of individuals interviewed for two years in a row have been selected from the longitudinal version of the EU-SILC (rotational panel). Due to the employment focus of this chapter, we take into account only persons in the working age (those aged 20 to 64). As a result, once excluded observations with missing values, the sample includes 592,132 individuals; for each individual, information on the employment status in both year *t* and *t-1* is available. This allows us to follow up people's employment transitions (stays in/out, as well as transitions in and out of employment) from one year to the next in a dynamic fashion, while minimizing panel attrition—which is in any case unavoidably present. All data managing details and the subsample selection procedure are illustrated in Appendix 2.[67]

Individuals included in the sample are nested into 27 countries: all EU member states plus Norway, excluding Croatia and Germany—for which the longitudinal files of EU-SILC do not cover a sufficient number of years for applying the chosen modelling technique (that is, at least 2 years). The main focus of the analyses is on country-level variables, which vary both between countries and over time. A time span of 10 years is covered (2004-2013). Not all countries are present in all years: the sample is unbalanced in this respect, which is, however, not a problem for the modelling technique applied (Bell and Jones, 2015; see Section 4.3 on the method). Table A3.1 in the Appendix 3

[67] The STATA syntax for reproducing the whole procedure is available upon request from the author. The access to EU-SILC microdata is restricted through to the Eurostat Microdata Access procedure.

reports the frequency distribution by country and years.

The following sub-sections present the individual-level and the country-level variables used in the analysis.

4.2.1. Individual-level variables

Table 4.1 gives a brief summary of the micro-level variables used in the analyses; in-depth detail on the operationalization of each variable is found in Section A2.6 (Appendix 2).

Table 4.1. Individual-level variables list and brief description

Variable	Description	Type
Dependent variable		
Employed	Whether a person is employed in the current year	dummy
Independent variables (controls)		
Employed (lagged)	Whether a person was employed in year *t-1*	dummy
Age	Sample reduced to people aged 20-64	Continuous (20-64)
Age squared	Quadratic age term	Continuous
Male	Gender dummy	dummy
Children <5	Whether there is at least one child below 5 years old in the household	dummy
No. of children	Number of children <18 years old living in the household	continuous
Married	Whether a person is married / cohabits with the partner	dummy
Education	Level of education attained	(Low) – mid – high
Bad health	Whether a person declared to be in bad health conditions	dummy
Household (HH) size	Equivalized household size (OECD-modified scale)	continuous
HH employment	Employment situation of HH members other than the respondents: 1: no one (else) employed (reference category); 2: at least 1 employed HH member; 3: single-member HH	Categorical (see description)
Cash benefits	Amount of cash benefits (of any kind) received, including the personal share of HH benefits (= HHbenefit / equivalised HH size); expressed in % of GDP per capita; top-coded to 100.	Continuous (0-100)

Note: HH = Household; reference category in brackets when relevant.

The dependent variable is a dummy variable that equals 1 if the respondent declared to be employed at the time of the interview (in the current year *t*), and 0 otherwise. Aside from this self-declared employment status, limited to a short time span (the week of the

interview), we use a more objective assessment of the employment status as a robustness check: a measure of the amount of work that an individual supplied to the market over the last 12 months. Following Eurostat terminology, we call this alternative dependent variable (individual-)'work intensity'. This is also a dummy, which equals 1 for those who have worked at least for 6 months over the 12 months of the EU-SILC income reference period[68], and 0 for those who have worked for fewer months, all weighted for part-time work.

We use a number of micro-level variables as controls, that refer either directly to the individual or to the household in which he/she lives. The first of these is the lagged dependent variable: the employment status (or work intensity, in robustness checks) in year *t-1*. Then we include the respondent's age (and its square[69]); gender (a dummy which equals 1 if the respondent is a male); a dummy which indicates whether the respondent lives with small kids (less than 5 years old) and the number of minor children in the household (continuous variable). The models also include an interaction between gender and 'Children<5' in order to take into account that, although to different degrees across European welfare states, having small kids discourages especially women from working (see for example De Henau et al., 2010; this is empirically confirmed in our data). Further micro-level variables are: a dummy which equals 1 for married or cohabiting respondents (those who have a partner who works could be less incentivized to stay in or get into employment); a dummy for those who are in bad health (thus, potentially less fit to work); the equivalized household size (living in a larger households could in theory provide less incentive to work); a categorical variable which reflects the respondent's 'household employment situation' (and, therefore, the employment incentives attached to this), differentiating between respondents living alone, those living in multi-member households where at least another member works, and those living in multi-member households where the others do not work. Lastly, we account for the receipt of social protection benefits at the individual level, through a proxy variable which comprises the income coming from all kinds of cash benefits received by the respondent (including the respondent's share of

[68] See Section A2.4 (Appendix 2) for the definition of 'income reference period' in the EU-SILC.

[69] Empirically, the individual likelihood of being employed is related to age through a quadratic relationship. It increases up to a certain age (slightly above 40), and then decreases incrementally up to age 64 (the graphic visualization of the bivariate relationship is available upon request from the author).

benefits paid to the households: see Section A2.6 for the details), expressed as share of Gross Domestic Product (GDP) per capita and top-coded to 100 for computational ease (the variable was larger than 100 for very few extreme outliers).

4.2.2. Country-level variables

The crucial country-level independent variables are the two policy indices already seen in Chapter 3. These are the Budgetary Welfare Effort (BWE) scores for social investment and social protection (SI and SP respectively), explained in-depth in Appendix 1. There is however a difference in the way in which we express the policy indices here and in Chapter 3. While in Chapter 3 BWEs were expressed in volumes (at purchasing power parity), in the multivariate analyses shown here the two indices are expressed as share of GDP. This is because, since we have limited degrees of freedom at the upper level of the regressions (Section 4.3 on the method), the most complex models will include only the crucial policy-variable(s) of interest, and not all macro-level controls. By using BWE scores weighted by GDP per capita we already take into account cross-country differences in wealth without having to control for that specific variable. In any case, using BWE measures in volumes in robustness checks does not alter the results. Most important, both policy variables are lagged 1 year, to acknowledge the fact that any change in policy effort takes time before leading to any plausible outcome.

A set of macro-level control variables accounts for across-country heterogeneity due to factors other than social policy effort. Table 4.2 reports all country-level variables. As anticipated above, we control for the GDP per capita as a proxy for the levels of wealth, which differ widely across EU member states. We also control for the annual real GDP growth, as individuals employment prospects from one year to the next may well be affected by the general trend of the economy. The same applies to the unemployment rate, that we also use as alternative proxy for the state of the business cycle. Lastly, we control for total welfare state expenditure in a way to disentangle the specific effect of the budgetary effort put on SI and/or SP from that of the overall ‘size’ of the welfare state. It is different to increase the BWE on SI in a country like Denmark, which spent almost 33 per cent of the GDP on social policies in 2013, and in Latvia, which spent around 15 per cent. Perhaps, social investments could in fact have somewhat diminishing marginal returns (on individual employment outcomes,

specifically) in bigger and already well-developed welfare systems. All macro-level variables are standardized and lagged one year.

Table 4.2. Country-level variables list and brief description

Variable	Description and data source	Type
Independent variables		
Social investment	Budgetary Welfare Effort index for SI, expressed as share of GDP per capita. Source: SIWE (see Appendix 1)	standardized
Social Protection	Budgetary Welfare Effort index for SP, expressed as share of GDP per capita. Source: SIWE (see Appendix 1)	standardized
Control variables		
GDP per capita	Real GDP per capita, in Purchasing Power Parity (PPP). Source: Eurostat (nama_10_pc)	standardized
GDP growth	Annual real GDP growth. Source: Eurostat (naida_10_gdp)	standardized
Welfare size	Total welfare expenditure as % of GDP. Source: Eurostat (spr_exp_sum)	standardized
Unemployment rate	Number of people unemployed as a percentage of the labour force. The labour force is the total number of people employed and unemployed. Source: Eurostat (une_rt_a)	standardized

Note: Eurostat tags in parentheses.

4.3. A Multilevel Method to Link Macro-Level Policies with Their Individual-Level Effects Across Countries and over Time

The data used in this chapter are pooled cross-sections of individuals from different EU-SILC longitudinal waves, nested into countries observed over 10 years (2004-2013). Since the data structure is not straight-forward, it is useful to spell it out level by level. Level 1, the micro level, is constituted by pooled cross-sections of individuals (non-repeated measurements of different individuals for each year); nevertheless, I make explicit use of the panel nature of EU-SILC data by retaining for each individual observation information on the employment status in *t-1* (the lagged dependent variable). This allows estimation of the impact of policies while controlling for a very likely 'selection-into-treatment' effect (to wit, those persons already employed in year *t-1* are obviously more likely to be employed in year *t* too, this not being due to policies). At the country-level, the data we use are in fact a panel of countries whose policy- and

macroeconomic-characteristics are observed over time (repeated measurements for the same countries observed for a maximum of 10 years). Since I am interested in capturing both the between-country and the within-country (over-time) effects of policies, I decompose my data along three levels: (1) individuals, (2) country-years, (3) countries. Levels 2 and 3 are the keys to take advantage of the panel nature of country-level variables.

I rely on logistic multilevel 'hybrid' models to estimate both the within- and between-effect of country-level variables while at the same time controlling for individual-level compositional effects (Fairbrother, 2014; Schmidt-Catran and Fairbrother, 2016). Formally, the models are so specified:

$$\log\left(p_{jti}/1 - p_{jti}\right) = \beta_0(t) + \beta_1 X_{jti} + \gamma_{WE}\left(Z_{jt} - \bar{Z}_j\right) + \gamma_{BE}\bar{Z}_j + v_j + u_{jt}$$

Where the tree levels are so indexed: countries (j), country-years (t), and individuals (i). The individual-level variables are captured by the vector X_{jti}, β1 being the corresponding coefficient. Variables Z_{jt} vary both between country-years and between countries, and are used as 'raw' country-level variables in the base models. In fact, their estimated effect include both between- and within-country effects. This is the reason for the application of a fixed-effects transformation in the formula above. Time-varying country-level variables have been time-demeaned and the country-specific over-time means so obtained have been modelled as country-level variables at level 3 ($\overline{z}_j$). The corresponding coefficient γ_{BE} gives the estimate for the between-country effect (recall, BE). The time-demeaned term ($Z_{jt} - \overline{z}_j$) – by construction orthogonal to Z_j – varies at the country-year level: its coefficient γ_{WE} gives the estimate of the within-country effect (WE). A non-parametric time trend is also accounted for in the model (t), so to make sure that WEs are not spurious to possible simultaneous but unrelated over-time trends common to both country(-years) variables and the dependent variable y_{jth} (Fairbrother, 2014: 124–125). In order to test H3, I interact the time dummies with the country-mean variables Z_j: this so called 'societal growth curve' model allows to check whether the average level of SI alters the over-time trend of individual employment likelihood (Fairbrother, 2014). The terms v_j, u_{jt}, form the random part of the multilevel model. They stand, respectively, for the random intercept at the country- and country-years levels; they are assumed to be normally distributed with mean 0.

The multilevel hybrid model provides all strength points of the fixed-effect approach, while allowing for more flexibility in model specification (Bell and Jones 2015).[70] Being time-demeaned, WEs are in fact exempt from unobserved heterogeneity, that is, they come by construction net of all across-country differences which interfere in the correlation(s) we focus on, providing a more rigorous test of the effect of policy variables. The same does not hold for BEs and raw country-level variables (which mix WE and BE), for which unobserved across-country differences could still make the estimates spurious.[71] Moreover, the rather limited number of countries at level 3 (N=27) limits the degrees of freedom and, thus, the likelihood to get unbiased estimates at level 3 (Bryan and Jenkins, 2016). Therefore, in order to be as cautious as possible in checking the consistency of the coefficient of the crucial SI-policy variable, we add level-3 control variables step-wise, one by one in separate models. The same degrees of freedom problem does not apply instead at the level 2, where we have N=208 country-years observations.

4.4. Empirical Results from Multilevel Models on the Individual-Level Employment Outcomes of Social Investment

4.4.1. Between- and within-country effects of social investment on individual employment

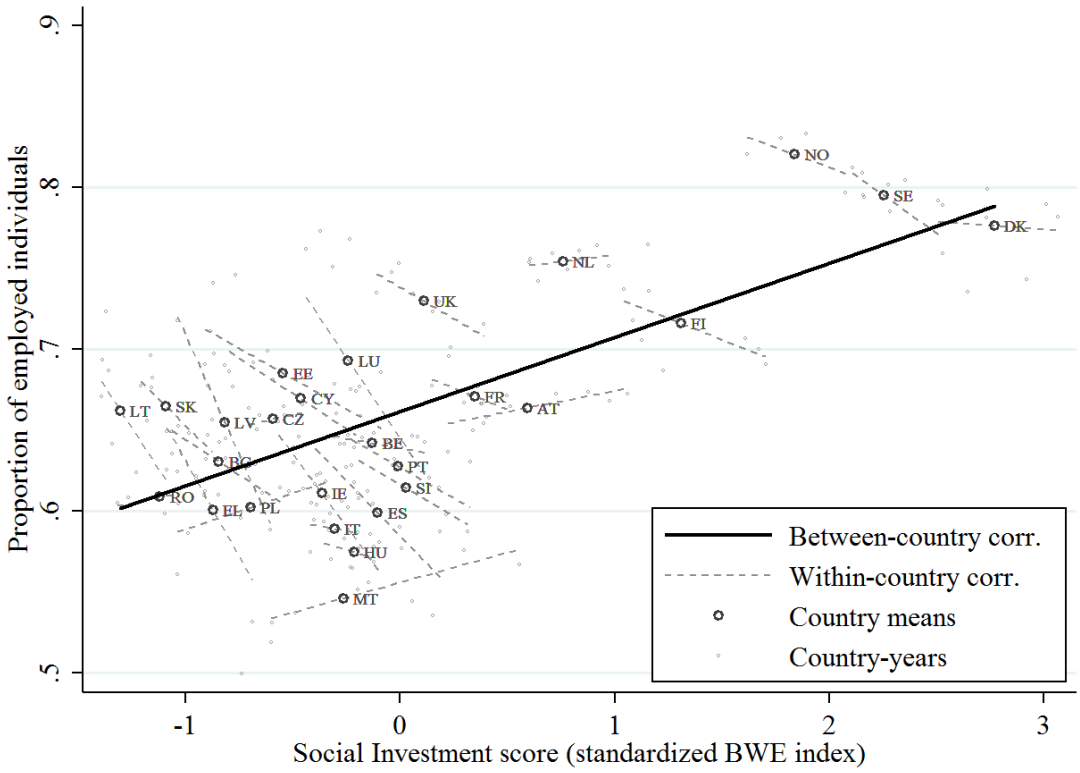
To start inspecting the relationship between social investment policies and individual employment, I first look at how they correlate on average between countries, combining all years. The resulting 27 data points show a strong and almost linear correlation between (country-average) SI index scores and the proportion of employed individuals for each country: the Pierson's correlation index amounts to 0.73 ($p<0.001$). This between-country correlation is depicted by the thick black line in Figure 4.1. The strong correlation comes as no surprise: as observed also in Chapter 3, the countries which invest more in SI are also wealthier (they score high in terms of GDP per capita) and show the best employment performance (see also Hemerijck, 2013; Ahn and Kim, 2015). Nevertheless, not all within-country correlations go in this same direction.

[70] In any case, models have been refitted using country-fixed effects instead of a separate level 3: this (less parsimonious) approach yields the same results as those shown below.

[71] Notice that, however, a number of country-years-level controls are added in order to provide the less spurious possible estimates.

Within-country correlations—based on over-time variation within each country—are represented in Figure 4.1 by the thin dashed lines. With few exceptions (e.g., Poland, Malta, Austria), the vast majority of them is negative; however, less than the half of these correlations reaches statistical significance[72], and the average country-years correlation—not shown in the figure—is 0.61 ($p<0.001$). Aside from their spurious nature, these correlational figures show that, although to a lesser extent than between countries, there is in fact variation from country to country in how SI and individual employment are associated over time.[73]

Figure 4.1. Between-country and within-country correlations between the proportion of employed individuals and social investment policy effort



[72] For Spain, Ireland, Latvia, Sweden and the UK country-years correlations are significant with $p<0.05$. For Austria, Belgium, Cyprus, Estonia, Greece, Poland, Slovenia and Slovakia correlations become significant only at 10%.

[73] A bit more elaboration may help to clarify this aspect. The (bivariate) within-country correlation for the bulk of member states is found to be negative. This is basically due to the fact that in most countries, while the effort put into social investment policies was increasing (the overall progress of SI policy effort we saw also in Chapter 3), individual employment prospects deteriorated, especially after the onslaught of the crisis. The extent to which this covariation unravels largely varies across countries.

The aggregate bivariate picture described above neglects two crucial aspects: first, it does not take into account the fact that individual characteristics, whose composition may vary by country, also affect employment prospects. Second, it ignores the 'nuisance' added by the general trend of employment over time, which is certainly non-negligible, given the abrupt slump brought by the economic crisis in the middle of the period studied. The multilevel regression models allow us to look at the association between the budgetary effort put by each country into SI and likelihood of individual employment, while controlling for individual-compositional effects and the employment-time trend.

Table 4.1 reports the results from various models which test H1(a), that is, whether SI has a positive effect on individual employment (only the coefficients for country-level variables are shown here: the full models are found in Table A3.2 in Appendix 3).

Table 4.3. Logistic multilevel models for individual employment. Log-odds coefficients of country-level variables (standardized; micro-level variables omitted)

DV: employed	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
Level 1: individual (N=603,604; micro-level variables omitted)							
Year dummies (omitted; jointly significant with p<0.001)							
Level 2: country-years (N=208; all variables refer to t-1; standardized coefficients)							
Social investment	0.16***	0.16***	0.16***	0.19***	0.17***	0.16***	0.21***
GDP per capita		-0.03					0.01
GDP growth			0.02				0.02
Welfare size				-0.04			-0.07
Unemployment					0.02		0.04
Social protection						-0.00	0.04
Level 3: country (N=27; no variables explicitly modelled)							
Variance components							
Var. (Country)	0.0209**	0.0212**	0.0202**	0.0194**	0.0218**	0.0209**	0.0192**
Var. (Country-years)	0.0289***	0.0286***	0.0289***	0.0289***	0.0284***	0.0288***	0.0283***
N	592,132	592,132	592,132	592,132	592,132	592,132	592,132

Note: * p<0.05, ** p<0.01, *** p<0.001

The coefficient of SI is found to be positive and significant, meaning that the overall effect (i.e., that mixing WE and BE) of SI on the individual likelihood of being employed is indeed positive, over and above all individual-level characteristics. The result holds when controlling for each of the country-level factors separately (Models 2-6), and jointly (Model 7).

This *prima facie* evidence is further tested by disentangling the between- and the within-country effect of SI. Table 4.2 shows the results from 7 hybrid multilevel models (micro-level variables' coefficients are again omitted: see Table A3.2). While the BE is found to be positive in all models, H1(a) do not seem to pass the more rigorous test provided by the WE. The within-country effect of SI is not significant in any of the models. This means that, on average, over time improvements in the SI budgetary score did not match with improvements in the individual likelihood of being employed, once controlling for all compositional factors and for the time-trend. The 'glass half-full' picture emerged from the results relative to the overall, raw effect of SI (see Table 4.1), but instead appears half-empty when considering that no within-effect is actually discernible.[74] A cautionary note is due nevertheless. The null WE of SI can at least partially be attributed to the rather limited variation found at the country-years level.[75] That is, the over time variation present in my data is not sufficient to unveil a possible WE of SI. It is worth noting, however, that the coefficients for the WE of SI, although not significant, are negative in all specifications: another clue in the direction of a 'glass half-empty' view of the outcomes of SI. Be that as it may, the actual effect of SI is empirically located between-country: as such, it can be led back to enduring differences across welfare states which have not only pursued social investment reform to different extents, but are also characterized by different institutional and socio-economic fabrics.

In fact, the BE is unavoidably spurious to unobserved across-country heterogeneity: it may well be that the variance in individual-level employment likelihood is exactly due to this general institutional diversity that exists across welfare states which

[74] The same result on the WE of SI holds when refitting the models with two levels (individuals nested into country-years) and adding country-fixed effects instead of considering a separate level 3 to account for across-country heterogeneity (the robustness check is shown in Model 1, Table A3.3, in Appendix 3).

[75] Indeed, the Intraclass Correlation Coefficient (ICC) computed from the null model (not shown) is very low for the country-years level: 0.0047, against 0.0347 at the country-level. This can be interpreted in the following way: about 4% (0.0047+0.0347) of the total variation is found at the country level. 13.5% of this is in turn located at the country-years level (i.e. varies over time within a country), which is the rather modest target of the WE estimates.

developed along different paths, and not specifically to the policy effort put into SI. In order to test for this, Model 8 in Table 4.2 add welfare regimes as a categorical control at level 3 (see Section 2.3.1 for a theoretical discussion of welfare regimes and Section 3.3.2 for their empirical operationalization).

Table 4.4. Logistic multilevel model for individual employment. Log-odds coefficients for the between- and within-country effects of country-level variables, standardized (micro-level variables omitted)

DV: employed	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Level 1: individual (N=603,604; omitted)								
Year dummies (omitted; jointly significant p<0.001)								
*Level 2: country-years, N=208 (**Within Effects**)*								
Social investment	-0.14	-0.14	-0.14	-0.12	-0.12	-0.13	-0.09	-0.14
GDP per capita		-0.35***					-0.38***	
GDP growth			0.01				-0.01	
Welfare size				-0.12			-0.29**	
Unemployment					0.03		0.05	
Social protection						-0.06	0.00	
*Level 3: country, N=27 (**Between Effects**)*								
Social investment	0.19***	0.20***	0.23***	0.24***	0.19***	0.20***	0.22***	0.12†
GDP per capita		-0.00					-0.00	
GDP growth			0.26*				0.30*	
Welfare size				-0.06			0.01	
Unemployment					-0.02		-0.04	
Social protection						-0.00	0.00	
Welfare regimes (ref.: Nordic)								
Liberal								-0.14
Conservative								-0.22
Southern								-0.37*
Eastern								-0.24
Variance components								
Var. (Country)	0.0191**	0.0186**	0.0147**	0.0173**	0.0192**	0.0191**	0.0128**	0.0129**
Var. (Country-years)	0.0288***	0.0286***	0.0289***	0.0289***	0.0284***	0.0288***	0.0283***	0.0272***
N	592,132	592,132	592,132	592,132	592,132	592,132	592,132	592,132

Note: † p<0.10, * p<0.05, ** p<0.01, *** p<0.001

The BE of SI remains (marginally) significant also when controlling for welfare regimes. This indicates that the average effort put by a country into SI, and not generic regime-specific institutional characteristics, indeed better explains individual-level employment prospects.[76] In other words, from the perspective of the between-country effect, the social investment 'glass' consistently remains half full.[77]

4.4.2. Did social investment absorb the crisis employment shock?

A positive note on the employment-enhancing—or, in any case, employment-preserving—potential of SI comes when we turn to testing H2. A societal growth curve model adds to Model 1 in Table 4.2 an interaction between the country-average SI scores (BE) and the time dummies used to account for the time trend (see Models 2 and 3 in Table A3.3, Appendix 3). The results are shown in Figure 4.2, which compares the time trend of predicted individual employment probability from the model containing micro-level variables only with that from the societal growth curve model, in which the employment-time trend varies depending on the country-specific SI score.[78] In the latter case, two examples are plotted for high- and low-SI countries, based respectively on the mean SI score for countries with above- and below-average levels of SI policy effort.

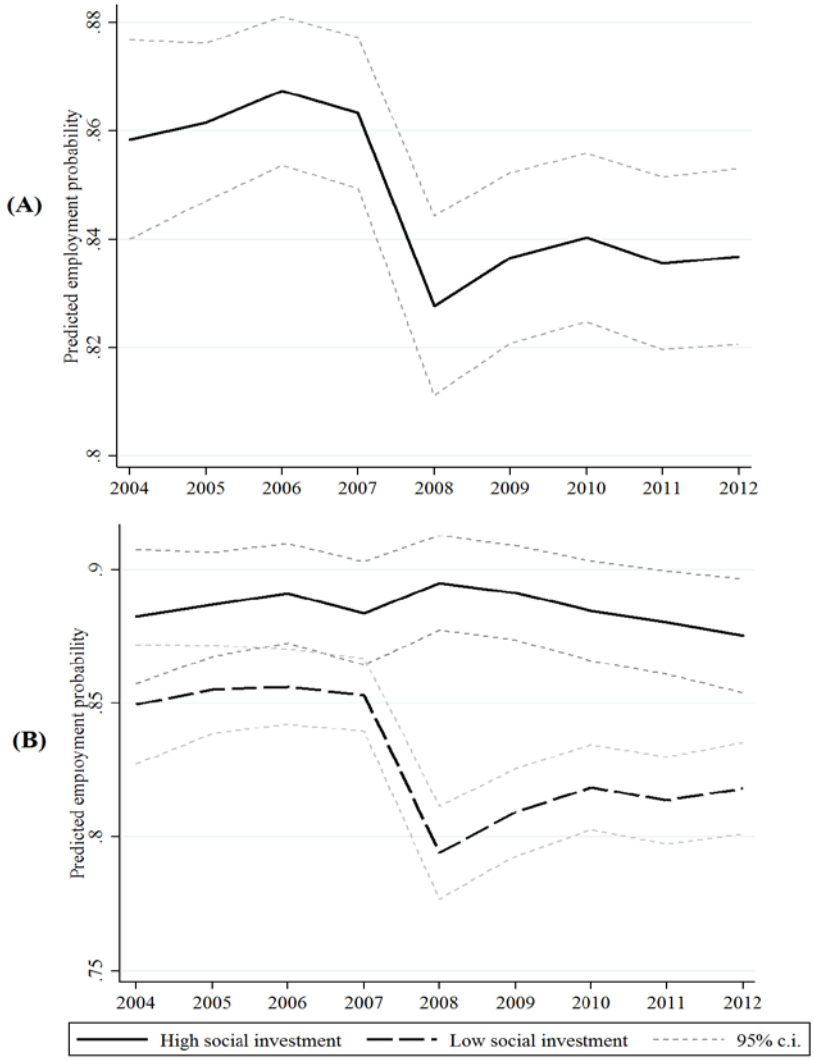
Figure 4.2(a) shows that, on average for all countries, the individual probability of being employed significantly dropped with the outbreak of the crisis in 2008, and then levelled off to a level in any case below the positive peak observed in 2006. Figure 4.2(b) supports H2: while the dampening impact of the crisis on individual employment likelihood holds in low-SI countries, it is virtually nil in countries with comparatively high SI scores. Hence, the SI-orientation of the welfare state seems indeed capable to act as an 'employment shock absorber', cushioning the negative impact of the economic downturns on employment (notice that the result holds when controlling for macroeconomic factors).

[76] Interestingly, when controlling for the BWE on SI, only the Southern regime performs significantly worse than the Nordic (reference category) in terms of individual employment likelihood. Other regime-dummies are non significant: for all other regimes, institutional characteristics other than the specific effort put into SI are not associated to comparatively worse employment performance.

[77] The effect of SI is robust also to the use of the alternative dependent variable 'work intensity', an objective measure of the labour supplied during the year (Section 4.1.2). Robustness check shown in Table A3.4.

[78] The predicted probabilities plotted in Figure 4.2 have been computed keeping the covariates at their mean values (Mood, 2010). The same result (i.e. the same pattern in the time trend conditioned by the level of SI) holds also when adding all country-years-level (WE) and country-level (BE) controls.

Figure 4.2. Time trends of predicted employment probabilities (keeping covariates at their means): (A) computed from the model with all micro-level controls (base model in Table A3.2) ; (B) computed from the 'societal growth curve' model (i.e., full model including an interaction between SI and time dummies), differentiating between high- and low-SI countries



Note: the year 2013 is excluded from (B) since data for only 2 countries (UK and IE) are available (see Table A3.1). 'High social investment'-countries (i.e., countries with above-average SI scores) are: Austria, Denmark, Finland, France, the Netherlands, Norway, Portugal, Sweden, Slovenia and the UK.

4.4.3. Policy complementarities in the flesh: social investment mitigates the employment disincentive of social protection

Social investment and protection policies are not isolated from each other, but can interact to produce policy complementarities or conflicts (Section 4.1.3). More

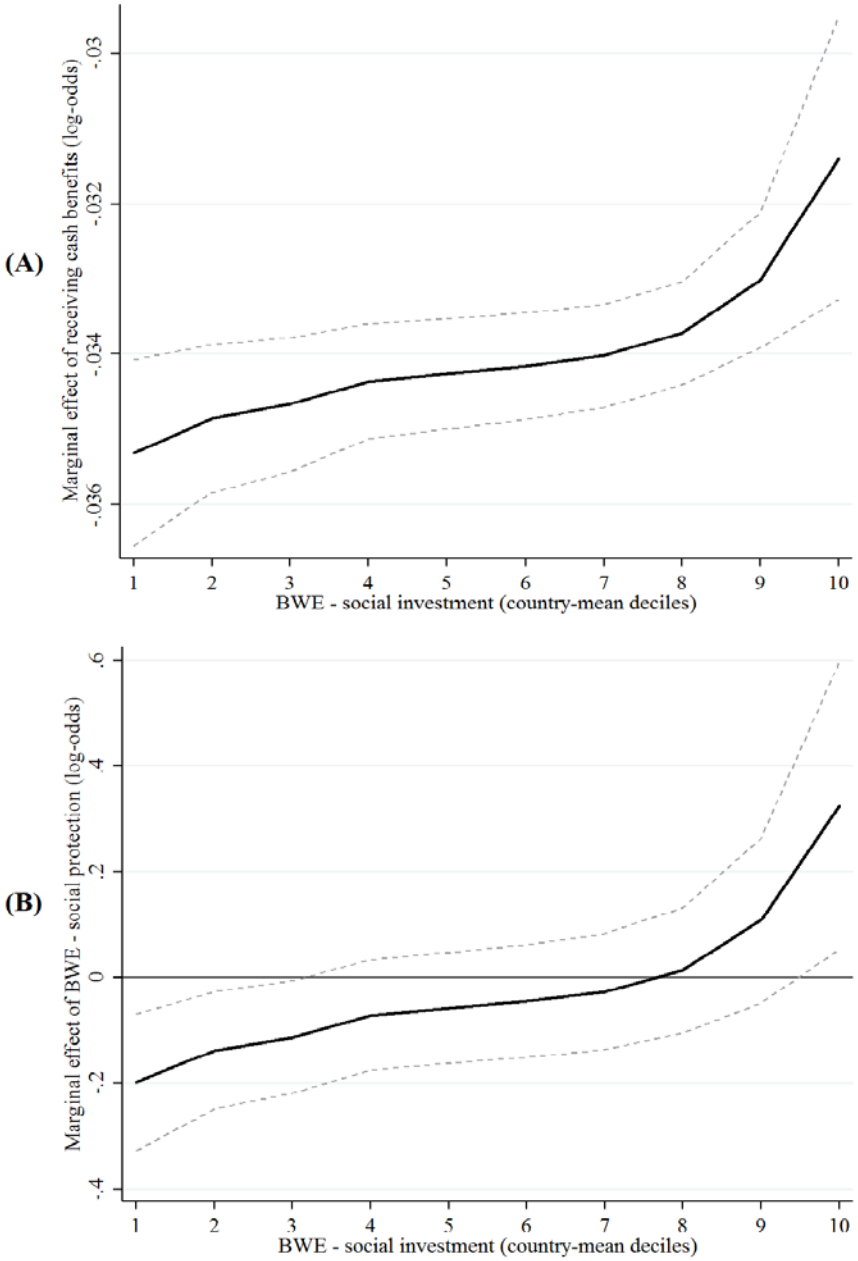
specifically, in H3 we hypothesized that the plausibly negative effect of social protection (or, at the individual-level, cash benefit receipt) can be mitigated by the social investment-orientation of a welfare state. In the first place, the employment-disincentive effect of receiving cash benefits is empirically observable in the corresponding beta coefficient, which stays negative and significant throughout the models shown in Table A3.2 (Appendix 3). The more cash transfers a person has received (including her share of benefits paid to the household), the less likely she is to be employed at the time of the EU-SILC interview. Instead, at the macro level, there is no significant effect of SP (i.e., the overall effort put by government into the social protection dimension of the welfare state).

However, along with the expectation of H3, this depends upon the social investment-orientation of the country in which the person lives. The cross-level interaction between cash benefit receipt and country-average SI score is tested in Model 8 in Table A3.2 (Appendix 3). The receipt of cash benefits (technically, a person's potential reservation wage) makes it possible to take more time to look for a job (including leaving current job to seek a new one), in fact making it less likely for individuals to be into employment at time *t*. Nevertheless, this varies across different SI scores—the interaction term is significant, also when controlling for all country-level macroeconomic factors. Figure 4.3(a) visualizes the interaction. It shows that although the employment-disincentive effect of cash benefits receipt is not completely neutralized, it becomes significantly less negative when the budgetary effort devoted to SI increases.

We also test a macro-level interaction between the two welfare state dimensions—SI and SP. On first inspection, there does not seem to be any significant interplay (not shown). However, the interaction turns out significant when one restricts the sample to persons who were not employed in *t-1* (Model 9 in Table A3.2). This makes a lot of sense: at the aggregate level, the policy effort on SP regards for the greatest part social programmes which are not in the interest of employed persons (think for example of unemployment benefits). In the full sample, the connection with the dependent variable is very loose (there is no significant direct effect of SP). The budgetary effort put into SP seems to make it less likely to transition into employment only for those people who were out of work in *t-1*. By contrast, the micro-level measure 'cash benefit receipt'

directly grasped all cash transfers flowing to households: a closer link to the dependent variable which produced a significant interaction even in the full sample including both employed and non-employed individuals in *t-1* (Model 8 in Table A3.2).

Figure 4.3. Marginal effects on individual employment likelihood of: (A) Cash benefits receipt (expressed as proportion of GDP per capita, scaled 0-100), plotted at each decile of the sample distribution of SI scores (country-level); (B) Budgetary Welfare Effort (BWE) on SP, plotted at each decile of SI scores (country-level) and with the sample restricted to persons non-employed in year *t-1*



The negative employment effect of SP does not hold in all welfare states. Figure 4.3(b) depicts the macro-level interaction between SP and SI for the restricted sample of persons who were not employed in year *t-1* (from Model 9, Table A3.2). The employment-disincentive of SP materializes only in countries with the comparatively lowest SI scores (in our sample, this is the case of Slovakia, Romania, Lithuania, Bulgaria, Greece, Latvia, Poland, Estonia and Czech Republic). By contrast, in countries with about-average SI levels (the bulk of member states), the effect of SP on individual employment likelihood is not empirically visible, and, for SI scores in the top decile (Denmark and Sweden), it even becomes positive.

This finding suggests the following 'good news' for social investment. Plausibly, receiving cash transfers from social protection (for example, unemployment benefits, family allowances for dependent children or relatives, and the like) indeed discourages employment in a country like Greece, where social investment services are poor. Unemployment benefit recipients, for example, can count on few effective public employment services, and the coverage of daycare facilities for children of working parents is rather limited. In this context little is left aside from the passive transfer itself, and the opportunities to find a job remain scarce (recall that the model takes into account the bad conditions of the economy, by controlling for GDP growth and the unemployment rate). On the contrary, a job seeker in Denmark can count on much more than the unemployment benefit alone. The obligatory registration to the public employment service (*jobcentret*) entitles her to quality tailor-made job-search assistance. Moreover, in case she needs access to care for her children in order to be able to work, the Danish encompassing system of daycare services can also help with this.[79] This example of policy complementarities between social investment and protection—empirically consistent—is just one of many possible which could materialize in systems as complex as modern welfare states.

4.5. Conclusions

This chapter has shed light on the employment-enhancing potential of social investment

[79] Certainly, aside from very generous unemployment benefits and effective activation services, the third ingredient of the so called 'triangle of *flexicurity*' which allows Denmark to achieve maintain high levels of both employment and social security is labour market flexibility (Wilthagen and Tros, 2004). That is, a rather loose employment protection: a 'liberal touch' which maintains high job turnover and makes it possible for employers to hire and fire with relative ease.

by linking country-level policy efforts with their employment outcomes at the individual-level. It did so while empirically disentangling different dimensions of the expected micro-level 'effect' of social investment policies: the effect due to cross-country differences in the social investment-orientation of the welfare state, and that which unravels over time, after a country's government increases or decreases the budgetary effort put into SI. Moreover, we ascertained whether SI has an indirect effect in moderating the employment shock brought by the crisis as well as the negative effects of social protection transfers on individual employment.

The figure which emerges from the empirical findings is that of a glass either half-full or half-empty, depending on the perspective one takes. The glass is half full when considering, in the first place, that higher average SI scores indeed match with better employment prospects for individuals. The more a country's welfare state is oriented to social investment, the higher the chances of being employed for its citizens (the between-effect is positive). Good news also come from the empirical observation of a relevant employment shock-absorption capacity of social investment. Even when controlling for all compositional factors and macroeconomic conditions, one sees that with the crisis outbreak the individual likelihood of being in employment dropped only in countries with comparatively low SI scores, but not in those which put an above-average budgetary effort into SI. Moreover, we could empirically detect a positive example of policy complementarity by showing that SI mitigates the employment-disincentive effect of cash benefit receipt and, at the macro level, of generous social protection efforts (although the latter policy interaction materializes only among non-employed people—the non-employed who live in high-SP countries are equally likely to transition into employment as long as their countries also devote much effort to SI).

The glass instead seems half-empty if one focuses on the within-country effect of social investment. That is to say, the over-time effect of SI efforts within a country is not statistically significant. It becomes empirically discernible only if one narrows the analytical lens to the policy sub-field most directly related to here-and-now work activation—ALMP—and only for the subsample of persons who were not employed in year *t-1* (i.e., those who would most likely benefit from activation measures; not shown here). Moreover, once again, not only is there a lot of cross-country disparity in the development of social investment (recall Chapter 3), but this disparity also considerably

matters for individual (employment) outcomes. For example, if on the one hand it is true that a (very) high SI-effort appears able to mitigate crisis-employment shocks and employment disincentives possibly linked to social protection, in low-SI countries these predicaments persist. This, together with the (statistically) irrelevant over-time effect of SI efforts pursued within countries, brings bad news for a EU-wide social investment strategy. It suggests, in fact, that a catch-up process would be harder than one could wish for SI-laggards. Countries whose welfare arrangements fall short of EU-average levels of social investment are not only unable to benefit from possible policy complementarities in the here-and-now, but would also have to strive hard to invest in new social policies without visible (employment) improvements over time, at least not in the short-to-medium-term of the empirical analyses presented in this chapter.

5

Reconciling Economic and Social Goals? Pitfalls of Social Investment Micro-Outcomes: Matthew Effects and Recommodification in Different Policy Mixes

Social investment has proved an effective policy tool for increasing citizens' employment chances. Over the years of the Lisbon strategy, when governments' efforts on social investment policies were on the rise, employment rates increased in the bulk of EU member states (Social Protection Committee, 2009; Cantillon, 2011; Lundvall and Lorenz, 2012).[80] The previous chapter shed light on the micro foundations of this positive correlation. It showed that higher levels of government efforts put into social investment-oriented policies translated into an increased likelihood of employment for European citizens—although the association seems to be due to long-standing differences across welfare states more than over-time increases in the policy effort. Social investment acts both directly, by improving individuals' employment chances, and indirectly, by smoothing the work-dampening effect of social protection policies (i.e., out-of-work cash transfers). While this provides support for the economic efficiency of social investment, it does not tell us much about how well the new welfare

[80] Although only some seven countries reached the Lisbon target of bringing the employment rate above 70% by 2010, the average EU employment rate increased from 62% in 2000 to 66% in 2008, before it dropped back to less than 65% as a consequence of the economic crisis (Lundvall and Lorenz, 2012). Many observers agreed on the fact that '[p]erhaps the most consistent aim of the Lisbon Strategy has been to increase the employment rate in member countries' (Lundvall and Lorenz, 2012: 340). In 2016, the EU employment rate (for persons aged 20 to 64) had recovered; it increased to 71.1%, against the 75% target set this time by the Europe 2020 strategy (Eurostat data, retrieved July 2018).

blueprint fares in respect to social equity—the other (and, arguably, the main) objective, which was key to reconciling market capitalism with liberal democracy since the inception of European welfare states (Chapter 2).

This chapter tackles the social fairness-side of social investment outcomes. The employment growth achieved in the Lisbon years was not sufficient to reduce social inequalities and poverty across the EU (Social Protection Committee, 2009). In this regard, the finger has often been pointed at the social investment spirit of the Lisbon Strategy, whose inclusion-through-employment focus favoured economic over social objectives.[81] Previous research suggested two main explanations of the underlying micro-level mechanisms (recall from Section 2.4.2). First, not all persons enjoy the employment gains of social investment equally. In socially stratified societies and labour markets, such gains tend to be unfairly distributed: people who are already better-off in terms of labour market-attachment, education and the like, benefit the most from social investment measures, while those worse-off remain excluded—the so called 'Matthew effect' critique to social investment (Cantillon, 2011; Ghysels and Van Lancker, 2011; Bonoli et al., 2017). Second, inclusion into work does not necessarily imply good employment conditions and income security, at least not for all citizens (Smith et al., 2008; Andreß and Lohmann, 2008; Marx and Nolan, 2012). Although much lip service has been paid to 'quality' jobs in EU employment and social cohesion strategies, recommodification as workfare—inclusion into 'any job' (even low-paid, low-quality)—has always been a threat for real-world activation and, in general, employment-centred policy strategies (Papadopoulos, 2005; Raveaud, 2007; De la Porte and Jacobsson, 2012; Bonoli, 2013).

We address these pitfalls of social investment empirically, trying to answer the following questions: does social investment increase employment chances for *all* citizens? Or do 'Matthew effects' emerge whereby better-off people benefit the most from the employment potential of social investment? And, in any case, what are these 'more jobs' worth in terms of social inclusion? In other words, does social investment

[81] Following this, after having recognized the success of the Lisbon Strategy in increasing the employment rate, Lundvall and Lorenz added a remark which is very relevant to the focus of this book (especially in the light of what we said on the loose distinction between workfare and social investment in the real world of European politics: see Section 2.4.2). They observed that, since this 'objective has wide support across the political spectrum', 'high employment rates can be the outcome both of a Nordic welfare strategy and of a neoliberal strategy' (Lundvall and Lorenz, 2012: 340).

also enhance income security through inclusion into employment? The answer, we find, is largely negative. For most European citizens, the line between workfare and social investment thus appears very thin. Once again, the devil is in the detail: workfare most likely materializes for some (disadvantaged) social groups and not for others. Moreover, as we saw also in Chapter 4, differences across European welfare states also matter for the equity-side of social investment. The inequalities we observe in the outcomes of social investment are more or less marked based on the policy mixes found in diverse countries. Notably, through providing the most vulnerable individuals with income support, more encompassing social protection systems not only help mitigate unintended inequality in social investment outcomes, but also tend to fend off the risk of workfare for those who enter employment. By contrast, Matthew effects and recommodification can be more of a problem in those welfare states where social protection lags behind.

By linking the macro level of social investment-policy efforts with individual-level outcomes, we test whether social investment produces (unintended) Matthew effects. We do so from two different perspectives. In fact, we not only observe inequality in outcomes between citizens; we also broaden the focus to what could be considered as a 'Matthew effect across countries'. To wit, our findings show that the social investment strategy could prove more socially fair in 'better-off' welfare states, while drifting into unintended outcomes in countries which hold more unbalanced policy mixes. As a result, further divergence could emerge among already different European Social Models.

Similar to the method used in the previous chapter, we use multilevel regression models based on micro data from the longitudinal files of the EU Statistics on Income and Living Conditions (EU-SILC; described in-depth in Appendix 2). This allows us to look at how the impacts of policy efforts (macro-level) vary across individuals (micro-level) with diverse socioeconomic characteristics and living in households with different 'work intensity' structures (i.e. a different number of household members who work). The longitudinal nature of the data makes it possible to look at upward and downward income transitions from one year to the next among those who entered employment—which is crucial for addressing the pitfalls of recommodification in a time-dynamic fashion.

The next, theoretical, section reviews the concepts of the Matthew effect in social policy and recommodification in the criticism of social investment (see also Section 2.4.2). Based on this, it puts forward four expectations. Following this, we briefly present the data and the variables, before we illustrate the method in a subsequent section. Section 5.4 presents the empirical results from multilevel models, in two parts: a first which concerns Matthew effects, and a second dealing with the recommodification hypothesis. The final section elaborates on the findings and concludes.

5.1. Theoretical Expectations: Social Unfairness in the Micro-Level Outcomes of Social Investment

5.1.1. The Matthew effect in social investment outcomes: whose employment chances are improved by social investment?

The term 'Matthew effect' was first coined by the sociologist Robert K. Merton with reference to the cumulative advantage enjoyed by eminent researchers in science, who are more likely to get credit than less known ones, even for very similar works (Merton, 1968).[82] The concept soon travelled to other fields of social sciences, with the mechanism of cumulative advantage used to explain self-fuelling inequality processes, whereby 'advantage begets further advantage' (for a review: Rigney, 2013). The Flemish economist Herman Deleeck was the first scholar to explicitly speak of Matthew effects in social policy. He found that, in some cases, the interplay between policy design and the social structure of the population led to unintended unequal distributive outcomes. The best known example is his study of the child benefits system in Belgium.[83] The eligibility to the subsidy was universal for all families with children up to 18 years old, but the entitlement age was prolonged to 25 if the children were still in education. Since the children of better-off families were over-represented in higher education, the programme turned out to be *de facto* regressive—more beneficial to the richer. Julian Le Grand (1982) came to similar findings with regards to social service-provision in the UK: he found that access to services such as healthcare, education,

[82] The label 'Matthew effect' comes from the parable of talents in the Gospel of Matthew (25: 29), where it states: 'For unto every one that hath shall be given, and he shall have abundance: but from him that hath not shall be taken even that which he hath'.
[83] The reference is to '*Het Matteüseffect*', a work (in Dutch) by Herman Deleeck, Johan Huybrechs, and Bea Cantillon which dates back to 1983 (cited in Bonoli et al., 2017).

housing and transport was biased in favour of the better-off. Further research then uncovered cumulative-advantage mechanisms at work in a number of other social policy domains. In fact, in a socially stratified world, Matthew effects are likely to emerge in virtually all policies with voluntary take-up, even when they seem to be universalistic, as in the case of most investment-oriented services.

The social investment strategy has been recently criticized for being particularly prone to Matthew effects. The debate over this possible flaw of the emerging welfare paradigm started when Bea Cantillon (2011) elaborated what she called the 'paradox of social investment', with reference to the puzzling mismatch between the employment gains and the failed reduction of poverty during the years of the Lisbon Strategy (see also Marx et al., 2012; Cantillon and Van Lancker, 2013; Cantillon and Vandenbroucke, 2014; Van Vliet and Wang, 2015; Taylor-Gooby et al., 2015). Cantillon acutely showed that this employment-without-poverty-reduction paradox was most plausibly linked to the fact that job growth took place almost exclusively among households which already had higher labour market participation (i.e., 'work-rich' households, typically better-off also in terms of education and wealth). Work-poor or jobless households, which were of course also those most exposed to poverty, remained distant from the labour market and, therefore, less likely to recover from poverty. Apparently, the employment-centred nature of the Lisbon Strategy gave further advantage to those with higher employment opportunities—a typical Matthew effect pattern.[84] Although this argumentation elegantly spells out a plausible causal mechanism behind the paradox of social investment, the question as to whether it is effectively social investment which brought only (or primarily) better-off individuals into employment largely remains to be proved at the micro level.

As a matter of fact, virtually all policies which compose the social investment dimension of the welfare state (see Table 3.2, Chapter 3) tend to be directed towards

[84] Cantillon provided a very clarifying example regarding the exposure of social investment-oriented policies to Matthew effects, with reference to work-family reconciliation policies: 'If one wishes to support the emancipation process by increasing women's labour force participation, then a policy must be employed to facilitate a combination of work and family life. Obviously, this policy will first benefit those who already participate in the labour process, in the hope that the others will follow. However […] activity rates of low-skilled mothers remain significantly below that of their high-skilled counterparts. […] More generally, focusing on new social risks while disregarding social class is detrimental to the distributional capacity of social policy' (Cantillon, 2009: 6). The decomposition analysis in Corluy and Vandenbroucke (2014) also showed that, in most countries, job growth only partially benefited work-poor households.

individuals and households who enjoy some sort of social advantage, both in respect to education and employment status. The most studied case is that of childcare. A wealth of research has pointed out that, even in countries with most encompassing and inclusive social services, childcare is mostly used by middle- and higher-class households (Ghysels and Van Lancker, 2011; Van Lancker, 2014).[85] This is essentially due to the unequal distribution of dual-earnership across social groups, as the low-skilled remain more likely to live in single-earner (thus, low work intensity) families in all European countries (Cantillon et al., 2001; Gornick and Meyers, 2003). Hence, for middle-class households that are more engaged in employment (and who can get better and more lucrative jobs relative to the low skilled), it makes sense to use childcare and care services of all kinds to maintain or even increase the time devoted to work. By contrast, the opportunity-cost for low-skilled mothers to enter (potentially less rewarding) employment while having to pay for childcare remains too high to actually leave the male-breadwinner/female-carer model which is consolidated in the cultural norms of many societies. In a gendered world, why should a low-educated woman get a poorly paid job while having to pay for a baby-sitter instead of just staying home to take care of the kids herself?[86]

Aside from childcare, other social investment-oriented policies also tend to favour the better-offs more than those people from income- and work-poor households. This is the case for education policies (especially higher education), which are well-known for being potentially regressive (Fernandez and Rogerson, 1995; Garritzmann, 2016). Active labour market policies (ALMP) are also not exempt from Matthew effects. Activation programmes are generally targeted to harder-to-employ workers. If on the one hand this directs them to worse-off, disadvantaged social groups, it has been shown that the same awareness of this intrinsic property of public employment services discourages both employers and job seekers from using them. Employers try to avoid the 'worst' employees, and employees try to avoid the 'worst' employers (Larsen and Vesan, 2012). On top of that, once passed this sort of access bias, caseworkers of public

[85] The access bias can be due to availability or cost, or both, depending on the context and policy design (Kreyenfeld and Hank, 2000; Del Boca et al., 2005; Abrassart and Bonoli, 2015; Pavolini and Arlotti, 2015).

[86] The same considerations also apply to parental leave: more attractive to more educated people who generally live in households which are better inserted into employment (Bygren and Duvander, 2006; Lapuerta et al., 2011). For this reason, the analyses in this chapter include spending for leave policies into the social investment indicator.

employment services naturally tend to (re)insert into work the least socially disadvantaged among ALMP-users, by cherry-picking the job seekers that are more easily (re)employable (Bonoli and Liechti, 2018).[87] Overall, all kinds of employment-centred, investment-oriented measures are in some way vulnerable to Matthew effects (Bonoli et al., 2017 for a recent review).

These considerations take us to the following expectation:

H1: social investment-policy efforts are more effective in bringing (back) to employment better-off individuals (i.e., persons living in households where other people also work, and/or the higher educated).

Previous research has addressed similar issues either from an aggregate (country-level) perspective (e.g. Cantillon, 2011), or with a narrow focus on specific policy sub-fields in national or even regional and local cases (e.g. Van Lancker and Ghysels, 2012; Pavolini and Arlotti, 2015). Most importantly, the bulk of studies on Matthew effects in social investment policies have focused on social bias in the *access* to and use of social services, but not on the bias in the actual *outcome* of policies that potentially bring (back) into employment those persons who are already closer to the labour market. Since it is the latter case that reflects the mechanism actually hypothesized in Cantillon's 'paradox of social investment', the analyses in this chapter specifically look at the Matthew effect in respect to the (micro-level) employment outcomes of social investment. They do so from a novel cross-country perspective. Who actually made the employment gains of investment-oriented policies across EU welfare states?

5.1.2. Recommodification: pushing people to take up any job?

In Section 2.4.2 we discussed the distinction between fully-fledged social investments—geared at improving citizens' labour market *opportunities* as a means to pursue social inclusion—from workfare—whereby the priority becomes the inclusion into work *per se*, no matter the social conditions attached to it. In fact, policy-makers have two ways for achieving the objective of employment growth. On the one hand, they can invest in policies to boost people's human capital (education, training and upskilling services in general) and their actual opportunities to work while having to care for children or frail relatives at home (improving daycare services and work-family

[87] It has to be noted, however, that cherry-picking in ALMP is less common in Nordic welfare states (Bonoli and Liechti, 2018).

reconciliation measures). This is exactly what fully-fledged social investment is supposed to do. On the other hand, policy-makers can take a (cheaper) shortcut, by providing people with 'negative incentives' to take up jobs. These range from the tightening of work-conditionality requirements attached to passive transfers such as unemployment benefits and minimum income schemes, to reducing citizens' reservation wage (i.e., out-of-work income, recall from Section 4.1.3) by directly cutting social protection benefits (which makes it more compelling for the unemployed to find a job quickly in order to make ends meet). Both routes are directed towards the ultimate objective of recommodification: the integration of people into the market. However, while human capital investments increase people's opportunities to find better quality jobs—hence significantly improving their income conditions—the second route does not. Negative employment incentives make it more likely that people to take up lower-quality, poorly paid jobs, which are often not sufficient to grant them income security.

In this chapter, we take this economic wellbeing-aspect of social investment outcomes (which we refer to as 'income security') as an indication of the extent to which recommodification exposes social investment to workfare. In other words, we look at whether social investment policies not only improve European citizens' employment chances, but also the income conditions attached. More specifically, for those who do find a job in social investment-rich contexts, the entry into (quality) employment should go hand in hand with a substantial improvement of disposable income. Should this not be true, that is to say, when recommodification does not pay in terms of income security, it would be hard to empirically distinguish the outcomes of social investment from those of sheer workfare. This leads to the following theoretical expectation:

H2: Higher effort on social investment policies significantly improves the income of those who enter employment from one year (*t-1*) to the next (*t*).

An example may help to clarify. Imagine a middle-aged engineer whose company closes down: she finds herself unemployed and, most probably, with skills that have become obsolete since she started working. In all European member states, she would be entitled to some unemployment insurance scheme, of varying duration and generosity, which temporarily provides her with some income-support. Meanwhile,

since unemployment benefits are not lifelong (nor is it generally desirable to live on welfare), she will be looking for a job. Keeping the conditions of the labour market and of the economy constant (i.e., controlling for them), if social investment is in effect something more than sheer recommodification, it should make a difference whether the unemployed engineer can count on effective investment-oriented services, which for example give her the possibility to update her skills, or not. A social investment-rich welfare state environment should boost her possibilities to find a job which fits with her qualifications, and hence is paid well enough to significantly improve her income condition compared to when receiving unemployment benefit and other social transfers. By contrast, in a context which does not provide adequate upskilling services or job search assistance, the unemployed engineer would most probably have to downgrade to a scarcer-quality, lower-paid job, which would hence be associated with a smaller improvement in disposable income, if at all.

5.1.3. Can policy complementarities mitigate the unintended effects of social investment?

Some degree of inequality is somehow implied by the supply-side, employment-centred logic which underlies the social investment strategy. Social investment is in fact 'focused on maximising the chances of earning an income on the labour market', that—like every market does—'tends to generate inequalities and risks' (Van Kersbergen and Hemerijck, 2012: 489). Following from that, social inclusion is primarily seen as consequential for labour market inclusion. This logic unavoidably generates some 'losers', especially among those people who—for reason beyond their control—cannot find their way through work (cf. Cantillon and Van Lancker, 2013). This is what brought advocates of social investment to acknowledge the importance of (at least some) social protection policies in complementing investment-oriented measures for the joint pursuit of economic *and* social objectives (Esping-Andersen, Hemerijck, Gallie and Myers, 2002; Vandenbroucke et al., 2011; Hemerijck, 2015).

As explained above, social investment policies—typically services—often run the risk of incurring unintended Matthew effects, which perpetuate social inequalities. By contrast, social protection—especially in the case of unemployment benefits and social

assistance transfers to the poor—tends to be redistributive by design.[88] Whether through earnings-related social insurance, targeted or universal cash benefits, the purpose of social protection programmes is that of granting those out of work with some sort of income support (Esping-Andersen, 1985; Esping-Andersen, 1990; Korpi and Palme, 1998). This protects people from poverty and raises workers' reservation wage. Moreover, while social investment-oriented programmes sometimes fail to reach those people who are very distant from the labour market (like, for example, the low skilled and those living in jobless households), these social groups are the main target of social protection.

Therefore, social protection could in fact compensate for Matthew effect flaws of social investment, by catering for those who remain excluded from the labour market and by acting to provide a level playing field to those families which could otherwise hardly benefit from public investment in human capital and employment-centred services. This seems self-evident for minimum income schemes and unemployment benefits, that, although with wide cross-country differences in coverage and generosity, are crucial to protecting unemployed persons and to alleviating poverty (Vandenbroucke, Cantillon, et al., 2013; Esser et al., 2013). Beyond that, it applies also to other policy fields. For example, in her study on the relationship between educational and economic inequalities, Heike Solga warns that educational policies are not equalizing *per se*. Instead, policies for granting equal family conditions would be crucial to reducing economic inequality, in tandem with investments in children's education (Solga, 2014). Similarly, child benefits help reduce (single mothers') poverty, reaching households for which employment-centred care services are not a priority in the here-and-now (Van Lancker et al., 2015). Even pensions, the usual suspect for regressive cash benefits, may translate into intra-households transfers which act as a (suboptimal) substitute for other kinds of public support, buffering the needs of

[88] Moreover, assessing the redistributive impact of social services such as investment-oriented policies is a complex issue, far more complex than what is the case for cash transfers (Esping-Andersen and Myles, 2009). Some empirical investigations attempted to quantify it, and found that, although in-kind benefits (i.e. services) do have a relevant redistributive function in OECD countries, their inequality-reducing effect is lower than that of social protection cash benefits—excluding pensions (Esping-Andersen and Myles, 2009; OECD, 2011; Verbist and Matsaganis, 2012). An exception is found in the study by Vaalavuo on the distributive effects spending for 'old' and 'new' social programmes in Denmark, Slovenia, UK, France, Spain and the Netherlands. The study showed that, partially contrasting the Matthew effect thesis, spending on 'new' social services mostly flows to needy people, while social protection spending on programmes like pensions can well be regressive (Vaalavuo, 2013).

vulnerable persons beyond pensioners themselves—for example, young labour-market entrants. In fact, this is often the case in multigenerational households, especially in familialistic welfare states like those of Southern Europe (cf. Diris et al., 2017).

Based on this, I formulate the following hypotheses on the 'moderating' effect of social protection, which is plausibly expected to mitigate the Matthew effects and the recommodification pitfalls discussed in the two previous subsections:

H1b: Matthew effects in micro-level employment outcomes of social investment (H1) are less marked in welfare states which devote a comparatively high effort towards social protection programmes.

H2b: The positive impact of social investment on the income of employment-entrants (hypothesized in H2) increases (or becomes relevant) in welfare states that devote comparatively higher effort to social protection programmes—sustaining higher reservation wages which make workfare less likely.

5.2. Data and Variables: Adding Income Security as an Outcome Variable Aside Employment

The empirical analyses presented in this chapter are based on the same data sources used in Chapter 4, which are hierarchically structured. Individual and household-level data are taken from the longitudinal user database of the EU-SILC (European Union Statistics on Income and Living Conditions). Specifically, we selected non-overlapping subsamples of individuals interviewed for two years in a row, representative of 27 European countries (the EU plus Norway, but excluding Croatia and Germany—for which the longitudinal version of EU-SILC does not cover a sufficient number of years to apply the chosen modelling technique, explained below). The analyses cover a time-span of 10 years (2004-2013). An in-depth description of the micro-data and of all the variables is provided in Appendix 2. Since the main focus is on employment-centred policies, the sample is limited to working-age individuals (aged 20 to 64).

While the first part of the analyses, concerning H1 and H1b, relies on the same variables and models explained in Chapter 4—in which we take individual employment as dependent variable—some differences are present in the second part, in which we test H2 and H2b. H2(b) refers to 'income security' as the dependent variable, again at the individual level. We operationalize income security with reference to a person's

change in disposable income from one year *t-1* to the following, *t*. The dependent variable takes value 1 for upwards income transitions (i.e., increases in income) and for those who maintained the same income (+/- 5%) across two years. It takes the value 0 in the opposite case, that is to say, when an individual's income deteriorated by at least 5% of the starting level from one year to the next. The exact details of the operationalization are reported in the list of variables in Section A2.6 (Appendix 2), which also includes all micro-level controls used in the multivariate analysis (the same as in Chapter 4). Country-level variables are those already used in Chapter 4, including the Budgetary Welfare Effort (BWE) scores for social investment (SI) and social protection (SP) as policy variables of crucial interest, and a number of macroeconomic controls (see Section 4.2.2).

Table 5.1 shows the frequency statistics for the sample used to test H2(b), differentiating between upward and downward income transitions (the states of the dependent variable), and by the different employment transitions experienced by individuals from year *t-1* to *t*. Since we are interested in observing how, if at all, social investment can influence the income security of those people who found job from *t-1* to *t*, the models testing H2(b) focus on the specific subsample of 'employment-entrants', highlighted in bold in Table 5.1.

Table 5.1. Frequency statistics relative to the 'income security' dependent variable, by employment transitions from year *t-1* to year *t*: absolute numbers and column percentages. 'Employment-entrants' group highlighted in bold

Income security		Subsamples by employment transitions *t-1→t*				
(coded)	Transition *t-1→t*	Stay non-employed	**Become employed**	Become non-employed	Stay employed	*Total*
0	Downward	76,267	**9,315**	14,525	89,732	*189,839*
		44.0%	**32.4%**	49.5%	24.9%	*32.1%*
1	Upward / stay	96,938	**19,470**	14,827	271,056	*402,291*
		56.0%	**67.6%**	50.5%	75.1%	*67.9%*
Total		*173,205*	***28,785***	*29,352*	*360,788*	*592,130*
		100%	***100%***	*100%*	*100%*	*100%*

However, we take into account also the full sample (column 'Total') and the group of people who remained non-employed across the two years (first column in Table 5.1) as a yardstick to assess the plausibility of the effect of the policy-variables on the income security of, respectively, all persons in the sample, as well as persons who remained non-employed, and whose income security possibly benefited from out-of-work cash benefits received in the household (micro-level control variable) and/or from the social protection-orientation of their countries' welfare states (country-level variable).

5.3. A Multilevel Method to Grasp Micro-Level Inequalities in the Outcomes of Country-Level Policies

The analyses in this chapter rely on the same multilevel model specification used in Chapter 4 (explained in Section 4.3), with the only difference that here we do not disentangle the within- from the between-country effect of macro-level variables. We already did this in Chapter 4, finding that the micro-level (employment) outcomes of social investment are mostly due to across-country differences than to over-time changes in the policy effort. Keeping this in mind, we now focus on possible distributive inequalities and unfairness in social investment outcomes, intended as 'overall effects' (mixed between- and within-effects). We take individuals as level 1 (micro), while at level 2 (country-years) we model the effect of country-level variables which also vary across years. We add a level 3 (countries) to account for the wide across-country heterogeneity and to avoid overestimating significance levels of level-2 variables.

Models that refer to the Matthew effect-hypothesis test whether the employment outcomes of social investment are unequal among individuals living in households with varying work intensity (H1). They do that through a cross-level interaction between the BWE index for SI and the variable 'household employment situation'. The latter is a categorical variable which differentiates between three groups: (1) individuals living in jobless (or work-poor) households, (2) those living in households where at least one other member (i.e., without counting the respondent) is employed, and (3) those who form a single-member household. As a second step, a three-way interaction between the two variables above and the BWE index for SP is used to test whether the SP-

orientation of a welfare state effectively mitigates possible unequal effects of SI among different households (H1b). All interaction models above are run both on the full sample, and on a subsample including only individuals who were not employed in *t-1*. The latter case serves to assess the micro-foundations of Cantillon's 'paradox of social investment' more closely. To wit, it provides a more accurate test of whether, among the non-employed, those living in 'work-rich' households were in fact more likely to transition to employment compared to people living in worse-off households.

As for the recommodification-hypothesis, we model the two-year income transitions (upward/downward, along the definition of 'income security' given in Section 5.2) as the dependent variable. Specific attention is paid to the subsample comprising individuals who were not employed in *t-1*, but moved into employment in year *t*. Since social investment essentially aims to enhance social inclusion through work, it is exactly among this group that, as a monetary reflex of the job 'quality', we would expect to see a positive influence of the policy effort put into SI on the income security of newly employed individuals—provided that the workfare-side of recommodification does not prevail (H2). In a subsequent step, we also interact SI with 'household income situation' and 'education' (both level-1 variables) to see whether sheer recommodification is actually the case (only) for socially disadvantaged persons. Lastly, we interact the two policy variables SI and SP in order to test the expectation according to which the income security-enhancing effect of SI increases (or becomes relevant) in countries that put higher efforts on the SP-dimension of the welfare state (H2b), supporting the general workers' reservation wage and thus fending off the risk of workfare.

5.4. Empirical Results from Multilevel Models: Social (Un)fairness in Individual-Level Outcomes of Social Investment

5.4.1. Matthew effects in micro-outcomes of social investment: improving the employment chances of those who live in work-rich households

In this empirical section we test the individual-level employment outcomes of social investment inspected in Chapter 4 (see Table 4.1) for Matthew effects, by checking whether these outcomes change for persons living in households with different

employment structures and with different levels of education. Does social investment reward the better-off more, as we hypothesized in H1?

The answer to this question is positive only in relation to the employment structure of households. The positive effect of social investment on the likelihood of being employed does not seem to vary depending on individuals' educational levels (the marginal effects of SI for different levels of education—not shown here—do not significantly differ); at least in this respect, social investment outcomes appear socially fair. However, when one looks at the work-intensity of the households in which respondents live, a clear Matthew effect pattern emerges. Table 5.2 shows a number of multilevel regressions in which the effect of SI is modelled in interaction with the household employment structure (categorical variable, see Table A2.6 in Appendix 2 for the coding). The two-way cross-level interaction turns out significant both in the full sample (Model 2) and in the sample restricted to those individuals who were not employed in year *t-1* (Model 3).

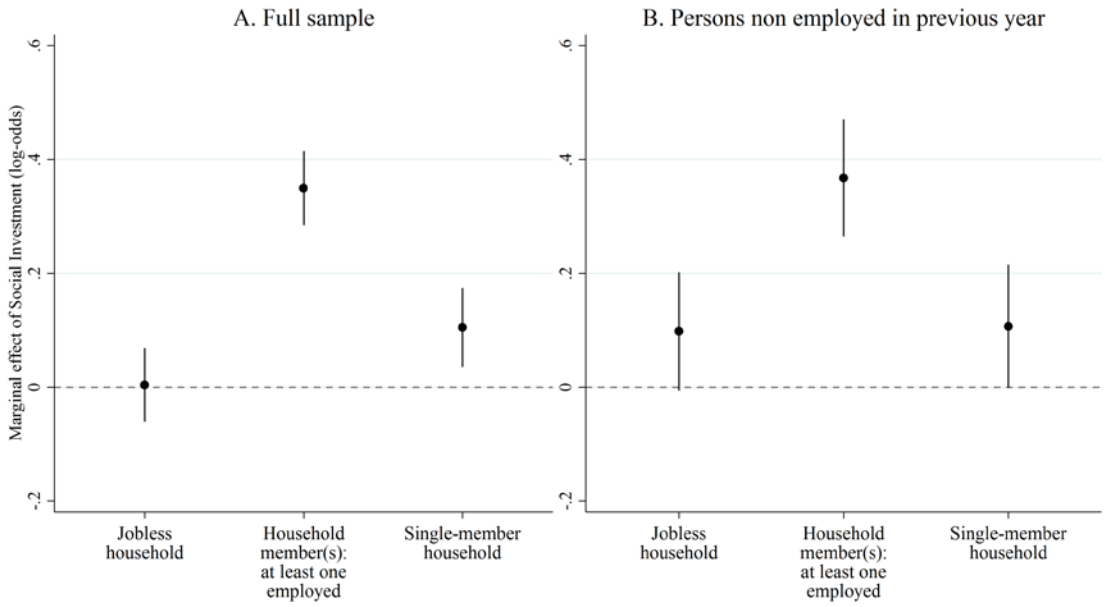
Figure 5.1 makes the interaction visible, revealing exactly the Matthew effect pattern postulated by Bea Cantillon. SI increases the likelihood of being employed for people living in work-richer households (i.e. households where at least one other member is employed—notice that household size is being controlled for), but not for people living in work-poor/jobless households. In single-member households (i.e. when the respondent equals the household), the effect of SI is positive, but significantly smaller than that in work-richer multi-member households. The same pattern holds when one restricts the sample to those that were not employed in the previous year (Figure 5.1b). Indeed, this unearths the micro-level roots of the explanation that Cantillon elaborated in the 'paradox of social investment', on the mismatch between the increase of employment levels and the absence of a reduction of poverty. As our multilevel analysis shows empirically, policy efforts on SI favour the transition into employment only of those individuals who live in work-richer households. This potentially triggers cumulative advantage: the households which are already better attached to the labour market acquire further employment gains, while the work-poor tend to remain as such, which leaves them exposed to poverty and social exclusion.

Table 5.2. Logistic multilevel models of individual employment. Log-odds coefficients of country-level variables (micro-level variables omitted: see full base model in Table A3.2): Model 1includes only SI; Models 2-5 test for 'Matthew effect' hypotheses by adding cross-level interactions

DV: employed	Model 1 (full sample)	Model 2 (full sample)	Model 3 (non-empl.t-1)	Model 4 (full sample)	Model 5 (non-empl.t-1)
Level 1: individual (N=592,132; micro-level: controls omitted)					
Year dummies (omitted; jointly significant with p<0.001)					
Employment situation of other HH members (Ref.: 'No one else employed in the household')					
At least 1 employed	1.46***	1.51***	2.11***	1.46***	2.06***
Single-member HH	0.39***	0.42***	0.60***	0.41***	0.61***
Level 2: country-years (N=208; all variables refer to t-1; standardized coefficients)					
Social investment (SI)	0.16***	0.00	0.10	0.03	0.13*
Social protection (SP)				-0.05	-0.09
Two-way interaction with 'Household employment situation'					
SI × 'At least 1 employed'		0.35***	0.27***	0.30***	0.20***
SI × 'Single-member household'		0.10***	0.01	0.07**	-0.01
Three-way interaction with 'Household employment situation' and 'SP'					
SI × SP				-0.05	0.05
SI × SP × 'At least 1 employed'				0.14***	0.14***
SI × SP × 'Single-member household'				0.03	-0.04
Variance components					
Var. (Country)	0.0209**	0.0246**	0.0755**	0.0240**	0.0700**
Var. (Country-years)	0.0289***	0.0339***	0.0461***	0.0332***	0.0438***
Log-likelihood	-155595.9	-155253.9	-62435.6	-155205.8	-62402.67
AIC	311253.9	310573.7	124935.3	310489.5	124881.3
BIC	311604.0	310946.4	125262.2	310929.9	125269.6
N	592,132	592,132	201,991	592,132	201,991

Note: * p<0.05, ** p<0.01, *** p<0.001

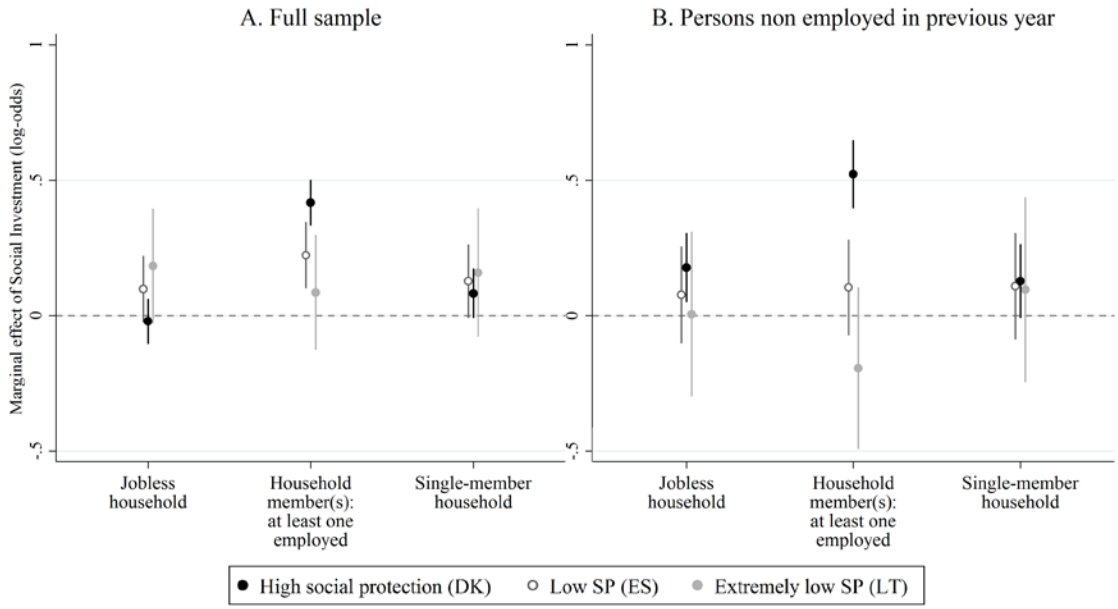
Figure 5.1. Marginal effect of social investment on individual employment likelihood for different household employment situations: (A) in the full sample, from Model 2; (B) only among persons who were not employed in year *t-1*, from Model 3. 95% confidence intervals



Does the social protection-orientation of a welfare state mitigate this Matthew effect? In other words, does it make social investment-employment outcomes less unequal across households with different employment structures? Figure 5.2 gives the answer, by plotting three-way interactions from Models 4 and 5 showed in Table 5.1 (i.e., the marginal effects of SI conditional on the household employment structure, in turn conditional on countries' SP scores, for the full sample [a] and among persons not employed in year *t-1* [b]). Based on this, H1b is partially confirmed. Figure 5.2A shows that, in the full sample, the Matthew effect pattern remains by and large unvaried regardless of the SP score; notably, where SP scores the lowest—the case of Lithuania (LT) in our sample—the effect of SI is not even observable for people living in work-richer households. However, when narrowing the focus to individuals that were not employed in *t-1* (Figure 5.2b), the picture changes. In countries with the comparatively highest SP scores (the figure reports the case of Denmark [DK]), SI shows a positive effect on employment *also* for people living in jobless households (notice that the confidence interval for Denmark in that specific household-type does not cross the 0-line in Figure 5.2b). To be sure, high levels of SP seem to effectively mitigate this kind

of Matthew effect. Once again, as shown otherwise in Chapter 4, policy complementarities matter. In this case, the combined action of SI *and* generous SP makes SI-employment outcomes less socially unfair.

Figure 5.2. Marginal effect of social investment on individual employment likelihood for different household employment situations and at different values of social protection (SP): (A) in the full sample, from Model 4; (B) only among persons who were not employed in year *t-1*, from Model 5. 95% confidence intervals



5.4.2. Is employment worth the effort? Social investment does not always improve the income security associated with getting a job

In this subsection we try to assess whether social investment is empirically distinguishable from workfare. More specifically, as we explained in Section 5.1.2, we do that by looking at whether social investment pays off not only in terms of likelihood to be employed, but also in terms of income security for those who enter employment (H2), and whether such income improvements attached to work are higher in welfare states which are generous on the social protection dimension (H2b).

The multilevel regressions shown in Table 5.3 reveal some interesting findings. First, the full-sample model (Model 1) shows that SI is positively associated with individual income improvements, also when controlling for a number of micro-level

compositional characteristics, for the time-trend, and for relevant country-level macroeconomic factors. Overall, those people living in countries which put higher efforts into SI policies are more likely to experience upward income transitions from one year to the next. However, this finding relative to the full sample does not tell us much about the recommodification-pitfall of social investment. In order to test the expectation raised in H2 more finely, Model 3 narrows the focus on the sample composed only of those who entered into employment from one year (*t-1*) to the next (*t*). Contrary to our expectation, SI does not seem to support the income security of employment-entrants: its (direct) effect is not statistically significant. However, its effect conditional on individual socioeconomic characteristics tells a rather different story.

Table 5.3. Logistic multilevel models of individual income security. Log-odds coefficients of country-level variables (micro-level variables omitted): Model 1 includes only SI; Models 2-5 test for 'Matthew effect' hypotheses by adding cross-level interactions

DV: income security	Model 1 Full sample	Model 2 Stay non-employed	Model 3 Become employed	Model 4 Become employed	Model 5 Become employed	Model 6 Become employed
Level 1: individual						
Constant	-0.15	1.25***	2.60***	2.64***	2.61***	2.57***
Age	0.04***	-0.08***	-0.10***	-0.10***	-0.10***	-0.10***
Age square	-0.00***	0.00***	0.00***	0.00***	0.00***	0.00***
Male	0.12***	-0.16***	-0.10***	-0.10***	-0.10***	-0.10***
Children <5 (dummy)	-0.25***	-0.15***	-0.10*	-0.09†	-0.10*	-0.10*
Male X Children<5	0.27***	-0.11**	0.02	0.01	0.02	0.02
No. of children (<18)	0.11***	0.20***	0.10***	0.11***	0.10***	0.10***
Married	-0.12***	-0.22***	-0.20***	-0.21***	-0.21***	-0.20***
Education (ref.: Low):						
Education (medium)	0.07***	-0.19***	-0.07*	-0.07*	-0.07	-0.07*
Education (high)	0.24***	-0.36***	0.00	0.00	0.00	0.00
Bad health	0.02†	0.44***	-0.12†	-0.11	-0.12	-0.12
Household (HH) size	-0.21***	-0.04**	-0.05†	-0.07*	-0.05	-0.05
Employment situation of other HH members (ref.: no one else employed in the HH):						
At least 1 employed	0.53***	0.02	0.55***	0.51***	0.55***	0.55***
Single-member HH	0.24***	0.09***	0.30***	0.25***	0.29***	0.30***
Cash benefits	0.01***	**0.04*** **	0.00	-0.00	0.00	0.00
Year dummies (ref.: 2004):						
2005	0.07	-0.02	-0.12	-0.12	-0.12	-0.11

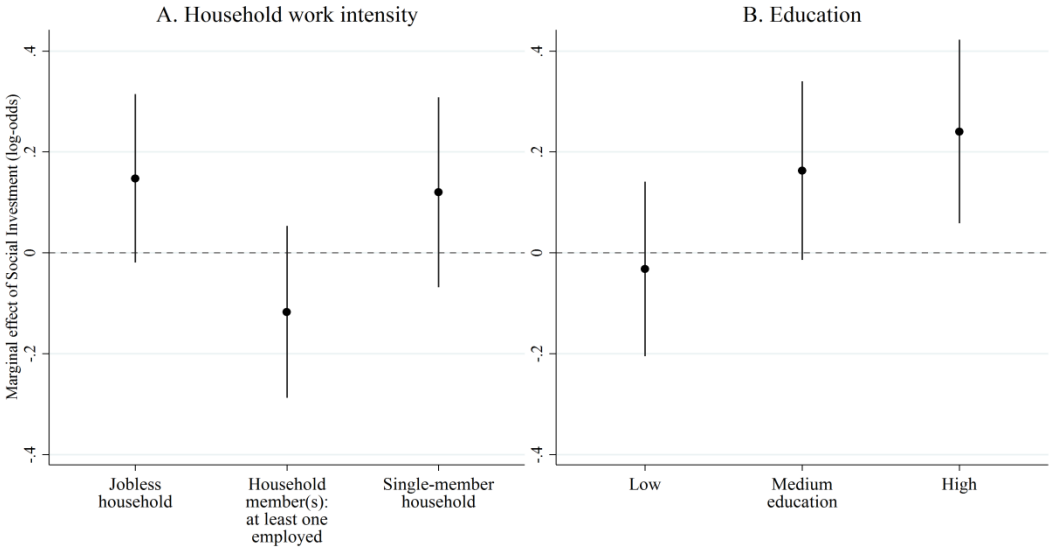
2006	0.19	0.17	-0.05	-0.05	-0.05	-0.04
2007	0.24*	0.21	0.2†	0.19	0.2†	0.21
2008	0.05	0.14	-0.04	-0.06	-0.04	-0.03
2009	-0.28*	-0.18	-0.33**	-0.35**	-0.33**	-0.32**
2010	0.37**	0.24	0.1	0.1	0.1	0.1
2011	0.15	0.17	-0.07	-0.07	-0.06	-0.06
2012	0.04	0.06	-0.28*	-0.28*	-0.28*	-0.27*
2013	-0.13	-0.08	0	-0.01	0.01	-0.01
Level 2: country-years (N=208; all variables refer to t-1; standardized)						
Social Investment (SI)	0.21***	0.05	0.01	0.15	-0.03	-0.01
Social Protection (SP)	0.04	0.03	0.13†	0.13†	0.13†	0.15†
GDP per capita	0.04	0.08	-0.03	-0.04	-0.03	-0.05
GDP growth	0.19***	0.12**	0.18***	0.18***	0.18***	0.18***
Welfare size	-0.12	-0.23*	0.01	0.02	0.00	0.02
Unemployment rate	0.03	0.09*	0.10**	0.10*	0.10**	0.10**
SI x 'At least 1 employed in the HH'				**-0.25*** **		
SI x 'Single-member HH'				-0.01		
SI x 'Medium education'					0.03	
SI x 'High education'					**0.11***	
SI x SP						0.05
Level 3: country (N=27; no variables explicitly modelled)						
Variance components						
Var. (Country)	0.04**	0.09**	0.10**	0.10**	0.10**	0.11***
Var. (Country-years)	0.10***	0.09***	0.04***	0.05***	0.04***	0.04***
N	592,130	173,205	28,785	28,785	28,785	28,785

Note: † p<0.10, * p<0.05, ** p<0.01, *** p<0.001

Models 4 and 5, which also restrict the sample to the non-employed in *t-1*, include respectively the interactions between SI and household employment structure and between SI and the respondent's level of education. The significant interaction coefficients seem to point to relevant patterns: the income-enhancing effect of SI seems to unravel differently among individuals in different situations. In order to interpret these patters, Figure 5.3 plots the marginal effects for the cross-level interactions included in Models 4 and 5. It becomes clear that SI does not significantly boost income security for any household employment-type (Figure 5.3a). However, we see from Figure 5.3b that the effect of SI becomes significant for (and only for) the most educated individuals. Therefore, H2 is rejected for all individuals but the most educated. In other words, along with what seems to be nothing but another side of the Matthew

effect, the highly educated are the only ones that appear to be safe from the workfarist face of the recommodification intrinsic to social investment policies. For all other people who entered employment from one year to the next, the income-enhancing impact of a country's SI-policy effort is negligible.

Figure 5.3. Marginal effect of social investment on individual income security for different household employment situations (A, from Model 4) and individual levels of education (B, from Model 5). 95% confidence intervals



On the other hand, we posited in H2b that the effect of SI on income security could materialize in countries which also put a high effort on SP policies, potentially providing the job-seekers with out-of-work income-support good enough to allow them to avoid bad job offers. Empirically, this does not seem to be the case: the coefficient of the interaction between SI and SP in Model 6 is not significant (Table 5.3). Nevertheless, this 'bad news' for SI is somehow counteracted by some positive notes on the direct (i.e. not interacted with SI) effect of out-of-work protection-oriented policies. Firstly, as one would logically expect to observe, household benefit receipt (the continuous variable 'cash benefits', expressed as share of GDP per capita and scaled 0 to 100) seems to enhance income security for those who stay *non*-employed (unemployed or inactive) between two years (Model 2). Intuitively, cash benefits help to improve the income condition of those out of work. Secondly, although the

interaction between SI and SP is not significant, the coefficients on SP are. This points to a direct role played by the SP-side of the welfare state in preventing what we defined as workfare in Section 5.1.2. SP seems to directly sustain the income security of those who entered employment (coefficients on SP are marginally significant throughout Models 3 to 6). This is a possible sign of an anti-workfare effect of SP that unravels directly, and not jointly in interaction with SI. Through the guarantee of a generally higher reservation wage, SP plausibly contributes to making it less likely for people who are '(re-)commodified'—i.e. who enter employment—to take up jobs that are not worth the effort in terms of an improvement of disposable income.

Overall, two considerations emerge. First, SI policies are directly associated with income improvements for those who enter employment (with the only exceptions being the most educated persons, who are more able to profit from employment-centred investments in order to get the best jobs). In our framework, this means that SI-policy efforts remain liable to workfarist tendencies. Second, the income security-enhancing impact of SI does not change—i.e. does not become empirically observable—depending on the SP-orientation of a welfare state. Instead, it is SP *per se* which directly fends off the risk of workfare. Regardless of the level of SI, SP thus remains crucial not only to support the income of non-employed people (think for example of unemployment and anti-poverty transfers), but also to make their entries into employment 'worth the effort', at least in monetary terms.

5.5. Conclusions

This chapter has focused on the social fairness side of social investment micro-outcomes, by putting to the empirical test the two most influential critiques generally levelled at the emerging welfare paradigm. We asked first whether the employment gains of social investment (investigated in the previous chapter) primarily go to the most socially advantaged individuals, along the lines of the Matthew effect pattern postulated in Bea Cantillon's 'paradox of social investment' (Cantillon, 2011). Then, we looked at whether higher efforts put into social investment at the country-level entail not only better individual employment chances, but also a significant improvement of the disposable income of those who enter employment from one year to the next.

The short answers to these questions would be yes and no respectively, bringing the

enquiry into social investment outcomes to a gloomy conclusion which adds up to a 'glass half-empty' perspective (see Chapter 4). The findings nevertheless require further elaboration. Yes, the employment gains attached to social investment seem to flow mostly to those people who live in work-rich households, while those in work-poor households, who would most benefit from employment, remain excluded and hence more exposed to poverty and social exclusion. If on the one hand this accurately confirms the micro-foundation of Cantillon's paradox, it is worth noting that we did not find any Matthew effect pattern in respect to individuals' level of education—one of the usual suspects of social stratification. At a general level, the overall SI-policy effort does not seem to reward more the most-educated. Instead, it appears 'socially fair' in this respect, as it potentially increases the likelihood of employment for people at all educational levels. Future research should inspect more closely whether this holds for all policy subfields which comprise the social investment dimension of a welfare state.

But are these employment gains worth the effort in terms of improved income conditions? The short answer to this sort of litmus test of the *social* potential of social investment is no. SI-policy efforts are not associated with individual income improvements for those who transitioned into employment from one year to the next. To be more precise, such income gains manifest empirically only for high-educated people, this time highlighting a potential Matthew effect in this respect (the most educated get the best job, [also] thanks to social investment?). This makes it empirically hard to fully distinguish the outcomes of social investment from that of workfare, or, at least, strikes a cautionary note on that. Although a fully-fledged social investment strategy should pursue recommodification through the 'high road' of human capital- and work-life balance-enhancement, the 'low road' to recommodification—not necessarily through stricter work-conditionality and social rights' retrenchment, but plausibly also through lower-quality education, activation and daycare services—remains a concrete case, which exposes the new welfare blueprint to the pitfall of workfare. In this chapter we tried to assess this through a (simple) monetary measure of the benefit which should come together with entry into employment, especially in a social investment oriented context—income security. In fact, the benefits attached to work are far wider than this. Finding a job often means improving chances of social inclusion, cohesion and subjective wellbeing well beyond the sheer monetary aspect of earning a wage

(Andersen, 2008; Atzmüller, 2009; Sage, 2015; Rose, 2018). Nevertheless, we deemed income security appropriate to assess the workfare-pitfall of social investment in the most direct way. Further research will inspect other fundamental aspects of the 'quality of life' in relation to the social investment interventions, and which could surely make employment worth the effort from perspectives other than that of economic wellbeing (for example, see OECD, 2017b).

A last note regards, once again, across-country differences in the policy mix. In this chapter we saw that more encompassing social protection mitigates potential Matthew effects, and makes workfare less likely. Still, as evident from Chapter 3, not all European welfare states are endowed with generous (and effective) social protection systems. In other words, not all are equipped with the proper policy tools to limit the 'social shortcomings' of social investment. In fact, inequality in social investment outcomes between countries could translate in a sort of macro-level Matthew effect: a worrying prospect which we discuss in Chapter 6.

6

Summary and Conclusions

Has the European Social Model (ESM) already gone? Mario Draghi's provocative statement on the death of the ESM—the opening quote in Chapter 1—sounded an alarm in the midst of the deepest economic and social crisis ever since the creation of the European Community. For almost seventy years now, European welfare states have underpinned among the most durable and cohesive liberal democracies in the world. They did that by redistributing the wealth and stemming the social inequalities generated by the market: this is the gist of the model that has successfully made Europeans' economic and social wellbeing go hand in hand throughout the second half of the 20th century, and that has been reaffirmed in the principle of '*social* market economy' on which the EU is founded.[89] Against this backdrop, the question as to whether Europe can do without its Social Model largely sounds rhetorical.

Since long before the President of the European Central Bank figuratively buried the ESM, both academics and policy-makers have striven to find a way to rescue it from the crisis. Over the last two decades, social investment has become the most influential policy blueprint for recasting the ESM. The imperatives of social investment formed part of the Lisbon Strategy for growth and cohesion in 2000, and were bolstered by academic advocacy until being explicitly endorsed by the European Commission with the adoption of the Social Investment Package (European Commission, 2013a, 2013d), in an attempt to take up the challenge 'to make long-term social investment and short-term fiscal consolidation mutually supportive at both the EU level and in the Member States' (Vandenbroucke et al., 2011: 5). In a way, the social investment strategy aims to

[89] Article 3 of the Treaty of Lisbon states that: 'The Union shall establish an internal market. It shall work for the sustainable development of Europe based on balanced economic growth and price stability, a *highly competitive social market economy*, aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment. It shall promote scientific and technological advance' (European Union, 2008; author's italics).

redraw the 'social contract' which kept European societies together. It does so by proposing a new recipe to reconcile the changed economic and social challenges of twenty-first century welfare capitalism (see Chapter 2). Taking stock of a reform process which is underway in the bulk of advanced welfare states, the social investment blueprint emphasizes investments in human capital and citizens' opportunities of labour market participation (for example, through education, activation and work-family reconciliation policies) over social protection programmes that, established since the postwar, provide those out of work with income compensation. The stress social investment puts on employment-friendly social policy is said to be the key to make today's increasingly costly welfare states sustainable. More and better employment would in fact imply more revenues to shore up existing social programmes and put in place new ones, with a view to effectively catering for both 'old' and 'new' social risks. (see Section 2.1.3). But is this really the case? And is such a social policy strategy affordable for all European welfare states, the bulk of which are cross-pressured by burdensome institutional legacies and mounting fiscal constraints?

This thesis has moved the first steps towards finding an answer to these questions. Chapter 3 mapped the trajectories of welfare recalibration taken by European countries across the time of the crisis, by looking at where they (re)directed their budgetary efforts. Chapter 4 tested whether social investment-oriented policies effectively translated into improved employment chances for European citizens—the prime economic objective of the emerging policy paradigm. Chapter 5 focused instead on the effectiveness of social investment in terms of social fairness, by investigating how its employment outcomes are distributed across citizens and households with different socioeconomic characteristics, and whether social investment supports income security along with inclusion into employment.

The results are not as positive as one could expect. Taken all together, the findings from the three empirical chapters reveal a picture which leans towards that of a glass half-empty. To be more precise, the 'glass' is actually half-full when it comes to the employment-enhancing potential of social investment, whose micro-foundations are reinforced in our empirical analysis. We could even speak of a completely full glass in the case of the most social investment-oriented among European welfare states (typically Nordic countries, but also some continental countries, like Austria and

Germany, which have shifted significant resources towards social investment over the last decade [see Chapter 3]). However, the bulk of member states lag behind in terms of development of social investment (and, often, also in terms of social protection), and post-crisis austerity certainly does not make it easier for them to catch up. On top of that, Chapters 4 and 5 have shown that for this 'laggards' the positive outcomes of social investment are less evident, while the side effects are emphasized. It is only in a context of integrated, well developed investment- *and* protection-oriented policy efforts that a welfare state can reach the social and economic goals wished for by social investment advocates. Across-country disparity in this respect, together with the prospect of further divergence, makes the glass look half-empty.

The next sections summarize and discuss the findings, differentiating between those adding up to the 'glass half-full' and to the 'glass half-empty' perspectives. The scope to which these findings apply, and their limitations, are also made explicit. Keeping these caveats in mind, the second and last section finally speculates on the policy—and political—implications of our findings in the context of today's E(M)U.

6.1. Summary of Key Findings

6.1.1. The glass half full...

A positive picture emerged from the general progress made by social investment in EU countries' welfare state budgets since the launch of the Lisbon Strategy in 2000. Whereas one could have expected policy legacies to be 'sticky', and trajectories of (budgetary) welfare recalibration to be path-dependent, governments in virtually all member states expanded the resources devoted to social investment policies since 2000 (see Figure 3.2). Although the onslaught of the crisis braked the progress of social investment in public budgets (see the next section), the overall positive trend was not reverted by the economic downturn. With very few exceptions (namely Italy and the Netherlands, the latter starting however from a well-established investment-oriented framework), the budgetary efforts put by EU member states into social investments were higher in 2014 than in 2000, also in countries with less developed and more imbalanced welfare states. As we observed in Chapter 3, from this perspective a 'high road to social investment' seemed financially viable during the 2000s.

A second positive note regards the general employment potential of social

investment. Matching with previous findings from country-level-only analyses (Huo et al., 2008; Nelson and Stephens, 2012; Hemerijck, 2013; Ahn and Kim, 2015; Hemerijck et al., 2016), Chapter 4 showed that, indeed, social investment goes hand in hand with higher individual employment chances. Nevertheless, this seems to be due to enduring differences in welfare states' characteristics, rather than to over-time changes in the effort governments put into new policies. Moreover, social investment effectively cushioned the employment shock over the crisis years. It did so in a sort of preventative way. While traditional 'shock absorbers' such as unemployment benefits buffer the consequences of unemployment *ex post* through income-support for those who have lost their job, we saw that, in the most social investment-oriented welfare states, the employment shock brought by the 2008 crisis was cushioned in the first place *ex ante*: also when controlling for various macroeconomic factors, people's attachment to work remained higher (see Section 4.4.2).

Lastly, good news for social investment comes from the empirical observation of policy complementarities between investment- and protection-oriented policies. For example, as shown in Section 4.4.3, social investment significantly reduces the employment disincentives possibly attached to cash benefit receipt and, at the country level, to generous social protection efforts. Notable policy complementarities also emerge with regard to the side-effects of social investment: while the employment gains from social investment tend to disproportionally reach better-off households (those which already have a stronger attachment to the labour market), this inequality-enhancing 'Matthew effect'[90] is less evident in countries which are more generous on the side of social protection. In fact, social investment seems to lead to the desired economic and social outcomes when its recommodifying action is 'buttressed' by the decommodification function of social protection. The combination of the two welfare dimensions allows inclusion into employment to stay aligned with social inclusion, thus keeping the inequalities intrinsic in the (labour) market under control. However, this consideration on policy complementarities brings us to more negative perspectives on the extent to which social investment works in the real-world of profoundly diverse European welfare states.

[90] See Sections 2.4.2 and 5.1.1 for a discussion of the Matthew effect in social policy.

6.1.2. ...The glass half empty

The findings of Chapter 3 on the expansion of social investment from 2000 to 2014 have a flip side. Notably, the economic crisis—and the turn to austerity—drastically braked the progress that social investment had made in the early days of the euro and of the Lisbon Strategy (the halt is evident in Figure 3.3b, and more detail available in Table 3.3). At the outbreak of the crisis, many governments shifted from increasing the resources put into social investment (and often also into social protection) to retrenching both dimensions of the welfare state. Where full-blown retrenchment did not materialize, a mild expansion of the financial efforts put into social investment policies came to the detriment of those put into social protection (Figure 3.4). In other words, when the fiscal space available for welfare recalibration was squeezed by the economic crisis, the scenario of a 'resource competition' between social investment and protection—that was less of a problem prior to the crisis (Vandenbroucke and Vleminckx, 2011; Kuitto, 2016)—became a matter of concern. Needless to say, the countries where such budgetary trade-off turned out to be sharper are by and large also those holding the most imbalanced welfare legacies, and which would benefit the most from social investment reform. Still, in the aftermath of the economic crisis, social retrenchment rather than investment has become the rule for them. By contrast, better-off welfare states in continental Europe—less affected by the crisis—have continued to catch up with the Nordic 'champions' of social investment.[91]

The clearest glass half-empty picture emerged—unexpected—in Chapter 4. The statistical analyses showed that, in general, social investment increased the individual likelihood of employment. However, when we disentangled the within- (i.e. over time) from the between-country effect of social investment policies, only the latter turned out significant. Substantively, this means that the positive impact of social investment on people's employment prospects is due to the general orientation of the welfare state in which a person lives—which has to do with enduring policy legacies consolidated through time and, in statistical terms, possibly also with other unobserved sources of

[91] The most evident case of policy reversal after the onslaught of the crisis is that of Spain. After having embarked on the road of social investment reform in the early 2000s (Moreno, 2008), when the financial crisis broke Spain turned to austerity and welfare retrenchment (the same centre-left government which had previously pushed forward investment-oriented reforms implemented the first cutbacks, that were then carried on more decidedly by the centre-right), this largely jeopardizing the catching-up process started in previous years (León and Pavolini, 2014).

heterogeneity—rather than to increases of the budgetary effort made by governments over time. The (speculative) exercise in Figure 6.1 helps to better understand the possible implications of this. Taking profit of the fact that the country-level variables used in the analyses in Chapter 4 vary both between countries and over time, we added random slopes to the level-2 (i.e. country-years) social investment-policy indicators in the full model (Model 7 in Table 4.1). The result goes in the same direction of the interpretation we have given of the non-significant within-effect of social investment.[92]

Figure 6.1. Random effects of social investment on the individual likelihood of employment (added to Model 7 in Table 4.1, Chapter 4) and average social investment-budgetary welfare effort scores, for 27 European countries

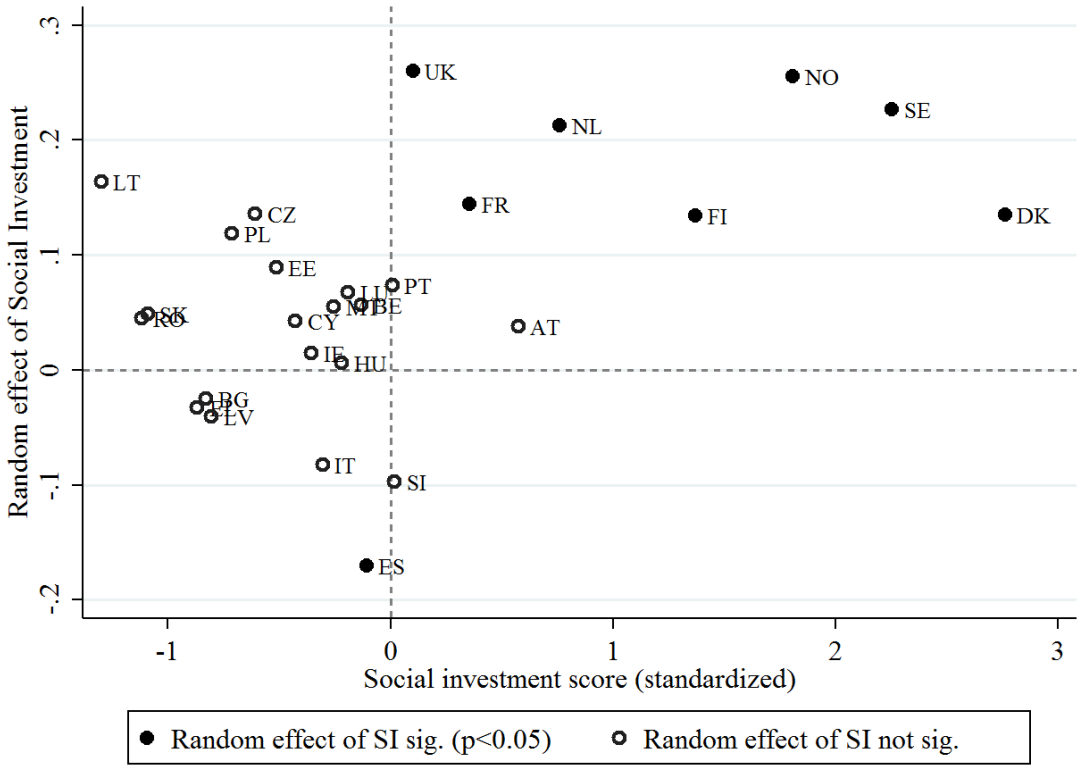


Figure 6.1 plots for each country the random effect of social investment (which varies across countries) against the country-average social investment budgetary welfare

[92] However, in the model used here the variance components of the random effects were *not* statistically significant. Hence, this has to be taken as a merely speculative exercise, which serves for illustrative purposes only.

effort score (recall from Chapter 3 and Appendix 1). It is evident that the effect of social investment is more positive—or statistically significant at all (full dots in Figure 6.1)—in countries that score higher on social investment. These are Nordic countries in the top-right corner of the graph, followed by the UK, the Netherlands and France. For most member states (those that score medium-to-low on social investment, at the centre of the plot), the effect of social investment is not statistically significant, and it even becomes negative in the case of Spain.

Together with what we observed above, this glass-half-empty picture reminds a typical Matthew effect pattern. 'Better-off' countries, which already hold more investment-oriented welfare arrangements, benefit the most from social investment efforts, and reap the desired fruits in terms of employment gains: a similar story to that told by the significant between-effect of social investment, whereby positive outcomes are linked to long-standing welfare legacies. By contrast, in the short-to-medium term captured in our analyses, 'worse-off' welfare states apparently do not witness the positive effects of social investment on employment at all, in the same way as they are not likely to see the effect of increased investment-oriented policy efforts over time (i.e., the non-significant within-effect in Chapter 4).

A last note regarding policy complementarity adds up to the glass half-empty perspective. Both Chapter 4 and 5 showed that policy complementarities between investment and protection policies emerge, whereby the former compensate for the latter's deficiencies in terms of employment (dis)incentive (Section 4.4.3), and the latter are crucial to remedy shortcomings of social investment, such as Matthew effects and the workfarist tendencies implicit in recommodification (Section 5.4). However, this complementarities manifest only when the budgetary effort put into social protection is high, which is not the case in the bulk of member states (especially for less developed welfare states in Eastern Europe and for insider-biased, patchy social protection systems in the Southern periphery of the EU [see Sections 2.2 and 2.4.1]). In the (many) European countries where the social policy mix is non optimal, inequalities and social unfairness remain likely to arise as side-effects of social investment. Rather than favouring a 'high road' to truly inclusive social investment, the unsteady social protection foundations of these member states risk to channel them towards the more workfarist, neoliberal side of the policy strategy.

6.1.3. Scope of the findings and limitations

The empirical results presented above have to be taken with caution. It is worth to stress that these findings apply to a specific scope, constrained by some limitations in the analyses and by the choice of the variables of interest. In this regard, three main points should be highlighted.

First, there is a crucial temporal dimension in the social investment strategy, which is essentially future-oriented (Kvist, 2015). Many of the policies that form the backbone of the social investment paradigm, such as (early-)education, are investment in human capital that are expected to yield long-term 'returns', which would possibly become visible in ten- or even twenty-year time. For example, today's investments in early childhood education and care can improve parents' opportunities to participate in the labour market in the here-and-now. However, the arguably most important returns on this kinds of social investments will materialize only when today's children will have grown up, and will hopefully be able to reap the (cumulative) fruits of education in terms of better employment and life chances (Heckman, 2006; Cunha and Heckman, 2007; Brilli et al., 2016), which potentially contributes to both their individual well-being and the economic sustainability of the welfare state (see Section 2.3.1).

The analyses presented in this book, as well as most of the empirical research on social investment, focus on shorter-term (employment and distributive) effects of social investment policies. That is to say, those outcomes which can become visible in a time span of 1-2 years, like for example the increased likelihood of employment associated to interventions which range from activation to work-family reconciliation policies of various kinds. Although education and training can well generate employment benefits in the short term (especially for young people), the bulk of their returns would be better grasped in a long-term perspective. This is out of the scope of this book, while it is addressed in other studies—mostly in the field of economics—based on longer panel data however generally available for one country only (for example Heckman, 2006; Diris and Vandenbroucke, 2016).

A second cautionary note regards the choice on how to measure the independent variable—welfare effort. In the analyses conducted in this book, I deliberately chose to focus on the 'input side' of welfare policies, that is, spending (more precisely gauged through indicators of the 'budgetary welfare effort' based on the original Social

Investment Welfare Expenditure dataset [Chapter 3; Appendix 1]). At a time of tight financial and economic constraints, the 'fiscal skeleton' of social investment (De Deken, 2014) arguably becomes more salient, since policy-makers are faced with (politically salient) budgetary trade-off in the here-and-now. This means that policy-makers can hardly expand all welfare dimensions, and distribute the benefits to multiple political constituencies. In a context of austerity, they have to cut expenditure on some programmes in order to be able to expand others, and this often comes at a political cost. In spite of its relevance, the focus on the spending, input-side of the welfare state does not catch other aspects of social policies, which concern instead policy 'outputs' (for the distinction and an overview of the wide debate on this matter, see Clasen and Siegel, 2007; Otto, 2018). The specific characteristics of the social programmes enacted through welfare spending are not directly taken into account in this book. In the case of social protection transfers these characteristics include coverage, generosity and the duration of the benefits: aspects which formed the base of Esping-Andersen's seminal measurement of 'decommodification' (Esping-Andersen, 1990; see also Allan and Scruggs, 2004; Van Vliet and Caminada, 2012; Ferrarini et al., 2013; Scruggs, 2014), and which inspired more recent bottom-up measurements of actual 'benefit recipiency' from survey data (similarly to what we did for the 'cash benefits' micro-variable used in Chapter 4 and 5; see Otto [2018] and the work of Goodin, Headey, Muffels and Dirven [1999] for more accurate measurements). For social investment policies—which generally come as services and benefits in kind—the task of measuring the actual contents of policies, or even their 'quality' becomes more difficult, and data availability is limited.[93] Future research should look at the impact on individual well-being of aspects of the welfare state different from the sheer 'cost' of social policy, even though this implies narrowing the focus to fewer policy fields and—most likely—fewer country-cases.

Lastly, the choice of the dependent variables also entails some due caveats. In this

[93] Some studies used survey data to give a monetary value to welfare services and benefits in-kind, so to try to 'quantify' them in relation to household income (Verbist and Matsaganis, 2012; Verbist et al., 2012; Vaalavuo, 2013). This approach however still tells little on the actual 'quality' of service provision. Extant indicators of qualitative aspects of social services are: the OECD Family Database, the Generations and Gender Programme-Contextual Database and the Comparative Family Policy Database, which include indicators of the enrolment and staff-to-child ratios for childcare services, parental leaves' duration and use, system resources and utilisation for long-term care, and of flexible work schedules. Unfortunately, these data are limited to a small set of European countries and policy fields.

book, we tested the impact of policy efforts on specific indicators of individual economic well-being, objectively measured: whether a person is employed or not, and her disposable income (the most typical monetary indicator of the economic well-being). Picking up on the call of the OECD to look at 'inequality beyond material conditions' (OECD, 2017b), future research should take subjective dimensions of well-being on board as a sort of litmus test of the potential of social investment for improving European citizens' welfare (broadly intended), alongside the objective socioeconomic outcomes narrowly understood that, as in the case of this book, are usually considered in social policy research.

6.2. Policy and Political Implications: All Countries are Equal, but Some are More Equal than Others?

Overall, the road towards social investment appears even more difficult than one could have thought, especially for some member states. The economic crisis opened a new phase in the recalibration of European welfare states. While the reform momentum was favourable to social investment in the early 2000s, boosted by the Lisbon Strategy and made financially viable by the overall good economic situation in the early days of the Euro, the scenario changed from 2009. The crisis and austerity unevenly hit welfare states that were already unequal at the start. Those countries which had not expanded social investment before, when the fiscal space available to welfare recalibration was still larger, were caught between a rock and a hard place. Their welfare systems cannot cater for increased (and changed) social needs, and would benefit from welfare reforms the most. On the other hand, austerity leaves no room for expanding social policies, be that investment- or protection-oriented. Social investment seems to have become a luxury that the bulk of European countries can no longer afford. Only better-off welfare states, whose economies are also in better shape, can opt to take a 'high road' to social investment, maintaining their welfare systems both economically competitive and socially inclusive.

The social investment strategy itself seems to have fallen into a Matthew effect trap. We cannot rule out that, given the diverse 'institutional starting blocks' and post-crisis economic constraints, European welfare states will grow even more unequal. Those countries with the most social investment-oriented arrangements will further progress in that direction, while the others lag behind. And this is not only true in respect to the

fiscal viability of social investment reforms. The results from multivariate analysis on micro-level policy outcomes entail broader implications. Even if laggard countries seek to pursue social investment, the returns on that—when visible at all in the short term—will not be as positive as they would in welfare states with more favourable policy mixes; neither in terms of improved individual likelihood of employment nor in respect to social inequalities which materialize when investment-oriented policies are not supported by inclusive and effective social protection systems. This divergence in outcomes has clear implications for the political appeal of social investment.

Social investment is, at least in theory, ideologically attractive for both sides of the political aisle. The social investment strategy is in fact presented as a positive-sum game, aiming to reconcile economic and social objectives of today's postindustrial economies: an objective which is virtually shared by all parties (Morel et al., 2015; see Section 2.3.2). Indeed, empirical studies have shown that social investment policies generally enjoy broad popular support, especially among highly educated middle classes (Bremer, 2017; Garritzmann et al., 2018). Nevertheless, their specific political appeal to either left- or right-wing parties is contingent on the socioeconomic and institutional context found in different countries (Gingrich and Ansell, 2015). Adding up to this, the results emerged from the analyses in this book may give some hints on why social investment does *not* have much political appeal in those European member states which have been reluctant to social investment reform.

As Maurizio Ferrera (2016) observed, '[t]he temporal mismatch between social investment reforms and their returns requires a degree of "political patience" on the side of both current voters and incumbent politicians which is not readily available in contemporary democracies'. Indeed, our results showed that the outcomes of social investment are not *immediately* visible (i.e. there is no significant within-effect of increasing the effort put into the social investment dimension of the welfare state [Chapter 4]). Especially in countries where, together with the most vulnerable strata of the society, the middle classes have also been hit hard by the crisis—as in the case of the Southern EU periphery (Matsaganis and Leventi, 2014; Simonazzi and Barbieri, 2016)—and where not only social investment, but also social protection policies are not well developed, the political attraction of social investment further decreases. Rather than investing in policies like education and childcare, whose social returns will for the

most part only be visible in the long run, or like activation, which risks to slip towards workfare (not much appreciated by voters) in absence of adequate social buffers, parties in government would most likely prefer to expand social protection, which gives a clearer short-term political pay off.[94] In sum, in today's Europe, caught in the cross-fire of multiple crises, 'political patience' is off the table. Social investment risks to appear as something from which only the better-off (in terms of both individuals and countries) can benefit.

How could the EU make social investment an economically and politically more viable option for *all* member states? Especially in the aftermath of the crisis, and especially in crisis-ridden European peripheries, supranational actors, not least the EU, strongly constrained the policy space available to national parties and governments (Armingeon and Baccaro, 2012; Streeck, 2014b; Sacchi, 2015; Pavolini et al., 2015). Paradoxically, while endorsing it on the one side, the EU has not made the road to social investment easy. Quite the contrary, in the words of Anton Hemerijck, the European Commission assumed a 'schizophrenic posture' as 'the "social investment cheerleader" on the one hand, and the "fiscal austerity headmaster" on the other' (Hemerijck, 2017: 17).[95] Recently, in 2017, the Commission attempted to restate the importance of the Social Dimension of the EU through establishing a 'European Pillar of Social Rights', composed of 20 basic principles on European citizens' rights, comprising both social investment and social protection issues (European Commission, 2017a; the Pillar was backed by a 'reflection paper on the European Social Dimension': European Commission 2017b). Once again, whether this will remain lip service, or translate into an actual revived reform momentum is still to be seen. For the time being, we can at least recognize that the Pillar of Social Rights has contributed to bring back social protection on the EU social agenda, which had previously given priority to employment-centred investment-oriented policies (Corti et al., 2018). In the light of our results, this is undoubtedly a positive step forward. Chapters 4 and 5 showed empirically that social investment efforts lead to better and more socially fair results

[94] This in fact happened with the expansion of unemployment benefits (in Italy) and the introduction of nation-wide minimum income schemes (in Italy and Greece), *despite* the context of pervasive austerity.

[95] The Commission contributed to prioritize fiscal austerity by tightening the economic governance of the EMU in the revised European Semester (Costamagna, 2013; Bekker, 2014; De la Porte and Heins, 2015), and, more pervasively, by addressing *ad hoc* policy recommendations to spell out the fiscal consolidation priorities for those countries which resorted to international financial rescue plan or fell close to that (Theodoropoulou, 2018; Sacchi, 2015).

when they are buttressed by corresponding efforts put into social protection, which mitigate the Matthew effects and workfarist tendencies intrinsic in recommodification (Chapter 5).[96] The Social Pillar alone, however, will not allow more (fiscal) space for national welfare reform. In order to do that, the EU should ease the financial constraints that impede much social investment (and protection) progress in crisis-ridden countries.[97]

What this thesis modestly tried to do is not only to show empirically that social investment is hardly affordable for all member states of today's EU; moreover, it revealed that social investment policies alone cannot achieve economic (employment inclusion) and social goals (social inclusion) together. In order to do so, they have to rely on solid social protection foundations, which are a necessary element to make social investment thrive, and to mitigate its possible socially unequal side effects. If policy makers in member states do not keep this in mind, and if the EU does not create the fiscal conditions for cross-country welfare imbalances to be at least partly smoothed out, social investment will remain little more than a luxury policy that only countries with the right means can afford. And if social imbalances increase on top of the already marked economic imbalances of the E(M)U, the risk is that, instead of talking about social investment, in the next years we will witness more and more calls for welfare chauvinism and nationalism hitting the headlines, thus feeding into the them-and-us discourse that has been so harmful to the EU integration project in the years which followed the economic crisis.

[96] This echoes, and adds empirical substance to the consideration by Jean-Claude Barbier that 'there are indeed two ways of envisaging social investment today: with or against social protection. The first one is conceiving of social investment as accompanying existing social protection; [...] The second way is to devising SI as a vehicle to destroy social protection and to help make Mario Draghi's remark come true, according to whom the European social model "is already gone"' (Barbier, 2017).

[97] For a number of considerations on how and why to substantiate the ESM into a 'European Social Union', see Vandenbroucke, Barnard and De Baere (2017).

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Appendix

Appendix 1:
The Social Investment Welfare Expenditure (SIWE) Dataset

This Appendix presents the Social Investment Welfare Expenditure (SIWE) dataset.[98] It lists the data sources utilised, shows in detail how public expenditure data from the original Eurostat classification have been reaggregated, how values have been converted in order to allow for over-time and across-country comparisons, and how the Budget Welfare Effort (BWE) indicators have been computed for each welfare function considered. The purpose is that of making the data managing process behind the analyses as transparent as possible, allowing for replicability and comparisons with similar analyses based on different data sources and/or different ways to reaggregate welfare expenditure in line with the analytical perspective of social investment.

A1.1. What is the SIWE Dataset

The SIWE dataset is built on secondary data sources on public expenditure from Eurostat database.[99] It includes data on public expenditure for various functions of advanced welfare states for 29 European countries (EU-28 less Croatia, plus Norway) and covers years from 2000 to 2014.[100] Public expenditure data are pooled and then reaggregated in a way to be compatible with the social investment approach (Morel et al., 2012). This effort to map the 'fiscal skeleton' of social investment follows that of other scholars (Nikolai, 2009; Vandenbroucke and Vleminckx, 2011; Hemerijck, 2013; Cantillon and Vandenbroucke, 2014). Previous works were based on OECD Social Expenditure data (SOCX). The SIWE dataset relies instead on Eurostat data, which reach a degree of disaggregation by welfare functions which falls very close to that of OECD-SOCX (the bulk of figures for EU countries in the latter are actually taken from Eurostat database) and cover all EU member states (instead of 21 or less—depending on the year—in SOCX). Relying on a data source which is similar but not equal to the one that has been mostly used so far also gives an opportunity to cross-check the reliability

[98] The SIWE dataset is available from the authors web page, at: https://sronchi.wordpress.com/siwe-data-set/. A stand-alone, extended version of this Appendix is available as working paper: see Ronchi (2016).
[99] I thank the Eurostat User Support service team for having replied to my (numerous) technical requests about the data.
[100] The SIWE data is updated on an annual basis (see author's website).

of the empirical results produced in social investment research (similarly to what done by De Deken and Kittel (2007) for other purposes). An overview of the differences between OECD-SOCX and Eurostat expenditure data is given in Adema and Ladaique (2009: Annex 1).

A1.2. Expenditure Reaggregation Approach and Data Sources

Although they used different labels, all previous works have struggled to reaggregate welfare expenditure for different functions into two heuristic categories: one for all 'capacitating', social investment-oriented policies mainly targeting new social risks; the other for 'compensatory', or 'consumption-oriented' policies which cater for 'old' social risks that are known since the industrial age (Vandenbroucke and Vleminckx, 2011; Nikolai, 2012; Hemerijck, 2013; Cantillon and Vandenbroucke, 2014; Beramendi et al., 2015). This rigid dichotomy has risen many doubts on the placement of certain welfare functions, that can hardly be categorized as either 'investment' or 'protection', but fall instead somewhere in between, since they display characteristics of both welfare state dimensions. The most recent critical review and update of this methodology is given by De Deken (2014; 2017; see also the appendix in Cantillon and Vandenbroucke, 2014). The multi-faceted nature of many welfare functions tends to leave too much discretion to the researcher that finds it empirically helpful to distinguish between the two spending categories. Aware of this, the reaggregation approach proposed here aims to avoid as much as possible any source of ambiguity. It does that by adopting the most objective criterion possible for allocating welfare functions over analytical categories. The analytical dichotomy remains the same; the more straight-forward labels '*SI—social investment'* (for capacitating policies) and '*SP—social protection*' (for compensatory) are used throughout the book. The basic criterion for differentiating between welfare functions is the way in which a benefit is provided: cash benefits are considered as SP, benefits in-kind (services) are considered SI. The only exception are parental leaves, that, despite being typically provided trough cash transfers, are considered as SI in the multivariate analyses in Chapters 4 and 5, for substantial reasons linked to the mechanisms hypothesized (see for example Section

5.1.1).[101]

Aside from the different data source (Eurostat instead of OECD-SOCX), the reaggregation approach proposed here differs from those mentioned in the three aspects which have been explained in Section 3.3.1: (1) healthcare spending is not included in the classification; (2) public spending on research and development (R&D) is counted in SI; (3) as explained above, parental leave policies are categorized as SP in Chapter 3, as they are cash transfers, and as SI in Chapters 4 and 5, along with the expectations tested in multivariate analysis.

The SIWE dataset includes gross (pre-tax) public expenditure, as data on net spending do not reach a so fine-grained level of disaggregation.[102] It does not consider expenditure from private sources.

Table 3.2 (Chapter 3) reported the complete list of welfare functions which compose the SIWE dataset, grouped in the categories 'social investment' and 'social protection'. In this section, we discuss in-depth the data sources used for each welfare spending function. The first and most important source on which we have relied is the European System of integrated Social protection statistics (ESSPROS). ESSPROS includes public expenditure data for several welfare functions: health and sickness, disability, old age, survivors, family and children, housing, social exclusion not elsewhere classified. These welfare functions are in turn disaggregated into a number of more specific sub-entries of spending, typically divided into 'cash benefits' and 'benefits in kind' (i.e. services). For an in-depth presentation of the database, for the classification of the various benefits, and for the single country-notes we refer to the latest edition of the official manual (Eurostat, 2016). As it is the case in OECD-SOCX (see Adema and Ladaique, 2009), most of the data regarding working age social programmes have been taken from

[101] See De Deken's chapter and the appendix in Cantillon and Vandenbroucke (2014) for a discussion on the ambiguity of leave policies when it comes to rigidly distinguish between social protection and social investment. Parental leaves are generally considered a social investment for two reasons: first, as an investment in the employability of the parents, insofar as they allow a parent not to retain her/his job (at least when the leave is not too long). Second, as an early investment in the child, both for the fact that they contribute to removing disincentives to have children in a society such the European, where low fertility is acknowledged as a threat for future welfare sustainability, and for the resources that they provide for early childrearing.

[102] The downsides of the use of gross public spending are well discussed in De Deken (2014). In a nutshell, it over(under)estimates social protection in countries which tax benefits (make large use of tax break for social purpose). As for regards the exclusion of private spending, this simply leaves out private provision of goods and services which also contribute to the overall welfare of citizens, arguably increasing its importance in the welfare mix of the 'social investment state'.

Eurostat Labour Market Policy Statistics (LMPS), which allow for a more detailed inspection into different dedicated spending functions in a so crucial sector of the welfare state. LMPS includes 9 categories of interventions: the first is the expenditure for the functioning of Public Employment Services (PES); categories 2 to 7 are the various branches of active labour market policies (ALMP: training, job rotation/sharing, employment incentives, sheltered and supported employment and rehabilitation, direct job-creation, start-up incentives); categories 8 and 9 refer to the so called passive labour market policies (PLMP), i.e., out-of work income maintenance and support (all kinds of unemployment benefits, redundancy/bankruptcy compensation and early retirement schemes). Detailed information on the LMPS are found in the official manual (Eurostat, 2013a). Two other Eurostat data sources on public expenditure have been also used in the construction of the SIWE dataset: 'Education & Training statistics', and 'Science, Technology & Innovation statistics'. From the former we took data on expenditure for education, up to the level 4 of the ISCED-97 classification (International Standard Classification of Education): post-secondary non-tertiary. From the latter source we took data on (public) Gross Domestic Expenditure on Research and Development (GERD) carried out in all sectors of the economy, collected by Eurostat along the guidelines of the OECD Frascati Manual (2002). This also includes public spending on higher education.

All Eurostat data sources are harmonized so to allow for the best degree of across-country comparability between equivalent welfare programmes. In the construction of the SIWE dataset, the double counting of the same programmes has been cautiously avoided whenever possible. Some cases of partial overlap between spending categories cannot be ruled out completely, especially with regards to welfare functions taken from different sources. To the knowledge of the author, the most likely case of partial overlap is that between the sub-function of old age benefits 'anticipated pensions' from ESSPROS (in the 'Old age' function in the SIWE dataset) and 'early retirement' from LMPS (in the 'Working age – cash benefits' function).[103]

[103] Due to the nature of the data collected by Eurostat it is not possible to estimate the degree of overlap, that remains anyway small. There are differences in the categorization not only country-by-country, but also between different schemes in the same country (information acquired with the Eurostat request registered under the reference number: ESTA 32760).

A1.3. Missing Values

The SIWE dataset covers years from 2000 to 2014. Occasional breaks in the time series have been treated with the following criteria:

- Data on education for Greece were missing in the Eurostat database: they have been taken from World Bank data.
- Breaks in the middle of the time series (in between 2000 and 2014) have been filled through linear interpolation;
- Missing values at the extremes of the time series (i.e. ranging from 2000 or going up to 2014) have been kept constant (i.e. equal to the closer non missing value in the time series) not to generate too unrealistic values and artificially biased trends.

Further details and the syntax to replicate the SI and SP composite indices are found in Ronchi (2016) and in the SIWE codebook, available with the data from the author's website.

A1.4. Reference Series

The SIWE dataset originally contains data expressed in euro (nominal value, then deflated and converted into Purchasing Power Standards (PPS) for the EU28) and as a percentage of GDP. Data on spending for Education in the Eurostat database were given only as a percentage of GDP: the equivalent in euro has been calculated with reference to the respective GDP (expressed in euro), taken from the Eurostat National Account database. The reference National Account series used by Eurostat for all public expenditure data sources included in the SIWE dataset (ESSPROS, LMPS, Education & Training, Science, Technology & Innovation) are those from the European System of National Accounts 1995 (ESA95). These are reported in Table A1.1 below.

Values in euro are deflated with a price index and expressed in 2005 constant prices. This allows to compare real values over time, net of the nuisance introduced by price oscillations. Values in euro expressed in 2005 prices are lastly converted into PPS (for the EU28). This last step equalises their purchasing power by eliminating the differences in price levels between countries. That is to say, it allows for more realistic across-country comparisons which take into account different price levels ('costs of living') in different countries. The PPS chosen are euros valued at average EU28 price

levels; to put it simply, euros that have the same purchasing power over the whole of the EU28. Their purchasing power is a weighted average of the purchasing power of the national currencies of EU Member States (Eurostat, 2012b for more details). Since all SIWE values are directly expressed in euro while purchasing power parity conversions coefficients are by default referred to national currencies, exchange rates have been used where necessary. The sources for GDP deflators, purchasing power parity conversions coefficient, and for the exchange rates are also reported in Table A2, with all the specifications necessary to track them in the Eurostat online database (Eurostat tags).

Table A1.1. Reference series used in the Social Investment Welfare Expenditure dataset

Item	*Details*	*Eurostat tag*
GDP	Gross Domestic Product at market prices (ESA95)	nama_gdp_c
Deflator (Price Index)	Base year=2005, deflator from values in euro (ESA95)	nama_gdp_p (CPI05_EUR)
PPS for EU28	For "all GDP items" (aggreg95=00), from national currencies	prc_ppp_ind (PPP_EU28)
Exchange rates	Euro/national currency exchange rates	teimf200

Once values in the SIWE have been deflated and converted into PPS, we computed Budgetary Welfare Effort (BWE) indicators with the procedure explained in Section 3.3.3. The target populations used as denominator in the computation of the indicators for each welfare function are reported in Table A1.2, together with the respective Eurostat sources. Note that for the working age group, instead of the total population in the working age, the unemployed have been taken as target population. This is firstly because most of the welfare programmes included in the working age functions are targeted towards the unemployed. Second, but more important, the expenditure on programmes included in the working age welfare functions is much more sensitive to the number of unemployed than to the total working age population. The more unemployed, the more resources a government will spend on these specific (highly countercyclical) welfare measures. If the aim is to 'deflate' the expenditure from oscillating target populations, it thus makes sense to refer to the number of unemployed, more apt to obtain a BWE indicator not driven up by the sheer countercyclical nature of

the welfare function (i.e. the reaction of so called 'automatic stabilizers' of the business cycle to the augmented number of unemployed during recessions). Another note is necessary for the R&D function: here the whole population is taken as denominator. This is because the spending entries included in the GERD do not regard solely those in a tertiary-education average age range. Instead, the financing for all R&D activities is included in this function. Since investments in R&D can be reasonably expected to have positive externalities on the society as a whole, the target population here becomes the total population. In this case, the dedicated BWE indicator is hence simply the spending on R&D per capita.

Table A1.2. Target populations utilised for the construction of Budgetary Welfare Effort indicators

Welfare function	*Target population*	*Source (Eurostat tag)*
WORKING AGE cash benefits	The unemployed (age 15-64)	Labour Force Survey (lfsa_ugan)
WORKING AGE services		
FAMILY/CHILDREN cash benefits	Population 0 – 4 years	Population Statistics (demo_pjangroup)
FAMILY/CHILDREN services		
EDUCATION	Population 5 – 19 years	
R&D	Total population	
OLD AGE	Population 65+	

A1.5. Budgetary Welfare Effort Synthetic Indices

Two BWE synthetic indices have been compiled for the two crucial analytical dimensions of the social investment welfare state: again, Social Protection (SP) and Social Investment (SI). The synthetic indices are computed taking the mean of the standardized scores of the indicators for the respective welfare functions (again, the procedure is explained in Section 3.3.3). The mean and standard deviation used for the

standardization are those from the full sample, pooling time-series for all countries included in the SIWE dataset.

Table A1.3 reports three country-clusters obtained through a simple hierarchical cluster analysis conducted on the single BWE-SI variable for the pre-crisis averages. These three country-clusters are used as reference in Figure 3.2 (Chapter 3).

Table A1.3. Countries clustered according to their pre-crisis social investment scores[a]

Cluster [b]		*Cluster descriptives (pre-crisis: 2000-2008)*	
		Social investment	*Social protection*
HIGH social investment	Mean	+1.32	+1.33
Denmark, Sweden, Finland, Netherlands	SD	0.28	1.09
	max	+1.73	+2.91
	min	+1.10	+0.44
MEDIUM social investment	Mean	+0.16	+0.19
Germany, Austria, France, Slovenia, Italy, Hungary, Portugal, Belgium, Spain, UK	SD	0.34	0.45
	max	+0.76	+1.09
	min	-0.23	-0.51
LOW social investment	Mean	-0.85	-0.76
Czech Republic, Luxembourg, Lithuania, Ireland, Latvia, Estonia, Poland, Greece, Romania, Slovakia	SD	0.25	0.25
	max	-0.43	+0.37
	min	-1.19	-1.09

Note: [a] The groups showed match with those resulting from a cluster analysis run on a single variable—the standardized social investment scores (pre-crisis)—with the Ward's linkage method, which joins units into clusters such that the within-cluster variance is minimized. Social protection descriptive statistics are reported for the sake of completeness.
[b] Countries are listed according to their social investment ranking.
Source: SIWE dataset.

In the following pages, we report the trends 2000-2014 of the composite BWE indices for SI and SP for each of the 29 European countries included in the SIWE data set. This gives more detail on the country-specific annual variation in the policy efforts pout into the two basic welfare state dimension; a detail that gets lost in the pre- and post-crisis average and change showed in Table 3.3 (Chapter 3).

Figure A1.1. Trends of BWE for social protection and social investment (1/3)

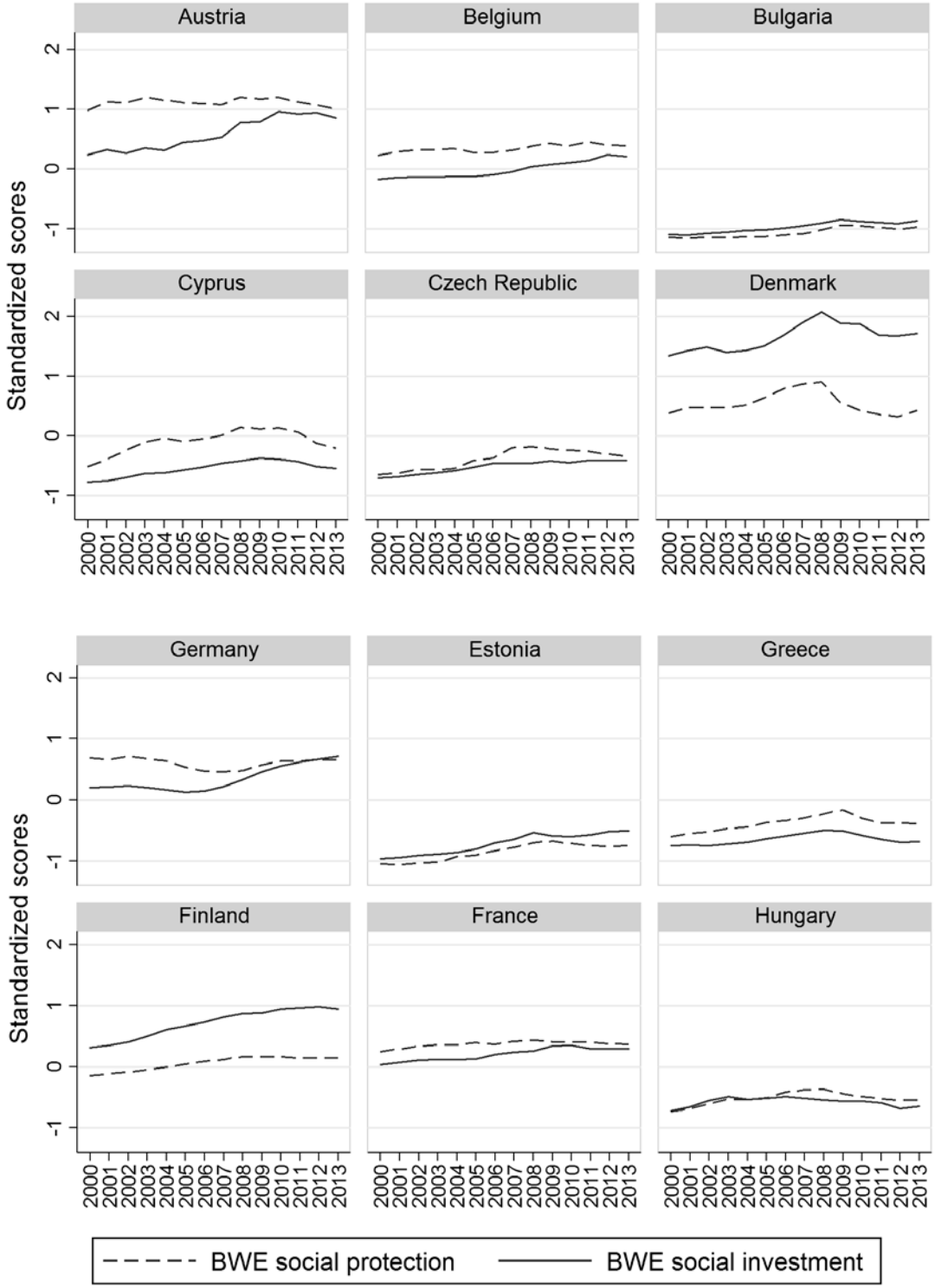
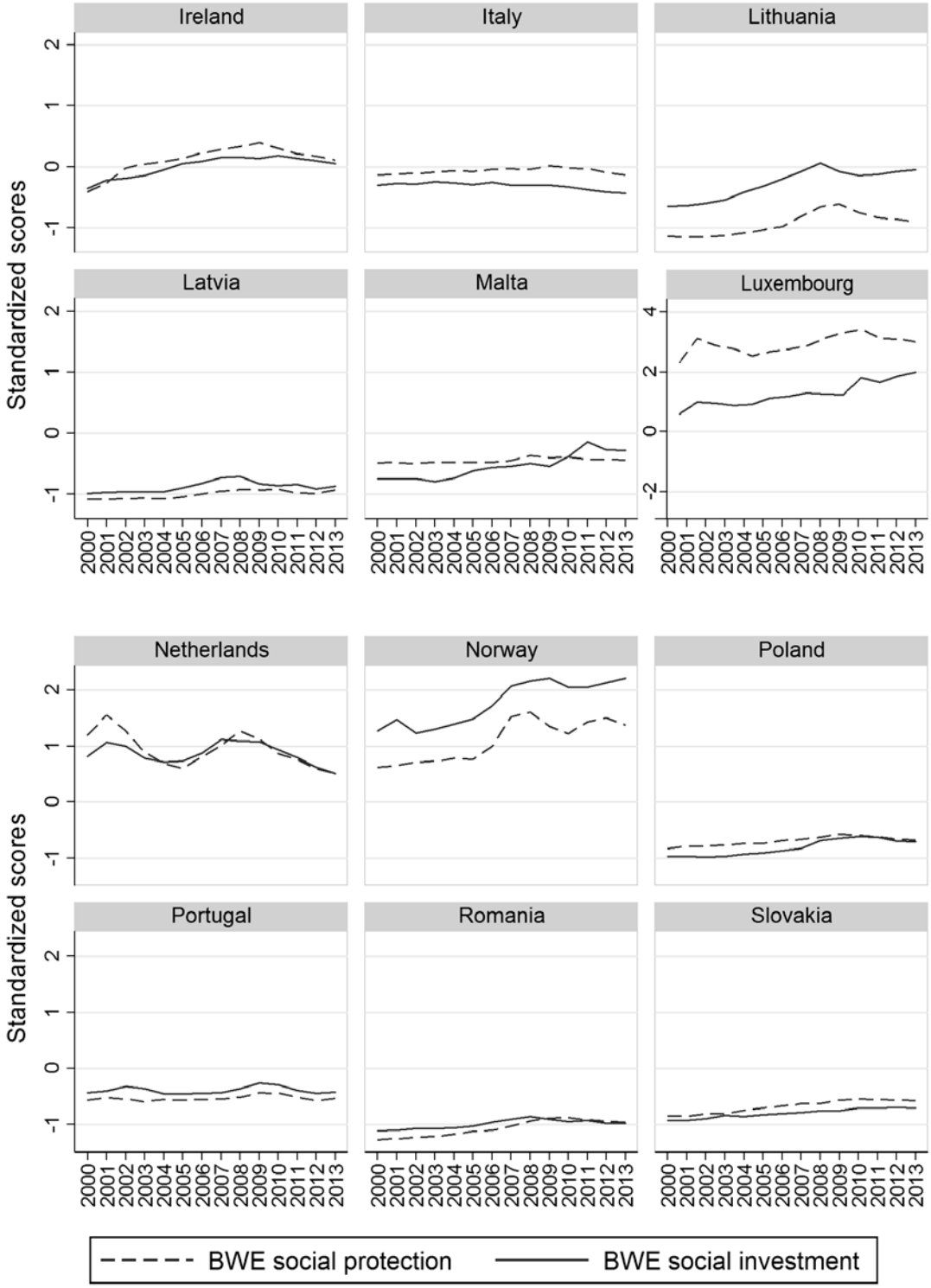
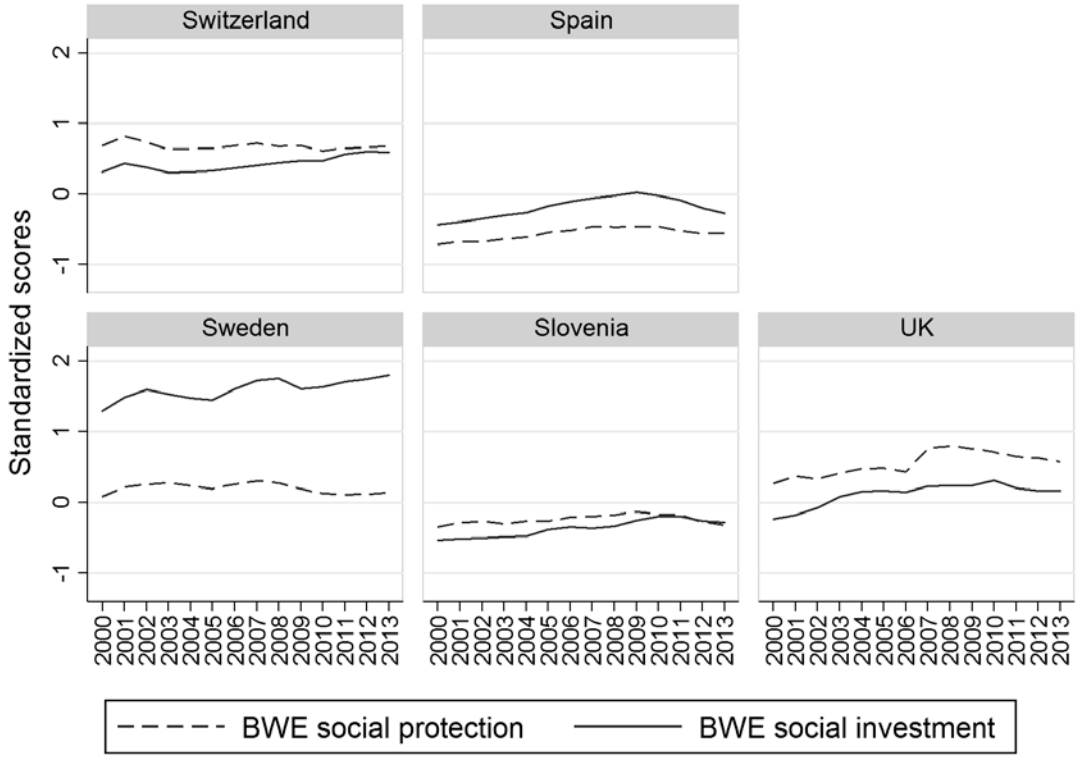


Figure A1.1. Trends of BWE for social protection and social investment (2/3)



Note: different scale for Luxembourg.

Figure A1.1. Trends of BWE for social protection and social investment (3/3)



Appendix 2:
EU-SILC: Data Management and Variables Operationalization

This Appendix introduces the European Union Statistics on Income and Living Conditions (EU-SILC).[104] It focuses on the longitudinal component of the micro dataset, and explains all the steps that have been taken in order to prepare the data for the analyses showed in Chapters 4 and 5. The introductory section A2.1 describes the EU-SILC. The following sections discuss some data issues concerning the design of the EU-SILC, and the methods used to cope with them. Special attention is given to the subsample selection procedure that has been followed to make the longitudinal data suitable for the analyses. The last section (A2.6) includes the list of micro-level variables used in the analysis in Chapters 4 and 5, with details on the operationalization.

A2.1. What is the EU-SILC[105]

The EU-SILC is the tool through which Eurostat provides annual microdata on income (coming from both work, social benefits, and other sources), poverty, social exclusion and living conditions. It is the official instrument which informs the EU social cohesion strategies: since 2010, the outset of Europe 2020 strategy, poverty and social exclusion indicators have been based on, and monitored through the EU-SILC.

The EU-SILC project followed the European Community Household Panel (ECHP), discontinued in 2001. It was launched in 2003 on the basis of a gentlemen's agreement in six member states (Belgium, Denmark, Greece, Ireland, Luxembourg and Austria) and Norway. The first year of EU-SILC data collection was 2004, and included the EU-15 (except Germany, the Netherlands, the United Kingdom) and Estonia, Norway and

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[104] I am thankful to many people for their support and advice on the EU-SILC. First, many thanks go to Heike Wirth from GESIS (Mannheim), who helped me to get acquainted to the structure of the rotational panel design in order to avoid some common mistakes. I am also grateful to the other organisers of the workshop 'Introduction into working with the EU-SILC' held at GESIS in Mannheim, 28-30 November 2016: Klaus Pforr and Katherine Stieff. I thank Henning Lohmann, Tim Goedemé and Ron Diris for their hands-on advice on data managing issues, and Brian Burgoon and Alessandra Di Pietro for the exchanges of ideas on data structure issues. Many thanks also to Adeline Otto, René Lehweß-Litzmann and Anna Ruelens for sharing their thoughts about the EU-SILC. All remaining mistakes are mine. The STATA syntaxes for replicating data preparation are available from the author.

[105] The information in this section is withdrawn from the yearly EU-SILC codebooks (the so called 'doc65' provided with the micro data), and from the Eurostat website.

Iceland. Other European countries joined in subsequent years, up to a total of 29 countries included in the 2015 release of EU-SILC, the one used in this book. The data are collected by Eurostat from member states' statistical offices, based on common guidelines.

There are two levels of data collection: social exclusion and housing condition information is collected mainly at household level, while most of sociodemographic information (e.g., labour, education and health) refers to the personal level, and is collected for persons aged 16 and over. Income data reach a very fine-grained level of detail in the EU-SILC: some of its components are collected for the single individual (e.g. income from work or unemployment benefits), others at the household level (some cash transfers, taxes). More details are given below in the variables operationalization section (A2.6).

The EU-SILC provides two types of data:

(1) Cross-sectional data pertaining to a given time or a certain time period;
(2) Longitudinal data pertaining to individual-level changes over time, observed periodically over a maximum of four years.

The former are the ones on which the EU mostly rely for producing country-level indicators on poverty and social exclusion. The latter is used by Eurostat for providing some statistics with a longitudinal component (e.g. persistent-at-risk-of-poverty rates), and offers a potentially more powerful basis for researchers interested in using the data for empirical analysis. Chapters 4 and 5 make use of the longitudinal data. It is important to note that the EU-SILC was not originally thought for research purposes, but rather for providing a common statistical platform to EU policy making, for the construction of comparable country-level indicators. This is the reason as to why many issues arise when using EU-SILC for empirical research. The next section discusses the main ones, and explains the way in which they have been tackled in this book.

A2.2. EU-SILC Longitudinal Data: Subsamples Selection

EU-SILC data design is the result of the compromise between two objectives:

(1) The accumulation of data over time, aimed to grant a reliable measurements of trends (over-time changes) of country-level social indicators. This would be

better achieved through the use of independent samples from year to year;

(2) The measurement of change over time at the individual level, typically better achieved through the use of long-term panels (i.e. retaining the same samples of individuals from one year to the next).

A compromise has been reached by relying on a 'rotational design': a solution which combines the above two, while trying not to overburden national statistical offices. A part of the sample is rotated from one year to the next, and the other parts are retained. Each of this parts (hereafter 'subsamples') is representative of the underlying population. This allows to produce annual cross-sectional estimates based on independent (non-overlapping) samples each year, which is the main aim of Eurostat. At the same time, the rotational design gives the opportunity to follow some individuals over time: those included in panel-subsamples, which are retained for a maximum of 4 years.

Figure A.2.1 illustrates the rotational design of EU-SILC, for each data edition from 2005 to 2013. The numbered boxes are representative independent subsamples. Let us first focus on the vertical sections for each 'year of the survey', ignoring the longitudinal files grouping in the bottom-left part of the picture. Any one year consists of 4 subsamples, which have been in the survey for a minimum of 1 to a maximum of 4 years: for example, the survey year 2013 is made by the 'boxes' 1,2,3 and 4; the survey year 2012 by 4,1,2,3, and so on. This is the content of the cross-sectional data in each EU-SILC year. Every year, one of the 4 replications from the previous year is dropped and a new one added. For example, from 2012 to 2013, the subsample which had already been followed for four years in 2012 is dropped, while a new one is introduced, surveyed for the first time in 2013. This implies that between year 2013 and 2012 the sample overlap is 75 percent (boxes 1,2,3), between 2013 and 2011 is 50 percent (boxes 1,2), between 2013 and 2010 is 25 percent (box 1), and it reduces to zero for 4-year intervals (there is no box-overlap, for example, between 2013 and 2009).

Focusing on the horizontal sections in Figure A.2.1, instead, one can visualize the composition of EU-SILC longitudinal data. The rectangular frames highlight the contents of each year's longitudinal file. Taking the longitudinal file for the year 2013 as an example, we see that it is made up by a subsample of same individuals observed for four years, who entered the EU-SILC in 2010 (the raw composed by four '1' boxes),

and by other ones of persons with a 3-wave panel (boxes '2'), a 2-wave panel (boxes '3'), and a single-wave subsample (Box '4', newly added, which includes individuals interviewed for the first time in 2013).[106] This makes the overlap between panel subsamples from one year to the next particularly big. In terms of single observations (i.e., person-years), there is a potential 60% overlap between subsequent EU-SILC longitudinal files (that is, 6 out of 10 boxes: see Figure A.2.1.). For example, the '1' boxes in Figure A.2.1. are persons with a 4-wave panel in the 2013 longitudinal file, but are also those with a 3-wave panel in the data from 2012.

The implications of this rotational panel design in terms of overlaps between subsamples are very important for the analyses provided in Chapters 4 and 5. By simply pooling all longitudinal data one would in fact incur the potential 60 percent panel-subsample overlap we mentioned above. This implies having non-independent panel observations (for example, persons with four observation in 2013 are the same persons with 3,2,1 observations respectively in year 2012, 2011, 2010), which artificially increases the number of observations while introducing huge bias in empirical analyses. It should be kept in mind that there is no variable in the EU-SILC that allows us to directly identify the subsamples that are repeated from one year to the other: for privacy-policy reasons, the subsample numbering and the personal identification numbers in the actual user database change from one year to the next.

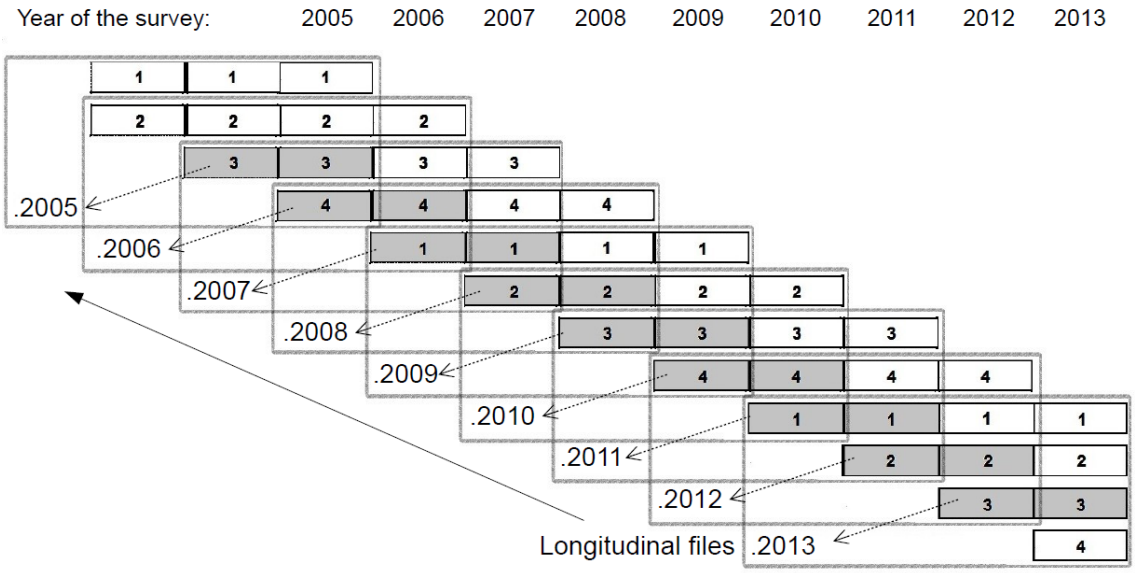
The subsample selection procedure used to prepare longitudinal data for the analyses contained in this book carefully takes into account this data structure and its limitations. The rationale for using longitudinal information—explained in Chapters 4 and 5—is to grasp the 'effect' of policy variables on the employment/income status of individuals in year *t* while partialling out the self-selection-into-treatment bias due to the status of observed individuals in year *t-1*.[107] The procedure I followed provides a way to achieve this while avoiding to have subsample overlaps in the data. Again, Figure A.2.1. helps to understand it. The boxes highlighted in grey in the figure are those selected for the

[106] As illustrated in Figure A2.1, the EU-SILC longitudinal database 2005 contains panels long up to three waves, not four. This is because in the first year of the longitudinal data collection, the rotational panel design was not yet fully established. By the same token, countries which entered the EU-SILC afterwards not always have complete 4-wave panels starting from the entry year.

[107] To put it simply, when my outcome variable is 'being employed in year t', I want to know whether an individual is employed in *t* just because she was already employed the previous year (*t-1*), or whether policies variables can explain the variation in the individual-level dependent variable (employment) over and above the fact that people who already had a job before are of course more likely to be still into work now.

analyses. I select only 2-wave panels from each EU-SILC longitudinal file, keeping only persons from the subsamples added in year *t-1* which were observed also in year *t* (i.e. who did not drop out). This allows to have information about the individuals' status in *t-1*, while avoiding to have subsample overlaps and minimizing panel attrition at the same time.[108] Following that, I pooled the so obtained subsamples from all EU-SILC longitudinal files 2005-2013. Persons who were not in the households at the time of the survey (var. RB110=5,6,7) are excluded from the analyses.

Figure A2.1. Schema of EU-SILC rotational design and subsample selection procedure



Note: boxes highlighted in grey are the subsamples selected for the analyses

There are many possible objection to the subsample selection procedure explained above. In a nutshell, there is a trade-off between two possible paths which follow two different rationales. Firstly, one may argue that it is still more convenient to exploit all

[108] Panel attrition is in any case inevitably present. As it always happens, panel attrition is highest from the first to the second year of the panel, that is, exactly the two observations that I keep. However, it gets higher for 3- and 4-wave panels, further decreasing the number of observations—which is already limited for smaller countries (with smaller samples)—and leading to increasingly socially-selected subsamples that are likely to lose representativeness. Those who do not drop out are those who did not migrate and remained more likely to fill the questionnaire across waves: generally more healthy, better educated, more stably employed (etc.) persons. This is a limitation that one can hardly circumvent, although a number of micro-level controls are used to possibly reduce spuriousness.

available longitudinal information included in the data, at the cost of accepting the bias due to the presence of (many) unidentifiable persons which are repeated up to three times in the pooled panel sample. In this way, one trades off the possibility of better accounting for individual-level unobserved heterogeneity with the certainty of violating the assumption of independence of observations, which changes the probability to commit inferential errors in an unpredictable direction. By contrast, the procedure I followed avoids the latter problem (it keeps in only independent observations). Nevertheless, by selecting 2-wave panels, it gives up the possibility to take out more carefully unobserved heterogeneity, although it still allows to control for some selection-into-treatment bias through the information from *t-1*.

Following this second, preferred path, a further question could be: why not to selected 3- or 4- instead or 2-wave panel subsamples? There are three reasons behind that: one is substantial, given the aim of my analytical strategy, and the others are empirical, bound to data limitations.

(1) My purpose is to look at policy outcomes while taking out some possible selection-into-treatment endogeneity: information from *t-1* suffices for this aim, which is achieved by controlling for the lagged dependent variable;[109]

(2) Selecting 2-wave panels minimizes panel attrition (which remain, of course, in any case present: see note 108);

(3) Since the EU-SILC rotational design is somewhat 'left-censored' for many countries (i.e., not all countries entering the database already had 4-wave panels available since their entry year), selecting longer panels implies losing country-years (and even countries in some cases). Since my main research interest concerns country-level policy dynamics, I wanted to retain as many country-years observations as possible in the multilevel analyses.

Given my aims, the procedure I followed is the 'least evil' among many possible, all imperfect, ways to go.

A2.3. Survey and Register Countries

The harmonization between the data collection procedures followed by the countries

[109] The same approach is followed in Hemerijck, Burgoon, Di Pietro and Vydra (Hemerijck et al., 2016: Section 5).

which participate in the EU-SILC is not perfect. Member states are left free to decide whether to rely on household surveys or register data (i.e. data from public administrations). The former option—household survey—is the one preferred by most countries; Denmark, Finland, Iceland (excluded from the analyses), Norway, Sweden make large use of register data; the same holds true for the Netherlands and Slovenia, although they collect detailed information on the monthly activity record from surveys; France and Austria have recently started to use both surveys and registers in order to get more consistent information on income (Eurostat, 2013b). The country-by-country differences in data collection procedures add variation in the data which impacts and may alter the results from bivariate and multivariate analyses (Lohmann, 2011).

An additional problem arises for detailed variables which requires information not given in registers: this is for example the case of some income, health, specific labour information (e.g. type of contract), and the variables that track month-by-month the main activity (used for the construction of the 'work intensity' variable: see variables description in Section A2.6). In 'survey countries', this information is collected through personal interviews with all adults aged 16+ in each sample household. By contrast, 'register countries' are allowed to withdraw such information from a random sample of persons, by selecting one such person per sample household: the 'selected respondent', usually one adult member aged 16+ per household. Detailed variables are hence available for fewer persons in register countries than in survey countries, this pushing down the number of observations for register countries in the regression models.

In order to take these possible sources of bias into account, the models showed in Chapters 4 and 5 have been refitted by adding a dummy variable that equals one for countries which make use of register data (Denmark, Finland, the Netherlands, Sweden, Norway, Slovenia): substantial results do not change.

A2.4. Income Reference Period

Most of the information included in the EU-SILC refer to the so called 'income reference period': a 12-month fixed period, which is generally the previous calendar or tax year. There are two exceptions in that: the UK, for which the income reference period is the current year, and Ireland, for which the survey is continuous and income is collected for the last twelve months. This has been taken into account in the

construction of variables. While variables for all the other countries refer to the EU-SILC survey year minus one, for the UK and Ireland the reference year has been left equal to the survey year. This is why in the full country-years sample used for the analyses in Chapters 4 and 5, years range from 2004 to 2013 (see Table A3.1). Based on the specific definition of 'income reference period' used in those countries, information from the year 2013 is available only for the UK and Ireland.

A2.5. Household Reference Person

Unlike other similar income surveys (for example the Luxembourg Income Study), the EU-SILC does not include an identifier of the 'head of the household' (i.e. a reference person for each household). When useful for constructing variables referring to the household (see the list of variables in Section A2.6), the person responsible for the accommodation (var. HB080 in the EU-SILC) has been identified as the household reference person. When this information was missing, the person who responded to the household questionnaire (var. HB070) has been selected. In households where both previous variables were missing, the oldest household member has been identified as the household reference person.

A2.6. List of Micro-Level Variables from the EU-SILC

Employed Dummy variable which refers to the current self-reported main activity status (var. PL030; var. PL031 is used from 2009 on for countries that gradually adopted the new variable codification). It equals 1 for those who reported to be employed at the time of the interview, both full time and part time, employee and self-employed; 0 for all non-employed individuals.[110] The same holds for the 1-year lagged variable 'Employed (*t-1*)'.

Work intensity The variable 'work intensity' provides a more objective employment measure, a robustness check for the self-reported employment variable (see above). It is the ratio of the total number of months that a working-age individual have worked during the income reference year and the total number of months that the same individual could have virtually worked in the same period (i.e. 12 months if the individual was fit for work during the whole year), weighted by part-time work. The starting point for the construction of the variable is the month-by-month main activity status (var.s PL210A-L; PL211A-L are used from 2009 on for countries that gradually adopted the new variable codification). Along with what suggested by Ward and Özdemir (2013), months worked part-time have been weighted while taking into account the average number of weekly working hours for each countries' part-time workers, as empirically measured in the data.[111]

[110] From doc65 (EU-SILC codebook): 'The concept of "current" implies that any definitive changes in the activity situation are taken into account. For instance, if a person has lost a job or has retired recently, or the activity status has changed otherwise in a definitive manner, then the situation as of the time of the interview should be reported. In this sense, 'current' overrides any concept of averaging over any specific reference period. The target variable captures the person's own perception of their main activity at present. It differs from the ILO [International Labour Organization] concept to the extent that people's own perception of their main status differs from the strict definitions used in the ILO definitions. For instance, many people who would regard themselves as full-time students or homemakers may be classified as ILO employed if they have a part-time job. Similarly, some people who consider themselves "unemployed" may not meet the strict ILO criteria of taking active steps to find work and being immediately available'.

[111] I thank Erhan Özdemir for sharing his syntax for weighting the work intensity indicator by part-time work. My procedure adjusts his syntax to longitudinal EU-SILC data, along the following steps: first, individuals are assigned the value of 1 for each month that they declared as they had worked full-time.

Income security The variable 'income security' refers to individuals' income transitions from year *t-1* to year *t*. It equals 1 for upwards income transitions and for those who maintained the same income +/- 5% across two years. That is to say, when an individuals' income in year *t* is equal or larger than her own income in year *t-1* minus 5%.[112] Individual 'income' includes the following income components: gross employee cash or near cash income (var. PY010); gross cash benefits or losses from self-employment (including royalties) (PY050); unemployment benefits (PY090); old-age benefits (PY100); survivor' benefits (PY110); sickness benefits (PY120); disability benefits (PY130); education-related allowances (PY140). In addition, I added the 'individual share'[113] of the following household-level income components: family/children-related allowances (HY050); social exclusion not elsewhere classified (HY060); housing allowances (HY070); income received by people aged under 16 (HY110). Negative incomes were first recoded to zero to ensure cross-country consistency, since only a few countries allowed income variables (generally income from self employment) to be negative, while others already bottom-coded them to zero. Gross income components from EU-SILC have been considered when available; net income components have been used for those

Second, for those worked part-time, I assume that the individuals currently working part-time had been working the same number of hours during the reference year in the months that they declared as part-time employment (based on var. PL060: 'number of hours usually worked per week in main job'). If they were not employed part-time (or not employed at all) at the time of the interview, I calculated the average hours worked per week by sex and broad age groups (18-24, 25-49 and 50-64) for the ones working between 1 to 34 hours per week at the time of the survey for each country. Following that, I imputed these averages to those who had at least one month of part-time work during the reference year, but were not working part-time at the time of the interview (hence, those who had var. PL060 missing). The final part-time weights are the ratio of the (imputed) hours worked weekly by those employed part-time and 35, conventionally taken as the weekly number of working hours for full-time employment.

[112] This definition of income security is similar to that suggested by Ruud Muffels (2009: 20; Muffels et al., 2010: 41–42). The 5% tolerance band for income maintenance across two years is discretionary, used to take into account that very slight income deterioration from *t-1* to *t* can be due to contingent factors, and are not likely to worsen the overall individuals' income security. For example, if a person earns 20,000€ one year and 19,000€ or more the year after, this is not considered as a significant deterioration of her 'income security'.

[113] The 'Individual share' equals the household-income components divided by the equivalized household size (HX050). This assumes that household-level cash transfers are equally shared within the household.

countries that were allowed to derogate EU-SILC income-data collection guidelines up to 2007 (Greece, Spain, France, Italy and Portugal used to collect only net income components).[114] Since my analyses do not look at the effect of tax policies, the above-defined income measure is pre-tax. For the same reason, other sources of non-market incomes (e.g. inter-household transfers and various rents) are not considered either. This is to maintain the focus on income from social benefits and from employment: the two crucial sources of welfare which the bundle of social policies which composes the 'social investment welfare state' can virtually influence. After the aggregation of the different income components, income variables have been deflated and expressed at 2005 constant price by using the Harmonised Index of Consumer Prices (HICP, from Eurostat online database, tag: *prc_hicp_midx*). Lastly, they have been converted into purchasing power standards though the conversion coefficients also provided in the Eurostat online database (*prc_ppp_ind*). For a definition of the 'income reference period' in the EU-SILC, see Section A2.4.

Age (squared) Age of the respondent at the end of the income reference period (continuous variable), and the correspondent squared term.

Male Dummy which equals to 1 if the respondent is a male, 0 for females.

Children <5 Dummy variable equals to 1 for those who live in a household with at least one child below 5 years old.

No. of children Number of children <18 years old living in the respondents' household.

[114] See Graf at al. (2011) for more details.

Married	Dummy equal to 1 when the respondent is married or cohabiting with the partner. In order not to lose observations, missing values are coded as a separate category, whose coefficients are not shown in regression tables.
Education	Level of education attained. Coded: (1) pre-primary, primary, lower secondary (reference category); (2) upper secondary, post-secondary non-tertiary; (3) first and second stage of tertiary education. In order not to lose observations, missing values are coded as a separate category, whose coefficients are not shown in regression tables.
Bad health	Dummy which equals 1 when the respondent declared to be in bad/very bad health conditions (var. PH010) or to have limitations in activities because of health problems (PH030). In order not to lose observations, missing values are coded as a separate category, whose coefficients are not shown in regression tables.
Equivalized household size	Equivalized household size at the end of the 'income reference period' (see Section A2.4 for the definition) (var. HX050). Based on the OECD modified scale: the first adult member is weighted 1, other members aged 14+ are weighted 0.5, and members below 14 are weighted 0.3.
Household employment situation	Categorical variable which describes the employment situation of the other adult(s) living in the respondents' household. The respondents' employment status is not considered here, since it is already accounted for in a separate variable (see variable 'employed' above). This variable accounts in micro-level analyses for what Eurostat usually calls 'household work intensity'. Coded: (1) the respondent lives in a household with one or more adult members, who are *not* employed (reference category); (2) the respondent lives in a household with one or more adult members, and at least one of them is employed; (3) the respondent constitutes a single-member household.

Cash benefits Amount of cash benefits received by the respondent, including the individual share of household-level benefits (see note 113). Benefits included are: unemployment benefits (PY090); old-age benefits (PY100); survivor' benefits (PY110); sickness benefits (PY120); disability benefits (PY130); education-related allowances (PY140); family/children-related allowances (HY050); social exclusion not elsewhere classified (HY060); housing allowances (HY070); income received by people aged under 16 (HY110). Cash benefits data have been previously deflated and converted into purchasing power standards as done for the 'income security' variable (see above). The variable is expressed as share of GDP per capita and top-coded to 100 for computational ease.

Appendix 3:
Annex to Chapter 4

Table A3.1. Frequency statistics for Chapter 4: sample composition by countries and years

	Year (income reference period)										
Country	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	*Total*
AT	2,367	2,533	2,389	2,061	1,947	2,269	2,243	1,931	1,844	–	*19,584*
BE	1,438	2,388	2,256	2,229	1,795	2,028	2,080	1,964	1,892	–	*18,070*
BG	–	–	–	1,368	2,456	2,978	2,359	2,087	1,805	–	*13,053*
CY	–	1,599	1,533	1,469	1,279	1,220	2,468	1,759	2,303	–	*13,630*
CZ	–	5,553	4,704	3,534	2,665	3,411	3,496	3,111	2,467	–	*28,941*
DK	–	1,846	1,737	1,975	1,880	1,736	1,550	1,550	1,990	–	*14,264*
EE	1,385	802	2,292	2,120	1,864	1,661	1,969	2,032	2,259	–	*16,384*
EL	2,073	2,042	2,323	2,111	3,116	2,897	1,933	1,748	–	–	*18,243*
ES	4,458	4,806	4,844	5,543	5,578	5,697	5,075	4,669	4,651	–	*45,321*
FI	2,815	2,626	2,530	2,436	2,350	2,211	4,185	4,211	3,984	–	*27,348*
FR	1,430	–	2,266	2,261	2,334	2,307	2,365	2,305	2,250	–	*17,518*
HU	–	2,850	3,450	3,895	3,223	4,456	3,717	6,801	3,138	–	*31,530*
IE	–	1,262	1,263	1,106	1,095	1,004	–	–	–	1,637	*7,367*
IT	8,186	8,213	7,866	7,983	7,693	6,874	5,949	7,599	6,852	–	*67,215*
LT	–	1,542	2,102	1,969	1,750	1,935	2,183	1,750	1,747	–	*14,978*
LU	872	729	831	647	516	1,349	1,770	1,667	1,618	–	*9,999*
LV	–	1,521	1,556	1,788	2,257	2,099	2,310	2,176	1,924	–	*15,631*
MT	–	–	–	–	1,482	1,782	1,807	2,004	1,771	–	*8,846*
NL	–	5,143	2,754	4,262	4,164	3,541	3,965	4,252	3,699	–	*31,780*
NO	–	–	–	–	–	857	660	603	1,743	–	*3,863*
PL	–	6,075	6,067	5,692	5,163	4,938	5,260	5,069	5,430	–	*43,694*
PT	–	1,700	1,601	–	1,730	2,078	1,991	2,330	2,370	–	*13,800*
RO	–	–	–	2,985	2,672	2,732	2,872	2,668	–	–	*13,929*
SE	2,198	1,958	1,954	2,580	2,134	1,991	1,874	1,682	–	–	*16,371*
SI	–	4,846	4,608	4,635	5,288	5,040	4,474	4,380	4,787	–	*38,058*
SK	–	2,347	2,353	2,812	2,705	2,596	2,549	2,543	2,615	–	*20,520*
UK	–	–	2,960	2,587	2,496	2,423	2,346	2,515	2,653	4,215	*22,195*
Total	*27,222*	*62,381*	*66,239*	*70,048*	*71,632*	*74,110*	*73,450*	*75,406*	*65,792*	*5,852*	*592,132*

Table A3.2. Logistic multilevel models of individual employment. Base model with micro-level controls plus time dummies only, models testing country-level variables (Models 1-7), and models testing interaction hypothesized in H3 (Models 8 and 9). Log-odds shown

DV: employed	Base Model	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9
Level 1: individual (N=592,132; sample restricted to the non-employed in Model 9)										
Constant	-5.96***	-5.95***	-5.95***	-5.95***	-5.95***	-5.95***	-5.95***	-5.96***	-5.95***	-5-57***
Employed (*t-1*)	3.43***	3.43***	3.43***	3.43***	3.43***	3.43***	3.43***	3.43***	3.43***	-
Age	0.27***	0.27***	0.27***	0.27***	0.27***	0.27***	0.27***	0.27***	0.27***	0.27***
Age square	-0.00***	-0.00***	-0.00***	-0.00***	-0.00***	-0.00***	-0.00***	-0.00***	-0.00***	-0.00***
Male	0.52***	0.52***	0.52***	0.52***	0.52***	0.52***	0.52***	0.52***	0.52***	0.50***
Children <5 (dummy)	-0.17***	-0.17***	-0.17***	-0.17***	-0.17***	-0.17***	-0.17***	-0.17***	-0.17***	-0.09***
Male X Children<5	0.63***	0.63***	0.63***	0.63***	0.63***	0.63***	0.63***	0.63***	0.63***	0.69***
No. of children (<18)	0.17***	0.17***	0.17***	0.17***	0.17***	0.17***	0.17***	0.17***	0.17***	0.21***
Married	-0.18***	-0.18***	-0.18***	-0.18***	-0.18***	-0.18***	-0.18***	-0.18***	-0.18***	0.11***
Education (ref.: Low):										
Education (medium)	0.24***	0.25***	0.25***	0.25***	0.25***	0.25***	0.25***	0.25***	0.25***	0.12***
Education (high)	0.78***	0.78***	0.78***	0.78***	0.78***	0.78***	0.78***	0.78***	0.78***	0.75***
Bad health	-1.02***	-1.02***	-1.02***	-1.02***	-1.02***	-1.02***	-1.02***	-1.02***	-1.02***	-1.08***
Household (HH) size	-0.50***	-0.50***	-0.50***	-0.50***	-0.50***	-0.50***	-0.50***	-0.50***	-0.50***	-078***
Employment situation of other HH members (ref.: no one else employed in the HH):										
At least 1 employed	1.46***	1.46***	1.46***	1.46***	1.46***	1.46***	1.46***	1.46***	1.46***	2.07***
Single-member HH	0.39***	0.39***	0.39***	0.39***	0.39***	0.39***	0.39***	0.39***	0.39***	0.55***
Cash benefits	-0.03***	-0.03***	-0.03***	-0.03***	-0.03***	-0.03***	-0.03***	-0.03***	-0.03***	-0.02***
Year dummies (ref.: 2004):										
2005	0.04	0.04	0.04	0.03	0.04	0.03	0.04	0.04	0.04	0.10
2006	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.10

2007	0.04	0.04	0.04	0.03	0.04	0.05	0.04	0.04	0.04	0.15
2008	-0.23***	-0.23**	-0.22**	-0.24**	-0.24**	-0.22**	-0.23**	-0.23**	-0.23**	-0.09
2009	-0.17*	-0.19**	-0.18*	-0.18*	-0.19**	-0.18*	-0.19**	-0.19**	-0.19**	-0.13
2010	-0.14*	-0.18*	-0.18*	-0.15	-0.17*	-0.19**	-0.18*	-0.17*	-0.18*	-0.13
2011	-0.18*	-0.21**	-0.21**	-0.21**	-0.20**	-0.23**	-0.22**	-0.20**	-0.21**	-0.21*
2012	-0.17*	-0.20**	-0.20**	-0.20**	-0.19**	-0.22**	-0.20**	-0.19*	-0.20*	-0.18
2013	-0.10	-0.13	-0.13	-0.12	-0.10	-0.16	-0.13	-0.09	-0.12	-0.09
Level 2: country-years (N=208; all variables refer to year t-1; standardized coefficients)										
Social investment (SI)		0.16***	0.16***	0.16***	0.19***	0.17***	0.16***	0.21***	0.15***	0.21***
GDP per capita			-0.03					0.01		
GDP growth				0.02				0.02		
Welfare size					-0.04			-0.07		
Unemployment rate						0.02		0.04		
Social Protection (SP)							-0.00	0.04	-0.00	-0.02
Interaction: SP X Cash benefits									0.001**	
Interaction: SP X SI										-0.11*
Level 3: country (N=27; no variables explicitly modelled)										
Variance components										
Var. (Country)	0.0560***	0.0209**	0.0212**	0.0202**	0.0194**	0.0218**	0.0209**	0.0192**	0.0202**	0.0678**
Var. (Country-years)	0.0273***	0.0288***	0.0286***	0.0289***	0.0289***	0.0284***	0.0288***	0.0283***	0.0293***	0.0407***
Log-likelihood	-155604.1	-155595.9	-155595.6	-155595.7	-155595.4	-155595.3	-155595.9	-155593.7	-155589.4	-84166.02
AIC	311268.2	311253.9	311255.2	311255.5	311254.8	311254.7	311255.9	311259.4	311244.9	168400
BIC	311607.0	311604.0	311616.6	311616.8	311616.1	311616.1	311617.3	311665.9	311617.5	168783.9
N	592,132	592,132	592,132	592,132	592,132	592,132	592,132	592,132	592,132	201,991

Note: * p<0.05, ** p<0.01, *** p<0.001

Table A3.3. Logistic multilevel models of individual employment (Log-odds). Model 1: Country-fixed effects instead of a separate level 3 (robustness check for SI-within effect); Model 2: Societal growth curve model; Model 3: Societal growth curve model, with all country-level controls. Micro-level controls omitted

DV: employed	Model 1 (2 levels)	Model 2 (3 levels)	Model 3 (3 levels)
Level 1: individual (N=592,132; micro-level variables omitted)			
Year dummies (omitted; jointly significant with p<0.001)			
Level 2: country-years (N=208)			
Social investment (SI)	-0.125		
Country-fixed effects (ref.: Austria)			
Belgium	-0.0831		
Bulgaria	-0.1099		
Cyprus	-0.0887		
Czech Rep.	-0.0743		
Denmark	0.7397***		
Estonia	-0.0878		
Greece	-0.4014**		
Spain	-0.3504***		
Finland	0.3833***		
France	0.1471		
Hungary	-0.1456		
Ireland	-0.1796		
Italy	-0.2851		
Lithuania	-0.4372*		
Luxembourg	-0.0769		
Latvia	-0.2678		
Malta	-0.1768		
Netherlands	0.3875***		
Norway	0.8730***		
Poland	-0.0729		
Portugal	0.0051		
Romania	-0.2206		
Sweden	0.9707***		
Slovenia	-0.2521**		
Slovakia	-0.1644		
UK	0.2658**		
Level 3: countries (N=27)			
Social investment (SI)		0.13	0.15*
Social Protection (SP)			-0.01
GDP per capita			-0.01

GDP growth			0.29*
Welfare size			-0.00
Unemployment rate			-0.05
Interaction SI x Year (ref. year: 2004)			
SI x 2005		0.02	0.0217
SI x 2006		0.0112	0.0138
SI x 2007		-0.0206	-0.0173
SI x 2008		0.2068**	0.2104**
SI x 2009		0.1431*	0.1479*
SI x 2010		0.0887	0.0934
SI x 2011		0.0754	0.0799
SI x 2012		0.0576	0.0634
SI x 2013		-0.368	-0.2689
Variance components			
Var. (Country)	-	0.0205**	0.0151**
Var. (Country-years)	0.0228***	0.0228***	0.0229***
Log-likelihood	-155552.7143	-155576.1959	-155573.0065
AIC	311217.4286	311232.3918	311236.013
BIC	311849.7517	311684.0512	311744.1299
N	592,132	592,132	592,132

Note: * p<0.05, ** p<0.01, *** p<0.001

Table A3.4. Logistic multilevel models of the alternative dependent variable 'individual work intensity'. Model 1 tests the effect of SI; Model 2 adds all country-level controls. Log-odds shown

DV: Work intensity (WI)	Model 1 (only SI)	Model 2 (controls)
Level 1: individual (N=560,966)		
Constant	-5.4994***	-5.5285***
WI (*t-1*)	3.74***	3.7444***
Age	0.23***	0.2317***
Age squared	-0.0027***	-0.0027***
Male	0.6758***	0.6758***
Children <5 (dummy)	-0.3635***	-0.3635***
Male X Children<5	1.0089***	1.0088***
No. of children (<18)	0.2175***	0.2174***
Married	-0.2347***	-0.2347***
Education (ref.: Low):		
Education (medium)	0.2448***	0.2446***
Education (high)	0.7063***	0.7062***
Bad health	-0.8623***	-0.8623***
Household (HH) size	-0.6593***	-0.6594***
Employment situation of other HH members (ref.: no one else employed in the HH):		
At least 1 employed	1.9929***	1.9927***
Single-member HH	0.5636***	0.5634***
Cash benefits	-0.0528***	-0.0528***
Year dummies (ref.: 2004):		
2005	-0.12	-0.16
2006	-0.10	-0.12
2007	-0.07	-0.14
2008	-0.20	-0.2570*
2009	-0.4768***	-0.4191**
2010	-0.3141*	-0.07
2011	-0.24	-0.19
2012	-0.2892*	-0.26
2013	-0.43	-0.36
Level 2: country-years (N=208; all variables refer to t-1; standardized coeff.)		
Social investment (SI)	0.21***	0.23***
Social Protection (SP)		0.03
GDP per capita		-0.02
GDP growth		0.12**

Welfare size		-0.02
Unemployment rate		0.00
Level 3: country (N=27; no variables explicitly modelled)		
Variance components		
Var. (Country)	0.0205	0.016
Var. (Country-years)	0.1064***	0.1018***
Log-likelihood	-135891.597	-135885.9244
AIC	271845.193	271843.8488
BIC	272193.553	272248.3958
N	560,966	560,966

Note: * p<0.05, ** p<0.01, *** p<0.001